

# Tax Tips for Medical Professionals and Medical Professionals in Training

2015 Edition



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One of the most significant expenses you will incur during your professional career will be taxes - specifically, federal and provincial income taxes. For 2014, up to 50 per cent of your taxable income could be paid in the form of income taxes (depending on your province or territory of residence and income level). As such, it is prudent to avail yourself of all available deductions and tax credits to minimize taxes payable and maximize your cash flow and financial position.

### **Important Note**

All tax legislation, tax rates and credit amounts included in this guide are based on information available as of January 1, 2015 (except where otherwise noted). The information contained in this guide does not replace advice from a professional tax advisor.

### **The Federal Budget of February 11, 2014**

On February 11, 2014, the Honorable James M. Flaherty, federal Minister of Finance, delivered the country's annual budget. While the 2014 Budget did not announce any changes to personal or corporate tax rates. The 2014 Budget focused on providing targeted and affordable measures, as well as once again tightening perceived tax loopholes. Personal tax measures included increasing the maximum adoption expense amount to \$15,000 for 2014 (indexed for inflation in subsequent taxation years) and removing the requirement for individual taxpayers to apply for the GST/HST credit on their annual tax returns. Instead, the Canadian Revenue Agency (CRA) will automatically determine if an individual is eligible to receive the GST/HST credit and a Notice of Determination will only be sent to those individuals who are eligible for the credit.

In addition to the 2014 Budget, on October 30, 2014, Prime Minister Stephen Harper announced a number of proposed personal tax measures, most notably the Family Tax Cut credit. Effective for 2014, this new measure allows for tax relief of up to \$2,000 for families with a child under the age of 18. The \$2,000 non-refundable tax credit is calculated based on the net tax reduction that could be achieved if up to \$50,000 of taxable income was transferred from a higher income earning spouse to the lower income earning spouse. Other proposed changes included enhancements to the Universal Child Care Benefit (UCCB), and an increase to the maximum Child Care Expense deduction amount by \$1,000 starting in 2015.

### **The Provincial/Territorial Budgets for 2014**

The majority of changes in the provincial and territorial budgets consisted of minor adjustments to personal income tax brackets and rates and to corporate income tax rates. Three provinces, Ontario, Quebec and British Columbia, increased their income brackets for high income earners. In December 2014, the Wynne government in Ontario tabled legislation to create the Ontario Retirement Pension Plan, a plan to be paid jointly by workers and their employers starting in 2017. The plan will be mandatory for employees who do not already participate in a "comparable" workplace pension with their existing employer.

The 2014 British Columbia provincial budget announced a new refundable early childhood tax benefit effectively April 1, 2015 that will be paid monthly to a maximum of \$55 per month for each child under age 6. Total benefits will be based on the number of children in the family and the family's net income.

## Federal Income Tax Brackets

The federal personal income tax brackets and rates for 2014 and 2015 are outlined in the following table.

**Table 1 Federal Income Tax Rates**

2014 Taxable Income	Federal tax rate	2015 Taxable Income	Federal tax rate
\$0 – \$43,953	15%	\$0 – \$44,701	15%
\$43,954 - \$87,907	22%	\$44,702 - \$89,401	22%
\$87,908 - \$136,270	26%	\$89,402 - \$138,586	26%
\$136,271 and up	29%	\$138,587 and up	29%

## Filing a Tax Return

Generally, an individual is required to file an income tax return if he/she has "taxable" income in a given calendar year. Many medical students may choose not to file a tax return, as their income would not exceed \$11,138, the 2014 basic personal exemption, or \$11,327, for the 2015 tax year. However, by completing a tax return, based on income thresholds, you will ensure your eligibility for the Goods and Services (GST)/ Harmonized Sales Tax (HST) Credit, the Canada Child Tax Benefit and certain provincial tax credits. Manitoba, Quebec and Ontario, for example, provide refundable tax credits for rent or property taxes paid by residents of those respective provinces in a given calendar year. In addition, you may wish to file a tax return to document and carry-forward of excess tuition/education/textbook amounts, moving expenses, or eligible student loan interest tax credits. Finally, filing a 2014 Income Tax Return will ensure that the CRA has an up-to-date RRSP and/or TFSA contribution amount available for future years.

By completing a tax return, you will ensure your eligibility for the Goods and Services HST (GST)/ Harmonized Sales Tax Credit, Canada Child Tax Benefit and certain provincial tax credits.

On May 27, 2014, CRA reported that of the 25.4 million tax returns filed in 2014, 81% were submitted electronically, an increase of approximately 6% over 2013. Nevertheless, many individuals may receive blank tax forms in the mail from the CRA and file their annual return in paper form. If these forms are not received by the date you wish to file your return, blank forms may be obtained from the Canada Revenue Agency website at [www.cra.gc.ca](http://www.cra.gc.ca) or at a local Tax Services Office of the CRA or many Canada Post outlets. If using pre-printed forms, ensure you use the correct province (see below) and that the printed name and social insurance number (SIN) are correct. Taxpayers in the past have discovered that their Canada Pension Plan contributions had been deposited in another taxpayer's account since the CRA had printed the SIN incorrectly!

## Province of Residence

Make sure to file a tax return for the province in which you resided on December 31<sup>st</sup> of the tax year. Generally speaking, you reside in the province to which you have the strongest residential ties. For example, if you are completing medical school at Memorial University in Newfoundland but your residential ties are to Ontario, you will likely have to file an Ontario Personal Tax return.

A unique tax planning opportunity may exist for those medical professionals who have finished training in 2015 and plan to begin practice late in the year. If the medical professional is relocating from a province with higher provincial income tax rates to one with less onerous taxes, the prudent medical professional may consider relocating prior to December 31<sup>st</sup> and becoming resident in the "lower-tax" province prior to year-end. As such, his/her entire annual income (possibly with the exception of self-employment income as discussed below) will be subject to the lower rates of the new province of residence, possibly generating significant tax savings. Alternatively, if one is relocating to a province with higher provincial or territorial income tax rates, one may wish to delay actual relocation until after December 31<sup>st</sup> to ensure lower provincial/territorial income tax rates will apply to the year's income. Certain exceptions may apply for self-employment income.

In situations where an individual is resident in one province on December 31<sup>st</sup>, and that individual's self-employment income was earned and can be allocated to a permanent establishment in a different province, provincial tax may have to be allocated to multiple provincial jurisdictions.

Overall, determining province of residency is a question of fact and can often become complex. If you are self-employed or if you are unsure about which province will be considered your province of residence for tax purposes, be sure to speak with your tax advisor.

### Keep Accurate Records

Accurate record keeping is essential for successful tax planning. The old adage: "When in doubt, keep all receipts," rings true as an eligible deduction or tax credit can be disallowed by the CRA if the supporting receipt or documentation is not available. Accurate and complete records can also minimize time spent on future assessments, re-assessments, or audits.

### Marital Status

Marital status is another key tax consideration. If you were married or in a common-law relationship at any time during the 2014 taxation year and either you or your spouse or common-law partner earned less than \$11,138, the other spouse or common-law partner may claim a spousal tax credit for federal tax purposes. For 2014, the amount of this credit is calculated by subtracting the spouse or common-law partner's net income from \$11,138 and multiplying the remainder by 15%. This can translate into federal tax savings of up to \$1,671 ( $\$11,138 \times 15\%$ ). Generally, a similar provincial credit will also be available.

If you were married at any time during the taxation year, and either you or your spouse earned less than \$11,138, claiming a "spousal amount" can translate into federal tax savings of up to \$1,671.

Two individuals living in a conjugal relationship are usually deemed to be common-law partners if they cohabited continuously for at least one year, or have a child together (whether natural or by adoption). The ability to file as "common law partners" is not merely a voluntary check on a personal tax return at the discretion of the taxpayer. The existence of a common law relationship is a point of fact and it is the responsibility of the taxpayer to declare one's status properly. Failure to properly file one's status may result in foregone benefits, assessed interest charges, and potential future penalties for making false returns.

### **Claim Your Spouse or Common-Law Partner's Unused Tax Credits**

If your spouse or common-law partner has little or no income, it is possible that he or she may have tax credits you may use when completing your tax return. Schedule 2 of your Income Tax Return outlines the non-refundable tax credits that may be transferred from one spouse or common-law partner to another. For example, if your spouse or common-law partner is eligible to claim the disability amount or has tuition, education and textbook amounts that will remain unused on their tax return, completion of Schedule 2 will ensure that you can take advantage of these credits on your tax return. The tax savings can be substantial. The transfer of provincial credits may also be possible.

### **Claim an Amount for Eligible Dependent**

If at any time during 2014, you were either unmarried or separated from your spouse or common-law partner, and you supported an "eligible dependent" (see next paragraph), you may qualify for the same additional maximum \$11,138 federal tax credit available to married or common-law taxpayers who support their spouse. However, a taxpayer who has been married during the year may only claim the \$11,138 amount once. That is, you may be eligible to claim the personal amount for a spouse or for another dependent under the eligible dependent rules but you cannot make both claims in the same year.

An "eligible dependent" is typically an individual who is related to you, lives with you in a self-contained domestic establishment, is considered to be wholly dependent upon you for support (or you and others within the same establishment) and is either under 18 years of age (or dependent upon you by reason of physical or mental impairment – regardless of age) or is a parent or grandparent.

Like the spouse and common-law partner amount, the eligible dependent amount of \$11,138 is reduced by the income of the dependent for which the claim is made.

A common case involving eligible dependents is when one spouse makes support payments for the other spouse and their children. After the year of separation, the first spouse cannot claim personal amounts for the other spouse and children (regardless of the deductibility of payments). The second spouse, however, can claim the federal basic personal amount of \$11,138 for themselves as well as an eligible dependent amount of \$11,138 for one child (assuming all other conditions discussed above are met).

### **Amount for Children Under Age 18**

In the 2014 taxation year, a parent may claim (on line 367 of Schedule 1) a non-refundable tax credit equal to 15% of \$2,255 for each child under the age of 18 (at the end of the taxation year). For example, a family with two children under the age of 18 could benefit from tax savings of up to \$677 in 2014 ( $2 \times \$2,255 \times 15\%$ ). The tax credit is not reduced by the child's net income and any unused portion may be transferred to the other spouse or common-law partner.

