



Debt Management: Tax Preparation

Six Things To Ask Your Tax Preparer

By: Joe the Investor

Even though tax season is over, it will return again in future years and the same issues may pop up as in the past. If you do your own taxes, you can ask yourself the same questions when you prepare them to see if any of the ideas apply to you. This article serves as a handy reference of things to have at your fingertips for any tax season.

There are some assumptions being made here which will be stated in this paragraph. The tax rules being assumed here are the Canadian Tax Code, using Ontario as the province levying the taxes. These ideas can be applied to the other provinces of Canada, but always check with the Canada Revenue Agency or applicable tax agency for changes, which occur frequently. These concepts can be applied to other countries, but the same caveat applies. The situation referred to here as a personal income tax situation. For self-employment or any kind of business, some of the rules may be different.

Does my refund depend on the income taxes I have paid throughout the year? The answer is yes. The government will only give you money as a refund if you have paid income taxes during the year, or you paid more than the amount of income taxes you “should pay” according to the tax calculations. The refund is calculated only on your taxable income, and not on other money you receive from the government. Examples of money that would not be taxed are lottery winnings or gifts. Other monies that are not taxed are credits like the GST/HST credit, Ontario Trillium Benefit, or the Child Tax Benefit. What this means is that if you are thinking of claiming a credit, or putting money into an RRSP, you should check the money you earned during the year and see how much taxes you have actually paid. The taxes in question here are only the income taxes - not property taxes, HST or taxes in the form of registrations or fees. How do you know if you are paying income taxes? Your pay stub will show the taxes being deducted. If you have a casual job, a temporary job or self-employment, there may not be any taxes deducted because you are either not expected to make much money, or you are expected to pay all the taxes when you file them at the end of the year. If you haven’t paid any income taxes throughout the year, do not expect a refund at tax time.

Can my tax return be changed in a following year? The answer is yes. When would you do this? If you discover a credit that you could have claimed after the fact, but did not claim it, you can file for an adjustment and have the return recalculated at any time. Many people believe that once a tax return is calculated that it is carved in stone. This simply is not true, however it is easier to claim credits in the current year versus going back into previous years. The rules sometimes change if you are going back to previous years versus claiming in the current year because adjustments may affect credits that you received, or because the income used to

calculate the credits would be changed. You can also file for an adjustment if you made a mistake, or if you something happened in a later year which affects the tax returns of prior years. An example of this would be a tuition amount from going to school that was not claimed in the year in occurred.

Do I have to file taxes by the April 30th deadline if I am getting a refund? The answer is no in most cases. If you are receiving a refund, you can usually file after the deadline and not have any issues with paying interest or penalties. This is because interest will not be charged when the government owes you money. The ideal thing to do however if you are getting a refund is to file taxes well in advance of the April 30th deadline. You will get the money sooner, not be in long lineups, will not have as many mistakes on your tax return, and will likely receive the money faster because the government is not as busy processing returns. If for some reason you cannot file taxes by April 30th such as being out of town for example – you can file them after April 30th, but you may have to pay interest or penalties if you owe money to the government.

Should I file taxes if I don't owe any money and I am not getting a refund? The answer is generally yes. If you are not paying taxes or getting a refund, filing taxes on time would be advantageous for you if you are receiving credits from the government. Examples of these credits are the GST/HST credit, the Ontario Trillium Benefit, and the Canada Child Tax Benefit. Whenever you receive money from the government, you should keep your records with them up to date and accurate. If you file taxes late, or have issues with your records, credits may get withheld or reduced because if there is a possibility that you may owe the government money, you will have delays receiving the money.

Should I keep track of carry forward amounts? The answer is yes. A carry forward amount is a credit that would allow you to get taxes paid back in a future year. Examples of this are tuition fees or RRSP contribution room. If you go to school in 2010 as an example, and you did not earn much money in 2010, you can carry forward that tuition credit to the following year. You can use the credit in 2011, 2012 or any other year until the credit is used up. The same applies for RRSP contribution room. If you do not contribute to an RRSP in 2010, the room is still available. You can put money in 2011, 2012 or future years until the room is used up. Keep the documents that show what you have left until the room or situation has been used to offset taxes that you would have paid. Bring this information to your tax preparer so they can update whatever tax credit was started in previous years. The good news is that the government keeps track of carry forwards in the Notice of Assessment statement that is given to you after filing your taxes. Therefore, it is not mandatory that you have to keep track of these carry forwards, but it is easier for you if you do.

Is getting a refund a good thing at the end of the tax year? The answer is that it depends. In a given tax year, for whatever money you make, you will pay a given amount of taxes by April 30th. You may pay more taxes during the year and then get some of it back at the end of the year, or pay less in taxes during the year and then have to pay more at the end of the year. Either way, the same amount of money is paid throughout the year, but the timing is different. You can influence the refund by paying taxes earlier, or getting more deductions which will be

accounted for later in the year. You can get more deductions using popular methods like RRSP contributions, tuition credits, medical expenses or business expenses. If this option is not available for you, you can ask your employer to take more taxes off each pay cheque, thereby paying taxes in advance. This would generate a refund if you paid more taxes than you should by the end of the tax year. Why would you do this? The majority of people like to get a refund instead of paying taxes at the end of the tax year. Two reasons for this are that saving money is difficult, or if it is difficult to anticipate how much money will be needed to pay the tax bill at the end of the year. If this is your situation, you can essentially get the government to hold money for you until tax time, and then get some of your money back as a refund. If saving money is not an issue, you are better to pay as little tax as possible and pay more at tax time, because you can invest the money during the year.

Taxes are an ongoing exercise, and the more you know what will happen, the better prepared you will be when doing taxes.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what these options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**