Tulett, Matthews & Associates

2022 Tax Tips – With Life Long Expert

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Keith: Welcome to the Empowered Investor. My name is Keith Matthews and I'm joined by my colleague and guest today, Hugh Campbell. Hugh has held a senior management role at Tulett, Matthews & Associates for 28 years. He's also been doing personal and small business income tax for over 25 years. He graduated from McGill University in neurobiology and physiology and later completed a diploma in accounting at McGill before completing his CA. Hugh has a tremendous office personality, is a team favorite, and always makes clients laugh. Hugh, welcome to today's episode.

Hugh: Thank you.

Keith: So listen, Hugh, you got to explain to our listeners. How does somebody in neurobiology become a CPA?

Hugh: It's like everything in life. Sometimes somebody steps into your life, a mentor. I had a mentor, and he came to me and he said in my last semester at McGill in neurobiology, "So what are you going to be doing?" I said the one thing I am going to do is I'm going to work. I'm just fed up with school. I'd done all schooling since I was a young lad, and so it was time to move on. So, he said, "Why don't you try accounting?" I said I have no idea of accounting as my training in science. Anyway, he introduced me to Price Waterhouse. I went to Price Waterhouse, and that particular year was an unusual year for Price Waterhouse because they were looking to round out their personnel by having people of varying backgrounds. They were hiring engineers, people with science degrees, BAs, just to be able to better reach out to their clients with a diverse professional staff. And they hired me. The one thing I did want to do is go on in school, but on being hired by Price Waterhouse, I needed to have a background. So I had to do a series of courses to qualify to write the CPA exams. So I did night school for five years while working at Price Waterhouse full time.

Keith: Wow. That's a grind. What did you start doing at Price Waterhouse? Did you do the audit and that sort of classic trail?

Hugh: At that time, Price Waterhouse was separated into various groups. And I got the luck of the draw, I think, really for myself because I was put into the small business section of Price Waterhouse handling small and medium-sized clients, so I got introduced to a whole bunch of different varieties of businesses, different types of industries. And one of my things, even in science, has always been my curiosity. So it was great to satisfy my curiosity

because I was never stuck doing a Royal Bank audit for three or four months in a row. I'd work on a client for a week or so, then on to the next client, and the next client. So it was great. Plus, I got to handle corporate taxes as well as personal taxes through small business, whereas other groups were strictly audit, and they rarely handled those other kinds of features. They had specialists who would handle it.

Keith: Okay. And so what do you find most rewarding about working with small business owners and doing personal income tax for individuals?

Hugh: The one thing that worked out well for myself in the end is you get to meet lots of different people with varying backgrounds, varying interests. I've found that very stimulating, meeting different people with different needs and trying to help out where you can.

Keith: One thing's for sure, you have an amazing reputation for trying to help people, Hugh, so kudos to you for that.

Hugh: Thank you.

Keith: We're going to jump into some of the details of this tax discussion. It's going to be broken down into a variety of sections. We're going to look at the basics of tax returns for working Canadians, tax returns for retirees, and general tax return issues. We're also going to wrap up the show later with what you think can happen to make the process better and then finally get your reflections and thoughts on tax. Let's jump in. The basics of tax returns. Why file a tax return on April 30th if you live in Canada and you're a Canadian citizen?

Hugh: That's a good question that everybody has to deal with because the issue in Canada is that it used to be to pay taxes for the general good of the country, but now tax returns have evolved well beyond that. Now they're involved in social benefits. Until you file a tax return, you will not be entitled to certain social benefits. For instance, a senior will not get his old age security if he doesn't file a tax return. An 18-year-old or a 20-year-old who's entitled to either a GST credit or a solidarity tax credit in Quebec will not get it if they don't file a tax return. Similarly, for parents, low-income families who are getting child tax benefits, they won't get the child tax benefits if they haven't filed a tax return. So filing a tax return will entitle you to other social benefits.

Keith: Okay, so it's a trigger. What happens if you file late? There are a lot of Canadians that unfortunately can't make or don't make the April 30th date. What happens?

Hugh: There can be various reasons for that. Some are legitimate reasons because maybe you're missing some information. Laziness does happen to be one. I run into that every year. So I file people for three or four years or five years worth of tax returns all at the same time. Being late has a terrible consequence from the perspective you lose your benefits. You don't get your benefits paid to you. Especially if you're low-income, that's not good news. But for the people that happen to owe tax in any one year, by not having that filed on time, you have immediately a 5% penalty. Plus, from the date that the tax return is due, April 30th,

from that point onward, you're attracting interest compounded daily. In Quebec's case, in particular, it's 9% interest compounded daily. Federal's a little bit better.