Where a child and parents reside together throughout the year, either parent may claim the credit. In other cases, the parent who is eligible to claim the wholly dependent person credit may make the claim. The full amount of the credit is available in the year of birth, death, or adoption of the child.

Under changes announced by the Harper government on October 30, 2014, the enhanced Universal Child Care Benefit (UCCB) will replace the existing amount for children under the age of 18 for the 2015 and subsequent taxation years.

### **Family Caregiver Tax Credit**

Effective January 1, 2012, the new Family Caregiver Tax Credit, a 15% non-refundable credit on an amount of \$2,000 was introduced to provide tax relief for caregivers of infirm dependent relatives, including spouses, common-law partners and minor children. The Tax Credit is indexed for inflation. That is, a \$2,000 Family Caregiver Tax Credit (indexed to \$2058 in 2014) will be added to an existing dependency-related credit, such as the Child Tax Credit, (i.e., from \$2,255 to a maximum of \$4,313), Spousal/Common-law Partner Credit or Eligible Dependent Credits (i.e., from \$11,138 to a maximum of \$13,196) and the Caregiver Credit (i.e., \$4,530 to a maximum of \$6,588). Certain conditions may apply.

### **Family Tax Cut Credit**

Announced on October 30, 2014, the Family Tax Cut credit is a new income splitting measure intended to simulate the federal tax benefit of income splitting with a lower income spouse to a maximum of \$50,000 of income with a maximum benefit of \$2,000.

To be eligible, you must be married (or in a common-law relationship), have a child under the age of 18 who resides with you and neither spouse nor common-law spouse makes a pension splitting election. Further, the taxpayer must be a resident of Canada and file a tax return and has not have been bankrupt in the year or been incarcerated for a period of 90 or more days during the tax year.

### **Canada Child Tax Benefit (CCTB)**

The Canada Child Tax Benefit (CCTB) is a non-taxable amount paid to parents of children under 18 years of age whose net income falls below certain limits. The CCTB is calculated on a monthly basis by reference to the number and age of the respective children and the amounts paid are adjusted annually to reflect any applicable cost of living adjustments.

As a general rule, the monthly benefits are determined in July of each year and are based upon the preceding year's net family income as reported in your personal income tax returns. For example, benefits paid for the last 6 months of 2014 and the first six months of 2015 are based upon the net family income for the 2013 taxation year.

Benefits are paid to a person who lives with and is primarily responsible for the care and education of the child or children. Although usually the mother, it may also be the father, grandparent or a guardian. Effective for July 2011, however, each parent sharing the custody of a child will be entitled to receive 50% of the Canada Child Tax Benefit as well as the Universal Child Care Benefit (see next section), or the child component of the GST/HST Tax Credit. Application forms for the CCTB are available on the Canada Revenue Agency website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca). They are also available by calling 1-800-387-1193 or at your local Canada Revenue Agency office or Services Canada Centre.



CRA has reminded taxpayers to apply for the Canada Child Tax Benefit (CCTB) as soon as possible after the child is born or, after they become resident of Canada. They should avoid delays as CRA can only make retroactive payments for up to eleven (11) months from the month the CRA receives the application. Also, individuals and their spouses or common-law spouses must file a tax return every year even if there is no income to report.

Note that many provincial governments also have similar measures to assist families, such as family allowances or refundable tax credits.

### **Universal Child Care Benefit**

The Universal Child Care Benefit (UCCB) is a program that helps parents or legal guardians offset the costs of daycare for younger children. On October 30, 2014, the Government proposed to increase the UCCB from \$100 to \$160 per month for each child under the age of 6, and to provide a new benefit of \$60 per month for each child between the ages of 6 and 17. These measures will go into effect for the 2015 taxation year and will begin to be reflected in monthly payments to recipients in July 2015 (i.e., the July 2015 payment will include up to six months of benefits to cover the period of January to July 2015, inclusive).

UCCB payments are taxable. If you have a spouse or a common-law partner at the end of the year (December 31), the spouse with the lower net income must report the UCCB. If you are a single parent you have the options of reporting UCCB as your own income, as income of your eligible dependent (if you are claiming the eligible dependent amount), or as income of the child for whom the UCCB was received.

UCCB benefits will not be taken into account for purposes of calculating certain income-tested benefits received through the federal income tax system, such as the disability tax credit or the Goods and Services Tax/Harmonized Sales Tax (GST/HST credit). Furthermore, such payments will neither reduce Employment Insurance benefits nor affect the amount of child care expenses eligible for a tax deduction (see below).

Enrollment for the Universal Child Care Benefit is processed through the Canada Child Tax Benefit (CCTB – see above) application. Application forms are available on the Canada Revenue Agency website at <http://www.cra-arc.gc.ca/bnfts/uccb-puge/menu-eng.html>. They are also available by calling 1-800-387-1193 or at your local Canada Revenue Agency office or Services Canada Centre.

If you have a child over the age 6 and had previously applied for the UCCB, you should automatically begin receiving the enhanced benefits in July 2015.

### **Child Care Expenses**

Under certain restrictions, the cost of day care, baby sitters, boarding schools and camps are deductible, to a maximum of \$7,000 a year for children under the age of 7, \$4,000 a year for kids aged 7 to 16, and \$10,000 a year for children for whom the disability amount can be claimed. Furthermore, the deduction must be claimed from the income of the spouse or common law partner with the lowest net income, except when this individual is at school, disabled, separated from you, or is in prison. Also, the deduction cannot exceed two-thirds of that person's "earned income" for child care purposes.

On October 30, 2014, the Federal Government proposed a \$1,000 increase to the annual limit for eligible child care expenses effective for 2015. More specifically, the maximum child care deduction will increase to \$8,000 for each child under the age of 7, to \$5,000 per child between the ages of 7 to 16, and to \$11,000 per disabled child.

In practice, the CRA generally does not attach specific child care expenses to specific children. That is, so long as total child care expenses do not exceed the defined limits per child multiplied by the number of children, all eligible childcare expenses should generally be allowed. As such, it is advantageous to report all your children 16 years and under, or those with infirmities, on your tax return to ensure that you maximize your base for child care deductions.

Many busy medical professionals, including two medical professional families, may employ nannies and other domestic workers to provide child care and other services. The costs related to full-time nannies may qualify as eligible child care expenses. In a June 13, 2012 Technical Interpretation (2011-0430351E5, Robertson, George), CRA noted that specific nanny costs such as transportation to travel from the caregiver's country of permanent residence to the location of work in Canada, interim medical insurance coverage and provincial workplace safety and insurance board (WSIB) premiums are eligible child care expenses if certain requirements are met. This ruling includes employment of domestic workers such as babysitters, nannies and nursemaids. If you have incurred any such costs, see your accountant or tax advisor.

Please note that payments for medical or hospital care do not qualify as eligible child care services. Instead, these payments may qualify as medical expenses (if eligible). In addition, as a general rule, you cannot claim fees related to educational or recreational activities (e.g., skating and music lessons). That being said, depending on the circumstances, certain educational or recreational activities may be accepted by CRA if it can be demonstrated that the primary purpose of the activity is to provide child care, thereby enabling the parent to work. Be sure to speak with your tax advisor for further details.

Ensure that proper receipts for child care expenses are retained or such claims may be denied upon review or audit by CRA. A Form T778 should be obtained from the CRA and filed with the tax return.

### **Children's Fitness Tax Credit**

The Children's Fitness Tax Credit was introduced in 2007 as an incentive for parents to enroll their children in physical activity programs. Parents may be eligible to claim a federal non-refundable tax credit equal to 15% of up to \$500 in respect of the costs of certain fitness programs for a child under the age of 16 at the beginning of the year. On October 9, 2014, however, the government announced a doubling of the Children's Fitness Tax Credit from its current \$500 limit to \$1000 (for a maximum federal credit of \$150 per child) for the 2014 and subsequent taxation years. In addition, the tax credit will be made refundable starting in 2015. These changes, however, do not apply to the children's arts tax credit.

For each child eligible for the disability tax credit, the age limit for claiming the children's fitness tax credit is raised to under 18 at the beginning of the year. As well, as long as the respective parent makes a claim of at least \$100 in eligible fitness expenses for the disabled child, an additional fitness amount of \$500 can automatically be claimed. For example, if one claims \$90 of eligible fitness expenses for the disabled child, the corresponding credit will be based on \$90. However, if one claims \$100 of eligible expenses, the amount eligible for the fitness credit will be \$600 (\$100 actual amount + \$500 automatic

amount). Eligible expenditures of \$500 or more for a disabled child will generate the maximum eligible credit of \$1,000.

Eligible expenses, as indicated on the CRA website, are defined as follows:

- ongoing (either a minimum of eight weeks duration with a minimum of one session per week or, in the case of children's camps, five consecutive days);
- supervised;
- suitable for children; and
- all of the activities must include a significant amount of physical activity that contributes to cardio-respiratory endurance plus one or more of: muscular strength, muscular endurance, flexibility, or balance.

Fees such as program administration, instruction and facility rentals are generally considered as eligible expenses (provided other criteria mentioned above are met). Travel costs, meals and accommodation, as well as equipment purchased for your child's exclusive personal use are not eligible for the tax credit. Some costs eligible for the fitness tax credit may also be eligible for the child care expense deduction (see above). If this is the case, you must first claim this respective amount as child care expenses. Any unused part can be claimed for the children's fitness amount, as long as the other requirements are met. Be sure to discuss eligibility for the fitness tax credit with your tax advisor and keep any receipts for expenses that you think may be eligible. Similar incentives are also offered in certain provinces.

### **Children's Art Tax Credit**

The Canadian Children's Arts Tax Credit is a federal non-refundable tax credit intended to encourage the participation of children in artistic, cultural, recreation and development programs. A wide variety of programs are eligible for this tax credit, including those in fine arts, music, performing arts, wilderness training, etc. Parents can claim up to \$500 in eligible fees for enrolling a child under 16 at the beginning of the year in an eligible arts program. For children eligible for the disability tax credit who are under the age of 18 at the beginning of the year, an additional amount of \$500 can be claimed if a minimum of \$100 in eligible fees are incurred during the year.

