2017 Edition for 2016 Returns

TAX tips

CAUTION!
Only the non-reimbursed portion of your CMPA fee can be deducted from income tax. Speak to your accountant before filing a tax return.

This document, prepared by PARO's auditors Rosenswig McRae Thorpe LLP, outlines some points to consider in preparing your 2016 personal income tax returns.

Remember that:

- RRSP Contribution Deadline for 2016 is March 1, 2017
- 2016 Personal Income Tax Returns are due on or before May 1, 2017

I. Income Tax Rates

The combined federal and Ontario marginal income tax rates for 2016, allowing for the basic personal amount credit of $11,474, are as follows:

Taxable Income	
$11,474 to $41,535	20.1%
$41,536 to $45,281	24.2%
$45,282 to $73,141	29.7%
$73,142 to $83,074	31.5%
$83,075 to $86,176	33.9%
$86,177 to $90,562	37.9%
$90,563 to $140,387	43.4%
$140,388 to $150,000	46.4%
$150,001 to $200,000	48.0%
$200,001 to $220,000	52.0%
Over $220,000	53.5%

The maximum CPP and EI contributions are as follows:

	2016 Maximum Contributions	2017 Maximum Contributions
CPP	$2,544 when employment income is at least $54,900	$2,564 when employment income is at least $55,300
EI	$955 when employment income is at least $50,800	$836 when employment income is at least $51,300

II. Ontario Health Tax

In addition to the tax rates described above Ontario charges the Ontario Health Tax as follows:

Taxable Income	Ontario Health Tax
$0 - $20,000	$0
$20,001 - $48,000	$0 - $450
$48,001 - $72,000	$450 - $600
$72,001 - $200,600	$600 - $900
Over $200,600	$900

III. Tax Deductions from Income

In computing taxable income, Canada Revenue Agency permits the deduction of certain expenditures. However, these expenses are only deductible to the extent that you have not been fully reimbursed by your employer.

i) Union dues (Deducted on Line 212)

Mandatory annual PARO dues can be used as deductions on your income tax return. (The amount should be posted on your T4 slip in box 44).

ii) Registered Retirement Savings Plan (RRSP) (Deducted on Line 208)

Investing in an RRSP is a simple way to contribute towards your future, providing for tax-free growth of your money while reducing your current tax liability. The deadline for 2016 contributions is March 1, 2017. However, it is more beneficial to contribute to your RRSP as early in the year as possible to receive the greatest benefit from tax-free compounding of your money.

When deciding on what type of investments to hold inside your RRSP remember that you only pay tax on 50% of capital gain earnings vs. 100% on interest income. Dividends also provide certain tax advantages. Assuming a taxable income of $45,282 to $73,141, dividends may be taxed at 17.4% (or potentially less for certain types of dividends) vs. 29.7% for interest. Due to this favourable tax treatment given to capital gains and dividends, it can be more beneficial to hold investments yielding this type of income outside of your RRSP. This is because when you receive RRSP distributions they are taxed at the same rate as interest.

If you do not know your contribution limit you can find out what it is by:

1. Calling 1-800-267-6999 for Canada Revenue Agency's ("CRA") calculation of your limit.
2. Log on to the CRA website: http://www.cra-arc.gc.ca/loginservices/, and go to "My Account". Here you can sign up and receive a password to access your personal tax information including your RRSP contribution limit, account balance, status of your return, history of various tax slips on record with CRA, and it provides an easy means of changing the information that the government has on record such as your address and telephone number. All you need to receive your password is your Social Insurance Number, date of birth, a copy of your prior year tax return, and your current postal code.

Essentially, your RRSP contribution limit is the lesser of 18% of your prior year's earned income and the limit for the year, which is $25,370 for 2016. The 2016 RRSP limit of $25,370 is reached when 2015 earned income reaches $140,945. The maximum RRSP limit will increase in 2017 to $26,010.