Keith: When you say 5% penalty, is that 5% on the outstanding balance?

Hugh: Yeah. That's to start with. And you will get a letter from the tax authority saying, "Look, we want you to file. We want you to file." If you ignore those letters, the penalty increases. It can get up to a 12% penalty for having filed late. So every circumstance is different. And unless you have a very good excuse, you can have significant penalties and significant interest consequences.

Keith: Of course. So you would be recommending everybody do their absolute best to file on time. In Canada, why is it best to file together? And can you explain why spouses must file together and what makes that trigger point happen?

Hugh: We have an integrated tax system where, in particular with spouses, certain deductions and certain income levels are shared and used mutually in order to determine benefits. For instance, the wife files her tax return while the husband hasn't. If they have young children, they're not going to get their child tax benefits because it's dependent on family income, based on tax returns. If one spouse doesn't file, the tax benefits you'd be entitled to for the child tax credit you're not going to get. Certain other situations may arise with older people as well, right? For instance, this year, for the first time, Quebec is getting very generous with seniors over 70 years of age. A senior over 70 years of age at a low-income level, let's say $30,000-$40,000, may be entitled to a tax credit of up to $4,000 as a couple. If both spouses file, great, but if they don't file, you're not going to get anything because the spouses who are interconnected on the tax system haven't filed their tax return. So you're foregoing a social benefit by not filing your tax return. It's absolutely critical to file a tax return to entitle you to the social benefits. Both spouses also share different deductions. For instance, the tax system that we use optimizes where it is best to put all your medical expenses on the lower-income spouse, the higher-income spouse, all this stuff is optimized based on filing deductions and then returns simultaneously. Also, again, with children who may be in university, if you're paying the five, six, seven, eight thousand dollars or more for a university education, there's a transfer that can take place of some of the tuition fees from that child who files a tax return to claim them onto the parent who's actually paying for the tuition fees. But again, if the child doesn't file and it's not integrated with the parent's return, the parent doesn't get a benefit. That's a big problem. So I often find that there's kids who will go ahead and file their own return on their own. That sounds great. It's good to be independent. But the problem is they don't tick off the right boxes so that a parent may be entitled to actually receive a transfer of the tuition credit. And so the parent loses the ability to have the tuition credit all unless everybody files and then returns after the fact.

Keith: And on that note, a lot of Canadians, especially in Ontario and the Western provinces, are paying anywhere from eight and the Maritimes anywhere from eight to twelve thousand in tuition or more. Can you explain how and when a couple is supposed to file taxes together? And is it around common law?

Hugh: With marriage, there's no choice. The day you become married, you should be filing together. With common law, that's a legal issue to some degree. Again, though, it depends on the circumstances. Once you have children, you have to file together to be able to get the benefits that you would be entitled for child tax credits and stuff like that. Every circumstance is different. If you're living together, no children, you have a bit of leeway, a bit of choice there. You have to sit down with your accountant and make up your mind what you're going to do. But for the most part, most provinces recognize that after you've lived together for 12 months, you're considered a common law couple for legal purposes as well as tax purposes, and you should be filing a common set of tax returns at that point.

Keith: Okay. Excellent. Thank you. And the next question in terms of tax preparation, can you walk us through CRA downloads and how that actually works? Because that's something that's new, I think, in the last how many years now have they been around?

Hugh: About 10-15 years now. The downloads assume that a couple has sat down with you or the individual has sat down with you and said, "I want you to be my representative with CRA or Revenue Quebec, whatever the case may be." When you sign the appropriate paperwork and that paperwork is filed to the tax authorities, it gives the tax preparer access and rights to certain documents on your behalf. One of the things is to be able to download from CRA and Revenue Quebec information that they have available on their systems for your tax return preparation. It makes tax return preparation one heck of a lot easier to be able to download that information. It allows us to make sure all of the information you've provided is complete. It's amazing how often somebody will give us, in Quebec, the T4 and forget about the RELAV1, the Quebec version of that. So we don't have the Quebec tax, but on the download, I have that information.

Keith: What information is in the download? There's income?

Hugh: So the download provides a number of different things, especially with Revenue Canada. It provides the T slips that are available through Revenue Canada on their system. Depending on how the source of those T slips is filed, they think it'll be available on Revenue Canada. So you get T slips available. RRSP information is made available only after March 31st for most of the banks and financial institutions. The government account will also download what you've paid for installments, what your RRSP eligible room is, whether or not there's a debt outstanding with Revenue Canada. So there's a number of pieces of information that are downloaded. Also, on top of that, because you have representation status, I can go online into your account with Revenue Canada or Revenue Quebec, and I can see what other pieces of correspondence are outstanding between you and the government or other matters that may be outstanding such as your TFSA room. I could see that. So there's different pieces of information made available that would help in trying to prepare and analyze your financial situation moving forward to give you the best possible results.

