Planning Ahead - Income Tax

Topics to be covered:

– Income taxes
– Medical expenses and the Disability Tax Credit
– Ontario tax credits
– Will planning tips

Julia A. Dean, CA
Tax Specialist
Planning Ahead - Income Tax

Income taxes
- Pension income and deduction
- RRSP and RRIF income
- Pension splitting

Julia A. Dean, CA
Tax Specialist

Collins Barrow
Chartered Accountants
Income taxes - Pension income and deduction

– Pension income includes income from

- Registered pension plans
- RRSP’s
- RRIF’s
- Life annuities out of superannuation plan or pension plan
- Canada pension plan benefits
Planning Ahead - Income Tax

Income taxes - Pension income and deduction

– A deduction of up to $2,000 is available for “eligible pension income”

– Eligible pension income

• Age 65 and older (at December 31st)
  – Excludes payments from Canada Pension Plan only

• Under 65 years of age
  – Includes only Registered Pension Plan payments

Julia A. Dean, CA
Tax Specialist
Planning Ahead - Income Tax

Income taxes - Age amount

– Maximum of $6,916 for 2014 ($6,854 for 2013)

– Amount is reduced for net incomes in excess of $34,873 ($34,562 for 2013)
  • Reduction is 15% of excess

– Reduced to zero at an income of $80,980 ($80,256 for 2013)
Income taxes - Pension splitting

- Beginning in 2007, amounts eligible for the pension deduction can be split between spouses (0 to 50%)
  - The split is for income tax purposes only
- An election is made on both spouses’ income tax returns consenting to the split on Form 1032
- Will reduce the total income taxes payable by family
  - Decrease in tax for one spouse is more than offset by the increase in tax for the other
- Watch out for impact on assistance amounts for nursing home patients
Income taxes - Pension splitting

• Example A
  – Spouse 1 has pension income of $75,000 from registered plans and RRSP’s
  – Spouse 2 has pension income of only $10,000
  – Assume both receive OAS and CPP retirement pensions

• Tax savings from pension splitting
  – $3,853
Income taxes - Pension splitting

• Example B
  – Spouse 1 has pension income of $50,000 from registered plans and RRSP’s
  – Spouse 2 has pension income of $30,000
  – Assume both receive OAS and CPP retirement pensions

• Tax savings from pension splitting
  – $302
Income taxes - Pension splitting

• Example C
  – Spouse 1 has pension income of $125,000 from registered plans and RRSP’s
  – Spouse 2 has no pension income
  – Assume both receive OAS and CPP retirement pensions

• Tax savings from pension splitting
  – $5,995
Medical expenses

– Inclusions
– Disability Tax Credit
– Exclusions
– Disability Supports Deduction
– Refundable Medical Expense Supplement
– 3% limitation
Planning Ahead - Income Tax

Medical expenses

- Claim expenses for you, your spouse and your dependents
- Claim for any 12 month period ending in the year
- Medical expenses include
  • Attendant or nursing home care (more detail later)
  • Attendant care (more detail later)
  • Group home care
  • Full-time attendant at home
  • Nursing home care
Medical expenses

– Medical expenses include

• Amounts charged by medical professionals
  – Doctors, dentists, optometrists, chiropractor, physiotherapist, practical nurse, therapists, naturopaths, dermatologists, etc.

• Glasses, contact lens and eye exams

• Hearing aids and batteries

• Prescription drugs (recorded by a pharmacist)

• Premiums paid for health coverage
  – Including travel insurance
Medical expenses
– Medical expenses include
  • Transportation costs
    – Taxi, bus, train, etc if more than 80 kilometre round trip is required
    – Includes mileage calculated at 55 cents / km (2013)
  • Travel expenses
    – If more than 160 kilometre round trip is required
      » Food at $17 per meal
      » Actual accommodation costs
      » Can include meals and accommodations for an attendant if patient is certified to be incapable of travelling alone
Medical expenses

– Medical expenses include

• Ambulance costs
• Transplant costs
• Laboratory tests
• Medical devices
• Incontinence supplies
• Guide dogs (purchase, care and maintenance)
Planning Ahead - Income Tax

Medical expenses

– Medical expenses include
  • Colostomy & ileostomy supplies
  • Lip reading/sign language/note taking services
  • Voice recognition software
  • Alterations to home or incremental costs of new home construction
  • Driveway alterations
  • Van for wheelchair
  • Costs of moving to a nursing home (up to $2,000)
Planning Ahead - Income Tax

Medical expenses
– Disability Tax Credit (DTC)
  • Form T2201 must be filed to claim the DTC
    – Certifies that you have a severe and prolonged physical or mental impairment
  • 2014 claim is $7,812 ($7,735 for 2013)
  • Disability Tax Credit eligibility is required for
    – Attendant or nursing home care claim
    – Attendant care claim if not in excess of $10,000
      » $20,000 in the year of death
    – Group home care claim
Medical expenses
– Attendant or nursing home care
  • Includes all regular fees paid to a nursing home including food, accommodation, nursing care, administration, maintenance, and social programming
  • Does not include separately identifiable extras such as hairdresser fees
  • The accommodation portion of the fees are also included as part of the Ontario Trillium Benefit
– Cannot claim DTC if this claim is made
Medical expenses

