Doing it right the first time! Avoiding the most common tax return errors

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Preparing your tax return can be a daunting task. Perhaps this is why tax preparation services are a $1.7 billion industry in Canada.[1] Yet despite taxpayers' efforts to do this important job properly, the Canada Revenue Agency (CRA) has identified a number of common adjustments that they make to personal tax returns as a result of their Pre-assessment Review Program, Processing Review Program and Matching Program.

Making an error on your tax return can be costly for you as a taxpayer because if, for example, income is not reported or if deductions are claimed erroneously, the CRA will charge interest on any overdue tax amounts that you may owe.[2] And if you fail to file your tax returns on time or underreport your income, you can incur significant penalties as well.

In this report, we will review some of the most common adjustments identified by the CRA with a view to helping you prevent issues before you file your own tax return this filing season.

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1 Source: Tax Preparation Services in Canada - Market Size, Industry Analysis, Trends and Forecasts (2024-2029), IBISWorld Canada, August 2023.

2 The interest rate charged on overdue taxes for the first two quarters of 2025 is 8%. For more information, see the CRA's prescribed interest rates.

Reporting information from tax slips

Figure 1 shows some common income tax slips that are issued in Canada for investment income, along with the deadline for distributing these slips for the 2024 tax year.

It's important to give your current mailing address to all financial institutions at which you have financial accounts so they can send you all of your tax slips. You may also be able to obtain tax slips from the issuers through online services.

If you do not receive T4, T5, T3, T2202, RC62, RC210 or RRSP slips from the issuer, you may be able to get these slips from the CRA, either online or by phone.[3] Many tax preparation software programs also allow you to download slips from the CRA directly through the CRA's My Account for Individuals.

It's good practice to compare the tax slips that you receive for the current year to slips you've received in the past, to see if any might be missing. You may also want to compare income reported on investment statements to the amounts from tax slips, to see if there could be differences that could be due to slips that have not been received. If you haven't received an expected slip shortly after the deadline shown in Figure 1, you should contact the issuer to request a duplicate.

Figure 1: Common income tax slips issued to investors[4]

Tax slip	Type of income	Deadline for distributing slips for the year ended December 31, 2024
T3 – Statement of Trust Income Allocations and Designations	Trust income, including allocations of interest, dividends and capital gains	March 31, 2025
T4RIF – Statement of Income from a Registered Retirement Income Fund	Income from a Registered Retirement Income Fund (RRIF), including withdrawals	February 28, 2025
T4RSP – Statement of RRSP Income	Income from a Registered Retirement Savings Plan (RRSP), including withdrawals	February 28, 2025
T4FHSA First Home Savings Account Statement	Contributions to, and withdrawals from, an FHSA	February 28, 2025
T5 – Statement of Investment Income	Distributions of certain investment income, including interest, dividends and capital gains	February 28, 2025
T5008 – Statement of Securities Transactions[5]	Dispositions of securities during the year	February 28, 2025
T5013 – Statement of Partnership Income	Partnership income, including allocations of interest, dividends and capital gains	March 31, 2025

In an update on the filing of information returns, the CRA announced that issuers may issue certain information slips normally due on February 28, 2025 by **March 7, 2025** without penalty. This is because the government announced that it intended to defer proposed changes to the capital gains inclusion rate, which were already incorporated into tax slip reporting for 2024, until January 1, 2026.

If you are still missing a tax slip despite your best efforts to obtain it, you may be tempted to either submit your tax return without the missing information and adjust it later, or to wait until you receive the slip to file your return. Both of these approaches may be problematic.

If you file your income tax return on time but fail to report income for the current year and one of the previous 3 taxation years, you may face a penalty equal to 10% of the income that you did not report in the current year.

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3 See information from the CRA on how to get a copy of your slips.

4 See information from the CRA on tax slips.

5 Many financial institutions issue an account statement reporting gains and/or losses during the year in lieu of issuing a T5008 slip directly to clients. The electronic T5008 is still filed with the CRA.

The court case highlighted in Figure 2 shows an example of a taxpayer who suffered this 10% penalty for repeated failure to report income.

If you don't file your tax return on time and you have a balance of taxes owing on the payment deadline (April 30, 2025 for the 2024 tax year)[6], the penalty is 5% of the outstanding balance, plus 1% of your balance owing for each full month your return is late, to a maximum of 12 months.

When you are missing information, you should estimate amounts from other available information. For example, if you haven't received a T3 or T5 slip that reports investment income, information from monthly investment statements may help you to calculate the amount of the income.

Some entities, such as income trusts or partnerships, make distributions throughout the year and will determine the actual components of the distribution after year end. Since T3 and T5013 slips for these entities may not be issued until the end of March or early in April, publicly-traded trusts and partnerships are required to disclose information concerning distributions and allocations of income and capital within 60 days after the end of the taxation year.

This information is collected and reported by the Canadian Tax Breakdown Service.