### **Union, Professional and Like Dues**

Amounts paid for membership (required to maintain a professional status recognized by statute) in medical associations or the College of Physicians and Surgeons of a respective province or territory are generally deductible. Union dues, such as those paid to a provincial residency association (i.e., PAIRO, PAIR-S, PARI-MP, etc.) are also generally deductible. Your official receipts from the union or society (other than your T4 slip) are not required to be filed with your tax return, however, be sure to retain them in case they are requested by the CRA.

Other payments for membership in professional organizations may be deductible as a business expense. If in doubt, contact your tax advisor.

## Employment Insurance and Canada Pension Plan Contributions

Residents, Fellows and some medical students are salaried employees and, as such, are required to make contributions to both Employment Insurance (EI) and the Canada Pension Plan (CPP). Employees will not only find these deductions on their pay stubs but also will see them listed on the T4 form they receive from their employers every year. Both CPP and EI contributions qualify for a non-refundable federal and provincial tax credits and should be claimed on lines 308 and 312 of the federal tax return, respectively, as well as in the appropriate provincial form used to claim non-refundable tax credits.

For 2014, CPP contributions must be made until the taxpayer reaches maximum pensionable earnings of \$52,500. CPP premiums are applied at a rate of 4.95% on pensionable earnings in excess of the basic exemption of \$3,500. Consequently, the maximum CPP contribution for 2014 is \$2,425.50. Similar rules for the Quebec Pension Plan (QPP) apply to individuals employed in Quebec.

Since the employer must match the employee's CPP contributions, medical professionals who are self-employed are obligated to contribute both the employee and the employer share. As such, self-employed medical professionals earning more than the maximum pensionable earnings amount will find themselves owing \$4,851.00 for 2014 (\$2,425.50 X 2 [employee and employer shares]). Although the employee share qualifies for a tax credit, the employer's share may be deducted on line 222 of the self-employed individual's federal income tax return.

Self-employed medical professionals are not required to make EI contributions. However, recent changes in the EI rules allow the self-employed taxpayers, as defined in the new measures, to voluntarily enter into an agreement with the Canada Employment Service to become eligible for special benefits. For more information, please refer to the following link:  
<http://www.servicecanada.gc.ca/eng/sc/ei/sew/index.shtml>.

For 2014, employee EI premiums are applied at a rate of 1.88% (1.53% for Quebec employees) on insurable earnings of up to \$48,600. As such, the maximum employee EI premium for 2014 is \$913.68 (\$762.30 for a Quebec employee). Since residents and fellows have paid EI premiums, those medical professionals who have completed their program of study but find themselves unable to find work may be eligible and may apply for Employment Insurance Benefits. Although recipients of EI benefits whose income exceeds \$60,750.00 may be required to repay a portion of their benefits, first-time claimants as well as those receiving special benefits, including maternity, parental or sickness benefits, are not required to repay benefits regardless of their income. Any possible repayment is made via the federal income tax return and a deduction in the calculation of net income will be allowed.

For 2015, the maximum employee CPP contribution is \$2,479.95 (based on maximum pensionable earnings of \$53,600.) while the 2015 maximum annual EI premium amount is \$930.60 (based on maximum insurable earnings of \$49,500.00).

## The Small Business Job Credit

On September 11, 2014, Minister of Finance Joe Oliver introduced a new Small Business Job Credit that will effectively lower small businesses' Employment Insurance (EI) premiums from the legislated rate of 1.88% in 2015 and 2016. Any firm, including medical practices, that pays employer EI premiums equal to or less than \$15,000 in those years will be eligible for the credit.

There is no application process necessary; The Canada Revenue Agency will automatically calculate the credit on a business' return, presumably ensuring no new paper burden will be imposed on business owners. For further details see <http://www.cra-arc.gc.ca/whtsnw/tms/sbjc-eng.html>.

### **Canada Employment Tax Credit**

Starting in 2006, all employees can claim a federal non-refundable employment tax credit to help cover their work-related expenses. For 2014, taxpayers may claim a credit equal to 15.0% of their employment income for the year, up to a maximum of \$1,127. The maximum amount for 2015 will be \$1,146 and will continue to be indexed for inflation thereafter.

### **Working Income Tax Benefit**

Low-income individuals over the age of 18 may claim the Working Income Tax Benefit (WITB), a refundable tax credit equal to 25% of their working income over \$3,000, subject to a maximum of \$998 for a single individual and \$1,813 for a family or a single parent (amounts may vary for residents of Alberta, BC, Nunavut and Quebec). Working income includes both employment and/or business income and the credit is reduced by 15% of the individuals adjusted net income over \$11,332 or a family's or single parent's adjusted net income over \$15,649. Of note, a supplement to the regular WITB is available to taxpayers who qualify for the disability tax credit.

### **Claim Eligible Employment Expenses**

If your employer requires you to use your own vehicle away from your ordinary site of employment (i.e., your respective Department at the hospital) and you did not receive a reimbursement or tax-free allowance to cover your costs, you may be entitled to claim a deduction for the portion of your vehicle expenses incurred to earn employment income. Many Family Medicine residents, for example, use their vehicles for house calls and the related travel costs should generally qualify as valid employment expenses. Note that driving between your home and principal place of employment does not usually qualify as an eligible expense.

Those who qualify are entitled to claim the employment portion of all operating costs related to the vehicle; gas, oil, repairs/maintenance, insurance, license fees, cleaning, and depreciation (i.e., capital cost allowance – see next paragraph). Interest on car loans and leasing costs are deductible within certain limits. You will need to track and record the number of kilometers used for employment purposes and a "log book" is a beneficial, if not essential, record-keeping tool. Form T777 will need to be filed with your tax return and your employer will have to sign Form T2200 to verify that you were required to use your automobile for work. Both forms are available from any CRA office or the CRA web site at <http://www.cra-arc.gc.ca/E/pub/tg/t4044/>. Although you are not required to file Form T2200 with your return, be sure to retain this form in case it is requested by the CRA.

Although the employment or business portion of depreciation (i.e., capital cost allowance) on a vehicle should be allowed, the ceiling of the capital cost for a passenger vehicle for capital cost allowance purposes remains at \$30,000 (plus applicable federal and provincial sales taxes). For those who lease their respective vehicle, the limit on leasing costs remains at \$800 per month (plus applicable federal and provincial sales taxes).

For those residents and medical students who are required to obtain and maintain cell phones in the performance of their duties, the percentage of the airtime expenses that reasonably relates to earning employment income may be deductible as an employment expense. The amounts paid to connect or license the cellular phone or the cost of fees for Internet service however, are not deductible. Also, one cannot deduct the cost to purchase or lease a cell phone, fax machine, computer or other such equipment. Past discussions with representatives of the CRA have revealed that the requirement for a cell phone should be expressly stated in the contract of employment. However, a situation where the necessity for a cell phone is tacitly understood, outside of the contract, may be acceptable. Nevertheless, the requirement for a cell phone should be documented on Form T2200.

Be sure to retain all receipts, records and vouchers for eligible employment expenses in case they are requested by the CRA.

### **Reduce Taxable Business Income**

Income earned from limited locums or from instructing ATLS or ACLS courses is taxable. However, reasonable expenses incurred to earn that income may be deductible when calculating business income. Your tax specialist can help ensure all eligible expenses are claimed.

You may also want to consider paying a reasonable salary to a spouse or child for their services in helping you earn your self-employment income. This could result in income splitting advantages if that family member is in a lower marginal tax bracket than you are. For example, your spouse would not pay tax on a salary of \$4,000 if this were the only income they earned. In addition claiming such an expense against your self-employment income (i.e. your locum income or medical practice income) could result in tax savings for you of about \$1,600 ( $\$4,000 \times 40\%$ ) assuming a 40% combined federal/provincial tax rate. The fact that the availability of the spousal credit will now be reduced will often be outweighed by the potential income splitting benefit. The salary will also generate RRSP contribution room for your spouse, albeit a small amount in the above scenario. That being said, it is essential that the salary actually be paid to the spouse (i.e., a cancelled cheque is great evidence). In addition, the salary must be reasonable compensation for the services rendered and must be comparable to a salary paid to an unrelated person. Be sure to speak with your tax advisor prior to implementing any income splitting strategy.

### **Moving Expenses**

If you have relocated at least 40 kilometers closer to a new work location or to attend full-time post-secondary education in the past tax year, you may be able to deduct allowable moving expenses against employment income earned at the new location and for students, against taxable scholarship or grant income. Allowable moving expenses that cannot be deducted in the current year, due to this income limitation, may be carried forward to a following tax year and applied against income in that year. Although you are not required to file receipts, you must be able to provide them to the CRA upon request.

If you have relocated at least 40 kilometers closer to a new work location or to attend full-time post-secondary education in the past tax year, you may be able to deduct allowable moving expenses against income earned at the new location.
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For purposes of deducting expenses incurred in a move to a school location, it is important to keep in mind that such moving expenses cannot be deducted if your only income at this location is scholarship, fellowship, or bursary income that is entirely exempt from tax (see Scholarship and Bursaries section below). That being said, medical students who incur moving expenses to obtain a summer job may be able to deduct those expenses against that employment income. Another point to keep in mind is that claiming eligible moving expenses will reduce taxable income and consequently may increase the tuition and education credits that can be transferred to a parent or carried forward by the student for later use (i.e., usually to use during residency).

Eligible moving costs include travel costs, transportation costs for belongings and meals during travel, as well as lodging for a reasonable period while you are waiting for the new residence (usually up to 15 days). Lease cancellation costs as well as the costs of selling a former residence, including advertising, notarial or legal fees, real estate commissions and mortgage penalties (i.e., if the mortgage was paid off before maturity) are eligible. Furthermore, if you or your spouse or common-law partner have sold your old residence, you may also deduct the cost of any taxes on transfer or registration of title to a new residence (exclusive of any goods and services value-added tax), together with legal fees associated with the purchase of the new residence. Costs of obtaining utility connections and disconnections, and revising documents to reflect the change of address should also be eligible. If unable to sell your residence prior to the move, eligible expenses may also include mortgage interest, property taxes, insurance premiums and utility costs (up to a \$5,000 maximum) paid on the vacant old residence for the period during which reasonable efforts were made to sell that residence.

