

# ESSENTIAL **Tax** Facts



## Evelyn Jacks

HOW TO MAKE THE RIGHT TAX MOVES  
AND BE AUDIT-PROOF, TOO

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# Introduction

Recent tax filing statistics from CRA confirm that 86% of all tax returns filed in Canada now use electronic processes, with the professional tax preparation industry winning significantly in the effort CRA has put into the digital process. EFILERS now prepare 57% of all tax returns filed in Canada; this compares to 42% in 2011. Back then 38% of all tax returns were still filed on paper, whereas today, only 14%—less than four million returns—are filed on paper. In addition, CRA issued the vast majority of refunds electronically, through direct deposit to 68% of tax filers.

Yet, filing a tax return is an intensely human experience. Low income Canadians must use the tax system to apply for important tax benefits, like the Canada Child Benefit. Other important social benefits, like the Canada Learning Bond and Old Age Security, rely on the information reported on the return.

Most Canadians anticipate tax season with at least some glee—to get back overpaid taxes—over \$1700 on average—for much needed help in paying down debt or shoring up retirement savings.

High income earners, on the other hand, have found themselves increasingly under siege with tax rates that confiscate more than 50% of their earnings over certain income levels, in some provinces.

Against that backdrop, CRA has become much more empowered to step up audit activities to go after “tax cheats”. Yet, there have been many stories of overly aggressive tactics that have caused incredible stress to ordinary taxpayers who are simply trying to comply with their complicated tax laws under a self-assessment system.

These Essential Tax Facts have been written to empower you in your relationship with CRA—which is for life, by the way—so that you can keep more of your hard earned dollars working for your financial future. This is your legal right. Your obligation is to know and follow the tax rules, and keep records to back up your claims.

I hope these pages will help you make the right tax moves for your household and be audit-proof, too.

Sincerely,

Evelyn Jacks

## PART I

# TAX MATCHES The Rules

## 1

# WHY PLAY? This is About Your Keep

## WILL I HAVE ENOUGH? HOW MUCH IS ENOUGH?

If you, like millions of Canadians have ever worried about these two common financial questions, I have some good news for you: you will likely have enough and you'll get there faster if you engage proactively in making the right tax moves. But that's going require some stealth, in the form of "tax literacy".

By definition, tax literacy is about having the knowledge and skills to navigate your taxpayer rights so that you can control how much of your hard-earned money is left over for your own financial dreams, and how much of it must be given up to the Canada Revenue Agency—the CRA.

That's right. This is about your money and how much of it you get to keep, now and for your financial future.

*That's the end game.*

Here's the issue: you have to play the game. It's not optional. Your employer must take from the very top of your paycheck, the withholding taxes CRA requires you to pay. You will then file a tax return to get some of that back, or to pay up any additional balance required. Otherwise you will be penalized—heavily—by your opponent, the CRA. That's right, your opponent is also the referee.

That's the bad news. But, there is also good news. It is your right *to arrange your affairs within the framework of the law to pay the least amount of taxes legally possible*. You only have to pay the correct amount of tax—not one cent more.

*That's how you start the game.*

The more you know about the options you have in playing the tax game, especially how to use "tax preferences"<sup>1</sup>, the faster you can increase your current standard of living, and the more empowered you will be to accelerate—and protect—your financial future from Canada's expensive tax system.

Put another way, by making the right tax moves, you can—and should—help yourself to the biggest refunds of your own top dollar as a first priority, by claiming the most tax deductions and tax credits you can, without attracting any penalties from the CRA.

Now, *here's how you win*: by positioning yourself to save the most capital in the most tax-advantaged investments, as soon as you can, you will score the most points to advance to your end goal—financial freedom: the day that your money works for you, *and you don't have to work at all!*

Make no mistake: the matches can get tough. The tax lingo is difficult, the rules change constantly and tax audits can be very time consuming and intimidating. But, as you get to be really good at understanding this tax game you will be engaged in for life, you will also be moving towards your personal financial goal line with purpose: you will get there faster, and you will worry less about your financial future, because you will actually have *more new money* to work with, after tax. You may, in fact, be able to retire much earlier than you thought.

So that's the game plan.



## Tax Moves

**There's a lot to know to play the tax game with CRA, using all your tax moves. Just be sure to keep your eye on your mission: your healthy financial future. Tax savings are in the double-digits for most people. That's a more reliable return than the markets put out most years. So let's go get them!**

<sup>1</sup> Tax Preferences: the provisions in the *Income Tax Act* that give you the opportunity to pay preferred tax rates on some income sources, a myriad of tax deductions and credits the government provides to you to legitimately reduce the taxes you pay or take advantage of the refundable tax credits you may be entitled to.



# EVELYN JACKS' ESSENTIAL TAX FACTS

HOW TO MAKE THE RIGHT TAX MOVES AND BE AUDIT-PROOF, TOO

• FEATURING THE AUDIT-BUSTER CHECKLISTS

TAX REFORMS ARE HERE AGAIN AND A LOT HAS CHANGED—for individuals, families, students, investors, retirees and business owners. But, a big new issue, is the aggressive and punitive tax audit environment Canadians find themselves in. This book will help Canadians better manage both.

*"Evelyn Jacks is one of the most knowledgeable experts on the Canadian tax system I know. Always up to date with the latest tax facts, and with more than 50 financial books to her name, if there is money to save on your taxes, Evelyn knows where to find it and will show you how."*

—Pat Foran Consumer Advocate, CTV's Consumer Alert

Evelyn Jacks is Canada's most trusted tax educator and a best-selling author who is passionate about helping you make the right tax moves. This easy-to-read, how-to-book is for you if you want to:

- \*Receive More.** Get bigger tax refunds and more refundable tax credits.
- \*Take Control.** Keep more of your hard-earned dollars in your own pocket by understanding your tax system better.
- \*Earn More.** Make tax-smart decisions about your investment and retirement plans by focusing on tax efficiency.
- \*Get More Value.** Maximize the professional dollars you spend with accountants and financial advisors by asking better questions.
- \*Beat the Taxman.** Be confident and ready with your audit-proof tax returns when CRA picks yours for review.

**This Is About Keeping More of Your Hard Earned Money.** The taxes you pay may be your biggest lifetime expense and wealth eroder. *ESSENTIAL TAX FACTS* is your trusted companion in your match with the CRA. To win, come up to speed with the rules and your rights: add this comprehensive guide to your trusted tax references now.



Evelyn is one of Canada's most prolific financial authors, having penned 53 books on tax preparation and financial planning, many of them best-sellers. She is President of Knowledge Bureau, a national educational institute focused on professional development in the tax and financial services. Evelyn has been named one of Canada's Top 25 Women of Influence and was appointed to the Federal Task Force on Financial Literacy. Follow her on twitter @evelynjacks and on Knowledge Bureau Report: knowledgebureau.com.

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