



MD Management
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Tax Tips

for the Physician and Physician in Training

2017 edition: Use for preparation
of 2016 tax returns

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INTRODUCTION

Like medicine, tax law is complex and often requires the involvement of qualified professional advisors, such as a tax accountant and/or tax lawyer. This information is provided as a guide for all physicians and physicians 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. You are strongly encouraged to seek professional assistance to resolve your particular tax and financial situation.

IMPORTANT NOTE

All tax legislation, tax rates and credit amounts included in this guide are based on information available as of January 1, 2017 (except where otherwise noted). The information contained in this guide does not replace advice from a professional tax advisor.

THE FEDERAL BUDGET OF MARCH 22, 2016

The Honourable Bill Morneau presented the new Liberal government's first federal budget on March 22, 2016. Although no new personal income tax rate changes were announced, elimination of the Family Tax Cut and the education and textbook tax credits and a phase-out of the children's fitness and arts tax credits were announced. Following promises made during the election, the budget announced the elimination of the Canada Child Tax Benefit (CCTB), the National Child Benefit Supplement (NCBS) and the Universal Child Care Benefit (UCCB). These initiatives were replaced with a single non-taxable Canada Child Benefit (CCB) to commence in July 2016.

On a corporate level, the federal budget proposed to prevent the multiplication of the small business deduction in various structures involving partnerships or additional corporations, effective for taxation years beginning after March 22, 2016. The *Globe and Mail* reported on December 1, 2016, that, according to the Canadian Medical Association, about, "10,000 to 15,000 specialists work in the type of income-pooling structures that would be affected by the tax change." Despite an aggressive lobbying campaign by the medical community, the *Globe and Mail* reported a confirmation from the minister's office that, "the government will not be making the changes requested by the medical community."

CHANGES TO REPORTING OF THE PRINCIPAL RESIDENCE EXEMPTION (PRE)

If a property qualifies as a taxpayer's principal residence, the principal residence exemption (PRE) can be used to reduce or eliminate a capital gain that may occur on the disposition of such a property. The tax rules surrounding the sale of principal residences can be very complex, and many taxpayers may not realize that they can owe tax when they sell a property. On October 3, 2016, Minister Morneau announced measures to counter the perceived abuses of the PRE. Effective for sales of property eligible for the PRE occurring on or after January 1, 2016, you will be required to report the sale of such residences on Schedule 3 (Capital

Gains) on your personal income tax return. You'll need to include basic information such as year of acquisition, proceeds of disposition and a description of the property.

If you don't report the sale of your residence in 2016 or later years, you will not be entitled to the principal residence exemption. In this case, you should amend your return and designate the respective property as your principal residence. The Canada Revenue Agency (CRA) may accept such a late designation but penalties may apply, amounting to \$100 for each complete month the designation is late or \$8,000, whichever is less.

The onus is on you to correctly report any sale of your residence on your tax returns. These rules are complex and if in doubt, consult your tax advisor.

FEDERAL INCOME TAX BRACKETS

One of the most significant expenses you will incur during your professional career will be federal and provincial income taxes. For 2016, up to 54% of your taxable income could be paid in the form of income taxes (depending on your province or territory of residence and income level). It's important to take advantage of all available deductions and tax credits to minimize the taxes you pay and maximize your cash flow and financial position.

The federal personal income tax brackets and rates for 2016 and 2017 are outlined in the following table.

TABLE 1: FEDERAL INCOME TAX RATES

| 2016 TAXABLE INCOME | FEDERAL TAX RATE | 2017 TAXABLE INCOME | FEDERAL TAX RATE |
|---------------------|------------------|---------------------|------------------|
| \$0-\$45,282 | 15% | \$0-\$45,916 | 15% |
| \$45,283-\$90,563 | 20.5% | \$45,917-\$91,831 | 20.5% |
| \$90,564-\$140,388 | 26% | \$91,832-\$142,353 | 26% |
| \$140,389-\$200,000 | 29% | \$142,354-\$202,800 | 29% |
| \$142,354-\$202,800 | 33% | \$202,801 and up | 33% |

FILING A TAX RETURN

Generally, you are required to file an income tax return if you have "taxable" income in a given calendar year. Many medical students may choose not to file a tax return, as their income would not exceed \$11,474, the 2016 basic personal exemption. However, by completing a tax return, based on income thresholds, you will ensure your eligibility for the goods and services tax/harmonized sales tax (GST/HST) credit, the Canada child 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.

