Tax filing in the ’20s: Mining your tax return for extra money this spring

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The federal T1 Personal Income Tax Return (the Tax Return) contains many tax deductions, credits and other calculations that may impact the taxes you pay. You’ll need to know where to look within the Tax Return to claim valuable tax benefits for 2022. You may be surprised to learn that many commonly-claimed items have relatively little value, while some lesser-known ones can produce significant tax savings.

The deadline for filing your 2022 Tax Return is May 1, 2023 (or June 15, 2023 if you or your spouse or partner[1] are self-employed). The balance of any taxes owing for 2022 must be paid by May 1, 2023 to avoid interest or penalties.

Personal information and income

Page one of the Tax Return asks for basic identification information, such as your name, address, e-mail address, province of residency, marital status and information about your spouse or partner.

The second page asks if you wish the Canada Revenue Agency (“CRA”) to have your personal information included in the National Register of Electors, as applicable. It also asks whether you have any income that is exempt under the Indian Act – if you tick off the box, you are instructed to complete form, the T90, “Income Exempt under the Indian Act.”

If you live in rural Alberta, Saskatchewan, Manitoba or Ontario, you may be able to receive the climate action incentive (CAI) payment. You should tick the box on page 2 of your Tax Return if you resided outside of a census metropolitan area (CMA) in those provinces, and expect to continue to reside outside a CMA on April 1, 2023. If both you and your spouse or partner lived at the same location, you must each tick this box on your return. You will automatically receive your CAI payments in quarterly instalments in 2023 if you file a 2022 return and qualify for payments.

The bottom of page two is where you indicate whether you owned any foreign investment property (excluding foreign property in registered accounts) where the total cost amount was more than $100,000 at any time during the year. If so, make sure you complete Form T1135, “Foreign Income Verification Statement,” and file it by the deadline for your Tax Return, since penalties for failure to file form T1135 are $25 per day to a maximum of $2,500.

Moving on to page three, that’s where you calculate your total income, which is reported on Line 15000.

The system of tax deductions and tax credits

Tax savings generally begin on page four of the Tax Return, as this is where many valuable tax deductions are claimed. These are amounts that you can deduct from your total income to arrive at your taxable income, which is the base for calculating the amount of tax that is payable.

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[1] In this report, spouse refers to someone to whom you are legally married. Partner refers to a common-law partner under the Income Tax Act, which means someone who cohabits with you in a conjugal relationship, provided the two of you have cohabited for the past 12 months or are jointly parents of a child.

Additional savings can be found on pages five through seven of your Tax Return, where you claim a number of non-refundable tax credits that directly reduce the tax you pay.

Income tax is levied at graduated, “progressive” rates, such that higher tax rates apply as your income level increases. Figure 1 shows the federal tax rates that apply to various levels of taxable income.

Figure 1: Federal tax rates for 2022

Taxable income	Federal tax rate
≤ $50,197	15.0%
> $50,197 and ≤ $100,392	20.5%
> $100,392 and ≤ $155,625	26.0%
> $155,625 and ≤ $221,708	29.0%
> $221,708	33.0%

Let’s look at an example that shows how a tax deduction yields tax savings at the marginal tax rate[2] that varies with your income level, while a tax credit generally yields tax savings at the lowest marginal tax rate, regardless of your income. Suppose you have total income of $60,000. Figure 2 shows how deductions and credits reduce the tax that you pay for 2022.

Figure 2: Value of a $1,000 federal tax deduction and tax credit in 2022

	No deduction or credit	Tax deduction	Tax credit
Total income	60,000	60,000	60,000
Deductions	n/a	(1,000)	n/a
Taxable income	**60,000**	**59,000**	**60,000**
Tax @ 15% on first $50,197	7,530	7,530	7,530
Tax @ 20.5% on remaining income	2,010	1,805	2,010
Total tax payable before credits	9,540	9,335	9,540
Tax credit ($1,000 @ 15%)	n/a	n/a	(150)
Total tax payable	**9,540**	**9,335**	**9,390**
Value of deduction / credit	n/a	$205	$150
Effective tax rate	n/a	20.5%	15.0%

The amount of the deduction is subtracted from income, so that this amount of income is not taxed. In Figure 2, a $1,000 tax deduction yields $205 of tax savings, calculated as the $1,000 deduction multiplied by the marginal tax rate that would have applied to the income (20.5%). Consequently, a deduction yields tax savings at your marginal tax rate.