Keith: How about interest and dividends off of investments that are in a non-registered account held at a bank or financial institution in Canada? Can you download those as well?

Hugh: Yes, you can. And again, it depends on when the institution makes that available to Revenue Canada. As soon as they make it available to Revenue Canada, it's loaded onto the Revenue Canada database, then it's available to the tax preparer. That can take quite a while. Some institutions can take up to the end of March or even early April before that information is made available to CRA and in turn made available to tax preparers and their clients.

Keith: The reality of what's happened, I find it fascinating because I've been in the financial services industry for 30 years now. No matter where you have investments, no matter where you have income, chances are that it's being reported back to the government by either your employer or your financial institution. There's nowhere to hide. Everything gets flushed out.

Hugh: And it's getting stricter as well. Revenue Quebec requires that all institutions, for instance, record if there's a trade that has taken place in a marketable security. They want to know what was traded, how many units were traded. The actual dollars they're not too concerned about. They pick that information up later. You got a chance to put in the correct information, but they report the fact that, "Hey, you sold 500 shares in Bombardier." They'll look at your tax return. "Why doesn't it appear in his tax return? That should be there." Other things that will happen as well is Revenue Quebec in particular will look at the registry records of home sales. And they will see, "Oh, Mr. and Mrs. H sold a property, whether it be land, a cottage, or a house. They sold it on this particular date. How come that information is not on their tax return?" By law, it has to be there. All this stuff is being picked up and being dealt with by the tax authorities. And if you don't handle it correctly in your tax return, you're going to have a problem.

Keith: So you mentioned Revenue Quebec. I know that we do taxes for clients in Ontario, for British Columbia, and various different provinces across the country. What's the main difference between doing income tax in Quebec for our Quebec clients and doing income tax for Ontario, Maritime, Western, BC provinces?

Hugh: The biggest problem is we have to use two separate tax returns, a federal return and a Quebec return. All other provinces, that's combined in one return. Provincial information is combined on your federal return, so it makes it so much simpler. But the problem with Quebec is really socialized income tax returns. So there's a whole bunch of other things that have to be included in your tax return. For instance, they have what is called the Solidarity Tax Credit for low-income individuals. An individual is up to about $55,000-$60,000. On a tax return, they expect to see a record of, "Oh, you own a property? There's a 15-digit municipal code that must appear in your tax return." "Oh, you don't own but you rent? Oh, okay. Then each year you're required to receive from your landlord what is called a 31 slip. And there's again a 16-digit code on that slip, unique to that year, that must be embedded on your tax return. If it's not there, you will miss receiving the social benefit for a solidarity tax credit, which is basically a computation that gives you a refund of municipal taxes on your rental dwelling plus a credit towards provincial taxes."

Keith: Essentially, what you're saying is that Quebec taxes relative to non-Quebec taxes are a little bit more complicated and take a little bit longer to do.

Hugh: Oh, heavens, yeah. And it applies to seniors as well because there's all sorts of deductions available in Quebec unique to Quebec, not seen elsewhere in Canada. And you have to have a whole bunch of information, like for seniors' residences, there can be a long one-page form that has to be filled out by the taxpayer to entitle a person to a homeowner's credit on their tax return covering things like nursing care, maintenance of a dwelling, other services that are personal like cleaning services, a whole bunch of things that enter into it for seniors. So all that information has to be embedded in the tax return.

Keith: Fair enough. Listen, Hugh, thanks for that section. That was the basics of tax returns. And again, for our listeners, this podcast is not intended to be a full comprehensive overview of every single tax component for all Canadians. This is just too many of them. You should absolutely consult your accountant or read up if you're doing your own tax return to ensure that you're doing the specific issues correctly. But Hugh, let's switch gears now and let's have a discussion on working Canadians. So Canadians that are not retired, that are currently working of all different ages. And since we just finished the RRSP season, I thought it'd be good for us just to take a few secs and chat about the value of an RRSP for retirement and tax. From a tax perspective, what does an RRSP provide as a deduction and how does it work? And what are your thoughts around the RRSP?