By completing a tax return, you will ensure your eligibility for the goods and services tax/harmonized sales tax (GST/HST) Credit, Canada child benefit and certain provincial tax credits.

You may also wish to file a tax return to document and carry forward excess tuition/education/textbook amounts, moving expenses or eligible student loan interest tax credits. Finally, filing an income tax return will ensure that the CRA has up-to-date contribution limits for RRSPs and tax-free savings accounts (TFSA) available for future years.

Tax returns can be filed electronically or via paper filing. Blank tax return forms can be obtained from the Canada Revenue Agency website at www.cra.gc.ca, from a local CRA Tax Services office or at many Canada Post outlets. If using pre-printed forms, ensure you use the correct province and that the printed name and social insurance number (SIN) are correct.

PROVINCE OF RESIDENCE

Make sure to file a tax return for the province in which you resided on December 31 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.

TAX PLANNING OPPORTUNITY

If you finished medical training in 2016 and plan to practise late in the year, you may have a unique tax planning opportunity. Consider these scenarios:

1. If you are relocating from a province with higher provincial income tax rates to one with lower taxes, you may consider relocating prior to December 31 and becoming resident in the “lower-tax” province prior to year-end. In this case, your 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, potentially generating significant tax savings.
2. Alternatively, if you are relocating to a province with higher provincial or territorial income tax rates, you may want to delay actual relocation until after December 31 to ensure lower provincial/territorial income tax rates will apply to the year’s income. Certain exceptions may apply for self-employment income.

If you are resident in one province on December 31 and your 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.

Determining province of residency can be 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 ALL RECEIPTS

Keeping accurate records is essential for successful tax planning. 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, reassessments or audits.

MARITAL STATUS

If you were married or in a common-law relationship at any time during the 2016 taxation year and either you or your spouse or common-law partner earned less than \$11,474, the other spouse or common-law partner may claim a spousal tax credit for federal tax purposes. For 2016, the amount of this credit is calculated by subtracting the spouse’s or common-law partner’s net income from \$11,474 and multiplying the remainder by 15%. This can translate into federal tax savings of up to \$1,721 ($\$11,474 \times 15\%$). 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 \$11,474, claiming a “spousal amount” can translate into federal tax savings of up to \$1,721.

HOW IS A COMMON-LAW RELATIONSHIP DEFINED?

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).

It is your responsibility to declare your status properly. Failure to do so may result in lost benefits, assessed interest charges and potential future penalties for making false returns.

CLAIM YOUR SPOUSE’S OR COMMON-LAW PARTNER’S UNUSED TAX CREDITS

If your spouse or common-law partner has little or no income, he or she may have tax credits you may use, including the transfer of provincial credits if applicable, when completing your tax return. The tax savings can be substantial.

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.

CLAIM AN AMOUNT FOR AN ELIGIBLE DEPENDANT

If at any time during the year you were either unmarried or separated from your spouse or common-law partner, and you supported an “eligible dependant,” you may qualify for the same additional maximum \$11,474 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 \$11,474 amount once. That is, you may be eligible to claim the personal amount for a spouse or for another dependant under the eligible dependant rules but you cannot make both claims in the same year.

WHAT IS AN ELIGIBLE DEPENDANT?

An “eligible dependant” 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 dependant amount of \$11,474 is reduced by the income of the dependant for which the claim is made.

AMOUNT FOR CHILDREN UNDER AGE 18

Under changes announced by the Harper government on October 30, 2014, parents can no longer claim the tax credit for a child under 18 but may still claim the family caregiver tax credit if the respective child is disabled.

FAMILY CAREGIVER AMOUNT TAX CREDIT

Effective January 1, 2012, the Family Caregiver Amount Tax Credit, a 15% non-refundable credit on an amount of \$2,000, was introduced to provide tax relief for caregivers of infirm dependant relatives, including spouses, common-law partners and minor children. One family caregiver amount is available for each infirm dependant. You need a letter from a qualified medical professional to claim this tax credit. The tax credit is \$2,121 for 2016 and is indexed for inflation. Certain conditions may apply.

A territorial family caregiver tax credit is available for residents of Yukon.

FAMILY TAX CUT CREDIT

Legislative proposals announced on December 7, 2015, included the elimination of the Family Tax Cut credit for 2016 and subsequent years.

CANADA CHILD BENEFIT (CCB) PROGRAM

The CCB was introduced in the 2016 federal budget as a replacement for the Universal Child-Care Benefit (UCCB) and the Canada Child Tax Benefit (CCTB). Additional measures were later included in Bill C-15, which received royal assent on June 22, 2016.

