

Saving Money

Congratulations on taking this important step to a brighter financial future. Consolidated Credit Counseling Services of Canada, Inc. has been helping Canadians across the country solve their credit and debt problems for years.

Our Educational Team has created over twenty publications to help you improve your personal finances. By logging onto www.consolidatedcredit.ca you can access all of our publications free of charge. We have tools to help you become debt free, use your money wisely, plan for the future, and build wealth. The topics Consolidated Credit of Canada addresses range from identity theft to building a better credit rating; from how to buy a home to paying for college. On our website you will also find interactive tools that allow you to calculate your debt and see how much it is costing you.

We are dedicated to personal financial literacy and providing a debt-free life for Canadians. If you are overburdened by high interest rate credit card debt, then I invite you to speak with one of our certified counselors free of charge by calling 1-800-656-3920 for free professional advice.

Sincerely,

Jeffrey Schwartz

Executive Director

Consolidated Credit Counseling Services of Canada, Inc.

Taxes: Save Money, Solve Problems

Taxes take a big bite out of most Canadian's budgets. In fact, they are the largest single expense for many of us.

According to tax-news.com, the average Canadian family (with two or more individuals) earned \$79,396 in 2006 and paid a total of \$36,650 in taxes.

To help Canadians understand how much we pay toward taxes, we "celebrate" Tax Freedom Day. This is the date by which Canadians' average earnings equal their annual federal, provincial and local tax bills. In 2006, it was celebrated on June 19th. That means for the first six months of the year, the average Canadian was working solely to pay taxes!

In addition, many people probably pay more taxes than they need to. Each year, many Canadians overpay only because they fail to file common deductions and credits that they are entitled to. Most, if not all, of the following deductions are available to the average Canadian, working taxpayer.

At Consolidated Credit Counseling Services of Canada, Inc. we often hear questions and concerns about taxes from the consumers we counsel. This brochure covers five tax topics that come up frequently:

- Saving Money on Taxes
- Lending Money to the government (through refunds)
- Rapid Refunds
- Taxes and Settled Debts
- When You Can't Pay Revenue Canada

Saving Money

Getting organized and keeping good records are the two keys to making tax time less painful and expensive. If you haven't already done so, start a file and notebook where you can keep track of your income and expenses. If you only receive income through one job and your employer withholds taxes, this will be easier. Still, it's a good idea to keep copies of your paystubs in case of any problems later on.

Always write down tax deductible expenses immediately, the same day you incur them. Otherwise, you're likely to quickly forget about them. Keep records and receipts of any items you may be able to deduct.

Scott Estill, former tax attorney and author of *Tax Secrets of Millionaires*, recommends you include five pieces of information in your records:

Who?

What?

Where?

When?

Why?

Answering these questions will usually give you the information you need to explain any items that may be questioned by Revenue Canada.

Many people fail to take legitimate deductions because they are afraid it will result in their being audited. In fact, your best defense is to keep good records, check your returns carefully, and make sure you get good advice about legitimate deductions. But overpaying your taxes won't protect you against an audit.

Here are some commonly overlooked deductions:

Equivalent-to-Spouse Credit – Taxpayers can claim this credit if they were single, divorced or separated and supported a qualified relative that lived with and was dependent on them at any time during the year. This credit is calculated in the same way as the spousal credit. There are restrictions that are listed below:

1. If the dependent is not a child, he or she must be a Canadian resident.
2. If the child is claimed as a dependent, he or she must have been under the age of 18 years of age at least in part of the tax year, unless the child is mentally or physically disabled.
3. Only one dependent can be claimed under this credit.
4. Only one taxpayer can claim each dependent.
5. The credit can not be claimed in cases where the taxpayer is subject to court-ordered support obligation.

To be eligible, the dependent did not have to live with the taxpayer for the entire year.

Charity - The CRA allows a federal tax credit on charitable donations of 17% for the first \$200 and 29% on amounts over \$200 up to a maximum of 75% of net income. The corresponding provincial tax credit for Ontario residents is 6.05 per cent of the first \$200 and 11.16 per cent of any amount over \$200.

Spouses can pool their contributions to maximize the tax break.

Childcare Expenses – Childcare expenses are deductible if both spouses or single parent are working full-time or where one spouse is attending school for all or part of the tax year. Childcare expenses can include daycare fees, boarding school, hockey school or summer camp fees.

If both spouses are working, the lower-income earner must claim the deductions. If the lower income earner is a full-time student, the deduction is available to the higher earner for the number of weeks the spouse attends school.