Hugh: The RRSP program is a long-term program. It's there to accumulate monies on a tax-free basis and get a tax deduction in your higher-income years. The idea is to set aside money, get a tax break in your early years so that you can support your lifestyle on the day you choose to retire, and also to help out with other things. So people usually think about RRSPs for lifestyle needs when they retire. That's true. That's the basic pennant of RRSP. But the RRSP can also be used for other things as well, such as you have extraordinary medical costs when you're a senior. You have a couple, one of them has Alzheimer's or one of them has some serious disease like COPD, and they have various needs that they have to pay a cost for. It's not covered by the Medicare system. And those hospitalization costs, where are you going to get the funding from? Part of it you can get through your RRSP money that you set aside for your senior years. It's a lifestyle thing, but it's also to some degree an emergency fund when you retire to cover some out-of-pocket costs, extraordinary costs that you would never have anticipated while you were younger.

Keith: Are you allowed to take out an additional amount? I guess on RRSP, you can take out money anytime you want, but do you get an additional credit because of that disability?

Hugh: It could be a disability, but it could be just a plain medical cost. For instance, now we have problems with hospitals. So you see some seniors saying, "I don't want to wait one year to have the medical procedure done. I'm going to pay for it myself out of pocket." That can be funded by money withdrawn either from your RRSP or, if you're over age 70, from the RIF that was created from your RRSP.

Keith: But do you get a special benefit? Do you get a special deduction off of that?

Hugh: You don't get a special deduction from the RRSP. The medical cost gives you a credit that could be applied against the extra tax burden created by withdrawing the RRSP or RIF monies.

Keith: Fair enough. And I guess everybody has always grown to know the RRSP as a retirement funding mechanism. And the classic logic is determining whether you do an RRSP or a tax-free saving account. Hugh, do you have any comments on what's the tipping point? What makes one better than the other based on a tax rate?

Hugh: There's very few points in the matter, but I guess the general consensus is one determined by your income level. So if you're at an income level of $30,000 to $35,000 a year while you're in your savings years, you're almost indifferent as to whether you put money into a TFSA or an RRSP. Your accountant can help make that determination, show you why you would be indifferent. So it's people from very low incomes that you're different. As you get over $50,000, definitely the tipping is towards putting money into your RRSP and deferring the tax until your retirement years.

Keith: Yeah, absolutely. And typically, the planning component is if you have higher taxes during your working years versus the tax rate of your projected retirement years, higher first, lower retirement, then you do RRSP. If you have the inverse, lower, and for some reason you're going to have a higher expected income tax, then you would favor the the tax-free saving account, regardless, either one, most higher-income individuals should definitely be doing the RRSP. And as you mentioned, it's income over $50,000. And then, of course, the trick is when you get your refund to do one of three things: get your refund and either reinvest it in next year's RRSP, invest in a tax-free saving account, or pay down a mortgage. What do you see most people doing with tax refunds?

Hugh: Most people love, I remember having one client, he wanted his tax refund. He said, "Do not tell my wife. I use my tax refund every year to buy new golf clubs." That was his thing. He would buy a golf club. So I was allowed to tell his spouse if he got a refund. Sometimes people spend on what some of us would consider frivolous things maybe, but that's life. The one thing I meant to mention on RRSPs and TFSAs as well, part of it, there's a whole integrated thing that takes place. What's your spouse do? What's their income level? Do you have a private pension plan? All these factors into whether it's TFSA or RRSP as well. Those are other considerations. You sit down with your tax preparer and you work those details out.

Keith: Fair enough. And that's one of the nice things that we love here at our firm is that we have internal tax, Hugh and Edmund, and we do planning, and we do portfolio management. So it's very rare to have that tax service inside a portfolio management firm. And like you just said, when clients come and talk, you're talking about tax questions, you can integrate it with planning and investment. I'm a firm believer that especially in the younger years, those refunds need to be reinvested back into either paying down mortgages or adding to tax-free or adding to future contributions because otherwise, you're really not saving as much as you think you're saving.

Hugh: If you have personal debts, you're carrying personal debts, and personal debts are things like credit cards, automobile loans, and the like. Sometimes lines of credit as well. You've got to get rid of those as soon as possible. They are a burden. They are a burden, and they should be avoided as much as possible.

Keith: A hundred percent. So listen, Hugh, let's talk about another brand new account that's coming out, and it's not really live yet, it's coming out in April, I believe, of this year. The tax-free first home savings. A mouthful. Financial institutions will be setting up brand new accounts. And they're intended for homebuyers, first-time homebuyers. Let's take a little bit of time here. And I know that all the details are not 100 percent out, but let's just go through some of the basics. What are your thoughts about this and the general mechanics around how it works?