The federal CCB program began in July 2016 and benefits will generally be paid out on the 20th day of each month. The CCB provides a maximum annual benefit of up to \$6,400 per child under the age of 6, and up to \$5,400 per child aged 6 through 17. To qualify for the benefit, a taxpayer must:

- a. be a resident of Canada,
- b. live with his or her child, and
- c. be the parent who primarily cares for the child (or be a shared-custody parent).

Entitlement to the CCB for the July 2016 to June 2017 benefit year is based on adjusted income for the 2015 taxation year. Generally, adjusted income is a family's combined income less certain deductions. A parent who files a tax return will automatically receive the benefit and the CRA will recalculate the individual's benefit payments each July based on the taxpayer's previous year's income tax return. Benefit entitlements begin to be phased out once adjusted family income reaches \$30,000.

Amounts received under the new CCB are not taxable and do not reduce the benefits of the GST credit. The CCB amounts are not included in income for the purposes of federal income-tested programs delivered outside the income tax system, such as the Canada Education Savings Grant and the Canada Disability Savings Grant.

APPLY AS SOON AS POSSIBLE

Remember to apply for the Canada Child Benefit (CCB) as soon as possible after your child is born, starts to live with you or becomes a resident of Canada. Avoid delays as the CRA can only make retroactive payments for up to eleven (11) months from the month the CRA receives the application. Also, you and your spouse or common-law spouse must file a tax return every year even if there is no income to report.

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

CHILD CARE EXPENSES

Under certain restrictions, the cost of daycare, babysitters, boarding schools and camps is deductible, to a maximum of \$8,000 a year for children under the age of 7, \$5,000 a year for kids aged 7 to 16, and \$11,000 a year for children for whom the disability amount can be claimed. In addition, expenses of up to \$5,000 may be claimed for a child who is over the age of 16 at the end of the tax year for whom the disability amount cannot be claimed but who has a mental or physical impairment. 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 in prison. Also, the deduction cannot exceed two-thirds of that person's “earned income” for child care purposes.

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 child care expenses should generally be allowed. It is advantageous to report all of 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 physicians, including two physician 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. If you have incurred any such costs, see your accountant or tax advisor.

WHAT DOES NOT QUALIFY AS ELIGIBLE CHILD CARE SERVICES?

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 or music lessons). Depending on the circumstances, certain educational or recreational activities may be accepted by the 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.

Note: Make sure you keep proper receipts for child care or such claims may be denied upon review or audit by the CRA.

CHILDREN'S FITNESS TAX CREDIT

The 2016 federal budget reduced the Children's Fitness Tax Credit from \$1,000 to \$500 for 2016 and has eliminated this tax credit for 2017 and subsequent years. The additional tax credit for a child with a disability will remain at \$500 for 2016 but will also be eliminated for 2017 onward.

The Children's Fitness Tax Credit is an incentive for parents to enroll their children in physical activity programs. Parents may be eligible to claim a federal refundable tax credit equal to 15% of up to \$500 (\$1,000 in 2015 and prior years) in respect of the costs of certain fitness programs for a child under the age of 16 at the beginning of the year. If the respective child is eligible for the disability tax credit and is under 18 years of age at the beginning of the year, you can claim an additional amount of \$500.

Eligible expenses must:

- ◆ be 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)
- ◆ be supervised and suitable for children
- ◆ 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).

Ineligible expenses include:

- ◆ travel costs, meals and accommodation
- ◆ equipment purchased for your child's exclusive personal use

Similar incentives are also offered in certain provinces. However, Ontario has eliminated the Ontario Children's Activity Tax Credit for 2017 and subsequent years.

CHILDREN'S ARTS 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. Parents can claim up to \$250 (\$500 in 2015 and earlier years) 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.

The 2016 Federal Budget reduced the 2016 Children's Arts Amount Tax Credit from \$500 to \$250 for 2016 and has eliminated this tax credit for 2017 and subsequent years. The additional tax credit for a child with a disability will remain at \$500 for 2016 but will also be eliminated for 2017 onward.

Similar incentives are also offered in certain provinces.

UNION, PROFESSIONAL AND OTHER 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 see them listed on the T4 form they receive from their employers every year. Both CPP and EI contributions qualify for non-refundable federal and provincial tax credits.

Since the employer must match the employee's CPP contributions, physicians who are self-employed are obligated to contribute both the employee and the employer share.

