Tax filing in the '20s: Mining the new tax return for extra money this spring

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The T1 Personal Income Tax Return (the Tax Return) has been redesigned, effective for the 2019 tax year. Some of the changes include the use of plain language, an increased font size and more white space. Also, tax credit and other calculations that were on Schedule 1 for many years can now be found on the Tax Return itself (which has increased from four pages to eight) and some of the line numbers that were previously 3 and 4 digits are now 5 digits.

With all these changes, you'll need to know where to look within the new Tax Return to claim valuable tax benefits for 2019. You may be surprised to learn that many commonly-claimed items have relatively little value, while some lesser-known ones can produce significant tax savings.

This year, you'll have some extra time to mine your Tax Return for extra savings, since the government has extended the tax filing deadline to June 1, 2020 due to COVID-19.[1]

Changes to the Tax Return: Personal information and income

Page one of the Tax Return still asks for basic identification information, such as your name, address, e-mail address, province of residency, marital status and information about your spouse or partner.

The second page asks if you wish the Canada Revenue Agency ("CRA") to have your personal information included in the National Register of Electors, as applicable. It also asks whether you have any income that is exempt under the Indian Act – if you tick off the box, you are instructed to complete a new form, the T90, "Income Exempt under the Indian Act."

The bottom of page two is where you indicate whether you owned any foreign investment property (excluding foreign property in registered accounts) where the total cost amount was more than $100,000 at any time during the year. If so, make sure you complete Form T1135, "Foreign Income Verification Statement," and file it by the deadline for your Tax Return, since penalties for failure to file form T1135 are $25 per day to a maximum of $2,500.

Moving on to page three, that's where you calculate your total income, which used to be Line 150 and is now Line 15000.

The system of tax deductions and tax credits

Tax savings generally begin on page four of the Tax Return, as this is where many valuable tax deductions are claimed. These are amounts that you can deduct from your total income to arrive at your taxable income, which is the base for calculating the amount of tax that is payable.

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[1] As of March 18, 2020 the deadline for filing your 2019 Tax Return has been extended from April 30, 2020 to June 1, 2020. If you or your spouse or common-law partner are self-employed, the deadline for filing your 2019 Tax Return is June 15, 2020. The payment date for any balance due for your 2019 Tax Return has been extended from April 30, 2020 to September 1, 2020.

Additional savings can be found on pages six and seven of your Tax Return (which replace former Schedule 1), where you claim a number of non-refundable tax credits that directly reduce the tax you pay.

Income tax is levied at graduated, “progressive” rates, such that higher tax rates apply as your income level increases. Figure 1 shows the federal tax rates that apply to various levels of taxable income.

Figure 1: Federal tax rates for 2019 and 2020

2019 taxable income	2019 federal tax rate	2020 taxable income	2020 federal tax rate
≤ $47,630	15.0%	≤ $48,535	15.0%
> $47,630 and ≤ $95,259	20.5%	> $48,535 and ≤ $97,069	20.5%
> $95,259 and ≤ $147,667	26.0%	> $97,069 and ≤ $150,473	26.0%
> $147,667 and ≤ $210,371	29.0%	> $150,473 and ≤ $214,368	29.0%
> $210,371	33.0%	> $214,368	33.0%

Let’s look at an example that shows how a tax deduction yields tax savings at the marginal tax rate[2] that varies with your income level, while a tax credit generally yields tax savings at the lowest marginal tax rate, regardless of your income. Suppose you have total income of $60,000. Figure 2 shows how deductions and credits reduce the tax that you pay for 2019.

