

Miscellaneous Income and Deductions

Income Inclusions

Income that isn't:

Employment Income

Business/Property Income

Capital Gains

Pension Income

- Canada Pension Plan (CPP) & Other Pensions
 - Registered Pension Plans (RPP)
 - Old Age Security (OAS), Guaranteed Income Supplement (automatic)
 - Canada Pension Plan (CPP) (separate from death benefits)
 - Provincial Pension plans

Retiring Allowances

- Retiring Allowances
 - An amount received on retirement from employment in recognition of long service; or
 - On loss of employment as damages.
 - Unused Sick Pay
 - NOT unused vacation.

Special transfer available to RPP or RRSP which can be deducted from income.

Retiring Allowances - Transfer

Contribution Room

- \$2,000/yr employed prior to 1996

Plus

- \$1,500/yr employed prior to 1989 where NOT a member of an RPP or DPSP.

Transferred amount does not decrease RRSP contribution room.

Example:

Jim receives a retirement allowance worth \$80,000 From Aco Ltd.

Jim began working at Aco Ltd. in 1975 and he was never part of a retirement plan.

Jim has \$10,000 in RRSP contribution room available.

How much of his allowance can he transfer to his RRSP and how much contribution room will be left afterwards?

retirement allowance worth \$80,000
began working at Aco Ltd. in 1975
never part of a retirement plan.
\$10,000 in RRSP contribution room available.

How much of his allowance can he transfer to his RRSP

$1989-1975 = 14 \text{ years before } 1989 \times \$1,500 \text{ per year} = \$21,000$

$1996-1975 = 21 \text{ years before } 1996 \times \$2,000 \text{ per year} = \$42,000$

\$21,000 + \$42,000 = \$63,000 can be rolled over without RRSP room
how much contribution room will be left afterwards?

\$80,000 allowance ordinarily taxable - \$63,000 into RRSP without reducing room
= \$17,000 taxable allowance remaining - \$10,000 RRSP room = \$7,000 taxable allowance

\$10,000 original RRSP contribution room - \$10,000 deduction taken = \$0 RRSP room

Example:

Jim receives a retirement allowance worth \$40,000 From Aco Ltd.

Jim began working at Aco Ltd. in 1980 and he was never part of a retirement plan.

Jim has \$20,000 in RRSP contribution room available.

How much of his allowance can he transfer to his RRSP and how much contribution room will be left afterwards?

retirement allowance worth \$40,000
began working at Aco Ltd. in 1980
never part of a retirement plan.
\$20,000 in RRSP contribution room available.

How much of his allowance can he transfer to his RRSP

$1989-1980 = 9 \text{ years before } 1989 \times \$1,500 \text{ per year} = \$13,500$

$1996-1980 = 16 \text{ years before } 1996 \times \$2,000 \text{ per year} = \$32,000$

\$13,500 + \$32,000 = \$45,500 can be rolled over without RRSP room
how much contribution room will be left afterwards?

\$40,000 allowance ordinarily taxable - \$40,000 into RRSP without reducing room
= \$0 taxable allowance remaining (cannot roll over more into RRSP than received)

\$20,000 original RRSP contribution room - \$0 deduction taken = \$20,000 RRSP room

Death Benefits

- On the death of an employee, \$10,000 can be given tax free.
- Can be to one or several beneficiaries, but a max of \$10,000 will be tax free.
- Consider: who gets it? Who gets it tax free?
- Any excess is taxable



http://thecareercafe.co.uk/blog/?attachment_id=1945
Obtained August 31, 2012

Death Benefits

- If just to a spouse – first \$10,000 non taxable
- If just to non spouse – first \$10,000 non taxable
- If to a spouse and non-spouse
 - spouse gets first \$10,000 tax free,
 - non-spouses share any remainder of 10,000 exemption, in proportion to the FMV of their benefit
- If to two spouses
 - \$10,000 exemption split in proportion to the FMV of their benefit



http://thecareercafe.co.uk/blog/?attachment_id=1945
Obtained August 31, 2012

Death Benefits

Dave and his mother in law, Kerry, each receive \$6,000 in death benefits on the death of Dave's wife, Sandra.

What should Dave and Kerry report as income from the death benefit?

Dave will report \$0 of income, as he receives a tax free benefit up to either the amount paid, or the \$10,000 limit.