SELF-EMPLOYED PHYSICIANS

Self-employed physicians are not required to make EI contributions. However, recent changes in the EI rules allow self-employed taxpayers, as defined in recent measures, to voluntarily enter into an agreement with the Canada Employment Insurance Commission to become eligible for special benefits.

RECIPIENTS OF EMPLOYMENT INSURANCE BENEFITS

Since residents and fellows have paid EI premiums, those physicians 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 \$63,500 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.

MAXIMUM CONTRIBUTIONS

For 2016, the maximum employee CPP contribution is \$2,544.30 (based on maximum pensionable earnings of \$54,900), while the 2016 maximum annual EI premium amount is \$955.04 (based on maximum insurable earnings of \$50,800).

For 2017, the EI premium rate will decrease to 1.63% from 1.88%, and the maximum insurable earnings will increase to \$51,300 from \$50,800, for a maximum annual EI premium of \$836.19. For 2017, the maximum employee CPP contribution is \$2,564.10 (based on maximum pensionable earnings of \$55,300).

PROPOSED ENHANCEMENTS TO THE CANADA PENSION PLAN

On June 20, 2016, the federal Department of Finance announced that the federal, provincial and territorial finance ministers had reached an agreement in principle to strengthen the CPP commencing January 1, 2019. The proposed bill envisions an increase in CPP retirement benefits and maximum pensionable earnings as well as a deduction, rather than a tax credit, for the increased CPP premiums payable by employees on the new higher earnings limit. A gradual phase-in beginning in 2019 and completed in 2025 is proposed.

The following day, Ontario Premier Kathleen Wynne announced that Ontario would not be proceeding with the proposed Ontario Retirement Pension Plan (ORPP), due to the above-noted enhancements to the CPP.

SMALL BUSINESS JOB CREDIT

In 2014, the Canadian government introduced a new Small Business Job Credit that will effectively lower small businesses' 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 CRA will automatically calculate the credit on a business's return.

CANADA EMPLOYMENT TAX CREDIT

All employees can claim a federal non-refundable employment tax credit to help cover their work-related expenses. Taxpayers may claim a credit equal to 15.0% of their employment income for the year, up to a maximum of \$1,161. The maximum amount is 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 \$1,028 for a single individual and \$1,868 for a family or a single parent. Working income includes both employment and/or business income and the credit is reduced by 15% of the individual's adjusted net income over \$11,675 or a family's or single parent's adjusted net income over \$16,122. Of note, a supplement to the regular WITB is available to taxpayers who qualify for the disability tax credit.

WHO IS INELIGIBLE?

The WITB is not available to individuals who were enrolled as full-time students at a designated educational institution for more than 13 weeks in the taxation year, unless the individual had an eligible dependant.

CLAIM ELIGIBLE EMPLOYMENT EXPENSES

VEHICLE USE

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. A number of family medicine residents are required to use their vehicles to perform house calls away from their "home" hospital and have completed the necessary documentation to claim a pro-rata share of automobile expenses.

If you qualify, you can claim the employment portion of all operating costs related to the vehicle: gas, oil, repairs/maintenance, insurance, licence fees, cleaning and depreciation. Interest on car loans and leasing costs are deductible within certain limits. You will need to track and record the number of kilometres used for employment purposes. You will need to file Form T777 with your tax return and your employer will have to sign Form T2200 to verify you were required to use your automobile for work. Both forms are available from any CRA office or the CRA website 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.

CELLPHONE USE

For residents and medical students who are required to obtain and maintain cellphones 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 cellphone or the cost of fees for internet service, however, are not deductible. Past discussions with representatives of the CRA have revealed that the requirement for a cellphone should be expressly stated in the contract of employment. However, a situation where the necessity for a cellphone is tacitly understood, outside of the contract, may be acceptable. Nevertheless, the requirement for a cellphone 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 Advanced Trauma Life Support (ATLS) or Advanced Cardiovascular Life Support (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.

Be sure to speak with your tax advisor prior to implementing any income-splitting strategy.

MOVING EXPENSES

If you have relocated at least 40 kilometres 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 kilometres 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.

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.

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.
- ◆ 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.

Note: 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 the CRA website.

FIRST-TIME HOME BUYERS' TAX CREDIT

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 \$5,000 in the year of acquisition. This can result in a tax savings of up to \$750. To qualify as a first-time home buyer, a buyer and 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 \$5,000.