With tax credits, a fixed rate (usually the lowest marginal tax rate) is applied to eligible amounts and the resultant credit amount offsets taxes payable. Figure 2 shows that when the federal tax credit rate of 15% is applied to a $1,000 amount, $150 of tax savings results.

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2 This report considers statutory income tax rates and does not consider the impact of low-income tax reductions or the loss of various income tested benefits, such as Old Age Security or the Age Amount, that are “clawed back” once income reaches various annually-indexed, legislated thresholds.

The value of selected tax deductions, credits and other amounts

Since the value (tax savings) from a tax deduction is based on your marginal tax rate, a tax deduction can provide greater value for those who have higher levels of income. The value of a tax credit is generally based on a rate that is fixed for all taxpayers, so a tax credit usually yields the same value regardless of income level or marginal tax rate.[3]

The provinces and territories also have their own versions of many deductions and credits, so the overall tax savings is usually much higher than the federal savings alone. Combined federal and provincial or territorial rates range from about 20% to 55% for tax deductions (depending on your taxable income) and 20% to 54% for tax credits. Some provinces even have deductions or credits that are not available federally.

Let's look at some common tax deductions and credits in the Tax Return. We'll show the potential federal tax savings via some examples, assuming a 20.5% federal marginal tax rate for deductions (which would apply with taxable income over $50,197 and up to $100,392 in 2022) and a 15% federal rate for tax credits.

Tax deductions

Registered Retirement Savings Plan (RRSP) deduction, line 20800

One of the most commonly-known ways to save tax is to make a contribution to an RRSP. You can generally claim a deduction for contributions made up to 60 days after year end that do not exceed 18% of your previous year's earned income, with a maximum deduction of $29,210 for 2022.[4] If you have carried forward unused RRSP contribution room, you can claim a higher deduction.

You may, however, choose to defer claiming your deduction until a later year, which can be advantageous if you expect your marginal tax rate to be materially higher in the future.

Suppose you made an RRSP contribution of $1,000. At a marginal tax rate of 20.5%, the deduction would have a value of approximately $205. Of course, this is merely deferring the tax owing on the $1,000 until a later time, such as retirement, when the funds are withdrawn, hopefully at a lower marginal tax rate. In the interim, the investment income earned inside your RRSP is effectively tax-free.[5]

Home office expense deduction, line 22900

With millions of employees continuing to work from home after the COVID-19 pandemic, the ability to deduct various home-office expenses from income will, once again, be top of mind this tax-filing season. For 2022, the CRA is once again allowing employees to choose either the temporary flat rate method or the detailed method to calculate and claim home-office expenses. Full details are available in the report Home-office expenses: COVID-19 edition[6].

If you choose the temporary flat rate method and can claim the maximum amount of $500, the tax savings from the deduction at a 20.5% marginal tax rate would be $103.

Tax credits

Basic personal amount (BPA), line 30000

The basic personal amount (BPA) is the mechanism used to ensure that no tax is paid on a certain amount of basic income. The BPA is $14,398 and has a value of $2,160, which is the 15% federal tax that would have been paid on $14,398 of taxable income. The BPA is reduced with net income in the second-highest federal

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3 Some tax credits (such as the basic personal amount) depend on your net income.

4 Your RRSP deduction limit is also reduced for any pension adjustments and increased for any pension adjustment reversals.

5 For a full discussion of the benefits of RRSP investing, please see the Report "Just do it: The case for tax-free investing" at cibc.com/content/dam/personal_banking/advice_centre/start_savings_plan/pdfs/case-for-taxfree-en.pdf.

6 The report "Home-office expenses: COVID-19 edition" is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/home-office-expenses-en.pdf.

tax bracket (over $155,625 and up to $221,708). Only a lower BPA of $12,719 is available with net income in the top federal tax bracket (above $221,708) and the reduced credit is $1,908.