Kerry is a non-spouse, and so would receive any residual benefit
$$\$6,000 - (\$10,000 \text{ tax free} - \$6,000 \text{ used by dave}) = \$2,000 \text{ taxable.}$$

Death Benefits

Dave and his mother in law, Kerry, each receive \$20,000 in death benefits on the death of Dave's wife, Sandra.

What should Dave and Kerry report as income from the death benefit?

Dave - \$10,000 income (\$20,000 received – \$10,000 exemption)

Kerry - \$20,000 income (\$20,000 received – \$0 exemption)

Various Minor Items:

- Employment Insurance
 - Taxable when received & deductible if repaid.
- Social Assistance Received – tax exempt but must be included in income and then removed
- Workers Compensation – tax exempt but must be included in income and then removed

Various Minor Items:

- Pension Splitting
 - Eligible pension included in the income of recipient
 - Deduction from income for pension split with spouse
 - Proportionate share of tax withheld is also transferred
 - CPP & OAS cannot be split



Retrieved September 30, 2014 from:
<http://www.retirementcommunications.com/the-employer-does-not-offer-a-pension-you-can-build-your-own/>

Pension Splitting - Example

Michelle and Jon are each 75 years old and are married.

- Michelle earns the following income: OAS \$5,000, RPP Pension Income \$70,000, Interest \$16,000
- Total Income \$91,000
- Jon earns no income.

What is Jon's optimum income level?

- Jon's optimum income is \$35,000. ($\$0 + \35)
- Jon not using credits, Michelle has higher income
- Maximum is 50% of eligible pension income or \$35,000 ($\$70,000 \times 50\%$).

Pension Splitting - Example

Michelle and Jon are each 75 years old and are married.

- Michelle earns the following income: OAS \$5,000, RPP Pension Income \$70,000, Interest \$16,000
- Total Income \$91,000
- Jon earns no income.

What is Michelle's optimum income level?

- Michelle's optimum income is \$56,000. ($\$91 - \35)
- Jon not using credits, Michelle has higher income
- Maximum is 50% of eligible pension income or \$35,000 ($\$70,000 \times 50\%$).

Support Payments

- Recipient must have discretion over its use
- Periodic Payments
- Receivable under a court order or separation agreement
- If agreement doesn't specify, and there is a child, we assume it is Child Support
- Spousal – Deductible to payer, Taxable to recipient
 - Must be living separate and apart at the time the payment is made.
- Child – Non-Deductible to payer, Non-Taxable to recipient

Support Payment - Example

Jane and Nick sign a divorce agreement on May 1, 2013 stipulating that Nick will pay Jane \$2,000 per month beginning immediately. They do have a child who continues to live with Jane.

What must Jane include in her 2013 income?

- Nothing
- As not specified whether child or spousal support, we assume it is child support.
- Child support non-taxable to recipient

Support Payment - Example

Jane and Nick sign a divorce agreement on May 1, 2013 stipulating that Nick will pay Jane \$2,000 per month in spousal support beginning immediately.

What must Jane include in her 2013 income?

- \$16,000 (May – December x \$2,000 per month)
- Periodic spousal support based on an agreement
- Spousal support taxable to recipient

Annuites

- Periodic Payments (monthly, annually, etc.)
- Types:
 - Life Annuity – Guaranteed payments for life of the annuitant (or minimum 10 years for example)
 - Term Annuity – Payments for 25 years
- Tax Treatment
 - RRSP/RRIF withdrawals- 100% taxable
 - Non-Registered - Some portion is a return of capital and the rest income. An information sheet will be provided by investment provider (T3).

Life Insurance Proceeds

Tax-free if paid as a consequence of death

Because you pay the premiums yourself they haven't been deducted for tax purposes.

This is an important principle. Paid in after tax dollar – typically tax free benefits.



Scholarships

- Fully exempt if you get the tuition tax credit (college diplomas, bachelor, masters, or doctoral degree costs)
- Grants for artists & research projects are taxable only where they exceed the expenses to complete the project
- \$500 base exemption applies even where the two above criteria aren't met
- \$500 exemption doesn't apply where the prize is a benefit of employment (ie, your employer gives you a scholarship)

Scholarships

Craig attends the University of Waterloo. He is taking a Bachelor in Computer Science and received \$35,000 in scholarships in 2014. Craig also had a part time job at Tim Hortons where he earned \$6,000.

Calculate his taxable income in 2014.