In a May 20, 2009 Tax Court of Canada case (Trigg vs. H.M.Q., 2008-2473(IT)I), the Judge noted that the definition of moving expenses under subsection 62(3) of the Income Tax Act uses the word “includes” meaning that the list detailed is not exhaustive. As such, if an expense appears to be an eligible cost of moving to a new location, even if not specifically stated in the available tax forms, ensure the respective receipts are kept and provided to your tax advisor or accountant.

Individuals have the choice of calculating certain travel costs for the purpose of the moving expenses deduction based on either the detailed method or the simplified method. The choice in methods applies to meal and vehicle expenses relating to the move. Under the traditional detailed method, the individual claims the actual costs incurred for these expenses when making his or her moving expense claim. The individual must retain receipts in order to substantiate the claim should it be reviewed by the CRA. Under the simplified method, the individual claims expenses based on flat rates as determined by the CRA. Meal and vehicle rates used to calculate travel expenses for 2014 are published at the following CRA website: <http://www.cra-arc.gc.ca/travelcosts/>

The deductibility of moving expenses is a complex issue and should be discussed with your tax advisor. Additional information regarding moving expenses is available on CRA form T1-M which is accessible at the following CRA website: <http://www.cra-arc.gc.ca/tx/ndvdl/lf-vnts/mvng/menu-eng.html>

### **First-Time Home Buyers' Tax Credit (FTHBTC)**

First-time home buyers purchasing a qualifying home after January 27, 2009 may claim a non-refundable First-Time Home Buyers' Tax credit (FTHBTC) of up to \$750 for the year of acquisition. To qualify as a first time home buyer, a buyer or his or her common-law spouse or partner may not have owned or lived in another home owned by either spouse in the current or four preceding calendar years and must occupy the home as a principal residence within one year of the purchase date. The home must also

qualify under the Home Buyer's Plan. When two people jointly buy a qualifying home, the total FTHBTC claimed cannot exceed \$750.

Similar incentives may also be available from certain provinces.

### **Tuition Fees and Education Tax Credit**

Tuition fees paid during medical school or a residency program are not deductible but may be eligible for the "tuition tax credit". Obtain Form T2202A from your university to determine allowable tuition costs. Keep in mind that fees paid for admission, application, use of library or laboratory facilities, examinations (including re-reading) and diplomas, as well as mandatory computer service fees and certain academic fees qualify as eligible tuition fees. Other tuition fees (i.e., for ATLS courses, certain LMCC preparation courses) may also qualify for the tax credit. Contact the course administrators for further details and be sure to obtain appropriate documentation for these courses from them.

In addition to the tuition tax credit, students may also claim an education tax credit. Although full-time medical students can generally claim a federal education tax credit of \$400 per month (\$120 per month for part-time students), this benefit has not always been available for residents who were considered to be pursuing post-secondary education in relation to their current employment. The March 23, 2004 federal Budget removed this employment restriction, so those residents in an otherwise qualifying educational program may be eligible for the education tax credit for the 2004 and subsequent taxation years, provided that no part of the education cost is borne by or reimbursed by their employer.

Generally, you cannot claim the education amount if you:

- received a grant or were reimbursed for the cost of your courses from your employer or another person with whom you deal at arm's length, other than by award money received;
- received a benefit as part of a program (such as free meals and lodging from a nursing school); or
- received an allowance for a program such as a training allowance.

In a February 17, 2014 Tax Court of Canada case (*Kandasamy et al vs H.M.Q.*, 2013-1263(IT)I), residents registered in medical residency programs in Ontario appealed their entitlement to claim the education (\$400 per month) and textbook (\$65 per month) amounts for the years 2010 and 2011. The respective university issued a Form T2202A to each of the respective residents.

Please refer to the following link: <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/Ins300-350/323/menu-eng.html> or consult your provincial house organization or tax advisor.

Should a medical student not be required to use their entire tuition, education, or textbook credit to reduce their tax to nil, these remaining credits may be transferred to an eligible person (e.g., spouse or common-law partner or, under certain restrictions, a parent or grandparent) up to a maximum of \$5,000. For 2013, this translates to a \$750 federal tax credit. To make this designation, the student must complete and sign Form T2202A. A copy of the signed form should be kept by the designated person and, if applicable, by the student to support the amount claimed. The form does not need to be filed with the return but must be available if requested by the CRA.



Students are entitled to carry forward indefinitely unused tuition and education tax credits. This will enable students to utilize the credit when they have sufficient income (i.e., usually during residency). Any amount not used in the current year by the student and not transferred to an eligible person will be automatically available to carry forward. However, once income is sufficient to utilize the unused tax credits, the credits must be applied to reduce taxes payable.

### **CaRMS Application Registration Fees**

All applicants to the Canadian Resident Matching Service (CaRMS) are required to pay a registration fee and applicable taxes. The fee of \$322.00 + applicable taxes for the 2014 Match includes applications to four [4] programs. There is a charge of \$30.00 plus applicable taxes for each additional residency program selected above the initial four. Per discussions in early 2013, representatives from CaRMS have communicated that receipts issued do not qualify for the tuition tax credit. Nevertheless, such receipts should be retained and provided to the taxpayer's accountant or tax preparer.

### **Textbook Tax Credit**

For 2014, a student may claim a textbook tax credit equal to 15% of \$65 or \$20 for each month they were entitled to claim an education tax credit as a full-time or part-time student, respectively. For full-time medical students or residents entitled to an education tax credit for 12 months in 2014, the potential savings resulting from the textbook tax credit could be approximately \$117 ( $\$65 \times 12 \text{ months} \times 15\%$ ). Unused textbook tax credits may also be carried forward or transferred to a spouse or parent (as discussed above).

### **Provincial Tax Credits and Tuition Cash-Back Programs**

A number of provinces, notably Nova Scotia, New Brunswick, Saskatchewan and Manitoba, offer tax credits and incentives to university graduates who wish to live and work in their respective provinces. In 2009, the Graduate Retention Rebate replaced the Graduate Tax Credit available for individuals who graduated in 2006, 2007 and 2008 in Nova Scotia. Any unused amounts from the Graduate Tax Credit can still apply to reduce provincial taxes two years following the year of graduation. Even if the Nova Scotia taxpayer claimed the Graduate Tax Credit for one degree or diploma, they may be eligible to claim the Graduate Retention Rebate for another credential so long as they graduated in 2009 or after. The Graduate Retention Rebate provides University graduates (bachelor, master and doctorate) in 2009 and after an opportunity to reduce their Nova Scotia income taxes by a maximum of \$2,500 per year in the year of graduation and in each of the next five years to a maximum of \$15,000 over the six-year period. For further details, see <http://www.gov.ns.ca/finance/en/home/taxation/personalincometax/grr.aspx>.

In January 2015, the government of Nova Scotia announced a tuition relief program which will be available to 25 medical graduates or doctors from out of province over the following four years. In exchange for a five-year commitment to practice medicine in an underserved community, the province will repay the cost of medical school tuition, up to \$120,000. An additional \$30,000 payment will be available to family doctors willing to practice in a community without a regional hospital or to specialists who are willing to practice outside the current Capital District Health Authority. For more details, visit <http://medical.professionals.novascotia.ca>.

Students who graduated on or after January 1, 2007 from a CRA recognized post-secondary institution and who are working and paying taxes in the province of Manitoba may claim, each year, up to 10% of total eligible tuition fees paid (not exceeding \$2,500 per year) as a Tuition Fee Income Tax rebate to be applied against the Manitoba tax they owe. The maximum lifetime rebate is 60% of total tuition paid up to \$25,000 and the rebate can be claimed over a period of 6 to 20 years. For further information, refer to: <http://www.manitoba.ca/tuitionrebate/index.html>.

The New Brunswick Tuition Rebate program provides a tax rebate equal to 50 per cent of total eligible tuition costs (up to a maximum lifetime rebate amount of \$20,000) against provincial personal income tax payable, for each post-secondary student who works in New Brunswick and files a New Brunswick provincial income tax return. Effective January 1, 2005, each year a student pays tuition to an eligible academic institution, they earn a credit. Once they start working and have New Brunswick taxes payable, they can redeem these credits and claim a rebate of up to \$4,000 per year. The taxpayer can carry forward any unused credits from year to year and each student has up to 20 years (from the first year the credit is earned) to redeem the full value of their accumulated credits. This program is in addition to current tuition and education tax credits that the respective student may qualify for. For further information, see:

[http://www2.gnb.ca/content/gnb/en/departments/finance/promo/tuition\\_rebate.html](http://www2.gnb.ca/content/gnb/en/departments/finance/promo/tuition_rebate.html).

Saskatchewan had established a Graduate Retention Program (GRP) which provided a rebate of up to \$20,000 of tuition fees paid for eligible graduates who live in Saskatchewan and file a Saskatchewan tax return. The rebate may be claimed over a seven year period subject to annual limits. However, the provincial budget of March 21, 2012 converted the refundable nature of this maximum credit of \$20,000 to a non-refundable credit. Further, the government intends to introduce a new refundable credit for students without sufficient income and provincial income tax to claim the full amount of this new non-refundable credit. For further information, refer to: <https://www.saskatchewan.ca/live/post-secondary-education/graduate-retention-program>.

The Government of Prince Edward Island has established a Medical Residency Interest Relief Program which provides financial assistance to students completing a residency program. If you are an Island student in a Medical Residency program and have a PEI Student Loan, you are eligible to apply for this program. This interest relief program applies to Provincial Student Loan balances. The Government of Prince Edward Island will make interest payments to keep your loan in good standing while you are completing your residency program. For more information, refer to:

<http://www.gov.pe.ca/ial/index.php3?number=1019851&lang=E>

Be sure to consult your tax advisor to determine the impact these incentives may have on your personal income tax return.