Your limit is adjusted for any unused RRSP contribution room from prior years and your pension adjustment for the previous year. Be careful not to over contribute to your RRSP. The penalty for an over contribution is 1% for each month of the over contribution. An over contribution of $2,000 is permitted; however, it cannot be deducted until there is available RRSP contribution room.
One strategy, for some individuals, may be to defer RRSP contributions (or perhaps to make a contribution towards your RRSP but not claim a deduction), until your income becomes higher. For example, the choice between taking a $2,000 RRSP contribution when your marginal tax rate is 24% versus the following year when it is 34% is the difference between a $480 savings this year and a $680 savings the following year. The government allows taxpayers to carry forward the unused portion of their RRSP contribution limit indefinitely. As a basic example, if your contribution limit based on earned income was $7,000 in 2015 and $8,000 in 2016 and you made a $2,000 contribution in 2015, the unused contribution limit of $5,000 from 2015 would be added to your 2016 limit so that your limit becomes $13,000 for 2016. If your income increases in the near future, it may make sense to take a larger RRSP deduction later, during a year in which your tax rate is higher. Contact a tax consultant if you need assistance in this area or obtain the "RRSPs and Other Registered Plans for Retirement" guide (T4040).

iii) RRSP Home Buyer's Plan

If you are buying a home in the next year there is a program available which allows you to withdraw $25,000 from your RRSP to use towards the down payment. Each person buying the home can withdraw up to $25,000 from his or her own RRSP; therefore, when buying a home with your spouse a total of $50,000 can be withdrawn. The money you borrow must be returned to the RRSP in annual instalments over a 15-year period, starting with the second year after the withdrawal. The RRSP repayments made can be designated from either contributions you made during the year or from contributions you made during the first 60 days of the following year. For example, if you withdrew funds in 2016 you must begin repayment by March 2, 2018. Generally, first time buyers and their spouses are eligible to make this withdrawal. If you have owned a house in the past you may also qualify but there are very strict criteria that you must meet. Please consult a professional tax advisor to help you determine if you qualify. Only contributions that have been in your RRSP for more than 90 days can be withdrawn from your RRSP and still taken as a deduction on your tax return. For example as of January 1, 2016 your RRSP balance was $17,000. On April 1, 2016 you contributed $5,000. On May 1, 2016 you want to withdraw $22,000 under the home buyer's plan. The $5,000 contribution was not contributed more than 90 days prior to May 1, 2016 and, therefore, will not be allowed as a deduction.

There are no immediate tax consequences if the simple Home Buyer's Rules are followed.

iv) Moving Expenses (Deducted on Line 219)

Moving to a new home can be an expensive process. Fortunately, certain moving expenses incurred to move to a new location for work or for full-time post secondary education in Canada, are tax deductible if the individual moves at least 40 kilometres closer

to the new place of work, business or study. Eligible moving expenses can only be deducted from income earned at the new location and any excess deductible expenses can be carried forward and available to deduct in the following year. A T1-M form (Claim for Moving Expenses) is available on the CRA website http://www.cra-arc.gc.ca/E/pbg/tf/t1-m/README.html.

v) Child Care Expenses (Deducted on Line 214)

The cost of caring for children may be a deductible expense for a parent. Generally, the deduction for child care expenses is to be taken by the supporting individual with the lower income.

Maximum yearly deductions are the lesser of two-thirds of earned income and the total of $8,000 per child aged 6 or less at the end of the tax year and $5,000 per child aged 7 to 16. The overriding limitation is the actual amount paid for child care in the year. There is a maximum deduction of $11,000 available for children who are eligible for the disability credit.

This deduction is also available in the following cases:
(i) to individuals whose spouse is a full-time or part-time student, (ii) to single parents who are studying full-time or part-time, and (iii) to two-parent families where both parents are attending school at the same time on a full-time or part-time basis. Full-time and part-time educational programs have to meet certain specific criteria, defined by CRA as "A **full–time educational program** is one that lasts at least three consecutive weeks and requires that each student in the program spend at least 10 hours per week on courses or work in the program. A **part-time educational program** is one that lasts at least three consecutive weeks and requires that each student in the program spend at least 12 hours per month on courses." Residents should consult with their accountant as to whether this would apply to their situation. There are some other situations, which may arise that will allow the higher income spouse to claim the child care expenses. Please consult your accountant for further information. A claim for child care expenses should be made on form T778, which is included in the "Child Care Expenses Guide", published by Canada Revenue Agency and found on their website. http://www.cra-arc.gc.ca/E/pbg/tf/t778/README.html

vi) Interest Expense (Deducted on Line 221)

