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TAX MATTERS

Claim key deductions and credits to reduce your tax burden

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED JANUARY 4, 2023

Looking for ways to put a little extra money in your pocket? Here's a simple one: Reduce the taxes you pay. Last week I wrote about the five pillars of tax planning: deducting, deferring, dividing, disguising and dodging.

Today, I want to share some ideas under the first pillar, deducting, which is the idea of claiming deductions and credits to reduce your tax bill.

Interest costs

Given that interest rates are on the rise, any interest deduction you claim will save even more tax today than it would have in recent years. You can generally claim interest when you've borrowed to earn income from a business or property – that is, investments. Students can also claim a tax credit for interest on qualifying student loans. If you have cash or non-registered investments available, consider paying down any loans with non-deductible interest and borrow to replace the cash or investments. This should allow you to deduct the interest on the new debt.

Home office expenses

By now you're probably aware that working from home during the pandemic gave rise to a new and simpler way to deduct home office costs. This flat-rate deduction is still available when you file your 2022 tax return (see my article from Nov. 18, 2022). Further, if you continue to work from home at least half the time in 2023 and beyond you can still claim a deduction for a portion of your home office costs. You'll need your employer to complete form T2200.

Vehicle costs

If you use your vehicle for work, regardless of whether you're self-employed or an employee, you can claim a deduction for a portion of the related costs. If you're an employee who receives a non-taxable allowance from your employer for use of your car, then you can't claim vehicle deductions – unless you include the allowance in your income and then claim a deduction for actual expenses. If the allowance was unreasonably low this could leave you better off. You may be able to claim a portion of licence fees, repairs and maintenance, gas, insurance, lease costs, car loan interest, and capital-cost allowance (depreciation) on your vehicle.

Home renovation costs

If you make renovations to your home to improve accessibility for a senior, or to build a second suite to accommodate family members from different generations living together, you may be able to claim the Home Accessibility Tax Credit (on up to $20,000 of costs) or the Multigenerational Home Renovation Tax Credit (on up to $50,000 of costs). With the high cost of purchasing a home today, home renovations could be a practical idea.

Self-employment losses

Earning self-employment income will open the door to deductions for any costs incurred for the purpose of earning that income, as long as they are reasonable in amount. If you can't currently deduct part of your home or vehicles costs, a part-time business can fix that. You can even deduct a portion of mortgage interest. And in the first year or two of a business it's common to incur losses, which can be applied to offset other income you might earn in the year. Just be aware that if you report losses for more than a couple of years in a row, the taxman could deny the losses if you're not carrying on what he would regard as a commercial activity.

Donations and medical expenses

You can claim a tax credit for any donations or qualifying medical expenses incurred. In the case of donations, maximize your tax relief by claiming all the amounts on one spouse's tax return rather than spitting them, and all medical expenses should generally be claimed on the tax return of the lower-income spouse since higher-income earners often have a greater limit on the medical expenses that can be claimed. Finally, you can claim medical expenses that fall in any 12-month period that ends in the particular tax year (it doesn't have to be Jan. 1 to Dec. 31) if they haven't been claimed in the past.

Transfers from your spouse

If your spouse is entitled to certain credits but can't benefit from them because his or her income is too low, the credits might be transferable to you. Specifically, the following credits can be transferred: the age amount, caregiver amount, pension amount, disability amount and tuition amount.

Next time, I'll talk about deferring to save tax – the next pillar of tax planning.

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