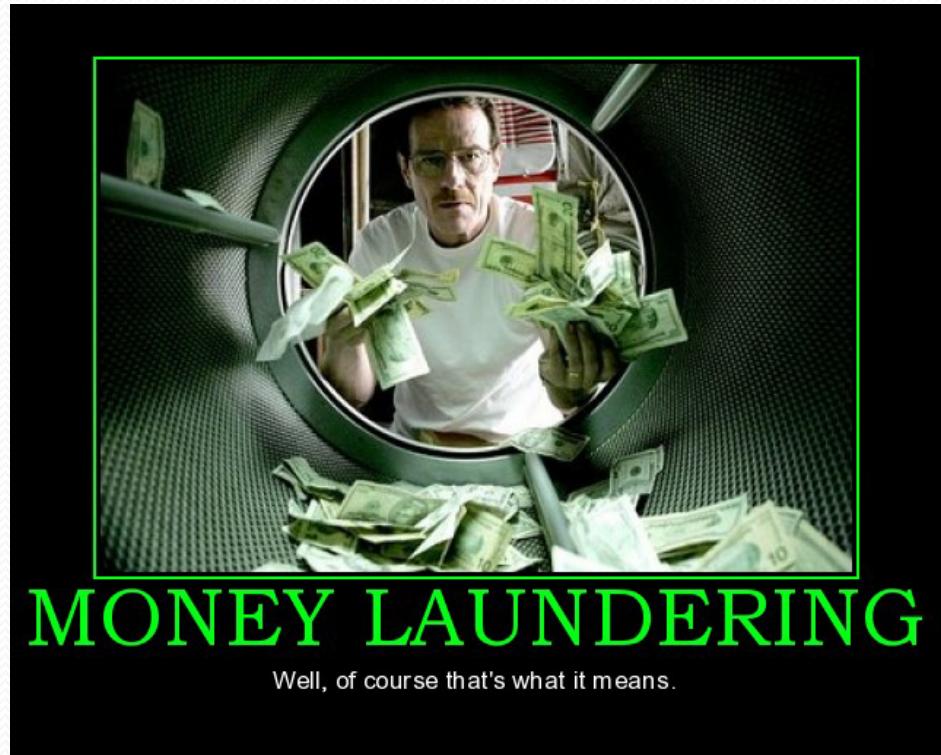
\$0 Scholarship not taxable

\$6,000 Employment Income

\$6,000 Total Taxable Income

Indirect Payments

- Payments made to a third party at the request or direction of someone else, are included in the requestor's income.
- Example: A husband receives a bonus but asks his company to pay it to his wife. It's still his income for tax purposes.
- Example: an employee receives a bonus but asks his company to pay it to his bookie. It's still his income for tax purposes



Well, of course that's what it means.

<http://hustedia.com/blog/2011/05/16/hiding-money/>
Obtained August 31, 2012

Deductions

Various Minor Items:

- Support Payments
 - Spousal – Deductible to payer, Taxable to recipient
 - Child – Non-Deductible to payer, Non-Taxable to recipient
- CPP
 - Credit up to annual max, refund of remainder (\$2,356)
 - Self-employed can deduct $\frac{1}{2}$ of CPP contributions (the employer's half of \$2,356)
- RRSPs
 - Contributions to an RRSP are deductible
 - Contributions to RPP by employer are deducted from your contribution room. Because not included in income, no deduction

Various Minor Items:

- Legal Payments
 - To object or appeal a tax assessment
 - Remember that also to obtain or defend employment income
- Pension Splitting
 - Those receiving pension income can split up to 50% of it with a spouse if it is advantageous. The amount split is a deduction.
- OAS
 - Clawback - important to know they may take it back if you make too much money. Starts around \$65,000. Deductible.

Moving Expenses

- 40km closer to employment or school
- Reduced by any allowances paid by your employer
- Limited to the income after the move, from the new place (scholarships/Empl. \$)
- Remainder can be carried forward (but must be used if able)



Obtained from Spruce Island
August 31, 2012

Moving Expenses

- Travel Costs – Actual Meals/Lodging or simple method. \$0.59/km
\$21/meal/person
- Transportation & Storage Costs for Household Items
- Costs of Meals & Lodging near either residence for 15 days.
- Lease Cancellation Costs
- Selling costs of old home:
 - Advertising, legal, real estate, mortgage fees.
 - Excludes renovations/repairs.
- Legal & land transfer fees for new residence
- Mortgage interest, property tax, insurance, maintenance on old home while vacant (Max \$5,000)

Moving Expenses

- Revision of personal documents: driver's license, car permits, utility hookups.
- House or job hunting costs are not deductible.