For interest to be deductible, the purpose of the loan must be to earn income. A good tax planning idea is to use current cash holdings to pay down debt (such as a mortgage) on non-income producing assets. If you also want to invest in income producing assets, for example stocks, you can use new debt, instead of using your current cash holdings, to make this purchase.

vii) Children's Fitness Tax Credit (Claimed on Line 459)

Parents with children under the age of 16 may claim a credit of up to $500 (reduced from $1,000 in 2016) per child in respect of the costs of certain fitness programs. It is up to the programs to determine whether they qualify for the fitness tax credit. Make sure to ask for a receipt and to enquire from fitness programs if they qualify. This credit is refundable. The credit will be eliminated completely for 2017.

IV. Employment Expenses

In order to claim employment expense deductions, you must ensure to have the T2200 form certified by your employer and to claim the expenses that were incurred or required for employment.

The T2200 does not have to be filed with your tax return, but should be kept on file in case Canada Revenue Agency requests a copy. It is also important to be aware that Canada Revenue Agency can still deny employment expenses claimed, even if noted on the T2200 by your employer. The government may take a position that the expenses were not incurred or required for the employment.

Generally speaking, the following items may be expenses that were incurred and may be eligible for deduction as employment expenses. **Any expenses claimed must be reduced by any reimbursements received for the related expense.** Please note that each individual situation is different and as such, each person should consult an expert for advice pertaining to their unique situation.

i. Vehicle Expenses

The cost of driving a car to work, even when on call, is not deductible as an automobile expense. Automobile/traveling expenses are only deductible if the employee is ordinarily required to work away from the office and is required to pay his/her own traveling expenses. A deduction is not available if you received a reasonable per kilometer allowance from your employer that was not included in your income. The per kilometer reasonable rates are provided by Canada Revenue Agency and, increased for 2016, to the rate of 54 cents per kilometer on the first 5,000 km, and 48 cents per kilometer thereafter. If you are eligible, the deduction is the percentage of the total kilometres you drove for employment purposes over the year multiplied by your automobile expenses i.e. gas, maintenance,

insurance, license and registration and interest on your car loan. If you own your vehicle a portion of the capital cost can also be taken as a deduction each year (although the value of your vehicle for this deduction is capped at $30,000 plus applicable sales taxes). The maximum amount of car loan interest you can deduct is $300 per month.

Note: driving between your home and principal place of employment does **not** usually qualify as an eligible expense. However, residents may, for example, use their vehicles for house calls, i.e. traveling to and from the principle place of employment to a patient's home. In this case, the cost of travel should qualify as valid employment expenses.

ii. Travel Expenses

If you travel between locations for work purposes and do not have your own vehicle, but are required to pay your own expenses out of pocket, you can claim these as a deduction for employment purposes. This would include travel by transit for example. You should keep your receipts for these expenses to support your claim.

iii. Parking Expenses

If you are required to pay for parking when travelling for work purposes, and you do not receive a reimbursement for the amount, you can claim the parking expenses paid as an employment expense.

Note: Parking associated with the initial travel into work or the monthly parking pass at the principal place of employment does **not** usually qualify as an eligible expense. Parking associated with house calls (as described above) should qualify as valid employment expenses.

iv. Cell Phone

If you are required to use a cell phone for your employment, the portion of the costs associated with the phone for the employment use may be deductible as an employment expense. Connection and activation charges would not be deductible. Ideally, a contract of employment would expressly state the requirement to have a cell phone, but it may also be acceptable if the requirement is tacitly understood. The requirement should be stated in the T2200 completed by the employer.

v. CMPA fees

Under the PARO-CAHO Collective Agreement residents must obtain CMPA coverage as a condition of employment (so that, in the event a resident is involved in a medical-legal issue, CMPA will provide individual representation). Also, as an Ontario doctor, a rebate for a portion of remitted CMPA fees is available. The Ministry of Health and Long-Term Care (MOHLTC), the Canadian Medical Protective Association (CMPA), and Ontario Medical Association (OMA) work together to ensure continued availability of professional liability protection for Ontario physicians.