Hugh: There's still lots of thought to be put into these things. It's brand new. It's going to be interesting to see how you integrate the new plan with TFSAs and the regular RRSP stream as well. But every couple is going to be different. No two people are going to be alike, so it's hard to generalize. And it also depends, are you married? Are you living together with somebody? What are your plans and goals as a couple? Is homeownership really important to you? And if it is, you have to look at your options. How can you best save towards acquiring a home then as a couple? This new plan given by the government, it's quite intriguing, the options that it offers you. Again, because you get a tax break in the planning process.

Keith: So take a moment, hang on, take a moment, Hugh. You get a tax break. What does that mean?

Hugh: So what they're saying is that each year you contribute towards the ultimate limit, which is $4,000 up to $8,000 a year. And so you get a tax deduction on your tax return of $8,000 in a year. There's a little mechanism whereby if you skip a year, maybe the following year you may be able to contribute $16,000 on your tax return. The other thing is it is possible that you could put aside the money of $8,000 per year into the plan, or however amount you put into it, but not take the deduction away because you have insufficient income to deduct it. So you can defer the deduction a year when you have more income to make a better tax break.

Keith: So you're speaking about two real important subjects here. One is the deduction. So you put $8,000 in, and if you're in a 40 percent marginal tax bracket, you're going to get $3,200 back in your tax return. That $3,200 can be used to either add to your RRSP, add to your tax-free, get ready for your next payment in your tax-free saving account, first home buying plan, or pay down debt. So there's a lot of benefit to that. I could also see this being used by certain parents who are trying, for example, to maybe contribute and help their adult kids while even they're still in university because there might be able to make that contribution but allow the deferral of the deduction to occur into the future when the university student has a higher income three or four years after graduating. In some of the research I've seen, you're able to do a tax-free first homebuyers plan along with the RRSP homebuyers' plan. You can combine them. If you're a young couple and you're saving

diligently in your 20s and early 30s, technically each could get $40,000 into a tax-free first homebuyers plan and each can get $35,000. So technically you could save up to $150,000 towards a down payment of a home, which is more sizable down payment than one would have thought of 7, 8, 9 years ago.

Hugh: Yeah, and the nice thing is in the tax-free homeowners, there's no consequences at all. You take it out, you don't have to ever repay it, whereas on the RRSP side, it's called a homebuyer's plan. You take it out, but you must repay it or there's a tax consequence in future years.

Keith: Absolutely. All right. Let's keep the conversation going here, Hugh. Let's talk a little bit about interest deductibility, and that can occur on investments, real estate if it's an investment real estate, and or businesses. Do you have a few comments on things people should look out for or at least be aware of?

Hugh: Yeah. There's some problems there for some individuals that we've seen over the years. Some will take out a lot of credit for investment purposes, but then they use that same line of credit to buy cars, furniture for the patio, improvements for the house, for a swimming pool. And so they mix the proceeds of the loan with proceeds that have been used for investment purposes. Now you've gummed up the works, and now you've got a problem with what are you the interest expense? And the government can look at it and say, "Look, this loan, you've used the proceeds for so many things, forget it. The interest deductibility is not there." So you got to keep it pure. So make sure that there's a pure link between the interest, the loan that you've incurred, the interest cost, a pure link between that and the investment that qualifies it, whether the investment be stock market or real estate.

Keith: Okay. Keep it clean. Keep it pure. Segregate.

Hugh: Yeah.

Keith: Create different baskets. What are some of the other things that you've seen that you'd want to speak about for deductibility of interest?

Hugh: I guess you have to set your goals properly, and you and your wife will have to agree on certain things because certainly when you have an interest obligation, it ties your hands from doing other things. There's risks in everything. There's nothing like taking a huge mortgage out on an investment property, the tenant turns out to be a flop, and now you're stuck. You have to still pay the interest, but you haven't got income coming in to cover it.

Keith: Does that create a problem if you don't have income coming in? Can you deduct the interest?

Hugh: You still be deducted, but that's not your problem. Your problem is it puts a strain on your overall finances because you were planning on income coming in to cover it. Now you don't have the income coming in, so you've got a cash flow issue. So I'm not, it's not a tax

issue, but it becomes a cash flow issue. We should combine with certain tax problems on the investment side is it can even be worse. For instance, you buy a cryptocurrency for a hundred thousand dollars or marijuana stock or some other speculative type of investment, and suddenly three years later, it's gone. You have nothing now because you have no expectation to earn income from the proceeds of that loan. The interest may not be tax deductible. So remember the tax department, the way it works, you have to have an expectation to earn income to have a deduction. So if you have a deduction but no expectation of income, the tax department is well within its purview to say that interest is not tax deductible.

Keith: You know what, Hugh, that's very interesting. I did not know that. So you're saying if you're speculating in investing and you borrow money to speculate, you obviously think that you're going to get the deduction on interest because you're investing. You speculate, you lose a lot, you might lose everything. Thereafter, you're not going to get that deduction potentially.