## **Scholarships and Bursaries**

Amounts received in the year on account of scholarships, fellowships, and bursaries may be excluded from income if they are received in connection with the student's enrollment at a designated educational institution in a program to which he or she may claim the full-time education tax credit; and the amount of the scholarship or bursary does not exceed what would reasonably be required to support the student in the program. Part-time students are also eligible for the scholarship exemption; however, the maximum exemption is generally limited to the lesser of the scholarship amount, or \$500 plus the cost of tuition and program material.

As medical students are generally enrolled in full-time programs which entitle them to an education tax credit, all scholarships and bursaries should generally be tax-exempt. Residents and Fellows may also benefit from tax-free status of all scholarships and bursary income if they are, in fact, entitled to an education tax credit. However, proposals were made in the 2010 Budget to clarify the scholarship exemption and education tax credit; these proposals have now been passed into legislation. The new requirements are that a post-secondary program that consists principally of research will be eligible for the Education Tax Credit and the Scholarship exemption will be available only if the program leads to a college diploma, or a bachelor, masters or doctoral degree. As such, these new requirements may have implications on the taxation of residents and other medical professionals entering Fellowship programs. Therefore, post-doctoral fellowships will generally be considered taxable.

The provisions of the Income Tax Act regarding bursaries and scholarships can be confusing. If in doubt, discuss your particular situation with your tax accountant.

Qualification for the education tax credit will be detailed on the respective resident or student's Form T2202A. You are not required to report any exempt scholarship and bursary amounts on your income tax return. Although the Form T2202A does not need to be filed with the return, it must be available if requested by the CRA.

### **Final Year Medical Student Bursary**

A significant achievement of the 2004 Ontario Physician Services Framework Agreement was the Clerkship Stipend, now named the Final Year Medical Student Bursary (FYMSB). The purpose of the program is to encourage students to complete medical training by offering financial assistance in their final year of medical school. The program provides a bursary of \$750 per month for a period of twelve months. Payments are deposited in four quarterly installments: July, October, January, and April. Payments cannot be deposited into a line of credit or similar account. According to the Winter 2007 OMA Publication, *Scrub-in* (Volume 8, p.11), receiving the bursary will not affect the amount of OSAP money that a student would ordinarily be entitled to. Assuming this stipend is received in connection with a program which entitles the student to claim the education tax credit; all bursary income may be excluded from income when completing your tax return.

Effective September 30, 2012, administration of the FYMSB was transferred to the Ministry of Health and Long Term Care of Ontario. In order to participate in the FYMSB program, students must complete an application form which is normally sent out to students the summer before their last year of study.

### **Medical Officer Training Program (MOTP)**

During medical training, many medical professionals join the Canadian Forces as part of the Medical Officer Training Program (MOTP). Not only do these medical professionals remain with the Forces after medical training but also a significant percentage apply to do specialty training as active members of the Armed Forces. Furthermore, it is not uncommon for these medical professionals to serve overseas in a variety of high-risk operational missions.

A member of the Canadian Forces serving in a deployed operational mission that is assessed for risk allowance pay at level three or higher (as determined by the Department of National Defence) is entitled to deduct from taxable income the amount of their related employment earnings from the

mission to the extent that those earnings have been included in computing income up to a maximum rate of pay earned by a non-commissioned member of the Canadian Forces. This amount will appear in box 43 of your T4 slip. Be sure to speak with your tax advisor if this applies to your situation.

### **Tax Credit for Public Transit Passes**

An individual is entitled to a non-refundable public transit tax credit equal to the appropriate tax rate percentage for the year (15% for 2014) multiplied by amounts paid in respect of eligible public transit passes. The credit is available for passes in respect of travel and acquired for the use by the individual, his or her spouse or common-law partner, or a child under the age of 19 years on December 31st.

Eligible travel passes must be valid for a period of at least one month and include those acquired for local and commuter buses, streetcars, subways, trains and local ferries. The 2007 Federal budget extended the definition of eligible transit passes to include electronic payment cards allowing for at least 32 one-way trips during an uninterrupted period not exceeding 31 days or buying at least four consecutive weekly passes providing unlimited public transit (provided certain specific criteria are met). All amounts claimed must be reduced by any financial assistance the taxpayer may have received.

If you feel you are entitled to claim this credit, be sure to keep your receipts or transit passes on file and speak with your tax advisor.

### **Interest on Student Loans**

For 2014, all students may claim a 15% federal non-refundable tax credit on payments of the interest portion of loans negotiated and still existing with either the Canada Student Loans Act, the Canada Student Financial Assistance Act or a similar Provincial/Territorial Loans Program. Interest paid for any other indebtedness, such as bank loans or lines of credit, will not be eligible for this credit. Provincial non-refundable tax credits may also apply.

If you had eligible student loans in 2014, the financial institution handling your Canada or Provincial Student Loans will mail you, in early 2015, a statement of the actual interest paid on these loans during the year. This statement or receipt should be attached to your tax return as support for the interest paid. Upon completing your 2014 return, you will fill this amount on Line 319 of Schedule 1 of your tax return. There is no limit or maximum on the amount of interest you may claim for the credit. Unused interest tax credits may not be transferred to a spouse or common-law partner or parent (like tuition and education tax credits) but may be carried forward for up to five years by the taxpayer.

### **Medical and Dental Expenses**

The first year of residency can be the best time to incur any medical, dental and eye-care expenses that have been avoided during medical school. Not only could some of these costs be partially or fully covered by your employer's health insurance, but also you may be able to claim a portion of the expenses (i.e., the portion that is not paid by an insurance plan) as a non-refundable medical expense tax credit.

For 2014 qualifying medical expenses in excess of either \$2,171 (\$2,208 in 2015) or 3% of your net income (whichever is less) are eligible for a 15% non-refundable federal tax credit, which can be utilized

to reduce your taxes payable. Your income in your first year of residency will likely be the lowest of your future career and the latter restriction (i.e., 3% of your net income) will likely apply to you in that respective tax year. Although it may be wise to incur and claim all necessary medical, dental and eye-care costs in your first year of residency to maximize your non-refundable medical expense tax credit, caution should be exercised if you have significant tuition and education tax credits that you are carrying forward from prior years. You should be aware that available tuition and education tax credits must be utilized before any medical expenses to reduce your taxable income. In this case, consultation with your tax advisor would be recommended.

You can choose the 12 month period that maximizes your deductible medical expenses.
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The CRA also allows the deduction of medical expenses for any 12-month period ending in the year of the tax return. In other words, you can choose the 12 month period (e.g., September 24, 2013 to September 23, 2014) that maximizes your medical expense tax credit. Be sure however that you are not claiming the same expenses twice.

You may claim medical expenses for yourself, your spouse or common-law partner and your or your spouse's or common-law partner's children who are not age 18 before the end of the taxation year. In certain circumstances, you may also be able to claim a credit for allowable medical expenses you (or your spouse) paid for another eligible dependent. Certain restrictions apply, therefore be sure to consult a tax advisor.

Eligible medical expenses include various medical costs, dental fees, prescription eyeglasses, prescription medication, medical and dental plan premiums (check your pay stub or consult with your payroll office for the specific amounts paid), and a multitude of other expenditures. For those that must travel to receive medical treatment, transportation costs and travel expenses may be eligible if substantially equivalent medical services are not available in your respective locality.

Effective for drugs, medications and other preparations bought after February 25, 2008, only those that were prescribed by a medical practitioner and recorded by a pharmacist qualify for a medical expense credit. As such, vitamins and supplements bought over the counter, even if prescribed by a medical practitioner, would not be eligible.

The 2008 Federal Budget expanded the list of eligible expenses that qualify for the medical expense tax credit to the following. Please note that devices must be prescribed by a medical practitioner.

- Auditory feedback devices;
- Electrotherapy and standing devices;
- Pressure pulse therapy devices; and
- Service animals specially trained to assist individuals severely affected by autism or epilepsy.

As a result of the Federal Budget of March 4, 2010, expenses incurred after that date for purely cosmetic reasons will be ineligible for the medical expense tax credit (METC). A list of the procedures that will generally be ineligible for the METC is at [www.cra.gc.ca/gncy/bdgt/2010/mdcl-eng.html](http://www.cra.gc.ca/gncy/bdgt/2010/mdcl-eng.html).

Following Royal Assent of Bill C-31 on June 19, 2014, the list of expenses eligible for the medical expense tax credit was expanded to include the cost of design of individual therapy plans and costs associated

with service animals for people with severe diabetes. Overall, the list of eligible expenses is lengthy. The document is available at <http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f1/s1-f1-c1-eng.html>.

For those married or common-law taxpayers, consider claiming all medical expenses on the tax return of the lower-income spouse or common-law partner. Unless the 2014 net income of each spouse or common-law partner exceeds \$72,367 (\$2,171/3%), medical expenses claimed will be limited to those expenditures that exceed 3% of the individual taxpayer's net income. Using the expenses on the tax return of the spouse or common-law partner with the lowest net income will usually mean maximizing those expenses that may be claimed by the family unit. On the other hand, the tax credit might be slightly more valuable to a higher-income spouse as it may reduce the application of high-income surtaxes levied by certain provinces. If in doubt, consult your tax advisor.

## Refundable Medical Expense Supplement

Once you have determined that there is an amount eligible for a non-refundable medical expense credit, as detailed in the preceding paragraphs, you may be entitled to an additional "refundable" amount. Although certain conditions must be met, this medical expense supplement will apply whether or not you have tax payable. For 2014, a refundable medical expense supplement amount of up to \$1,152 is generally available to individuals over the age of 18 who have incurred high medical expenses and have combined family employment and business income of at least \$3,363.

The refundable medical expense supplement is calculated on a worksheet supporting Line 452 of your income tax return. Essentially, the supplement will be the result of the lesser of \$1,152 or 25% of your total non-refundable medical expense tax credit reduced by 5% of the excess of the sum of your and your spouse's/common-law spouse's net income above a threshold of \$25,506 for 2013 (\$25,939 in 2015). For example, if your total non-refundable medical expense tax credit is \$2,000 and your family net income is \$26,500, your refundable medical expense tax credit will be \$450.83 ( $[\$2,000 \times 25\%]$  less  $5\% \times [\$26,500 - \$25,506]$ ). The credit is not available if the sum of you and your spouse's net income exceeds \$48,546.