Obtained from Spruce Island
August 31, 2012

Moving Expenses

- Loss on old residence is not deductible from income.
- However, only $\frac{1}{2}$ of employer reimbursement in excess of \$15,000 for this loss is a taxable benefit.
- Effective tax planning strategy.
- Example: \$40,000 Reimbursement on \$60,000 loss.
$$(40,000 - 15,000) \times \frac{1}{2} = \$12,500 \text{ taxable}$$

Moving Expenses

Example:

- 2 people travel for 3 days from BC to PEI (3,000 km)
- Old home didn't sell for 2 months. Estimate power, hydro, and maintenance while waiting to sell was \$6,000.
- Storage at new place to hold household effects \$2,000
- Cost to hire a moving company \$1,500

Income in new location:

- Scholarships \$15,000 from BBA
- Employment Income of \$3,000

Moving Expenses

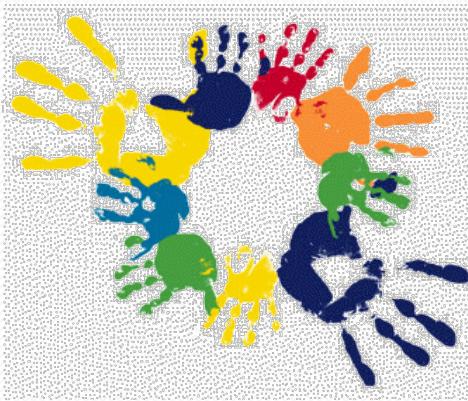
- Simplified KM = 3,000km x \$0.59 = \$1,770
- Simplified Meals = 2 people x 3 days x \$21/meal x 3 meals per day = \$378
- Maximum reached on old home maintenance \$5,000
- Storage is deductible = \$2,000
- Moving Company Costs are deductible \$1,500
- **Total Moving Expenses: \$10,648**

Income in new location:

- Scholarships \$15,000 from BBA
- **Employment Income of \$3,000 (limited to income)**

Child Care Expenses

- For children under 16 or who have a disability
- Must be a child of the individual, their spouse, or a legal dependant with income less than the basic personal credit (around \$11k).
- Can't be paid to the mother, father, or a person under 18 related to the individual.



Retrieved September 30, 2014 from:
<http://www.little-u.com/>

Child Care Expenses

- Amounts paid must be to allow the individual to earn employment income or go to school. Ie. No tuition or no employment income = no deduction.
- Must be deducted from lower income spouse EXCEPT...
- Deductible from higher income spouse when:
 - Lower earner is in school
 - Lower earner is infirm for at least two weeks (broken leg) or has a long term infirmity (blind)
 - Lower earner is in Jail
 - Spouses are separated for 90 days

Child Care Expenses

- Babysitting, Daycare, or Day Camps (no weekly limit)
 - Boarding school or camp:
 - \$275/week per disabled child.
 - \$200/week for under 7 yrs
 - \$125/week for 7-16 yrs
- **Limit 1:**
 - \$11,000/child with disability
 - \$8,000/child under 7 yrs
 - \$5,000/child 7-16 yrs
 - **Limit 2:**
 - Actual expenses
 - **Limit 3:**
 - $\frac{2}{3}$ of earned income of the individual.

Child Care Expenses

Aaron and Miranda have three children, Bruce, Bob, and Bambi aged 5, 8, and 10, respectively.

Aaron earned \$25,000 and Miranda earned \$15,000 in employment income in 2012.

The couple paid for a babysitter for the full year costing \$8,200.

The couple also enrolled Bambi in an seven day overnight summer camp that cost \$5,000.

Calculate the maximum amount that can be claimed for Child Care and who claims it.

Child Care Expenses

- Miranda is lower income earner – no exceptions present
 - **Limit 1:** $\frac{2}{3}$ of her income is: **\$10,000** maximum
 - **Limit 2:** Total annual limit $\$5,000 + \$5,000 + \$8,000 = \$18,000$
(two children age 7-16 and one under 7)
 - **Limit 3:** Actual expenses
Babysitting - \$8,200
Overnight camp = (1 week x \$125 per week maximum)=\$125
Total Expenditures = \$8,325.00