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TAX MATTERS

Sensible tax tips when filing your 2021 tax return

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A good friend of mine is an accountant. He's already swamped preparing tax returns. It's not even the peak of tax time and he's already losing it. He sat down to dinner this week and his wife told me that, with a glazed look on his face he mumbled something like "add the carrots to the taxable salad then deduct the gravy from line five and pass the potatoes." Just in case you're losing it too, here's a list of one dozen sane and sensible tax tips to keep you on track when filing your return this year.

RRSP deduction: If you made a 2021 RRSP contribution, you'll be entitled to a deduction but can choose to defer the claim to any future year. This makes sense if you'll be in a higher tax bracket in the next couple of years. Report your contribution on Schedule 7 this year, but then specify how much you'd like to claim in 2021 and how much you want to defer.

Pension income: You can choose to transfer up to one half of eligible pension income to your spouse. You'll get a deduction for the amount and your spouse will add this amount to his or her income. Don't forget to each claim the pension credit, which will save you tax.

Canadian dividends: It may be possible to transfer Canadian dividends from your spouse's tax return to yours. For this to work, the transfer has to increase your claim for the spousal credit, and you have to transfer all, not part, of the Canadian dividends. Do the math with and without the transfer to see whether this reduces your combined taxes.

Business activity: If you carried on any business be sure to report it on your tax return, even if you made no profit. A loss from a business can offset your other income and save you tax. But beware of claiming losses year after year; the taxman will want to see that the activity is not just a hobby but is commercial in nature.

Business investment loss: Have you made an investment in, or loaned money to, an arm's-length small business corporation that's now insolvent? You may be able to claim one half of your loss (called an allowable business investment loss) as a deduction against any income. Speak to a tax pro since the rules are complex.

Moving expenses: If you moved in 2021 you may be able to claim moving expenses. Your deduction will be limited to the amount of income you earned in your new location. If your income wasn't high enough to claim all the expenses, you can carry those excess expenses forward to claim them in 2022.

Carrying charges: Don't forget to deduct interest costs incurred to earn income. People often forget to check their investment statements for interest paid on margin accounts. Also, claim any investment fees for non-registered accounts, and accounting or tax preparation fees if you have income from a business or investments and accounting was required for these.

Employment expenses: If you're an employee and used your vehicle for work, travelled, paid for parking or supplies, worked from home (many people did), or incurred certain other unreimbursed costs, you can likely claim a deduction for these. Your employer will need to complete form T2200. Also, don't forget to claim a GST/HST rebate for those costs on Form GST370.

Transferrable amounts: Certain tax credits can be transferred to you from your spouse if he or she can't benefit from them. These include the age amount, caregiver amount (for infirm children under 18), pension income amount, disability amount and tuition amount. Use Schedule 2 to claim a transfer of these credits.

Medical expenses: Have you incurred medical expenses? Go to canada.ca and search "medical expenses" to check out allowable costs. You can claim expenses for any 12-month period that ended in 2021 (which could allow a credit for expenses from 2020 if they haven't been claimed yet). And you'll generally save more tax by claiming medical expenses on the lower-income spouse's tax return.

Charitable donations: It's possible to claim all the donations for you and your spouse on one tax return. This will save a little tax when compared with splitting them up and making a claim on both returns. Donations can also be carried forward up to five years if you can't fully benefit from the claim in 2021.

Canada training credit: You may be able to claim a credit for eligible tuition and other fees paid for courses taken in 2021. You can claim up to $250 for each year, and if you don't make a claim one year, the amount carries forward for use in later years to a maximum of $5,000 in your lifetime. This credit started in 2020.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc.
He can be reached at tim@ourfamilyoffice.ca