Once you've estimated the amount of income, you should keep records documenting the payor's name and address, the type of income involved and your calculations. For paper returns, you should attach this information to your return and indicate what you are doing to get any missing slips. If you file your tax return electronically, you should keep this information on file in case the CRA requests it.

When you do receive any missing tax slips, if the amounts differ from estimated amounts reported on your submitted tax return, you can file form T1-ADJ T1 Adjustment Request with the CRA to report the correct amounts. Alternatively, once you have received your Notice of Assessment, you can alter your return online through the CRA's My Account for Individuals. The CRA offers additional information on how to change your return.

Figure 2: Repeated Failure to Report Income

Case summary

In a case brought before the Tax Court in 2012, a taxpayer failed to report interest income of $876 in her 2006 income tax return and also failed to report $18,376 on her 2008 return. Since she failed to report income in 2008 as well as one of the 3 preceding tax years, the taxpayer was hit with a 10% penalty both federally and provincially, amounting to $1,837.60 each.

A "due diligence" defense can be used for either the first or second failure to report income when the taxpayer has either made a "reasonable mistake of fact" or, at the very least, took reasonable precautions to avoid the event leading to the penalty.

The taxpayer in the case conceded that no such defence could be made for the 2008 taxation year, so she focused on the 2006 omission of the $876 of interest income. She testified that this omission "was a reasonable mistake of fact. [It was] overlooked … because she was not in the habit of earning and reporting interest income.… Viewed objectively, the mistake was reasonable as the amount of unreported income in 2006 was less than 1% of the income which [she] reported" that year.

The judge agreed that since the amount of unreported income in 2006 was only 1% of her total income, her failure to report it was indeed innocent; however, the judge was not convinced "that a reasonable person in the same circumstances would have made the same mistake." In the judge's opinion, the taxpayer should have realized that she had not received her T5 slip reporting her interest income and yet she took "no actions" to get a T5. As a result, the judge felt that the taxpayer failed to take "reasonable measures to report all of her income in 2006 or 2008" and the penalty was upheld.

[6] Although self-employed taxpayers and their spouses or common-law partners have until June 16, 2025 to file their 2024 tax returns, the balance of taxes owing for 2024 must still be paid by April 30, 2025.

Claiming deductions, credits and expenses

The CRA has published information on Claiming deductions, credits, and expenses. Here are a few that are worth reviewing.

RRSP deduction

An RRSP is one of the best ways to save for retirement, providing a tax deduction for the amount you contribute and deferral of tax on income that is earned within the plan.

Your RRSP deduction limit (sometimes called RRSP contribution room) for a year is 18% of your earned income for the prior year up to the dollar limit ($31,560 for 2024), minus your pension adjustment, plus any unused RRSP deduction limit from prior years.[7] The CRA reports your RRSP deduction limit on your Notice of Assessment and online through the CRA's My Account for Individuals.

Contributions in excess of the RRSP deduction limit (plus a $2,000 overcontribution allowance) may attract a penalty of 1% of the overcontribution per month, so it's important to check your RRSP deduction limit before putting funds into a plan.

To claim a deduction for a given tax year, you can make contributions at any time during the year or within 60 days after year end.

To the extent that your contributions are less than RRSP deduction limit in a year, you can carry forward your unused RRSP contribution room and make contributions in a future year. If you expect that your marginal tax rate will be higher in a future year and you plan to wait to claim a deduction for your RRSP contribution in the future, don't forget to report the contribution on your current tax return. On your 2024 tax return, you should report all RRSP contributions made from March 1, 2024 to March 3, 2025. This allows the CRA to determine contributions that are available for deduction and to properly calculate your RRSP deduction limit.

If you want to claim a deduction for a contribution that was made prior to the current tax year and the contribution was not reported on a previous tax return, you should separately file Schedule 7 – RRSP, PRPP, and SPP Contributions and Transfers, and HBP and LLP Activities for the appropriate prior tax. You may then proceed to claim the amount on your 2024, or a subsequent year's, tax return.

Foreign tax credit

If you have investment income from outside Canada, such as dividends on shares of foreign corporations, you may have to pay tax in the country where the income arises. Taxes may be withheld when the income is distributed. For example, 15% US withholding tax generally applies to dividends from publicly-traded US corporations under the Canada-US Tax Treaty.[8]

One common error in calculating foreign tax credits[9] is using the wrong exchange rates when calculating foreign income and taxes paid. Amounts must be converted from the foreign currency to Canadian dollars using exchange rates relevant to the transaction. For example, if income is earned evenly throughout the year, using the average exchange rate would be acceptable. For capital gains, actual exchange rates at time of purchase and sale of property would be more appropriate than using an average rate during the time the property was held. The Bank of Canada maintains a list of historical exchange rates that may be used for purposes of tax return calculations.[10]

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7 The RRSP deduction limit may also be adjusted by the Past Service Pension Amount (PSPA) and the Pension Adjustment Reversal (PAR).