Age amount, line 30100

You can claim the maximum age amount of $7,898 if you were at least 65 years of age and your net income was no more than $39,826. At a tax credit rate of 15%, the maximum age amount is worth $1,185. Your age amount will be reduced at a rate of 15% with additional net income and is completely eliminated with net income above $92,479.

Spouse or common-law partner amount, line 30300; or amount for an eligible dependant, line 30400

You may be able to claim one of these two amounts if you supported your spouse or partner (or another eligible dependant) who had little or no income and, therefore, could not claim (all of) the BPA. Each of these amounts is equal to your BPA, so the maximum amount is $14,398.[7] If your spouse or partner (or eligible dependant) had net income, the amount you can claim is reduced dollar-for-dollar because of the BPA that could be claimed by the dependant.

If you supported your spouse or partner at any time in the year, you may claim the spouse or partner amount, which will give you a credit with a maximum value of $2,160.

If you don’t have a spouse or partner[8] and live with an eligible dependant (such as your child, grandchild, parent, grandparent, brother or sister), you may claim the amount for an eligible dependant.[9] This credit also has a maximum value of $2,160.

Canada caregiver amount, line 30450[10]

You can claim the Canada caregiver amount if you have a spouse or partner, or another eligible family member,[11] who has a physical or mental impairment and depends on you for support. The Canada caregiver amount is reduced dollar-for-dollar by the dependent’s net income over $17,670. Although only one Canada caregiver amount is available on behalf of each dependant, in some cases the credit can be shared by multiple caregivers who support the same individual.

Claiming the Canada caregiver amount of $7,525 for 2022 for one dependant provides a federal Canada caregiver credit that, at rate of 15%, would yield tax savings of $1,129.

Note that if you claim the spouse or partner amount or the amount for eligible dependents, the Canada caregiver amount is limited to $2,350, so a 15% credit would only provide savings of $353.

Home Buyers' Amount tax credit, line 31270

The Home Buyers’ Amount provides a 15% non-refundable federal credit for first-time home buyers. To qualify, you or your spouse or partner must not have lived in another home owned by you (or your spouse or partner) in the year or in any of the four preceding calendar years. The credit is calculated as 15% of the base amount. For homes purchased on or after January 1, 2022, the base amount was increased to $10,000 (from $5,000 in 2021), yielding a maximum tax credit of $1,500. These funds may help you pay the extra costs of buying a home, including closing costs, legal fees, transfer taxes and inspections

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7 The amount (and related tax credit) is reduced with taxable income over $155,625 and is eliminated with income over $221,708.

8 You can also claim the amount for an eligible dependant even if you did have a spouse or partner but were not living with, supporting, or being supported by that person.

9 Your eligible dependant must live with you in a home that you maintain.

10 The Canada caregiver amount may be claimed on other lines in your Tax Return if you claim the you claim the spouse or common-law partner amount or the amount for eligible dependents.

11 Qualifying relatives include your or your spouse's or partner's child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece, or nephew. They must rely on you to regularly and consistently provide them with some or all of the basic necessities of life, such as food, shelter and clothing.

Home Accessibility Tax Credit, line 31285

The Home Accessibility Tax Credit provides a 15% non-refundable credit for eligible home renovation or alteration expenses made for an individual who is at least 65 or is entitled to the Disability Tax Credit. The amount eligible for the credit was doubled to $20,000 (from $10,000) effective for the 2022 tax year. This increase will provide more support for significant renovations such as building a bedroom or a bathroom on the main level of the house for an individual with mobility challenges accessing other floors of a home.

Allowable medical expenses, line 33200

You can claim a federal credit for total medical expenses that exceed a minimum threshold, which is the lesser of 3% of your net income or $2,479. Common eligible medical expenses include fees for doctors, dentists, qualified therapists or other medical practitioners, prescription medication or eyewear, and hospital or medical laboratory services.[12] The list of eligible medical expenses has been expanded to include a variety of expenses individuals may incur to become parents in the areas of surrogacy, sperm, ova or embryo donations.

One commonly-overlooked expense is out-of-pocket costs for medical and dental insurance plans. Although amounts are not eligible if they have been reimbursed (such as by a health insurance plan), you can claim amounts paid within any 12-month period that ends in the tax year.

