

February, 2013

Dear Client:

## **ARE YOU READY FOR TAX TIME?**

The April 30, 2013 deadline to file your 2012 personal income tax return is quickly approaching. As a result of changes in tax laws and the ever-increasing complexity in preparing personal tax returns, we encourage you to gather your required tax information as soon as possible.

### Electronic Filing

Commencing in 2013, tax preparers must electronically file tax returns (with limited exceptions) or be subject to a penalty. As a result, this year we will again be electronically filing (efiling) tax returns utilizing our state-of-the-art computer equipment. In addition to the mandatory requirement to efile, this process will help to ensure that your tax return is assessed as quickly and as accurately as possible. It eliminates the need to file a paper version of the return, as all necessary information is transmitted electronically. You only need to sign an authorization notice which we will provide to you (via private fax, email or in person). All slips pertaining to the tax return will be retained by us, and if requested by Canada Revenue Agency (CRA), will be provided to them for their review. If you have any questions, please speak to your Lipton LLP advisor and he/she will discuss this matter with you.

### How should you prepare?

1. Check that you have received all the information slips (T3, T4, T4A, T5, T4A(P), T4A(OAS), T4RRSP, T4RIF etc.) that you are expecting. It is important to note that the failure (even if accidental) to report an amount required to be included in income will result in an automatic penalty of 10% of the amount where there has been a previous failure to report an amount in a return of any of the three preceding taxation years. In some cases, a more severe penalty can be imposed. The CRA now uses a computerized matching program to ensure that all tax slips issued are reported. Comparison of the 2012 slips to 2011 slips is an effective way to minimize the chance of any missing slips.
2. For stock market transactions during the year, including purchases and sales of bonds, income trusts and similar investments, make sure that you have the broker's slips available. Note that for sales of investments which were purchased in prior years, original cost and return of capital information is required. For all other capital transactions, please provide us with similar information.
3. If you are entitled to deduct expenses against employment income (e.g. commission salesmen) or claim a HST rebate (discussed further below), please summarize the relevant expenses by category. If you can deduct any employment-related expenses or claim the HST rebate, ensure that you obtain a completed Form T2200 from your employer. If automobile expenses are involved, you should retain your automobile mileage log book for future reference.

4. You must have appropriate receipts or other documentation to support various deductions and credits.

Deductions/credits for which receipts must be forwarded to us are:

- RRSP contributions
- medical expenses
- charitable donations or gifts (including donations of publicly traded securities)
- political contributions
- interest paid on student loans
- disability tax credit (Form T2201)
- child care expenses (see below)
- tuition fees (see below)
- union or professional dues
- moving costs (including mortgage interest for up to three months for a vacant former home)
- safety deposit box
- investment counsel fees (excluding RRSP or RRIF)
- alimony or separation payments (see below)
- interest expense (see below)
- child fitness credit (see below)
- child arts credit (see below)
- public transit credit

You do not need to forward us receipts for university text books.

5. If you, or any of your dependants, are taking post-secondary school courses, be sure to obtain a completed Form T2202 (tuition fees and/or education deduction) and/or Form TL11A if the student is attending a foreign university.

Eligible tuition fees include:

Amounts paid to an educational institution, professional association, provincial ministry or similar association to take an examination:

- that must be taken to obtain professional status or to be licensed or certified to practice a profession or trade in Canada.
  - that include ancillary fees such as exam materials but not other costs such as travel, calculators or computers.
  - that do not include admission tests to enter a program of study.
  - that are exam fees in excess of \$100 (similar to other tuition claims).
6. For child care expenses, please provide us with information regarding amounts paid, the payee, the address, and if applicable, the payee's social insurance number.

7. Children's Arts Tax Credit and Children's Fitness Tax Credit:

As in the prior year, non-refundable credits of up to \$75 per child under 16 at the beginning of the year are available for each of the Children's Arts Tax Credit and Children's Fitness Tax Credit. Expenses that are eligible for the child care deduction, the Children's Fitness Tax Credit or the Children's Arts Tax Credit can only be used to claim one of the three aforementioned amounts., i.e. the same expense cannot qualify under more than one of these areas.