Hugh: That's a good possibility. Yeah.

Keith: Wow. Okay. So obviously that's something that needs to be really looked at carefully. And of course, with higher interest rates where they're at right now, lines of credit are coming in, homeowner line of credit, prime is coming at 6.7 percent right now. It's quite a bit different than the 2.45 of a couple of years ago. So check with your accountant to make sure that interest is deductible. Make sure that you safeguard yourself.

Hugh: I thought 6 percent was a pretty reasonable rate, Keith. When I, my wife and I first bought our first home, it was a 19.5 percent interest rate. I never paid a mortgage less than a 10 percent interest rate. So it's all relative.

Keith: You sound like such a boomer right now. Listen, this is the last question we're going to ask for individuals that are currently working, and it has to do with home office deduction. Obviously, there's more people working from home than ever before. What are some of the do's and don'ts around home office deduction that you'd like to tell our listeners?

Hugh: Depends on the home office because of self-employment or because your employer has asked you to work at home. Those are two different scenarios, two very different scenarios. So in the case of self-employment, as long as you've dedicated a space within your home for your office and work needs, then whether that's square footage relative to square footage of your living space, that will entitle you to a deduction. But also the nature of your earnings is very important as well. Is it commission-based or is it just straight income? Because there's limitations on certain expenses that can be deducted. You may not be able to deduct mortgage interest, for instance, in certain situations. Other situations, you will be allowed to deduct a portion of your mortgage interest. And then, of course, in the situation where your employer has required you to be at home, you have to get a form signed by your employer saying, "Here's what we required of the employee and here are the expenses we required him to cover out of pocket." So that if the employer says, "I paid him

for a cell phone," then forget deducting your cell phone or internet because your employer said, "I've compensated for that." On the salary side, things like mortgage interest is not tax deductible, only things like your insurance, certain maintenance costs, your taxes, but those things will go into the calculation. And then on top of all that, on the salary side, it's not usually a huge credit. It depends on the size of your house and how much you're paying for different things. Right now, the last three years of the pandemic, people have been allowed to say, "Oh, you don't have to have any kind of documentation other than your employer agreeing that you've worked at home. You can deduct two dollars a day or up to five hundred dollars, 250 days, deduct that as home office expenses." Sometimes that's the simplest way to go because any other way you have to document exactly how you calculated your home office costs.

Keith: Okay, and is that concept still allowed today for 2022?

Hugh: Yes.

Keith: Okay, interesting. Two dollars a day for up to 250 days. Very nice. Very good. Thank you, Hugh. Let's switch and go to the retiree market and have a discussion around seniors and tax returns for seniors over the years. What do you feel is the most important matter for the vast majority of seniors?

Hugh: The biggest change the government's made for seniors was income splitting. As long as they file a tax return together and sign a declaration saying because so often with seniors, one or other of them did most of the work, had a pension plan, has the pension income coming into them. They can now share that with their spouse who has a lot less income for tax purposes so they can split their income for tax purposes. That's a big change, a big advantage. And that's where filing tax returns this year is very important together. You can have income splitting. So I've seen some save nine, ten thousand in tax by that.

Keith: Yeah. So the income splitting has been around 15 years now, 18 years?

Hugh: Yeah.

Keith: Because prior to that, it was a very different world without that splitting component. What are the most important credits for, and I know this is a sort of opening up a major discussion because it just doesn't end depending on various scenarios, but what do you see are the most important credits?

Hugh: First of all, federally, there's a few different credits available to filing. Not a lot for seniors. They enhanced the old age security this year. So you get a better OE security, but it's dependent that you're a low-income senior. As long as you're a low-income senior, there's a benefit. Once you get over 60, 70 thousand of income, there's no benefit there because it's all clawed back or at least a good portion is clawed back. And then after 120,000, it's all clawed back. Quebec is a very interesting province to live in. They're very generous with seniors. And part of that is, of course, they want to make sure seniors are comfortable living at home and getting services at home. The reason for that is right now

the hospital systems are clogged with seniors who have no options but only a hospital to look after them, and it's clogging up our systems. So they're trying to find ways for seniors to be looked after properly at home, getting the help they need, and getting tax credits and other financial aid to them to do that. For instance, in 2022, there's a brand new credit available for seniors in Quebec. If you're over 70 years of age in Quebec and you're a couple, a married couple, and your income is under 50,000 as a couple, you can get a tax credit up to 4,000 this year. That's brand new this year for seniors. If you're a senior living alone, no husband because you're widowed or whatever, the credit can be up to 2,000 for a low-income senior. On top of that, there's a whole bunch of other things. So seniors that live in a condo complex, they get a special form, a certificate signed by the condo association that will entitle them to certain maintenance and repairs done by the condo as a credit on their personal tax return. Seniors that have their own homes, they can get credit towards costs such as lawn mowing, snow removal, gutter cleaning, window washing, a whole bunch of things like that could all go into an account whereby you get a credit for on your Quebec tax return. So there's lots of things offered for seniors in Quebec right now.