For example, suppose you had medical insurance premiums, prescription medications and eyeglasses, and some visits to therapists for an aching back, that totaled $2,500. If you had net income of $50,000, you could claim a tax credit for your expenses that exceed $1,500 (which is 3% of $50,000), so you would have $1,000 of allowable medical expenses. You could, therefore, claim a tax credit worth $150 at a rate of 15%.

Charitable donations and gifts, line 34900

A tax credit is provided for donations and gifts to qualified charitable organizations, including registered charities, and public or private foundations. A federal tax credit of 15% applies to total gifts up to $200. For the amount of total charitable gifts exceeding $200 in a tax year, the federal credit rate is 29%.[13]

If you made charitable gifts of $1,000, your federal tax credit would be $262 ($200 x 15% + $800 x 29%).

Disability amount, line 31600

You can claim the disability amount if a medical professional certifies on Form *T2201 – Disability Tax Credit Certificate* that you had a severe and prolonged impairment in physical or mental functions. The disability amount is $8,662.[14] You may also be able to claim a disability amount that would otherwise be claimed by another individual (such as your spouse or partner, child or parent) to the extent that the individual does not need to claim the disability tax amount to reduce taxes payable to zero.

At a tax credit rate of 15%, the disability tax credit would be worth $1,299.

Tuition amount, line 32300

If you were enrolled in qualifying post-secondary education, you can claim a federal tax credit based on the amount of tuition that you paid. If you do not have sufficient income to use the credit in the year of attendance, up to $5,000 can be claimed by your spouse or partner, or a supporting parent or grandparent. You can carry any remaining amounts forward and claim the credit in a future year.[15]

If your post-secondary tuition was $1,000, your tax credit would be $150 ($1,000 x 15% rate).

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12 Qualifying medical expenses can differ from province to province. A list of authorized medical practitioners for the purposes of the medical expense tax credit is available at canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-33099-33199-eligible-medical-expenses-you-claim-on-your-tax-return/authorized-medical-practitioners-purposes-medical-expense-tax-credit.html.

13 The federal credit rate rises from 29% to 33% for total gifts over $200 to the extent that your taxable income exceeds $221,708.

14 The disability amount is allowed federally and in all provinces except Quebec, where an “amount for a severe and prolonged impairment in mental or physical functions” can be claimed.

15 Education and textbook amounts were also available before 2017. To the extent that these amounts were not claimed in previous years, they can still be carried forward and claimed by the student in the current year or a future year.

Dividend tax credit, line 40425

When calculating your taxable income, you must include 138% of eligible dividends from Canadian corporations (to approximate the income earned by the Canadian corporation) and you can claim a federal dividend tax credit of 20.7%[16] of eligible dividend income.

If you had eligible dividend income of $1,000, the value of this credit would be $207 ($1,000 x 20.7%).

Non-taxable portion for capital gains, Schedule 3

Unlike interest income that is fully taxable, only 50% of capital gains (less capital losses) are included in your total income on Schedule 3. The remaining 50% is excluded from income and tax is saved at your marginal rate on this excluded half of net capital gains.

Suppose you had net capital gains of $1,000 from the sale of shares. Only half of this amount ($500) would be taxed so you would pay tax of $102.50 ($500 x 20.5%) on the capital gain. If instead you had earned interest income of $1,000, you would have paid tax of $205 ($1,000 x 20.5%). The tax savings from earning capital gains in comparison to interest income would, therefore, be $102.50 ($205 - $102.50.)

If you sold securities in a foreign currency, the gain or loss may be larger or smaller than you anticipated once you take the foreign exchange component into account. For example, suppose you bought shares of a U.S. company for USD$10,000 when the U.S. dollar was at par with the Canadian dollar. In 2022, you sold the shares for USD$9,000 when exchange rate is USD$1.00 = CAD$1.35. In U.S. currency, there would be a capital loss of USD$1,000 (USD$9,000 minus USD$10,000.) For your Canadian Tax Return, you'll need to convert purchase and sale values into Canadian dollars, so there would actually be a capital gain of CAD$1,350 (USD$9,000 times 1.35 minus USD$10,000 times 1.00).