Many provinces have a unique medical expense supplement calculation on their respective provincial worksheets that accompany each provincial T1 personal income tax return package.

## Examination Fees

The Medical Council of Canada (MCC) grants a qualification in medicine known as the Licentiate of the Medical Council of Canada (LMCC) to graduate medical professionals who have satisfied the eligibility requirements and passed the Medical Council of Canada Qualifying Examination Parts I and II. The MCC registers candidates who have been granted the LMCC in the Canadian Medical Register. At the time of publication, the fees related to Part I and Part II of the qualifying examination are \$980.00 and \$2,350.00, respectively, for applications received prior to the main application deadline.

According to the website for the Medical Council of Canada at the time of publication of this document, <http://mcc.ca/examinations/examination-service-fees/>, the application and examination fees are eligible for a tuition tax credit. In addition, certain ancillary fees, such as center change request fees or late fees — up to a maximum total of \$250 — are also eligible. The tuition tax credit receipt will be made available in late February of the year following the year in which the examination was taken. Those

taxpayers will be able to access the receipt by logging into the irrespective MCC-Online account. The tax receipt will appear in their respective account and will be available to print.

It should be noted that examination fees paid for the United States Medical Licensing Examination (i.e., USMLE Parts I, II, and III) have been disallowed by CRA.

Examinations at completion of a residency program (e.g., CCFP exams at the end of Family Medicine or FRCPC/FRCSC at the end of another specialty) are deemed to qualify an individual to practice in a particular specialty. In early 2012, the RCPSC confirmed that the examination fees for FRCPC/FRCSC and certain other ancillary fees and charges are eligible for the tuition tax credit and appropriate receipts will be issued to those paying such fees. Taxation of CCFP, USMLE and FRCPC/FRCSC Examination fees can be a confusing and controversial area and a tax specialist should be consulted.

### **Books and Instruments**

Since income received during medical school or residency is generally income from employment, students and residents, for the most part, cannot deduct the cost of books and instruments. When you begin practice, you may transfer these items to your business at their fair market value. The business may then be able to deduct or depreciate these items (as applicable) to achieve a tax benefit. When purchasing books or instruments, it is wise to keep all receipts. If you have failed to keep receipts, a reasonable estimate of the fair market value of the books and instruments at the time you begin practice (but not exceeding actual cost paid) may be acceptable to the CRA.

### **Malpractice (CMPA) Premiums**

The annual membership fee paid to the CMPA (less any rebate from a provincial reimbursement or other program) is generally deductible as an expense against business income earned as a self-employed medical practitioner. However, for an employee (such as a resident or salaried Fellow) to deduct CMPA fees or other professional dues, the Income Tax Act requires that payment of the dues be necessary to maintain a professional status recognized by statute. Even though CMPA dues are generally required as a condition of employment, this requirement has no bearing on the deductibility of the fees. In provinces other than Quebec, Ontario, Manitoba, New Brunswick, Saskatchewan, Alberta, British Columbia and Newfoundland and Labrador, CMPA dues are not required to maintain a professional status and therefore do not appear to be deductible against employment income.

However, for salaried medical professionals of Quebec, Ontario, Manitoba, New Brunswick, Saskatchewan, Alberta, British Columbia and Newfoundland and Labrador, CMPA fees (less any rebate from a provincial reimbursement or other program) should be deductible as professional dues on Line 212 of your federal income tax return. For salaried medical professionals of the remaining provinces and territories i.e., Nova Scotia and Prince Edward Island as well as Nunavut, the Yukon and the Northwest Territories, the net fees paid may be deductible as an employment expense if the medical professional obtains a completed form T2200 from their employer stipulating that CMPA membership is a condition of employment and the employee does not receive reimbursement for their expenses.

Although the deductibility of CMPA premiums for medical professional employees has previously been a contentious issue with the CRA, an employee who is required by his employer to buy malpractice

insurance may deduct those amounts as an allowable employment expense provided that the employer certifies this on a valid Form T2200.

Whether in residency or not, the prudent medical professional should note that in all jurisdictions in Canada, provincial/territorial governments and medical associations or federations have negotiated reimbursement agreements which are intended to offset some of the cost of liability protection. This long-standing arrangement reflects an agreement between medical professionals and governments to include, in lieu of other payments for clinical services, some of the cost of liability protection in the overall compensation of medical professionals. For further details, contact your provincial or territorial medical association. Be sure to discuss the deductibility of CMPA premiums with your tax advisor.

## Disability Tax Credit

Canadian taxpayers suffering from a severe and prolonged impairment may be eligible to claim a disability tax credit (DTC) on their personal income tax return. For 2014 federal tax purposes, those eligible for the DTC are entitled to a credit equal to 15% of \$7,766 (\$7,899 for 2015). An individual is eligible for the disability tax credit when the following requirements are met:

1. The individual has a severe and prolonged mental or physical impairment,
2. the impairment markedly restricted the individual's ability to perform a basic activity of daily living, or the individual must dedicate a certain amount of time to life sustaining therapy (impairment should last one year or expected to last at least one year), and
3. A doctor has signed a certificate certifying both 1 and 2 (above).

The credit has traditionally been limited to those suffering from blindness or mobility difficulties; however, the courts have issued several rulings with respect to other conditions such as attention deficit disorder, Tourette Syndrome, celiac disease and gluten-free diets. The courts have also specifically noted that the DTC is available to a person who has a cumulative disability creating a severe and prolonged impairment.

Effective October 18, 2013, Income Tax Folio S1-F1-C2 (Disability Tax Credit) replaced the previous CRA Interpretation Bulletin, IT-519R2, on this topic. S1-F1-C2 provides guidance to the taxpayer regarding eligibility for the Disability Tax Credit (DTC), certification requirements, calculating the DTC, transfer of unused credits and additional information to support the claim. The document is available at the CRA website at <http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f1/s1-f1-c2-eng.html>.

Like other Canadians, a number of residents and medical students suffer from the afflictions detailed above and others that qualify for a DTC. This legislation and recent legal precedent is ever evolving. If you feel you may qualify for a DTC, contact your tax accountant for advice regarding your specific situation.

## Registered Disability Savings Plan

Effective January 1, 2008, individuals who qualify for the disability tax credit (DTC) or their parents or legal representatives, may open a Registered Disability Savings Plan (RDSP), which may be eligible to receive the new Canada Disability Savings Grant (CDSG) and/or Canada Disability Savings Bond (CDSB). The beneficiary of the RDSP must be an individual eligible for the disability tax credit.



Similar to the Registered Education Savings Plan (RESP), RDSP contributions are not deductible but the investment income earned from RDSP contributions as well as any additional CDSG and CDSB may accrue tax-free until paid to the respective beneficiary. Although not subject to an annual limit, RDSP contributions are subject to a \$200,000 lifetime limit. Furthermore, RDSP contributions may continue until the end of the beneficiary's 59<sup>th</sup> year. RDSP contributions may qualify for a CDSG that matches contributions at 100%, 200% and 300% levels, up to a maximum of \$3,500 per year, depending upon the respective contribution and the beneficiary's family net income. The CDSG, however, is subject to a \$70,000 lifetime limit and can only be paid on contributions made to the RDSP of a beneficiary who is not over the age of 49 by the end of the year. In addition, families with a net family income below \$43,953 may qualify for a government-paid CDSB of up to \$1,000 per year or \$20,000 in the lifetime of the beneficiary. Effective January 1, 2014, an RESP subscriber and an RDSP holder may jointly elect to have the investment income earned from an RESP transferred tax-free to an RDSP if the beneficiary is the same under both plans.

If you believe you or a dependent qualifies for any of these new savings plans, consult your tax advisor.

## Charitable Donations

For 2014, the first \$200 of eligible donations made to a qualifying charity receives a 15% non-refundable federal tax credit with any excess contributions entitled to a 29% credit; this two-tier system offers tax-planning opportunities for the medical student or resident that is "generous of wallet".

Effective for charitable cash donations made on or after March 21, 2013, first-time donors can qualify for a temporary non-refundable enhanced tax credit calculated at the rate of 40% on the first \$200 and 54% on the next \$800 charitable donations for a maximum tax credit of \$512. Neither the eligible first-time donor nor his or her spouse or common-law spouse may have claimed any charitable donation tax credits after 2007. Furthermore, this First-time Donor's Super Credit may only be claimed once in any taxation year prior to 2018 but may be split between spouses or common-law spouses.

If you and your partner make separate contributions to charity, claim all your donations on a single return; you will only have to deal with the lower tier once (as opposed to twice if donations were claimed individually). This leaves more money above the \$200 limit eligible for the higher-tier tax credit.

Timing of charitable donations can alter income tax implications. For example, if you are planning on contributing \$200 per year to a specific charity, consider making a \$400 donation in December and skipping the following year. The result: half of the donation will be eligible for the credit at the higher rate. Furthermore, charitable donations can be claimed in the year of the gift or in any of the five subsequent years. If you have unused donation receipts from prior years, you may be able to claim them on your 2014 tax return.

As a result of the May 2, 2006 federal budget, capital gains resulting from the donation of publicly listed securities to registered charitable organizations and public foundations are no longer taxable. The 2007 Federal Budget extended this relief to capital gains resulting from the donations of publicly listed securities to private foundations (certain exceptions apply). In addition, a qualified donee includes a charitable organization outside of Canada to which the government of Canada has made a gift in the current year or, in the twelve months immediately preceding the year. A list of these qualified donees is available through the Forms and Publications web pages at the Canada Revenue Agency website:

<http://www.cra-arc.gc.ca/chrts-gvng/qlfd-dns/gftsfrmhmjsty-eng.html>.

## **Adoption Expense Tax Credit**

For 2014, taxpayers who completed an adoption of a child under the age of 18 will be entitled to a 15% non-refundable federal tax credit for eligible adoption expenses incurred during the adoption period, up to a maximum of \$15,000 (\$15,225 for 2015) to the extent these expenses were not reimbursed or were not expected to be reimbursed. The tax credit will be allowed in the year the adoption is finalized or recognized under Canadian law (i.e., at the end of the “adoption period” – see below).