8 You cannot claim a foreign tax credit or deduction for foreign taxes withheld on income earned in a registered plan, such as an RRSP or TFSA, since income in these plans is not taxable in Canada. There is no US tax withheld on US dividends paid into an RRSP under the Canada-US Tax Treaty.

9 A deduction for foreign taxes may be available in some cases when a foreign tax credit is not available or is limited.

10 See the Bank of Canada exchange rates.

An example will illustrate how much of an effect exchange rates can have on income that is reported on your tax return. Suppose you purchased a US security for US$10,000 when the exchange rate was US$1.00 = CA$1.00 and sold the security for US$12,000 when the exchange rate was US$1.00 = CA$1.40. The average exchange rate while you held the security was US$1.00 = CA$1.25. If you used the average exchange rate to convert both the proceeds of disposition and adjusted cost base, the capital gain would be $2,500.[11] If, however, you used the actual rates at the time of purchase and sale, there would be a capital gain of $6,800.[12]

Other deductions and additional deductions

There are 2 lines on the T1 Income Tax and Benefit Return that are seemingly used as a “catch-all” for deductions: Line 23200 – Other Deductions, and Line 25600 – Additional Deductions. Although these names may sound like they are meant to allow any number of miscellaneous deductions, each has a specific purpose.

Deductions that are allowed on Line 23200 include: overcontributions to an RRSP that were withdrawn, excess Registered Pension Plan transfers that you withdrew from an RRSP or RRIF and depletion allowances from investments in resource properties. A common additional deduction claimed on Line 25600 is for income that is tax-free under an income tax treaty (such as certain pension or social security benefits) that was included in income on your Canadian return.

The CRA has cited the following examples of expenses that are non-deductible but tend to be claimed erroneously as other deductions or additional deductions: support payments, legal fees you paid to get a separation or divorce or to establish custody for a child, funeral expenses, wedding expenses, loans to family members, a loss on the sale of a home.

You should make sure that an expense is deductible before making a claim, to prevent potential penalties and interest on your tax return. The CRA offers information on All deductions, credits, and expenses.

CRA correspondence

It’s important to make sure that you have your current address on file with the CRA, especially if you have moved recently, so you can receive CRA correspondence. Students may overlook this critical step when they transition between their regular home and a student residence.

To verify that income, deductions and credits are properly supported, the CRA may send you a letter requesting that you submit supporting documentation for one or more tax return line items. Unlike a paper return, if you file your return electronically, you don’t submit your tax information slips, receipts, or other documents that were used to prepare your tax return; however, the CRA may later ask to see them. Since over 90% of taxpayers had filed their 2023 income tax returns online[13], CRA requests for additional information may be quite common.

You have 30 days to respond to a CRA letter requesting additional information and the CRA will frequently grant additional time if you have reasonable grounds for an extension and contact them within the 30-day time period. If you do not ask for an extension or submit the information within the 30 days, the CRA will assess your return based on the information available, possibly including additional income or denying deductions.

If you disagree with the CRA’s assessment of your income tax return, you have 90 days from date of the Notice of Assessment to file an objection by mail or fax using Form T400A – Objection, or online using the CRA secure portal. You can request an extension within one year after the expiration of the time limit to file an objection.

If you disagree with the CRA’s response to your objection, you can appeal to the Tax Court of Canada. You have 90 days from the response to the Notice of Objection to appeal the CRA’s decision. You can request an extension within one year after the expiration of the time limit to file an appeal.

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[11] Calculated as $12,000 × 1.25 − $10,000 × 1.25.

[12] Calculated as $12,000 × 1.40 − $10,000 × 1.00.

[13] See information from the CRA on Individual income tax return statistics.

The CRA offers additional information in its publication titled Resolving your dispute: Objection rights under the *Income Tax Act*.

The court case highlighted in Figure 3 illustrates the consequences that ensued for one taxpayer who neglected to heed CRA deadlines. Since failing to act in a timely manner can mean the assessment of additional taxes or a loss of the ability to object to or appeal CRA decisions, it's important to make sure you act promptly when dealing with the CRA.

Figure 3: Timely filing of objections and appeals

Case summary

A 2013 Tax Court case involved a taxpayer who applied for a court order to extend the time to file an objection for a Notice of Reassessment she received on April 7, 2011 for the 2008 tax year.

The taxpayer filed an objection on April 21, 2012 but it was not accepted because it was beyond the 90-day deadline of July 6, 2011 to file an objection. The CRA, however, did advise her that she could apply for an extension of time and that the deadline for doing so was July 6, 2012.

She filed another objection on November 30, 2012 that was also denied since it was beyond the time limit. The CRA informed her at this time that she was "out of time to apply for an extension."

In March 2013, she applied to the Tax Court for an extension of time to file a notice of objection arguing that "she did the best she could to comply with the law."

The judge was sympathetic and acknowledged that the rules surrounding objections are "complex" and that "taxpayers and their advisors sometimes fail to navigate (them) properly." Nevertheless, the judge denied the taxpayer's application, saying, "The legislative requirements are strict and relief cannot be granted on the basis of fairness alone."

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