"Eligible" Pension Income for Pension Splitting

When the actual pension recipient is 65 or over at the end of a year the pension income eligible for "splitting" includes:

- annuity payments from a registered pension plan (RPP),
- annuity payments from a deferred profit sharing plan (DPSP), and
- registered retirement income fund (RRIF) and life income fund (LIF) withdrawals.

When the actual pension recipient is under 65 at the end of a year, the pension income eligible for "splitting" includes:

- annuity payments from an RPP plus
- amounts noted above under "eligible", if received by virtue of the death of a spouse.

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The Late Filer's Guide

Are You Really, Really Behind on Your Taxes?

Neel Roberts

When you see a question like this, there are generally two types of responses. First from the majority of tax filers: "That's hilarious, I wonder who this could be happening to!" The second and most significant response: "Oh my gosh, where have you been all my life?" That's how well over 1,000,000 Canadians respond when they hear a question like this. When potential clients approach me for the first time, whether they're 1 month or 15 years behind, the most common reason they have for doing so is that they simply had "no idea" how to get started until they were asked this question.

You're Not Alone

I recently completed the taxes of a couple who were 8 years behind in payments. He was a sub-contractor doing house siding and she stayed at home raising the family. CRA (Canada Revenue Agency) had arbitrarily assessed them (this is when Revenue Canada estimates how much income you earned when you don't file) for several tens of thousands of dollars plus late penalties and interest. Needless to say they panicked and even considered bankruptcy. When they called me, I had a look at their situation. They had not realized that the husband was entitled to deduct a lot of business expenses. As a result they ended up getting a refund plus child tax/GST credits for several years. Total return? Over $7,000 at the end of the day! Now here's the punch line. While we were closing the file they said, "All of our friends are behind on their taxes as well, so can we recommend you?" Talk about the 8 ball in the corner pocket! The point is that if you're behind and face similar situations, you are by no means alone.

How Do You Get Started?

For those in this category, I'm sure you must be wondering, "What must one do to get going?" Great question, as you can't possibly move forward until you determine exactly where you are. However, before doing so, you should ask yourself if you should get a professional or do it yourself? If your returns are simple and you're only a year or two behind, you should consider doing your own tax returns in order to save the professional fees. Read our guide, "10 Ways to get Free Help at Tax Time", which shows you how to take advantage of the free resources available.

If your situation is more complicated, such as self-employment, several years behind, and the government has their hands in quite deep, get a professional unless you really know the ropes. You can look them up in your local yellow pages or try the Internet. It is well worth whatever you are going to pay the professionals to make sure you take advantage of all of your rights. I can tell you that I have heard this remark countless times: "I'm so glad we used a pro as it not only saved us a lot of headaches, it was well worth the money we paid."

Gathering Your Information

Whether you go it alone or with a pro, there is a certain amount of information you need to gather. First, you have to determine how many years need to be filed. If you're not sure, contact CRA at 1-800-959-8281. For corporate clients or if you have a GST/HST number, the business line is 1-800-959-5525. If you're missing information slips like T4s, they can mail them out to you. You should also have them send you a copy of the last return filed as you will need the information on this form like RRSP limits, etc. to complete the returns. Second, gather all the information in addition to the T-slips. If you are using a professional, usually in the first meeting they will give a list of information needed. But if you're on your own, refer to our checklist and the various CRA Guides and tax packages for each year. Third, if you have a more complicated return involving investments, small business, employment expenses or rental income, this requires more detail. If you are using a professional, they should have their own way to approach this, but you can refer to our comprehensive booklets on these matters. Also, check out CRA's guides on investment, capital gains, small business, corporations, employment expenses and rental income.

Previous Filings

Once you have your information gathered, you should check to see if the last years you filed were done correctly. I have found thousands of dollars for clients who missed deductions or found out they were entitled to certain claims they didn't even know existed. I once had a client who was a few years behind and while I was getting him caught up, I discovered he had a disability for over 20 years which he had never claimed. Can you believe he got a $20,000 premium outside his regular returns! Compared to the initial $11,000 he owed, he had reason to celebrate. Check out our handout, "10 Ways to find a Tax Windfall", and see if your tax professional can add a nice little bonus to your tax case.

Time to Move Forward!

Once you are caught up, make a plan to be "tax efficient". Our handout, "10 Ways to Cut Your Tax Bill", will give you a good head start. I remember one client who finally got caught up after two years (and a $12,000 refund!). He looked up and glanced at the question staring at him – Are you really, really behind on your taxes? "Not anymore!" he chuckled.

I've seen thousands of people finally put behind a nightmare and be able to laugh at the same time. Why? Most, simply got tired of procrastinating and losing sleep. With the right help, it is so much easier to deal with the challenge of back taxes.

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File Tax Returns for Children and Build Contribution Room

No matter your age, filing tax returns as early as you can, helps build RRSP contribution room and saves taxes down the road.

"Many individuals know that a threshold income can be earned prior to the requirement to pay any tax," says Chartered Accountant Carmelo Linardi, Tax Partner with Hilborn Ellis Grant LLP in Toronto.

"Once that level is surpassed, the income in excess of that level is subject to tax at the various graduated rates in effect for that particular year. The threshold amount of income is based on the "basic exemption" for a given year – and in 2007 the federal government increased that level to $9,600."

How does this tie into RRSPs?

Many children earn income below the basic exemption level (from jobs including part-time work or babysitting), and their parents typically do not bother filing tax returns for their children to report this income. One of the downsides of this situation is that the RRSP room that could have been built up from these income sources is lost.

According to Linardi, this RRSP room could be significant, given the proposed increased exemption threshold and depending on the child's income and number of years he or she is below the threshold.

"Imagine a child who earns $5,000 per year doing summer work for a period of at least six years. While that's $30,000 of tax-free income – it's also $5,400 of lost RRSP room. When that child is older and can make RRSP contributions to shelter tax at top personal marginal rates, the savings could be as high as $2,500 – well in excess of the trouble of preparing tax returns for six years."

Courtesy of Institute of Chartered Accountants of Ontario.