Membership fees paid for CMPA **(less any amount you were reimbursed)** are deductible for some employed physicians. To be deductible, the fees need to be paid as a condition of employment and no repayment for the amount should have been received.

For specific details on the MOHLTC MLP (CMPA) Reimbursement Program (including deadlines and eligibility requirements) please visit their website: http://www.health.gov.on.ca/en/pro/programs/ohip/mlp/requirements.aspx

V. Non-Refundable Tax Credits

A percentage of the following items can be used as a deduction from the tax you pay. These tax credits are unlike the expenses discussed above which are deductions from your income.

i) Interest on Student Loans (Claimed on Line 319)

There is a tax credit available for interest paid on eligible student loans approved under the Canadian or Provincial student loans programs. Your financial institution will issue a receipt showing the interest paid on your eligible student loans.

The credit may be claimed in the year the interest is paid or the five succeeding taxation years. Unlike the tuition fee and education tax credits, this credit is not transferable.

ii) Education Tax Credit (Claimed on Line 323)

There is a tax credit available for students who have received a T2202A education tax credit slip from a university. It is our understanding that all residents should be receiving a T2202A from their university which includes the registration fee as part of the tuition cost that may picked up for the education tax credit. You can also receive a credit for education and textbooks of $465 per month of full time study and $140 for part time study. For example, a student who was in full time study for 12 months in 2016 would receive an education and textbook credit totalling $837 ($465 x 12 months @ 15%).

Should a student not need their entire amount of education credit to reduce their tax liability to zero,

any remaining credit amount can be transferred to an eligible individual (i.e. spouse or common-law partner, or under certain circumstances, a parent or grandparent – to a maximum federally of $5,000). To make this designation, you must complete and sign the back of the T2202A. A copy of the signed form should be kept as it does not have to be filed with the return, but may be requested at a later time by CRA.

Students are allowed to indefinitely carry forward any unused education credits. This will allow you to use the credit when you do have sufficient income to do so. Any amount not used in the current year, and not transferred to an eligible person, will automatically be carried forward to the next year. Once you earn enough income to use the credits, they must be used.

Amounts paid to an educational institution, professional association, provincial ministry or similar association to take an examination will be eligible for the tuition credit if it meets certain conditions:

- Must be required to obtain professional status or be licensed or certified to practise a profession in Canada
- Includes ancillary fees such as exam materials but not other costs such as travel, calculators or computers
- Does not include admission tests to enter a program of study
- Must exceed $100

Look for tax receipts from the bodies administering any such exams. Please note that **CaRMs application fees** cannot be claimed as education or tuition amounts, which they have confirmed and provided a message to this effect on their website which can be found here: http://www.carms.ca/en/match-process/your-application/fees/.

Although there are no changes to the Education Tax Credit for 2016, please note there are some very significant changes for 2017:

Effective for the 2017 calendar year, for federal tax purposes:

- There will only be a deduction for tuition paid and reported on the T2202A
- There will be no additional deductions for education and textbook amounts.

Effective September 4, 2017, Ontario will no longer provide any credit for the tuition paid in addition to the education and textbook amounts being eliminated. Tax filers who are resident in Ontario at the end of 2017 will be able to carryforward any unused provincial tuition and education amounts for claim in future years. However, tax filers who move to Ontario after calendar 2017 would no longer be able to claim their provincial carryforward amounts.

iii) Medical Expenses (Claimed on Line 330)

A medical tax credit can be claimed on qualifying medical expenses paid for you, your spouse, or your dependants. You can only deduct medical expenses over a particular threshold. The threshold is the lower of 3% of your net income and $2,237. Total eligible medical expenses paid within any 12-month period ending in 2016 can be claimed. So it may be optimal to choose a 12- month period in which the greatest amount of eligible medical expenses is incurred. In addition, it is generally more advantageous to have the lower income spouse claim the medical tax credit. Cosmetic surgeries no longer qualify as medical expenses unless the procedure is required for medical or reconstructive purposes.

iv) Charitable Donations (Claimed on Line 349)

Donations made to registered Canadian charities by you or your spouse are eligible for a tax credit. The credit has a combined federal and provincial effect of approximately 22% on the first $200 and 46% on the remainder of eligible donations up to 75% of the taxpayer's net income for the year. To the extent the individual has taxable income over $200,000, the donation credit is increased to match the tax rate at this highest bracket, 53%, but only to the lesser of the donations made, or income taxed at that level. Unused donations can be carried forward up to 5 years.