Figure 2: Value of a $1,000 federal tax deduction and tax credit in 2019

	No deduction or credit	Tax deduction	Tax credit
Total income	60,000	60,000	60,000
Deductions	n/a	(1,000)	n/a
Taxable income	60,000	59,000	60,000
Tax @ 15% on first $47,630	7,145	7,145	7,145
Tax @ 20.5% on remaining income	2,536	2,331	2,536
Total tax payable before credits	9,680	9,475	9,680
Tax credit ($1,000 @ 15%)	n/a	n/a	(150)
Total tax payable	9,680	9,475	9,530
Value of deduction / credit	n/a	**$205**	**$150**
Effective tax rate	n/a	20.5%	15.0%

The amount of the deduction is subtracted from income, so that this amount of income is not taxed. In Figure 2, a $1,000 tax deduction yields $205 of tax savings, calculated as the $1,000 deduction multiplied by the marginal tax rate that would have applied to the income (20.5%). Consequently, a deduction yields tax savings at your marginal tax rate.

With tax credits, a fixed rate (usually the lowest marginal tax rate) is applied to eligible amounts and the resultant credit amount offsets taxes payable. Figure 2 shows that when the federal tax credit rate of 15% is applied to a $1,000 amount, $150 of tax savings results.

[2] This report considers statutory income tax rates and does not consider the impact of low-income tax reductions or the loss of various income tested benefits, such as Old Age Security or the Age Amount, that are “clawed back” once income reaches various annually-indexed, legislated thresholds. For more details, see our report “Do You Know What Your Tax Rate Is?” which is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/do-you-know-your-tax-rate-en.pdf.

The value of selected tax deductions, credits and other amounts

Since the value (tax savings) from a tax deduction is based on your marginal tax rate, a tax deduction can provide greater value for those who have higher levels of income. The value of a tax credit is generally based on a rate that is fixed for all taxpayers, so a tax credit usually yields the same value regardless of income level or marginal tax rate.[3]

The provinces and territories also have their own versions of many deductions and credits, so the overall tax savings is usually much higher than the federal savings alone. Combined federal and provincial or territorial rates range from about 20% to 54% for tax deductions (depending on your taxable income) and 20% to 25% for tax credits. Some provinces even have deductions or credits that are not available federally. For example, if you were a resident of Alberta, Saskatchewan, Manitoba or Ontario, you may also be to claim the Climate Action Incentive.

Let's look at some common tax deductions and credits in the new Tax Return. We'll show the potential federal tax savings via some examples, assuming a 20.5% federal marginal tax rate for deductions (which would apply with taxable income over $47,630 and up to $95,259 in 2019) and a 15% federal rate for tax credits.

Tax deductions

Registered Retirement Savings Plan (RRSP) deduction, line 20800

One of the most commonly-known ways to save tax is to make a contribution to an RRSP. You can generally claim a deduction for contributions made up to 60 days after year end that do not exceed 18% of your previous year's earned income, with a maximum deduction of $26,500 for 2019 ($27,230 for 2020).[4] If you have carried forward unused RRSP contribution room, you can claim a higher deduction.

You may, however, choose to defer claiming your deduction until a later year, which can be advantageous if you expect your marginal tax rate to be materially higher in the future.

Suppose you made an RRSP contribution of $1,000. At a marginal tax rate of 20.5%, the deduction would have a value of approximately $205. Of course, this is merely deferring the tax owing on the $1,000 until a later time, such as retirement, when the funds are withdrawn, hopefully at a lower marginal tax rate. In the interim, the investment income earned inside your RRSP is effectively tax-free.[5]

Tax credits

Basic personal amount (BPA), line 30000

The basic personal amount (BPA) is the mechanism used to ensure that no tax is paid on a certain amount of basic income. The BPA is $12,069 in 2019 and has a value of $1,810 (i.e. the 15% federal tax that would have been paid on $12,069 of taxable income.)

For 2020, the BPA will be $13,229; however, it will be reduced with net income in the second-highest tax bracket (over $150,473 and up to $214,368 in 2020) and only a lower BPA ($12,298 in 2020) will be available with net income in the top tax bracket (above $214,368 in 2020).