Keith: Is that not offered outside of Quebec?

Hugh: No, it's not as generous outside.

Keith: Fair enough. Here's a question that we're seeing a little bit more often. Clients come in or individuals ask us, "Listen, I'd like to gift my adult kids a little bit of capital, either to help on a home purchase or just to help them out a little bit." And they ask, "Is there a tax on the capital that I'm gifting my kids?" Do you want to respond and make a few comments?

Hugh: As long as it's cash. You can give all the cash you want to your children, no tax consequences. The same does not apply to marketable securities or other forms of securities or even out of pocket. Like, you can't just give them a house without there being a tax consequence. So anything else other than cash gifted to children has a tax consequence to the giver, not to the recipient, but to the giver.

Keith: What you're implying here is the giver has to pay the appropriate tax on the sale of the investment, pay that tax, and then they can gift the post-tax capital to their kids.

Hugh: Or in the case, let's say you say, "I'll give my kid the house." You can do that, but the giver better make sure they file the appropriate paperwork to say, "Hey, I've transferred titles from myself over to my children. It's a personal residence." So you can do that. The giver has to follow the appropriate paperwork or there's huge task consequences.

Keith: So the giver can give the principal residence as long as they declare that's been done.

Hugh: That's been done.

Keith: But the giver cannot give a non-principal residence, a vacation property, an investment property. If there's tax implications without covering off and finalizing those tax

implications, if they're still holding on to a principal residence, they have to pay up the tax, and then this capital gains consequence.

Hugh: Yes.

Keith: Okay. Is there any other point you'd like to raise with regards to tax returns for seniors, Hugh, before we go to the next subject?

Hugh: That's pretty good. That's pretty good. I think we'll go through it. Again, seniors, if they have any concerns, they've got to talk to their tax advisor and say, "Hey, look, I'm considering this. What are going to be the consequences? And can I do it without incurring a lot of tax on the thing?" They'll tell you.

Keith: Fair enough. All right. Thank you for that. We're going to move to the last section here on general tax issues, and that will have implications for individuals who are working as well as individuals who might currently be retired and are seniors.

Hugh: Sorry, we should go back to that one on the seniors. There is one other thing that seniors need to consider. The one major thing that all seniors must consider is unfortunately in life there are two things that are certain, as they all say, death and taxes. So it's going to happen with seniors, and seniors need to properly plan their affairs between each other. You need to have wills. You need to make sure the wills allow for the tax-free transfer of assets from the deceased spouse to the surviving spouse. People should not hooliganily say, "Oh yes, I give my RRSP to my children on death." And there's a surviving spouse. That would be usually a normal tract, a rollover. So you have to plan those things out as seniors to make sure you take advantage of the tax-free rollover mechanisms and don't penalize your estate and your surviving spouse because you didn't properly plan out the sharing of your assets and your will. Very important.

Keith: Thank you, Hugh. That is an excellent point. Excellent point. So if we move to the general section where these questions should be applicable to various different Canadians, let's start with when you pay tax, do you pay on income that's only occurring in Canada, or is it global income? Could it be income on foreign property? Could it be income on an investment account? Could it be income on anything that you have outside of Canada?

Hugh: So the Canadian tax system is based on residency. So if you're a resident in Canada for a particular year, all income from all world sources are subject to tax in Canada. Now you say, "I have double taxation because of my income earned over in Europe." There's a bit of relief on that in that you get foreign tax credits for taxes paid on that income in foreign jurisdictions. It's complicated, it has to be well documented, and you use a professional to do that for you. So there is relief of double taxation in those instances, but you must declare the income on your personal tax returns.

Keith: So you declare all income regardless of whether it's only in Canada, all worldwide income on your Canadian tax return.

Hugh: Correct.

Keith: Perfect. What's a T1135, Hugh?