The credit is also available in respect of a home acquired by an individual who is eligible for the disability tax credit (DTC), or by an individual for the benefit of a DTC-eligible relative, if the home is acquired to enable the DTC-eligible person to live in a more accessible dwelling.

Similar incentives may also be available from other provinces, including British Columbia, Saskatchewan and Nova Scotia.

TUITION FEES, EDUCATION AND TEXTBOOK TAX CREDIT

Tuition fees paid during medical school or a residency program are not deductible but may be eligible for a 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 (e.g., for ATLS courses and 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 a 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.

A student may also 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, the potential savings resulting from the textbook tax credit could be approximately \$117 ($\$65 \times 12 \text{ months} \times 15\%$).

Should a medical student not be required to use their entire tuition, education or textbook credit to reduce their tax owing 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.

Students can carry forward indefinitely unused tuition and education tax credits. This allows them to use 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 use the unused tax credits, the credits must be applied to reduce taxes payable.

Qualification for the education tax credit will be detailed on the respective resident or student's Form T2202A. Although Form T2202A does not need to be filed with the return, it must be available if requested by the CRA.

The 2016 federal budget proposed the elimination of both the education and textbook tax credits effective January 1, 2017. Unused amounts from years prior to 2017 will remain available to be claimed in 2017 and subsequent years. However, the tuition tax credit will not be affected by the budget.

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 for the match includes applications to four programs. There is a charge 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. However, these receipts should be retained and provided to your accountant or tax preparer.

PROVINCIAL TAX CREDITS AND TUITION CASH-BACK PROGRAMS

A number of provinces offer tax credits and incentives to university graduates who wish to live and work in their respective provinces. Be sure to consult your tax advisor to determine the impact these incentives may have on your personal income tax return.

SCHOLARSHIPS AND BURSARIES

If you receive money from scholarships, fellowships and bursaries, you can exclude these funds from your income if they are related to your enrolment at a designated educational institution in a program that allows you to claim the full-time education tax credit. The amount of the money received cannot exceed what would reasonably be required to support you 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 federal 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's, master's or doctoral degree. As a result, these new requirements may have implications on the taxation of residents and other physicians entering fellowship programs. Therefore, post-doctoral fellowships will generally be considered taxable.

You are not required to report any exempt scholarship and bursary amounts on your income tax return. However, you may wish to retain supporting documentation (e.g., Form T4A), if requested by the CRA.

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

MEDICAL OFFICER TRAINING PROGRAM

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

If you are 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), you are entitled to certain deductions. You can deduct from your taxable income the amount of your mission-related employment earnings if those earnings have been included in calculating income up to a maximum rate of pay earned by a non-commissioned member of the Canadian Forces.

Be sure to speak with your tax advisor if this applies to your situation.

TAX CREDIT FOR PUBLIC TRANSIT PASSES

If you use public transit, you can claim the cost of monthly public transit passes. The cost of the public transit is multiplied by the lowest personal income tax rate for the year (15% for 2016), and then deducted from the amount of federal tax owed for that year. You can claim this credit for yourself, your spouse or common-law partner, or a child under the age of 19 years on December 31.

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

All students may claim a 15% federal non-refundable tax credit on payments of the interest portion of loans negotiated and still existing under either the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act* or a similar provincial/territorial loans program. Interest paid on any other loans such as bank loans or lines of credit are not eligible for this credit. Provincial non-refundable tax credits may also apply.

If you had eligible student loans in 2016, the financial institution handling your Canada or provincial student loans will mail you, in early 2017, a statement of the actual interest paid on these loans during the year. This statement or receipt should be kept as support for the interest paid.

MEDICAL AND DENTAL EXPENSES

The first year of residency can be the best time to incur any medical, dental and eye care expenses that you may have 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 2016, qualifying medical expenses in excess of either \$2,237 or 3% of your net income (whichever is less) are eligible for a 15% non-refundable federal tax credit, which can be used 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. Nevertheless, exercise caution if you have significant tuition and education tax credits that you are carrying forward from prior years. Available tuition and education tax credits must be used before any medical expenses to reduce your taxable income. Talk to your tax advisor if you have any concerns.

The CRA also allows the deduction of medical expenses for any 12-month period ending in the year of the tax return. 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 dependant. Certain restrictions apply; therefore be sure to consult a tax advisor.