- Attendant care less than $10,000
  - In the year of death the claim doubles to $20,000
  - Includes only salaries or wages paid for the attendant or attendants only
  - Can not claim under medical expenses if child care or disability supports deductions are claimed

- Can claim both DTC and this amount (up to the $10,000 threshold)
Medical expenses

- Retirement homes (Attendant care)
  - Must be eligible for the DTC
  - Claim only made for attendant or nursing care
  - The establishment must provide a breakdown of services
    - Nursing care
    - Accommodation
    - Food, entertainment, etc

- Cannot claim DTC if this claim exceeds $10,000
Medical expenses

– Group home care
  • Must be for care and/or supervision in a group home maintained exclusively for the benefit of individuals who have a severe and prolonged impairment

– Cannot claim DTC if this claim is made

– Cannot claim this amount if attendant care or nursing home care claims are made
Planning Ahead – Income Tax

• Medical expenses
  – Disability Supports Deduction
    • A deduction from income for certain eligible medical expenses if you incurred the expenses to allow you to do one of the following:
      – To work
      – To attend school
      – To do research for which you received a grant
    • No dollar limit on the deduction but it is limited to net income.
Medical expenses

– Medical expenses do not include
  • Vitamins and herbal remedies
  • Over the counter medications
  • Hot tubs and saunas
  • Health club costs
  • Illegal drugs
Medical expenses
– 3% limitation
  • Medical expenses listed above are totaled
  • Deduct 3% of net income to get “allowable medical expenses”

– Refundable medical expense supplement
  • Available if employment income of at least $3,179 is reported
  • Credit is 25% of allowable medical expenses up to $1,152 ($1,142 for 2013)
  • Credit is reduced by 5% of net income over $25,506
Planning Ahead - Income Tax

Ontario tax credits

– Ontario Trillium Benefit
  • Sales tax credit
  • Energy & property tax credit
  • Northern Ontario energy credit

– Ontario Senior Homeowners’ Property Tax Grant

Julia A. Dean, CA
Tax Specialist
Planning Ahead - Income Tax

Trillium Benefit - Sales tax credit
- One claim per couple
- Must apply for the federal GST/HST credit
- Ontario sales tax credit
  - $281 per adult and child per year
  - Paid monthly starting in July of each year
- Reduced for income over $27,031
  - Reduction is 4 cents for each $1 over that amount

Julia A. Dean, CA
Tax Specialist
Planning Ahead - Income Tax

Trillium Benefit - Energy & property tax credit

- Maximum credit is $1,135 for seniors ($963 for others)
- The credit is reduced for net income over $27,031
  - Combines net income of both spouses (if applicable)
  - Reduction is 2% of net income in excess of $27,031 for single and $32,437 for married seniors

- Involuntary separation
  - If one spouse is living at home and the other is in a nursing home
  - A claim is made by each spouse separately
    - Only include applicable spouse’s net income in each claim

- No claim in the year of death and income of deceased is not included in the above calculations

Julia A. Dean, CA  
Tax Specialist
Planning Ahead - Income Tax

Senior Homeowners’ Property Tax Grant

– Apply for this on your personal tax return
– Maximum grant is $500
– Single seniors – income under $35,000 – full grant
  • Income between $35,000 and $50,000 – receive a reduced grant
– Married seniors – income under $45,000 – full grant
  • Income between $45,000 and $60,000 – receive a reduced grant
– Grants will be sent 4 to 8 weeks after your 2013 Notice of Assessment

Julia A. Dean, CA
Tax Specialist
Planning Ahead - Income Tax

Will Planning Tips

– Income tax is driven by the wording in your Will
– If a Will is contested, the income tax return for the date of death may change if the allocation of property changes on settlement.
– Possible planning points
  • Spousal trusts
  • Donation planning
  • Named beneficiaries on items such as life insurance RRSP’s, RRIF’s and TFSA’s

Julia A. Dean, CA
Tax Specialist
Will Planning Tips

– Spousal Trusts

• Can delay the taxation of certain income items until the death of the surviving spouse
• Can be used to segregate assets that may attract tax from those that don’t attract tax.
Will Planning Tips

– Donation planning
  • If a donation is specified in the will, generally the donation will be included on the date of death return.
    – This timing is important.
    – Want to match income inclusion and deductions or credits.
    – If these are on separate returns, the benefit is lost.
Will Planning Tips

– Named beneficiaries
  • Important for probate purposes.
  • Important for income tax purposes.
    – RRSP’s and RRIF’s are taxable on the date of death return.
    – Having a named beneficiary does not prevent the income inclusion.
    – Tax that arises at the date of death on RRSP’s and RRIF’s is paid by the Estate but the beneficiary has the asset.
    – TFSA’s are not taxable on the date of death return but any growth after the date of death (before it is transferred to the beneficiary) is taxable to the Estate.