Eligible expenses include court, legal and administrative expenses, reasonable travel and living expenses for the child and parent(s), fees paid to an adoption agency licensed by a provincial or territorial government and any other reasonable expenses required by such an agency. Mandatory fees paid to a foreign institution and document translation fees will also be eligible.

Eligible expenses must be incurred during the “adoption period”. The adoption period begins as soon as an application is made for registration with a provincial ministry responsible for adoption or with a provincially licensed adoption agency. Effective for 2013, the adoption expense tax credit may be claimed not only for eligible adoption expenses incurred after the date the parents are matched with the child but also for expenses incurred beginning at the time the application for registration to adopt is made.

While certain provinces also offer adoption credits, Quebec offers a significant tax credit equal to 50% of eligible adoption expenses to a maximum of \$20,000 of such expenses per child (i.e., maximum tax credit of \$10,000 per child). Furthermore, the Quebec tax credit is refundable if it exceeds tax payable whereas the federal tax credit is non-refundable and limited to tax payable in the year the adoption is complete.

In regard to federal tax treatment of in-vitro fertility programs, a number of CRA interpretations were released in 2011. In a September 30, 2011 Technical Interpretation (2011-0415601E5, Rafuse, Charles), CRA noted that the costs related to in-vitro fertility programs, specifically costs of sperm and egg freezing and storage would qualify as medical services as they were incurred secondary to the medical condition of infertility. Such amounts would qualify as medical expenses if they are paid by an individual to a medical practitioner or to a public or licensed private hospital in respect of services provided to that respective individual, or the spouse, common-law-partner, or dependent.

Similar credits or benefits are also available in certain provinces.

## **Registered Retirement Savings Plans (RRSP)**

A registered retirement savings plan (RRSP) is a plan registered with the CRA that is designed to encourage you to save for your retirement. RRSP contributions are eligible for a deduction in calculating taxable income to the extent that you have the available contribution room; funds remaining within an RRSP grow tax-free and are only taxed upon withdrawal from the plan. As such, the benefits include both tax savings (i.e., tax deductions for contributions), as well as tax deferral (growth and earnings are only taxed upon withdrawal from the plan).

The 2014 RRSP contribution limit is equal to 18% of your previous year’s “earned income” up to a maximum of \$24,270. The maximum contribution limit will be \$24,930 for 2015 and will be indexed in

future years for inflation. Your contribution room may have to be reduced by any pension adjustments, which you receive when you make contributions to a pension plan. In addition, you may have unused contribution room from prior years. Unused RRSP contribution room is not lost but is instead carried forward indefinitely and may be utilized in future years. For 2014 RRSP deduction purposes, the contribution deadline is March 2, 2015.

The benefits of an RRSP also include estate planning and income splitting, the latter via spousal RRSP contributions or with pension income splitting (for example, applicable to RRIF income for a pensioner aged 65 and over). In addition, provided certain conditions are met, you may be eligible to withdraw funds from your RRSP without incurring tax as part of the Home Buyers Plan (to a maximum of \$25,000 in a calendar year) in order to purchase a qualifying home, or as part of the Lifelong Learning Plan to finance your post-secondary education. If you have not already done so, discuss the benefits of RRSPs and retirement planning with your financial advisor.

The age limit for RRSPs is 71. As a result, an individual is required to convert their RRSP to a RRIF by the end of the year during which they reach 71 years of age. Contributions to an RRSP can continue until the plan is converted to a RRIF provided there is sufficient RRSP contribution room.

### **Registered Education Savings Plan (RESP)**

An RESP is an education savings account that is registered with the Government of Canada. The Canada Education Savings Grant (CESG) is intended to complement RESP contributions, wherein the Government of Canada will contribute an amount equal to 20% of annual contributions made to the RESP up to a maximum of \$500 per beneficiary (based on annual contributions of \$2,500) or up to a maximum of \$1,000 per beneficiary if there is unused grant room from prior years. The maximum lifetime CESG is \$7,200 per beneficiary while the maximum lifetime contribution to an RESP is \$50,000 per beneficiary.

The government of Canada also provides a Canada Learning Bond (CLB) to encourage low-income families to contribute to an RESP. Families with children born on or after January 1, 2004, and who receive the National Child Benefit, will receive an additional \$500 CLB when they open an RESP and \$100 for each year they remain eligible

There are also a number of provincial incentives which complement the Federal RESP program. Contact your MD Advisor for additional information.

### **Tax-Free Savings Account (TFSA)**

Since January 1, 2009, Canadians have had the opportunity to deposit funds in a Tax-Free Savings Account (TFSA) at authorized financial services firms across Canada. TFSAs provide alternatives to investors to complement their current holdings. It is important to understand the key characteristics of a TFSA before considering opening an account including:

- Contributions to a TFSA can be made once a taxpayer turns 18 and has a valid Social Insurance Number (SIN). However, the taxpayer may contribute the full TFSA limit for that respective year (see below). For example, if a taxpayer turns 18 on September 30, 2014, he or she may contribute up to \$5,500 after that date for the 2014 year.

- Contributions are not tax deductible.
- Investment earnings earned within the TFSA are not taxable.
- Withdrawals can be made on a tax-free basis. This is important for people who are subject to a claw back on government programs or pensions.
- Money withdrawn from a TFSA can be returned to the account at a future date; withdrawals are added back in the following year when calculating contribution room to a TFSA.
- Although initially set at \$5,000 per year, in November 2012, CRA announced that, starting in 2013, the annual contribution for the TFSA would be increased by \$500 to \$5,500.
- \$5,000 annually will be added to a person's TFSA contribution room for the 2009, 2010, 2011 and 2012 years and \$5,500 for 2013 and 2014 and 2015. (The annual TFSA contribution will continue to be indexed in increments of \$500 subject to government changes.)

Of note, one can re-contribute withdrawn amounts in the same year only if the taxpayer has unused TFSA contribution room. Otherwise, the taxpayer must wait until the following year. Re-contributing withdrawn funds in the same year without sufficient unused TFSA contribution room will result in a tax hit for an "over-contribution".

Whether you have a short-term or long term savings goal in mind, the TFSA gives you another option to accumulate your wealth. If you feel you may benefit from this investment vehicle, consult your advisor.

## **Harmonized Sales Tax (HST)/Goods and Services Tax (GST) and the Physician**

The GST is a value added tax instituted by the federal government on January 1, 1991 throughout the country. When some provinces decided to harmonize their provincial sales tax with the federal government to save on tax administration costs, HST was instituted. HST is a combination of the 5% federal goods and services tax and the provincial sales tax.

CRA administers GST and HST for the federal government and the provinces of New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and Prince Edward Island. Although, the Province of Quebec was harmonized effective January 1, 2013, the administration of GST and QST remains with Revenue Quebec. Alberta and the territories do not impose sales taxes.

As most services provided by medical professionals are considered exempt services under the Excise Tax Act, the respective medical professionals were unable to claim input tax credits for the tax they paid, which resulted in an increased cost of operations. Physicians may wish to review their contractual and billing arrangements to ensure they're satisfied with the tax status of those services and consider restructuring them to reduce the amount of unrecoverable HST that may be payable. For further advice, consult with your tax advisor.

## **Remember Provincial Tax Credits**

All provinces and territories calculate provincial taxes according to their provincial rates multiplied by provincially defined "taxable income" (i.e., tax-on-income). Consequently, the respective province/territory also offers its own tax credits for such items as donations, medical expenses, political donations, and other items. Be sure not to forget to complete the provincial income tax forms.

## Reinvest Tax Refunds

Refunds are often seen as free money. A lump-sum refund provides a tremendous opportunity to save. Rather than spending it, consider reducing your costly student loans or credit card debt or investing in your RRSP. If saving for a child's education, consider investing tax refunds into a Registered Education Savings Plan (RESP). Be sure to speak with your advisor to determine the best plan of action.

## Incorporation

Fortunately, many residents completing their training will have an opportunity to incorporate their future medical practice. One of the most significant benefits of incorporation is tax deferral, as the tax rate applied to active business income earned and retained within a corporation can be significantly less than personal income tax rates. For 2014, if a corporation qualifies as a "Canadian Controlled Private Corporation", up to the first \$500,000 federally (provincial small business limits may vary) of active business income may qualify for a small business deduction and a reduced overall federal tax rate of 11%. The rate of federal corporate tax on income exceeding the small business deduction is 15%. Provincial taxes, which vary by province, must also be calculated on the business income.

Ontario passed legislation in 2002 allowing medical professionals to incorporate their practices. Further amendments effective January 1, 2006 introduced the possibility of income splitting by allowing certain non-medical professional family members (such as a physician's spouse, parents, or children) to own non-voting shares of a medical professional corporation in Ontario. In addition, non-voting shares may now be owned through a trust for the benefit of the physician's minor children. Other provinces also allow certain non-medical professional family members to own shares of a professional corporation (subject to certain restrictions).

In 2009, Alberta introduced changes which allow medical professionals more flexibility in structuring their incorporated practice. Under Bill 53, which received Royal Assent on November 26, 2009, an Alberta professional corporation can now issue non-voting shares to the regulated professional; his or her spouse (including a common-law or same-sex spouse); his or her child; and a trust all of whose beneficiaries are his or her minor children. Bill 53, however, does not allow holding companies to hold shares in an Alberta professional corporation and the beneficiaries of a trust settled to hold a professional corporation's shares must all be the regulated professional's minor children.

Although the potential benefits of incorporating your medical practice may be significant, the disadvantages of doing so must be carefully evaluated. The medical professional who feels that he/she may benefit from incorporation should discuss this further with their financial advisor.

## Taxpayer Bill of Rights and Taxpayer Relief Provisions

On May 28, 2007, a Taxpayer Bill of Rights was introduced including 20 rights, most of which are well known to tax professionals (e.g., the right to receive service in both official languages). Two of the more interesting rights which are bound to catch the attention of accountants include:

Right #1 "You have the right to receive entitlements and to pay no more or no less than what is required by law."