In the last few years, CRA has made many changes to allowable medical expense deductions including allowing:

- ◆ phototherapy equipment for treating psoriasis or certain other skin conditions
- ◆ medical marijuana if the person is authorized under the *Controlled Drug and Substances Act* to purchase or produce this drug
- ◆ vehicle modification to enable wheelchair-bound individuals to drive a motor vehicle

In 2016, CRA has considered the eligibility of additional expenses:

- ◆ Special dietary requirements. Although there is no provision to allow a taxpayer to claim the cost of organic food as a medical expense, individuals with celiac disease may claim the incremental costs associated with the purchase of gluten-free products as a medical expense (July 20, 2016, 2016-0646001M4, El-Kadi, Randa).
- ◆ Service animals. The cost of acquiring and caring for a service dog or other animal is eligible as a medical expense for an individual who is blind or profoundly deaf; has severe autism, diabetes or epilepsy; or has a severe and prolonged impairment that markedly restricts the use of his/her arms or legs (2016-0647181M4, Robertson, George).

You can find an extensive list of eligible medical expenses on the CRA website.

REFUNDABLE MEDICAL EXPENSE SUPPLEMENT

Once you have determined that there is an amount eligible for a non-refundable medical expense credit, 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 2016, a refundable medical expense supplement amount of up to \$1,187 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 \$3,465.

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 physicians 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.

According to the website for the Medical Council of Canada at the time of publication of this document, the application and examination fees taken since 2011 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 (i.e., the 2016 tuition tax credit receipt will be available in late February 2017). Those taxpayers will be able to access the receipt by logging into their MCC-Online account. The tax receipt will appear in their account and will be available to print.

Note: Examination fees paid for the United States Medical Licensing Examination (i.e., USMLE Parts I, II, and III) have been disallowed by the CRA.

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. Keep all your receipts for books or instruments.

MALPRACTICE (CMPA) PREMIUMS

The annual membership fee paid to the Canadian Medical Protective Association (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, the *Income*

Tax Act (Canada) requires that an employee (e.g., resident or salaried fellow) must pay the annual dues to maintain a professional status recognized by statute.

For salaried physicians 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. For salaried physicians 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 physician 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.

Whether you are in residency or not, it is important to know 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 physicians and governments to include, in lieu of other payments for clinical services, some of the cost of liability protection in the overall compensation of physicians. For further details, contact your provincial or territorial medical association.

Note: 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 2016 federal tax purposes, those eligible for the DTC are entitled to a credit equal to 15% of \$8,001.

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 be 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 that has created a severe and prolonged impairment.

In a June 24, 2016, Technical Interpretation (2016-0632181E5, El-Kadi, Randa), the CRA was asked to clarify which medical professionals can certify an individual's eligibility for the Disability Tax Credit on Form T2201. The CRA noted that, generally, an impairment must be certified by a medical doctor.

However, exceptions may include:

- ◆ a speech-language pathologist may certify an impairment in speaking,
- ◆ an occupational therapist may certify an impairment in an ability to feed oneself, and
- ◆ a psychologist may certify an impairment in mental functions.

If you feel you may qualify for a DTC, contact your tax accountant for advice regarding your specific situation.

REGISTERED DISABILITY SAVINGS PLAN

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 Canada Disability Savings Grant (CDSG) and/or Canada Disability Savings Bond (CDSB). The beneficiary of the RDSP must be a Canadian resident, be under the age of 60, have a social insurance number and be eligible for the disability tax credit.

Similar to a 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. Anyone can contribute to a specific RDSP as long as the holder approves the contribution amount in writing. Payments made under programs funded or administered by a province or territory do not reduce the RDSP contribution limit and do not attract or reduce the CDSG or CDSB.

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

HOME ACCESSIBILITY TAX CREDIT

The home accessibility tax credit (HATC) is for qualifying expenses incurred in 2016 or later, for work performed or goods acquired in respect of a qualifying renovation of an eligible dwelling. The HATC can be claimed by a qualifying individual or an eligible individual (i.e., spouse, common-law partner and certain supporting relatives of a qualifying individual). A qualifying individual is one who is 65 years or older before the end of the taxation year and/or is eligible to claim the disability tax credit at any time in the tax year. Expenses qualify if they are of an enduring nature and integral to the dwelling, when they are made in relation to a qualifying renovation or alteration to an eligible dwelling, including the land (generally, up to 1/2 hectare of land) that forms part of the eligible dwelling.

The HATC applies to the total qualifying expenses, up to a maximum of \$10,000 per year. The credit is at the lowest personal tax rate of 15%, so the maximum tax reduction per year is \$1,500 (\$10,000 x 15%).

CHARITABLE DONATIONS

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.