Age amount, line 30100

You can claim the maximum age amount of $7,494 in 2019 ($7,637 in 2020), if you were at least 65 years of age and your net income was no more than $37,790 ($38,508 in 2020). At a tax credit rate of 15%, the maximum age amount is worth $1,124 in 2019 ($1,146 in 2020). Your age amount will be reduced at a rate of

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3 Some tax credits (such as the basic personal amount for 2020) depend on your net income.

4 Your RRSP deduction limit is also reduced for any pension adjustments and increased for any pension adjustment reversals.

5 For a full discussion of the benefits of RRSP investing, please see our Report "Just do it: The case for tax-free investing" at cibc.com/content/dam/personal_banking/advice_centre/start_savings_plan/pdfs/case-for-taxfree-en.pdf.

15% with additional net income and is completely eliminated if your net income is more than $87,750 in 2019 ($89,421 in 2020).

Spouse or common-law partner amount, line 30300; or amount for an eligible dependant, line 30400

You may be able to claim one of these two amounts if you supported your spouse or common-law partner (or another eligible dependant) who had little or no income and, therefore, could not claim (all of) the BPA. The maximum for each of these amounts is equal to the BPA of $12,069 in 2019, which gives you a tax credit of $1,810 at 15%. If your spouse or common law partner (or eligible dependant) had net income, the amount you can claim is reduced dollar-for-dollar because of the BPA that could be claimed by the dependant.

If you supported your spouse or common-law partner at any time in the year, you may claim the spouse or common-law partner amount, which will give you a credit with a maximum value of $1,810.

If you don't have a spouse or common-law partner[6] and live with an eligible dependant (such as your child, grandchild, parent, grandparent, brother or sister), you may claim the amount for an eligible dependant.[7] This credit also has a maximum value of $1,810.

Similar to the BPA, for 2020 the maximum spouse or common-law partner amount (or the amount for an eligible dependant) will be $13,229; however, the maximum amount will be reduced with net income in the second-highest tax bracket (over $150,473 and up to $214,368 in 2020) and only a lower amount ($12,298 in 2020) will be available with net income in the top tax bracket (above $214,368 in 2020).

Canada caregiver amount, line 30450[8]

You can claim the Canada caregiver amount if you have a spouse or common-law partner, or another eligible family member,[9] who has a physical or mental impairment and depends on you for support. The Canada caregiver amount is reduced dollar-for-dollar by the dependent's net income over $16,766 in 2019 ($17,085 in 2020). Although only one Canada caregiver amount is available on behalf of each dependant, in some cases the credit can be shared by multiple caregivers who support the same individual.

Claiming the Canada caregiver amount of $7,140 for 2019 ($7,276 for 2020) for one dependant provides a federal Canada caregiver credit that, at rate of 15%, would yield tax savings of $1,071 for 2019 ($1,091 for 2020).

Note that if you claim the spouse or common-law partner amount or the amount for eligible dependents, the Canada caregiver amount is limited to $2,230 in 2019 ($2,273 in 2020), so a 15% credit would only provide savings of $335 in 2019 ($341 in 2020).

Allowable medical expenses, line 33200

You can claim a credit for total medical expenses that exceed a minimum threshold, which is the lesser of 3% of your net income or $2,352 in 2019 ($2,397 in 2020). Common eligible medical expenses include fees for doctors, dentists, qualified therapists or other medical practitioners, prescription medication or eyewear, and hospital or medical laboratory services.[10] One commonly-overlooked expense is out-of-pocket costs for medical and dental insurance plans. Although amounts are not eligible if they have been reimbursed (such as by a health insurance plan), you can claim amounts paid within any 12-month period that ends in the tax year.

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6 You can also claim the amount for an eligible dependant even if you did have a spouse or common-law partner but were not living with, supporting, or being supported by that person.

7 Your eligible dependant must live with you in a home that you maintain.

8 The Canada caregiver amount may be claimed on other lines in your Tax Return if you claim the you claim the spouse or common-law partner amount or the amount for eligible dependents.