Right #8 "You have the right to have the [tax] law applied consistently."

In addition, the CRA announced the creation of the Taxpayer's Ombudsman Office which operates independently from the Canada Revenue Agency and is responsible for upholding the Taxpayer Bill of Rights.

On May 31, 2007, Information Circular IC07-01 was released and deals with Taxpayer Relief Provisions, including canceling and waiving penalties and interest, accepting late, amended or revoked elections, refunds or reduction of taxes payable beyond the normal three-year period, as well as rules and procedures to follow to request relief. In general, CRA may provide relief when it considers it would be just and equitable to do so.

To make an application for Taxpayer Relief, the taxpayer or an authorized representative, should submit Form RC4288, Request for Taxpayer Relief to the CRA. Although this respective form outlines what information is expected by CRA, other written requests will be accepted. Nevertheless, if one wishes to seek recourse under the Taxpayer Relief Provision, a tax professional should be consulted.

### **Taxpayer Information from the CRA**

The CRA has launched a personal tax information service entitled, "My Account", found on their website <http://www.cra-arc.gc.ca/esrvc-srvce/tx/ndvdl/myccnt/menu-eng.html>. This personal online program allows you to view information on such items as your assessment dates, dates when returns are received, assessment results, RRSP deduction limits, Home Buyers Plan information, account balances, detailed yearly breakdown of provincial, federal, CPP assessments and current information on your Child Tax Benefit and GST/HST credits. In addition, a taxpayer may change his or her tax return, address or telephone numbers or register a formal dispute of an assessment through My Account.

To access "My Account", a taxpayer has the option of using sign-in information used for online banking purposes. The first time you sign in, you will be asked to provide your social insurance number, date of birth, current postal code and an amount you entered in your current or a previous income tax return. A CRA security code will be subsequently mailed to your current address within 5 to 10 days.

CRA has also expanded the My Account system to provide access of a taxpayer's account to that taxpayer's accountant or authorized representative. One of the methods for authorizing a representative includes the completion of Form T1013. Or a pre-authorized debit may be set up through this service to authorize an automatic withdrawal from a Canadian financial institution on a specified date.

For those who may wish to learn more about the Canadian tax system, a free 90 minute (estimated time) CRA Tax Tutorial is available at <http://www.cra-arc.gc.ca/tx/ndvdl/dctrs/menu-eng.html>

### **Tax Forms Available at the CRA website**

Required tax returns and tax forms may be obtained from any Tax Services office of the CRA or may be downloaded from the CRA website at <http://www.cra-arc.gc.ca/formspubs/>.

## Other Resources at the CRA Website

Taxpayers can now send payments to the CRA from their accounts at participating financial institutions using the new MY Payment Service. This will immediately credit the respective CRA account for payment transfers through a secure link with the Canadian financial institutions who offer Interac Online payment service, which includes most major banks.

The mechanics will include following cues at the CRA website, and entering the payment amount as well as indicating which account (e.g., individual income tax, GST/HST, payroll deductions, etc.) the payment relates to. Once you have confirmed your transaction details, you will then select your financial institution from the list provided and continue by logging into online banking with your usual password and other authentication details. The transaction receipt with a confirmation number will be displayed and should be printed and kept for your records.

Although the CRA does not currently offer an option of paying taxes by a credit card directly, they do allow the use of a third-party service, [www.plastiq.com](http://www.plastiq.com), which offers the ability to pay your tax bill to the CRA using the credit card of your choice. Plastiq Inc. will generally charge the taxpayer 2.0% per transaction. Although the transfer will typically take 2-3 days, the taxpayer is ultimately responsible for making sure CRA receives your payment by the due date. Also, one should always exercise caution when providing sensitive personal information or payments via a third party.

## Retention of Books and Records

The CRA recommends that all taxpayers, including employees, self-employed individuals, and incorporated businesses, keep their records and supporting documents for at least six years from the end of the last tax year to which they relate. That being said, certain records such as supporting documents regarding acquisitions and disposals of property, the share registry and other historical information that would have an impact upon sale or liquidation or wind-up of a business must be kept indefinitely.

Maintaining organized books and records is not only legally required but also necessary to avoid time consuming document searches in the future when responding to requests for information or assessments from the CRA. Permission must be obtained from the CRA to destroy any books and records before the 6 year-period mentioned above.

## File on Time

The 2014 deadline for filing income tax returns is April 30, 2015. If expecting a refund, you may file your return once all receipts and tax slips are collected, expediting your cash refund. If you are expecting to owe additional taxes, you may still file early but post-date your cheque for April 30, 2015. In this manner, you will avoid the last-minute "crunch" and delay payment until legally required.

Individuals who are self-employed (or whose spouse or common-law partner is self-employed) have until June 15, 2015 to file their 2014 personal income tax return. That being said, if there is a balance of tax owing on their 2014 income tax return, the amount is payable by April 30, 2015.

In addition to filing a paper return, the CRA has a program that permits most taxpayers to file their T1 tax returns directly via the Internet, dubbed "NETFILE". Use of NETFILE (which is also offered by Revenue Quebec) requires that tax returns filed online must first be prepared using CRA-certified tax preparation software or an approved Web application. For a list of those available, including free options, go to [www.netfile.gc.ca/software](http://www.netfile.gc.ca/software). However, see <http://www.netfile.gc.ca/rstrctns-eng.html> for a list of restrictions on the use of NETFILE which is extensive and should be reviewed prior to proceeding.

Unlike previous years, the taxpayer no longer requires a web access code to file a return via NETFILE. Instead, only your social insurance number and date of birth are necessary. However, before filing online, your information, including your address, must be up to date. You can change your information online prior to filing your return by using My Account (see "Taxpayer Information from the CRA" above). NETFILE does not require the taxpayer to file the supporting documentation used to prepare the return unless requested to do so at a future date.

For taxpayers who have their return(s) prepared and submitted by an accountant or tax preparation service, you may have heard of EFILE. EFILE is an automated service provided by CRA that permits those who prepare and file taxes on behalf of others to electronically file the current and first prior year income tax and benefit return to the CRA directly from the software used to prepare the tax return.

For those individuals who owe money to the CRA for the 2014 taxation year and fail to file their personal tax return by the due date, the Income Tax Act has a first offense late filing penalty of 5% of the tax owing plus 1% per month to a maximum of twelve months for a total penalty of 17% of the tax owing. However, if the taxpayer has been charged with a late filing penalty in any of the three preceding taxation years, the late filing penalty will be doubled on the second offense to 10% of the tax owing plus 2% per month for a maximum of up to 20 months for a total penalty of 50% of the tax owing. These penalties are in addition to any interest owing on the unpaid tax balance.

In a similar fashion, if you fail repeatedly to file income tax returns after having been requested to do so, additional penalties may apply. More severe penalties could also apply in cases of negligence and/or tax evasion.

Interest and penalties paid to the CRA are not tax deductible and are not eligible for a tax credit.

## **Assessments, Audits and Reassessments**

When you file a conventional (paper) income tax return, it is usually processed over a period of approximately 4 to 6 weeks (two to four weeks if you have filed via NETFILE or EFILE) after which you will receive a "Notice of Assessment" and any refund payable to you. One should always note that this "assessment" is simply a check on your arithmetic as well as a cursory confirmation that the numbers on your return are supported by the submitted receipts and information slips. The fact that a particular claim is allowed does not mean that the CRA (or Revenue Quebec) is "letting" you claim it; it merely means that the CRA has not addressed the issue in any detail at that present time.

Sometime after the initial assessment, your return may be selected for an audit. Most audits of individual taxpayers comprise "desk audits", in which the auditor will ask you to supply supporting material for claims you have made. If the audit reveals an indication that your tax payable should be other than that originally assessed, the CRA will issue a Notice of Reassessment.



A reassessment cannot normally be issued more than 3 years after the date of the original assessment, unless there is a suspicion of fraud, or misrepresentation attributable to “neglect, carelessness or willful default”, whereby a reassessment for any taxation year may be issued.

When faced with a reassessment to which you disagree, a number of options are available. A wise first step is to contact a CRA representative by phone to discuss the issue(s); most disputes are resolved through a simple phone conversation. If you are unsatisfied with this outcome, you should speak with your tax advisor. They may suggest that you speak to others in the CRA hierarchy. In certain cases, they may also suggest filing a Notice of Objection. A Notice of Objection should be filed on Form T400A available at the CRA website, [www.cra.gc.ca](http://www.cra.gc.ca). The due date of the Notice of Objection is the later of 90 days after the mailing date on your notice of assessment or reassessment, or one year after the due date of the tax return under dispute. However, if you are at this point, it would be prudent to obtain the services of a Tax Professional, as the objection is usually your last opportunity to obtain corrective action -- unless you are willing to go to court (which would usually be a very costly process).

### **Tax Advice Provided by the CRA – A Caution**

Many Canadians contact the Tax Services Offices of the CRA to obtain information and tax advice. Be aware that advice provided by CRA employees may be overturned by a subsequent assessment, audit or court action – with no recourse for the taxpayer. As such, the busy medical professional should strongly consider engaging the services of a qualified tax accountant or advisor.

### **Tax Scams – Be Wary**

On March 7, 2014, CRA warned taxpayers to be wary of telephone calls or e-mails that claim to be from CRA. Many of these are not. CRA noted that phishing scams commonly request information such as credit card, bank account and passport numbers, directly or via internet sites. CRA noted that it never requests information about a passport, health card or driver’s license. Furthermore, CRA will never leave personal information on an answering machine or request that a taxpayer leave personal information on an answering machine.

### **Parting Words...**

Like medicine, tax law is frequently complex and often requires the involvement of qualified professional advisors, such as a tax accountant and/or tax lawyer. The above information is compiled and provided as a guide for all medical professionals and medical professionals in training in Canada who are completing their respective personal income tax returns. It is not intended, nor can it be relied upon, to offer complete advice for every particular situation. As no tax advice can be applicable to every foreseeable contingency, the reader is strongly encouraged to seek professional assistance to resolve their particular tax and financial situation.