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TAX MATTERS

The top 6 blunders to avoid when filing your tax return

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We all make mistakes. My friend, Jason, was travelling on business and accidentally texted his wife "The trip is going well, but I wish you were her." Oops. Blunders are part of life – even when it comes to filing a tax return. Each year, the Canada Revenue Agency publishes the most common adjustments that they make to the tax returns they receive – typically because of mistakes made by the taxpayer. Let me share the Top 6 mistakes to avoid.

Missing slips: If you've been issued any tax slip, make sure it's reported on your return. The most common income slips include T4, T5, T3, T4RIF, T4RSP, T5008, T5013, and RC62. The problem with missing a slip is that you could face a penalty of 10 per cent of the income you fail to report if you also failed to report income in one of the previous three tax years.

If you're missing a slip, don't wait to file your return if this will make your return late. Filing late could result in a 5-per-cent penalty on any outstanding tax balance, plus 1 per cent for each full month your return is late. Instead, try to get your slips from the issuer, or through online services. You can even download slips directly from the CRA through the My Account service online, which is handy because you'll know which slips CRA is expecting you to report.

And if you have to file without knowing the exact amount on your slips, estimate the amount using statements, pay stubs or other information. Then, when the actual slip arrives, file an adjustment (using Form T1-ADJ) if need be.

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Tuition and related costs: It's common for parents to claim some of the tuition paid for the education of their children. But to do so, the student is required to file a return and report the tuition, education and textbook amounts on their return and to complete Schedule 11 to calculate how much to transfer to a parent. Often, parents incorrectly include the T2202 slip (or a TL11 slip for schools outside of Canada) from the school on their own returns. Further, the maximum amount that can be transferred from a child to a parent is $5,000, minus the amount the student needs to use to reduce his or her taxes to zero. If your child completes Schedule 11 properly, then all should be fine.

Moving expenses: Many people who claim costs for moving don't actually qualify. To claim moving expenses, your move must generally be a result of starting work at a new location or attending a school. The new home must be 40 kilometres (by the shortest usual public route) closer to your new work location or school. And a list of expenses that are eligible are listed on the instructions for Form T1-M, or at www.canada.ca.

Eligible dependants: If you were not married or living common-law at any time in the year and were supporting a dependant who was living with you, you may be able to claim an amount for that eligible dependant. The dependant must generally be under 18 unless they were dependant on you because of a physical or mental impairment. You need to complete Schedule 5 to calculate your claim.

Foreign tax credits: If you've earned investment income outside of Canada – perhaps dividends on the shares of foreign companies – you may have paid taxes to a foreign country, usually in the form of withholding taxes. Dividends from publicly traded U.S. corporations, for example, usually face a 15-per-cent withholding tax under the Canada-U.S. Tax Treaty. You'll be entitled to a tax credit for the foreign taxes paid, but it's common to use the wrong exchange rate when converting those taxes to Canadian dollars. You can use the average exchange rate for the year if you're converting income that was received throughout the year, but any disposition that gives rise to capital gains should be converted at the rate in effect on the date of the transaction.

Other deductions: Line 23200 of your tax return (Other deductions) and Line 25600 (Additional deductions) may seem like catch-all categories where you can deduct all types of things – and people often give it the old college try. According to the taxman, folks commonly try to deduct things such as funeral expenses, wedding costs, loans to family members and the loss on the sale of a principal residence (these aren't generally deductible). These lines on the tax return are designed for specific amounts such as income amounts that you repaid, certain legal fees and a few other less common things – so read the conditions before trying to claim, for example, your dog's grooming costs or that new clothing you just purchased.

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