A first time donor (no donations claimed in years after 2007) is able to get a "super credit" or additional 25% tax credit on a maximum $1,000 of donation credit claimed.

Publicly-listed securities that are donated to a registered charity or other qualified donee (other than a private foundation) do not result in paying tax on any gain on the securities donated. For example, if you own shares of a publicly-listed security which cost $5,000 but are now worth $10,000, you can donate the securities to a registered charity and receive a donation receipt for $10,000 and not pay any tax on the increased value of the shares.

v) Public Transit Passes Credit (Claimed on Line 364)

Public transit passes must be for a duration of 28 consecutive days, and be in respect of transit by bus, train, subway, or ferry. Documentation for the public transit expenses claimed does not have to be submitted with the tax return but, it must be kept in case the government asks to see it. Proper documentation means that the transit passes indicate a period of use of a 28 day continuous period or greater, the date or period for which the pass is valid, the name of the transit authority, the amount paid for the pass, the identity of the rider by name or by unique identifier. Monthly passes as well as four consecutive weekly passes would qualify for the credit.

vi) Canada Employment Amount (Claimed on Line 363)

The amount of the credit is the lesser of $1,161 and the employment income for the year and is available to anyone with employment income.

vii) Adoption Expense (Claimed on Line 313)

A credit is available for up to $15,453 of expenses. Eligible expenses include: adoption agency fees, court and legal costs, and travel expenses.

viii) Children's Arts Tax Credit (Claimed on Line 370)

A credit similar to the Fitness Credit has been available since 2011 for a prescribed program of artistic, cultural, recreational or development activity. The amount of this credit is $250 in 2016. The same program cannot be used to claim more than 1 type of credit. The credit will be eliminated for 2017 and later years

ix) Ontario's Children's Activity Tax Credit (Claimed on Line 6309)

Parents with children under the age of 16 may claim a credit of up to $560 per child in respect of costs for children's activity programs. Such programs may also qualify for the federal children's fitness tax credit or federal children's art tax credit above. 2016 is the last year this credit is available.

x) First-Time Home Buyers' Tax Credit (Claimed on Line 369)

This is a non-refundable tax credit of $5,000 for first time home buyers that purchase their home after January 27, 2009. This credit has a potential savings of $750 ($5,000 x $15%) in taxes.

VI. Tax Saving Plans

i) Registered Education Savings Plans (RESP)

RESPs are plans which enable individuals to save for a child's education. The lifetime contribution limit is $50,000 with no annual restrictions. Contributions can only be made to the plan during the first 31 calendar years of the plan's existence and the plan cannot exist for more than 35 years.

The federal government will pay a 20% Canada Education Savings Grant (CESG) on the first $2,500 of annual contributions made to all eligible RESPs of a qualifying beneficiary, up to and including the year in which the child attains age 17. The maximum total CESG that can be paid in respect of any child born after 1998 will be $7,200. Unlike RRSPs, there is no deduction for contributions. However, income earned on plan assets is not taxed until received as education support payments by the student. Eligible investments are the same as those for RRSPs and other deferred income plans. Contact a tax consultant if you need assistance in this area.

ii) Tax-free RRSP withdrawals for education

A Canadian resident may withdraw funds from an RRSP, free of immediate income tax, in order to finance full-time training or education for the taxpayer and his/her spouse. This program is similar in concept to the RRSP Home Buyers' Plan.

Withdrawals can be made for four successive calendar years to a maximum of $10,000 for a given calendar year. The maximum aggregate RRSP withdrawal for the four years is $20,000. More than one withdrawal may be made in any given year from any number of specific RRSP accounts, provided the annual and maximum limits are not exceeded.

RRSP withdrawals under this plan must be repaid without interest to an RRSP in equal instalments over a period of 10 years commencing no later than 60 days after the fifth year following the withdrawal.