8. For alimony or separation payments, please provide us with a copy of the divorce or separation agreement or court order, and your spouses/former spouse's name and social insurance number.
9. If you have incurred interest expense to earn income of any nature, please provide details. If possible, obtain from the lender(s) a letter setting out the date(s) and amount(s) of the original loan(s), the interest paid during 2012, the purpose of the loan(s) and the balance(s) outstanding at December 31, 2012.
10. If you had any investments in tax shelters, etc., please provide us with the relevant financial statements, income tax schedules and information slips (e.g. T5013, T101, T102).
11. If you lived in or maintained a residence for someone who was dependent on you by reason of mental or physical infirmity (except for a parent or grandparent whose age exceeds 65) please let us know, since the caregiver tax credit may apply.
12. If you have a dependant with an impairment in physical or mental functions, a new "Family Caregiver Amount" may be available in addition to any caregiver, dependant or other amounts.
13. If you are a senior (at least 65 years old at December 31, 2012) or living with a senior family member and expenses were incurred between September 30, 2011 and January 1, 2013 on your principle residence in Ontario for improvements to your home or property that improve access or mobility or reduce the risk of harm for a senior, please provide us with these invoices as the Ontario Healthy Homes Renovation Tax Credit may be available to you.
14. Tax instalments:
  - a) Total tax instalments paid on account of 2012.
  - b) The amount paid for your March, 2013 instalment.

Pension Splitting:

These rules allow for a Pensioner to transfer up to 50% of "eligible pension income" to his/her spouse or common-law partner. This rule can result in a reduction of overall taxes payable for the married/common-law couple. Our tax return software will automatically do this calculation and ensure that the lowest possible taxes are paid. A joint election will need to be signed by both parties.

### 2013 instalments:

The Federal government mails notices in February, 2013 informing individuals of the exact amount of their instalment payments for March 15, 2013 and June 15, 2013. Notices will also be sent in August, 2013 for the instalments due on September 15, 2013 and December 15, 2013.

Any remaining 2013 tax liability will be due on April 30, 2014.

There are other methods to consider in determining the amount of instalment payments. We suggest that you contact us in order to determine which method is best for you.

### HST rebates:

You may qualify for a rebate of the HST you paid on certain business-related expenses if:

- You are an employee (e.g. earning commission income, salary, employed in forestry, the transportation industry or as a musician) whose employer is a HST registrant (i.e. the employer has a HST registration number and filed HST returns), or
- You are a member of a partnership that is a HST registrant, and you have filed an income tax return reporting your share of income from the partnership.

You will not qualify for a HST rebate if:

- Your employer was not a HST registrant.
- Your employer is a listed financial institution (e.g. a firm that was at any time during the year a bank, an investment dealer, a trust company, an insurance company, a credit union, or a corporation whose principal business is the lending of money).

If the HST rebate applies to you, please speak to us so that we can arrange to prepare and include the rebate form with your T1 return.

### Foreign Reporting Requirements

The government requires individuals to report their holdings of certain offshore (including U.S.) assets. Generally, this will apply to individuals who own offshore assets (other than personal use property) with a tax cost of more than \$100,000 Cdn. This information must be reported on your 2012 income tax return. There are substantial penalties for failure to disclose this information.

Furthermore, you must also report ownership of more than 1% of a foreign corporation as well as any transfers made to or distributions received from certain foreign trusts in 2012 regardless of the amount.

Please inform us if these rules apply to you.

U.S. Tax and Information Filing Requirements

U.S. citizens and green card holders, regardless of where they live, must file U.S. tax returns and possibly various information forms. The penalties for non-filing can be punitive. The IRS has implemented a voluntary disclosure program with respect to non-filing U.S. citizens resident in Canada. If you think this situation may apply to you, please call us to discuss.

We look forward to hearing from you early in the tax season!

Yours very truly,

LIPTON LLP - CHARTERED ACCOUNTANTS