If you and your partner make separate contributions to charity, consider claiming 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.

If you're a first-time donor, you may be entitled to a 40% federal non-refundable tax credit for donations of \$200 or less and a 54% federal non-refundable tax credit for the portion of donations over \$200, but not exceeding \$1,000. Certain conditions apply.

The Liberal government's legislation proposals of December 7, 2015, also included an amendment to the federal donation tax credit rate for donations over \$200. The rate will be 33% (instead of 29%), to the extent that an individual has taxable income that will be taxed at 33%.

In other words, if you have taxable income in 2016 of less than \$200,000, the rate for donations over \$200 will remain at 29%. If you have taxable income in 2016 of more than \$200,000, a pro-rata share of those donations over \$200 will receive a 33% tax credit. This enhanced rate applies only to donations made after 2015. Donations made in 2015 and claimed in 2016 or a later year will not be eligible for the 33% tax rate.

ADOPTION EXPENSE TAX CREDIT

If you adopt a child under the age of 18, you 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 \$15,453, 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.

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

REGISTERED RETIREMENT SAVINGS PLANS

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. Benefits include both tax savings (i.e., tax deductions for contributions) and tax deferral (growth and earnings are only taxed upon withdrawal from the plan).

The 2016 RRSP contribution limit is equal to 18% of your previous year's "earned income" up to a maximum of \$25,370. The maximum contribution limit will be \$26,010 for 2017 and will be indexed in future years for inflation. Your contribution room may have to be reduced by any pension adjustments. 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 used in future years. For 2016 RRSP deduction purposes, the contribution deadline is March 1, 2017.

The benefits of an RRSP also include estate planning and income splitting, the latter via spousal RRSP contributions or with pension income splitting. 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 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

A registered education savings plan (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 that complement the federal RESP program.

TAX-FREE SAVINGS ACCOUNT

A tax-free savings account (TFSA) is an investment account that lets you save up to \$5,500¹ per year without paying tax on investment earnings.

Key characteristics of a TFSA include:

- ◆ Contributions to a TFSA can be made once a taxpayer turns 18 and has a valid social insurance number. However, the taxpayer may contribute the full TFSA limit for that respective 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 clawback 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.

You can re-contribute withdrawn amounts in the same year only if you have unused TFSA contribution room. Otherwise, you 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."

If you have over-contributed to your TFSA, the excess is subject to a 1% per month penalty tax. To remedy this situation, you may immediately withdraw the excess contribution or wait until additional room is available in the subsequent year. In the latter case, however, the penalty will continue to accrue until sufficient contribution room is generated. For those subject to the "over-contribution" penalty, Form 423, with any applicable penalties, must be submitted by the following year.

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 tax advisor.

¹The bill was granted royal assent on December 15, 2016, to change the TFSA limit to \$5,500. The new limit of \$5,500 will be indexed to inflation and rounded to the nearest \$500 starting in 2017. Financial institutions and individuals must adhere to the new TFSA contribution limit as of January 1, 2017.

GOODS AND SERVICES TAX/HARMONIZED SALES TAX 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's to save on tax administration costs, the HST was instituted. HST is a combination of the 5% federal goods and services tax and the provincial sales tax.

As most services provided by physicians are considered exempt services under the *Excise Tax Act*, physicians 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.

In a January 8, 2016, GST/HST Interpretation Bulletin (150125), the CRA found that a stipend paid by a hospital to a medical specialist for agreeing to stay close to the hospital, so as to be available on an on-call basis, was taxable consideration for the supply of property to the hospital rather than for a supply of an exempt medical service. Although any consideration that can be directly linked to a specific patient may be exempt, this interpretation appears to suggest that the bulk of "on-call" stipends may attract GST/HST.

As on-call stipends for physicians are not uncommon, this ruling may have a significant impact on those respective physicians. In addition, the amounts of the on-call premiums, either alone or in combination with other GST/HST-chargeable activities (e.g., director stipends, block and annual fees, expert medical opinions, cosmetic surgical and medical procedures, etc.) may exceed the \$30,000 GST-chargeable income threshold in one year and the physician may be required to register and collect GST/HST.

GST/HST is complex and the application of the above-noted interpretation is still ongoing. If you feel GST/HST obligations may apply to you, see 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.

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 2016, if a corporation qualifies as a "Canadian Controlled Private Corporation," 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 10.5%. 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.