9 Qualifying relatives include your or your spouse's or common-law partner's child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece, or nephew. They must rely on you to regularly and consistently provide them with some or all of the basic necessities of life, such as food, shelter and clothing.

10 Qualifying medical expenses can differ from province to province. A list of authorized medical practitioners by province is available from CRA at canada.ca/en/erevenue-agency/services/ta/individuals/topics/about-your-tax-return/tax-return/completeing-a-tax-return/deductions-credits-expenses/lines-33099-33190-eligible-medical-expenses-you-claim-on-your-tax-return/authorized-medical-practitioners-purposes-medical-expense-tax-credit.html.

For example, suppose you had medical insurance premiums, prescription medications and eyeglasses, and some visits to therapists for an aching back, that totaled $2,500. If you had net income of $50,000, you could claim a tax credit for your expenses that exceed $1,500 (which is 3% of $50,000), so you would have $1,000 of allowable medical expenses. You could, therefore, claim a tax credit worth $150 at a rate of 15%.

Charitable donations and gifts, line 34900

A tax credit is provided for donations and gifts to qualified charitable organizations, including registered charities, and public or private foundations. A federal tax credit of 15% applies to total gifts up to $200. For the amount of total charitable gifts exceeding $200 in a tax year, the federal credit rate is 29%.[11]

If you made charitable gifts of $1,000, your tax credit rate would be $262 ($200 x 15% + $800 x 29%).

Disability amount, line 31600

You can claim the disability amount if a medical professional certifies on Form T2201 – Disability Tax Credit Certificate that you had a severe and prolonged impairment in physical or mental functions. The disability amount is $8,416 in 2019 ($8,576 in 2020).[12] You may also be able to claim a disability amount that would otherwise be claimed by another individual (such as your spouse, common-law partner, child or parent) to the extent that the individual does not need to claim the disability tax amount to reduce taxes payable to zero.

At a tax credit rate of 15%, the disability tax credit would be worth $1,262 in 2019 ($1,286 in 2020).

Tuition amount, line 32300

If you were enrolled in qualifying post-secondary education, you can claim a federal tax credit based on the amount of tuition that you paid. If you do not have sufficient income to use the credit in the year of attendance, up to $5,000 can be claimed by your spouse or common-law partner, or a supporting parent or grandparent. You can carry any remaining amounts forward and claim the credit in a future year.[13]

If your post-secondary tuition was $1,000, your tax credit would be $150 ($1,000 x 15% rate).

Dividend tax credit, line 40425

When calculating your taxable income, you must include 138% of eligible dividends from Canadian corporations (to approximate the income earned by the Canadian corporation) and you can claim a federal dividend tax credit of 20.7%[14] of eligible dividend income.

If you had eligible dividend income of $1,000, the value of this credit would be $207 ($1,000 x 20.7%).

Non-taxable portion for capital gains, Schedule 3

Unlike interest income that is fully taxable, only 50% of capital gains (less capital losses) are included in your total income on Schedule 3. The remaining 50% is excluded from income and tax is saved at your marginal rate on this excluded half of net capital gains.

Suppose you had net capital gains of $1,000 from the sale of shares. Only half of this amount ($500) would be taxed so you would pay tax of $102.50 ($500 x 20.5%) on the capital gain. If instead you had earned interest income of $1,000, you would have paid tax of $205 ($1,000 x 20.5%). The tax savings from earning capital gains in comparison to interest income would, therefore, be $102.50 ($205 - $102.50.)

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[11] The federal credit rate rises from 29% to 33% for total gifts over $200 to the extent that your taxable income exceeds $210,371 in 2019 ($214,368 in 2020).

[12] The disability amount is allowed federally and in all provinces except Quebec, where an "amount for a severe and prolonged impairment in mental or physical functions" can be claimed.

[13] Education and textbook amounts were also available before 2017. To the extent that these amounts were not claimed in previous years, they can still be carried forward and claimed by the student in the current year or a future year.