Pension income splitting, Form T1032

You and your spouse or partner can jointly elect to split your pension income if you each file Form T1032. You can deduct up to 50% of your pension income if it qualifies for the pension amount, provided your spouse or partner adds this same amount to income. This pension income splitting technique has value when you receive pension income and have a higher marginal tax rate than your spouse or partner.

Suppose you receive pension income and have a marginal tax rate of 20.5%, while your spouse has a 15% marginal tax rate. The net tax savings from splitting your pension income would be 5.5% (the difference between your 20.5% marginal rate on the pension deduction and your spouse's 15% marginal rate on pension income). The value of splitting $1,000 of pension income would, therefore, be $55 ($1,000 x 5.5%.) If you paid tax at the top marginal rate of 33% and your spouse paid tax at the lowest marginal rate of 15%, your tax savings would be 18% (33% - 15%) or $180 per $1,000 of pension income that you split.

Pension income splitting may also help you prevent the loss of income-tested benefits, such as the Old Age Security (OAS) pension or the age amount, by lowering your income below the recovery (clawback) threshold. For example, in 2022 OAS benefits had a maximum of about $7,930 ($8,335 if you were age 75 or over) and were clawed back at a rate of 15% with net income exceeding $81,761.

Canada training credit (CTC), line 45350

Starting in 2019, eligible individuals started to accumulate $250 per year towards this credit, which can reach a maximum of $5,000 after 20 years. The credit can be claimed for certain tuition and other fees paid. If eligible, you can claim the lesser of half of the tuition and other fees paid, up to your CTC limit for the year. For 2022, the maximum CTC limit would be $750.[17] The CRA indicated that your CTC limit will be available on your notice of assessment as well as through the CRA's My Account portal[18].

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[16] Calculated as 6/11 x 38%.

[17] Calculated as $250 for each of 2019 to 2021 inclusive, assuming you resided in Canada throughout each year, were over age 25 and under age 66 at the end of each year, and have not previously claimed the CTC.

[18] "My Account for Individuals" is available online at canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html.

Calculating your tax refund or tax payable

You calculate your federal tax on page seven of the Tax Return. The non-refundable credits calculated on page six are deducted, along with various other credits like the dividend tax credit and the foreign tax credit, to arrive at net federal tax on Line 42000.

Finally, you calculate any refund or balance owing on page eight of your Tax Return.

Filing your tax return

The deadline for filing your 2022 Tax Return is May 1, 2023 (or June 15, 2023 if you or your spouse or partner are self-employed). The balance of any taxes owing for 2023 must be paid by May 1, 2023 to avoid interest or penalties.

If you expect to receive income-tested benefits, such as the Goods and Services Tax Credit (GSTC) or the Canada Child Benefit (CCB), it's advisable to file your tax return by May 1 to help ensure your benefits can be properly calculated in time for 2023-2024 program payments that begin in July 2023. It's also a good idea to file your tax return as soon as possible if you're expecting a tax refund.

If you owe money on your tax return, you can use the "Proceed to Pay" button located in the CRA's My Account portal to make a secure and quick payment.

Once you've filed your return, the CRA will allow you to access your notice of assessment (NOA) instantly in the certified tax software, right after your return has been received and processed by the CRA, seconds after filing. Otherwise, a formal NOA will arrive within two weeks of filing an electronic return and within eight weeks of filing a paper return, or you can view your NOA using CRA's My Account portal.

Amending tax returns for previous years

You can see that valuable tax savings can be realized by claiming tax deductions and credits. But what if you didn't know about these savings or forgot to make claims in previous years? You can still remedy the situation by filing Form *T1-ADJ – T1 Adjustment Request* for any of the ten previous tax years. In this form you report the amount of the deduction or credit that you originally claimed (zero if no claim was made), along with the revised amount that you are claiming. You can also use the Change my Return feature in the CRA's online My Account portal.

If you prefer, you can request that an adjustment be made to current or prior year tax returns by using ReFILE, an online service that lets you and your EFILE service providers to send online adjustments for your tax returns with certified NETFILE and EFILE software. You or your EFILE service provider can use ReFILE to send adjustments for 2019, 2020, 2021 and 2022 returns. But be sure to wait for your NOA prior to using ReFILE.

CRA will process your request and, assuming the deduction or credit is allowed, will issue you a refund for the tax that was overpaid.

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