The maximum you are allowed to claim under the childcare deduction is \$7000 for each child under seven at the end of the year, and \$4000 for each child over seven and under 16. For children with disabilities, you can deduct up to \$10,000 starting in year 2000. The deductions cannot exceed two-thirds of your earned income.

Medical Expenses – Non-reimbursed medical expenses can be claimed as a non-refundable tax credit. Medical expenses may also be claimed for dependants other than a spouse or common-law partner. There is a lengthy list of expenses that qualify under the medical expense category. A few examples include attendant care for the disabled, medical devices to assist with persons with impaired sight or hearing, and reasonable travel expenses incurred to obtain medical care. A full list can be found at the CRA website (www.cra-arc.gc.ca).

Dividend Income – The dividend income deduction allows couples with such income to transfer the income to the higher earning spouse to avoid the taxation on the lower income in the household.

Disability Credits- A federal tax credit of 16% on \$6,279, or \$1,005, is available for taxpayers with severe and prolonged mental or physical infirmity.

Pension Income Credit – If you receive a pension income, a 16% federal tax credit and a 6.05% Ontario provincial tax credit on up to \$1000 of eligible pension income is

available. If the pension is from an employer's plan, you are eligible regardless of age; otherwise, in the case of an RRSP or RRIF withdrawal or an annuity, you must be at least 65. If you can't use the credit, it can be transferred to your spouse.

Carrying Charges – These include a variety of expenses associated with finance charges and investment expenses, such as interest on loans for investment purposes, interest charged on the purchase of Canada Savings Bonds through your employer's payroll deduction plans, the cost of renting out a safety deposit box, and fees paid to financial planners and investment advisors.

Moving Expenses - If you moved within Canada, your moving expenses may be tax deductible. You must be employed and your new location must be at 40 kilometres closer to your place of work. Expenses that can be claimed include hiring movers, renting a van to move yourself, breaking a lease, furniture storage, meals and lodging for you and your family while traveling and legal fees and real estate commissions if you have to sell your home.

Self-employment Expense – If you are using your house as part of your business, you can claim a deduction for the part of your home that is so used to conduct business activities. This applies if you own or rent your home and should be calculated based on the percentage of your living space that utilized for your business.

Forgiven Debt

If you settled a debt with a creditor or collection agency for less than the amount owed, you may think the problem is solved. But not so fast! In many cases, the creditor or collector will be required to send you an IRS Form 1099-C reporting "Discharge of Indebtedness Income." In fact, it's required that anytime debts exceeding \$600 are forgiven (even if that amount included interest or fees) a 1099-C must be filed. If the creditor reports this income you'll be expected to pay taxes on it. That's true even if you didn't receive a copy of that form yourself because you moved.

So what can you do? You may be able to get this tax liability wiped out if you are considered "insolvent" by the IRS, meaning you owe more than you own. For more information, consult a tax professional or read publication "Instructions for Form 1099-C" at www.irs.gov.

Having Problems Paying Taxes?

If you owe Revenue Canada, you do have options in how you go about paying.

1. You can make payment in full by way of cheque or money order payable to the Receiver General, along with your completed remittance voucher (included with your Notice of Assessment, Notice of Reassessment, or Statement of Account) to:

Canada Revenue Agency
875 Heron Road

Ottawa, ON K1A 1B1
Post-dated cheques are accepted.

2. Electronic payment using your financial institution's internet or telephone banking services. You can make your payment free of charge at your financial institution in Canada.
3. You may also make payments via a pre-authorized debit plan. For information, call 1-888-863-8657, Monday through Friday from 8:00 a.m. to 5:00 p.m.
4. Payment Arrangements can be made after you have made a reasonable attempt to attain the funds to pay in full and on time. Your balance will be subject to daily compound interest. You can call 1-866-256-1147 to utilize the TeleArrangement service or you can talk with an agent at 1-888-863-8657.

If you think you are going to have trouble paying your tax obligations to the government, be sure to file your return on time anyway. It is a serious offence to ignore your financial obligations to the government and steps could be taken to garnish wages or worse in the event that you don't take responsibility. For help and guidance, call Consolidated Credit Counseling Services of Canada, Inc. at 1-800-656-3920.

Additional Resources:

The Revenue Canada website is www.cra-arc.gc.ca
www.tax-news.com

Tax Secrets of Millionaires by former tax attorney Scott Estill.

Learn more at www.bizhelpcentral.com

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