[14] Calculated as 6/11 x 38%.

Pension income splitting, Form T1032

You and your spouse or common-law partner can jointly elect to split your pension income if you each file Form T1032. You can deduct up to 50% of your pension income if it qualifies for the pension amount, provided your spouse or common-law partner adds this same amount to income. This pension income splitting technique has value when you receive pension income and have a higher marginal tax rate than your spouse or common-law partner.

Suppose you receive pension income and have a marginal tax rate of 20.5%, while your spouse has a 15% marginal tax rate. The net tax savings from splitting your pension income would be 5.5% (the difference between your 20.5% marginal rate on the pension deduction and your spouse's 15% marginal rate on pension income). The value of splitting $1,000 of pension income would, therefore, be $55 ($1,000 x 5.5%.)

If you paid tax at the top marginal rate of 33% and your spouse paid tax at the lowest marginal rate of 15%, your tax savings would be 18% (33% - 15%) or $180 per $1,000 of pension income that you split.

Pension income splitting may also help you prevent the loss of income-tested benefits, such as the Old Age Security (OAS) pension or the age amount, by lowering your income below the clawback threshold. For example, OAS benefits, which had a maximum of about $7,272 in 2019 ($7,362 in 2020[15]), are clawed back at a rate of 15% with net income exceeding $77,580 in 2019 ($79,054 in 2020).

Calculating your tax refund or tax payable

You calculate your federal tax on page seven of the Tax Return. The nonrefundable credits calculated on page six are deducted, along with various other credits like the dividend tax credit and the foreign tax credit, to arrive at net federal tax on Line 42000.

Finally, you calculate any refund or balance owing on page eight of Form T1.

Filing your tax return

Due to the COVID-19 pandemic, the government has extended the deadlines for filing your 2019 Tax Return and make any payments. Instead of filing your Tax Return by the regular April 30 deadline, you will have until June 1, 2020 to file, and until September 1, 2020 to pay any balance owing.

If you expect to receive income-tested benefits, such as the Goods and Services Tax Credit (GSTC) or the Canada Child Benefit (CCB), it's still advisable to file your tax return by April 30 to help ensure your benefits can be properly calculated in time for 2020-21 program payments that begin in July 2020. It's also a good idea to file your tax return as soon as possible if you're expecting a tax refund, since the CRA will continue to process refunds throughout tax season.

If you owe money on your tax return, the CRA has made it easier to pay this tax season by using the new "Proceed to Pay" button located in the CRA's My Account site to make a secure and quick payment.

Once you've filed your return, the CRA will now allow you to access your notice of assessment (NOA) instantly in the certified tax software, right after your return has been received and processed by the CRA, seconds after filing. Otherwise, a formal NOA will arrive within two weeks of filing an electronic return and within eight weeks of filing a paper return, or you can view your NOA using CRA's My Account service.

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[15] Based on OAS pension benefits for the first quarter of 2020.

Amending tax returns for previous years

You can see that valuable tax savings can be realized by claiming tax deductions and credits. But what if you didn't know about these savings or forgot to make claims in previous years? You can still remedy the situation by filing Form T1-ADJ – T1 Adjustment Request for any of the ten previous tax years. In this form you report the amount of the deduction or credit that you originally claimed (zero if no claim was made), along with the revised amount that you are claiming. You can also use the Change my Return feature in the CRA's online My Account service.

If you prefer, you can request that an adjustment be made to current or prior year tax returns by using ReFILE, an online service that lets you and your EFILE service providers to send online adjustments for your tax returns with certified NETFILE and EFILE software. You can use ReFILE to send adjustments for 2018, 2017 and 2016 returns and your EFILE service provider can send adjustments for 2018, 2017, 2016 and 2015 returns. But be sure to wait for your NOA prior to using ReFILE.

CRA will process your request and, assuming the deduction or credit is allowed, will issue you a refund for the tax that was overpaid.

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