To qualify, the individual or his/her spouse must enrol as a full-time student in a qualifying educational program of at least three months duration at an eligible educational institution. Where funds are withdrawn before the enrolment, the enrolment must occur in the year of the withdrawal or in January of the following year. Special rules apply where funds are withdrawn and the student does not finish the qualifying program.

iii) Tax Free Savings Account (TFSA)

Starting in 2009, all Canadians at least 18 years of age with a valid SIN could open a Tax Free Savings Account.

The maximum annual contribution room for each year prior to 2013 was $5,000 per year. Beginning in 2013 it was increased to $5,500 per year. In 2015 the contribution limit was raised to $10,000, however, for 2016 the limit was reduced down to $5,500. Remember unused contribution room accumulates and can be used in the following years:

Years	TFSA Annual Limit	Cumulative Total
2009-2012	$5,000	$20,000
2013-2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500
2017	$5,500	$52,000

Any income earned within the account is not taxed. Also the higher income spouse can contribute to the lower income spouses TFSA. The funds contributed to a Tax Free Savings Account and any income earned on these funds can be withdrawn at any time

in the future. Contribution room for the following year is increased for any net amount withdrawn from the account in the previous year. For more information on Tax Free Savings Account, please visit the CRA website at http://www.cra-arc.gc.ca/tfsa/

iv) Ontario Tax Credits

Some people may be able to qualify for Ontario property and sales tax credits if their family income is not too high. Refer to your General Income Tax Forms to see if you qualify.

VII. Other Items

i) Province of Residence

You must file a tax return for the province in which you resided at December 31, 2016. If you are a resident in one province but are receiving self-employment income from a permanent establishment in another province, multiple returns may need to be filed, contact a tax consultant for more information.

ii) Marital Status

If you were married (or living common-law) at any time during the taxation year, and either you or your spouse earned less than $11,474, claiming a "spousal amount" could result in a federal tax savings of up to $1,721. Additionally, if your spouse has little or no taxable income, you could possibly use some of his/her tax credits (disability amount, tuition and education, etc.) that would otherwise be unused on their return. Refer to Schedule 2 of your Income Tax Return for information on which non-refundable credits may be transferred from one spouse (or common-law partner) to the other.

iii) Universal Child Care Benefit (UCCB)

Effective January 1, 2015, all families in Canada became eligible to receive the new UCCB which is $160 per month for each child under the age of 6 for whom they were the primary caregiver and $60 per month per child for children ages 6-17. Please be aware that if you or your spouse received this amount, it must be included in income for the lower income earning spouse.

Effective July 2016, the UCCB was replaced by the Canada Child Benefit (CCB). The CCB is not taxable, and the amount received is based on family income from your tax returns. The maximum benefit is $6,400 per child, and is received in full when family income is below $30,000. The benefit is reduced based on income. With a single child under age 6, there is no benefit where income exceeds approximately $188,000. The level of income at which the benefit phases out will depend on the number of children under age 6 and aged 6-17.

iv) Scholarships and Bursaries

All amounts received on account of scholarships, fellowships, and bursaries may be excluded from income if they are received in connection with the student's enrolment at a designated educational institution. The Canada Revenue Agency has previously clarified that post-doctoral fellowships would not qualify for this scholarship exemption.

v) TD1 Forms

When you start at a new place of employment, you should receive a TD1 form to be completed. The form should also be completed when there is a change to the credits which you will be claiming. The purpose of the form is to reduce the income tax withholdings on your pay for certain deductions which you will be claiming on your personal tax return for the year. These items include; child amount, tuition, education and textbook amount, disability amount, spouse or common law partner amount, amount for an eligible dependent. Please note that you should only be claiming deductions on **one** such form if you have multiple jobs.

VIII. Residents with Independent Practice Licences

If you have received your Independent Practice License you should obtain a Business and Professional Income Tax Guide and complete form T2125 to report your income and expenses. Sound advice for anyone with mixed income sources is to consult an accountant.

The information provided in "Tax Tips" is general in nature and is not intended to provide specific tax advice. You should consult your own tax adviser for specific advice based on your tax situation.