Although the majority of incorporated physicians continue to have access to the small business deduction on their corporate earnings, in the 2016 budget Minister Morneau announced a change that restricts a corporation's access to the small business deduction on active business income earned through certain complex corporate and partnership structures. This change was implemented to prevent business owners from multiplying access to the low small business tax rate by using complex structures.

This change may apply to physicians who pool their income in certain complex corporate and partnership structures. According to the CMA, approximately, "10,000 to 15,000 specialists work in the type of income-pooling structures that would be affected by [this] tax change." Although national medical organizations, including the Canadian Medical Association, have lobbied MPs with emails and meeting requests to have the budget bill amended, the bill was granted royal assent on December 15, 2016, and has now passed into law.

There are both benefits and disadvantages to incorporating your medical practice. In addition, these recently enacted changes to the tax law may significantly impact the timing as well as the costs and benefits of incorporation. Talk to your financial advisor to find out if incorporation is right for you.

TAXPAYER INFORMATION FROM THE CRA

The CRA has launched a personal tax information service entitled "My Account," found on its website. 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 and federal tax, CPP assessments and current information on your child 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.

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.

OTHER RESOURCES AT THE CRA WEBSITE

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

CRA PROBLEM RESOLUTION PROGRAM (PRP)

An August 24, 2016, a CBC News article (“Sask. women struggling after Canada Child Benefit payments cut,” by David Shield and Jennifer Quesnal) discussed the CRA Problem Resolution Program (PRP) with regards to child benefit claim difficulties that a number of taxpayers encountered. According to the CRA website, the Problem Resolution Program, “provides an informal redress mechanism to address taxpayers’ and benefit recipients’ tax-related problems that cannot be resolved through normal channels. This ensures that priority is given to individual cases requiring special attention.”

Of note, the CRA website states that its goal is to acknowledge receipt of the problem within two days and resolve the problem within 15 business days, 95% of the time. Although this appears as an available mechanism to resolve tax disputes, the CRA website further states that the PRP can only be accessed by referral from either a CRA enquiries official or a member of Parliament.

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. However, 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 end of the six-year period.

FILE ON TIME

The 2016 deadline for filing income tax returns is May 1, 2017, as the regular deadline of April 30, 2017, falls on a Sunday this year. If you are 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 postdate your cheque for on or before May 1, 2017. This helps you avoid the last-minute “crunch” and delays payment until legally required.

Individuals who are self-employed (or whose spouse or common-law partner is self-employed) have until June 15, 2017, to file their 2016 personal income tax return. However, if there is a balance of tax owing on their 2016 income tax return, the amount is payable by May 1, 2017.

FILE ELECTRONICALLY VIA NETFILE

Most taxpayers can file their T1 tax returns online via the CRA’s program, NETFILE. Use of NETFILE (which is also offered by Revenu Québec) requires that tax returns filed online must first be prepared using CRA-certified tax preparation software or an approved web application. 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.

FILING VIA EFILE

EFILE is an automated service provided by the CRA that permits tax preparation services or accountants 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.

LATE FILING PENALTIES

If you owe money to the CRA for the taxation year and fail to file your personal tax return by the due date, the *Income Tax Act* (Canada) has a first offence late filing penalty of 5% of the tax owing plus 1% per month to a maximum of 12 months, for a total penalty of 17% of the tax owing. In a similar fashion, if you fail repeatedly to file income tax returns after having been requested to do so, additional penalties may apply.

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

ASSESSMENTS, AUDITS AND REASSESSMENTS

Once filed, a paper income tax return usually takes about four to six weeks to be processed (two to four weeks if you have filed via NETFILE or EFILE). You will then receive a “Notice of Assessment” and any refund payable to you. 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 Revenu Québec) 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 three 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.

If you disagree with a reassessment, 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.

BEWARE OF INCOME TAX SCAMS

According to the Canada Revenue Agency, an increasing number of Canadians are receiving phone calls from people falsely representing themselves as CRA agents and aggressively asking for personal information such as credit card, bank account, passport and social insurance numbers.

Note that the CRA will never ask for personal information by email and will not request a driver’s licence, health card, passport or social insurance number. Further, the CRA will not make calls that threaten immediate arrest or seizure of bank accounts or other assets. If you receive this type of call or email, hang up or delete the email. Do not click any link on a suspicious email as it may download malware that may harm your computer. If you are in doubt of the validity of any email or telephone call, contact the Canada Revenue Agency directly at 1 800 959-8281, for individuals, or 1 800 959-5525, for businesses.

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. Consider working with a qualified tax accountant or financial advisor who understands your financial situation.