Hugh: So the problem that all tax authorities across the world have experienced is that they've come to realize that we live in a global economy and people don't have their assets and their resources all in one legal jurisdiction. They have them spread throughout the world. It can be down in Central America, it can be over in Europe through inheritances and all this. And so things get very complicated. So people have tried to hide assets in other legal jurisdictions without paying the tax consequences associated with those assets and resources. So the governments of the world have come down hard. In Canada, one of the things they make people declare is you must record in your tax return a form called a T1135 whereby you report income or property owned in a foreign jurisdiction. So in other words, you may not be actually earning anything on that property for that year, but because it's a property that has the potential to earn, to have earnings, you must report the fact that, "Yes, I had a property, it was located over in XYZ country, and for this year, there is no income earned on it and there was no capital gain because I didn't sell it." As time evolves, as the property earns income, then you have to report the income, or if you sell it, you have to report the capital gain or loss and subject to taxes in Canada. If you do not, that's a problem.

Keith: Is there a sort of a minimum amount of investment value?

Hugh: In the case of Canada, they say it has to be anything over a hundred thousand dollars ACB. In other words, you paid more than a hundred thousand for it, then you must record it on a T1135.

Keith: And to be clear here, it's not one item. It's all of your assets that are overseas. The aggregated total.

Hugh: The aggregated total.

Keith: If it's higher than a hundred thousand dollars of cost, then you must report all assets.

Hugh: Correct.

Keith: So what happens if individuals don't report? Now I know there's two components to this, Hugh. There's obviously the short-term penalties that are incurred, but we've seen people approach our firm and they haven't reported things for 15-20 years and they got to go through disclosure. So can you comment a little bit on both?

Hugh: So we try to encourage everybody to be open about their things. And some people we've experienced in our own tax practice, people have hidden assets. Their spouse or themselves put money aside somewhere, maybe in Europe or Central America, and not report it because they didn't want to report the tax consequences. Okay. At a point in time, you repatriate that money to Canada. The minute the money comes back into Canada,

there's a report that goes from the banks to the government to say, "This person brought in more than 10,000," and that's a trigger to the government to say, "Where's that money come from?" It'll come back to you at that point. The government's got you. And if they write a letter to you saying, "You have to explain yourself," at that point, you face huge consequences, huge penalties, no relief costs are possible. They're going to take you for everything you're worth. There is a process whereby you can make a voluntary declaration. And that's getting harder to do now because the governments have given everybody the chance to make those voluntary declarations. But up until recently, you can make a voluntary declaration. "Okay, look, I had these assets over here. I haven't reported it correctly. And now I'd like to make a voluntary declaration." Usually, you engage a professional for that, or even a lawyer to protect your rights, and you provide the accounting that's necessary. And the government will consider everything and make an assessment on you what the consequences are that you've avoided for income tax purposes, and then they charge you the appropriate tax, interest, but no penalties. They may avoid penalties in those situations, but if they come to you first, you don't avoid the penalties.

Keith: And to be clear, we haven't worked with clients that we know that have explicitly hid things. We have in the past found out only after the fact that's occurred and often through a relative. And there are dire consequences for individuals that fit into that category. We, in fact, did a podcast, Hugh, about a year and a half ago with an outside expert by the name of Stephen Solomon on foreign disclosure. It is tricky, and you definitely need to hire specialized accounting and specialized law firms to go through that process.

Hugh: So the penalty, just the average person, the penalty for not declaring a foreign asset, and what is the foreign asset? "Oh, that's right. You told me that you have a stock savings plan with your company. That's a pharmaceutical company here in Canada, but it's really a U.S.-based company, pharmaceutical that gives you the stock benefits." It's amazing how people accumulate $100,000 very quickly through these stock saving plans through their employer. That's a reportable item on T1135. Once you exceed $100,000. So if you're not careful, you go over that limit and don't report it. The government catches it, you're going to charge a penalty. First of all, for not having filed a T1135, the penalty is $2,500 for each year that you have reported. So it can be quite a severe penalty, even though there's no taxes owed, because you haven't done the proper reporting, you're going to be penalized for that. So assets, foreign assets, can come from many different things. It can come from inheritances, it can come from savings you have abroad, which there's nothing illegal about it as long as you report it, or come accidentally through things like stock saving plans with your employer.

Keith: So in terms of the specific items that need to be listed, U.S. or international securities, stocks and or bonds, international property.

Hugh: And international properties are very interesting, Keith, because there's two types of international property. So a lot of people will say, "Oh, I have a condo down in Florida. I use it for personal use only." As long as it's for your personal use only, it can be worth a million dollars because it's used for personal use. There's no T1135 consequence. You do not have

to report that because it's a personal use property. However, you turn around to me, and I've had this happen with clients, and say, "Oh, I rented it this year. I rented it for $10,000." Ah, now it's no longer a personal use property. Now it's an investment property. You have to report a T1135 from that point onward until the day you dispose of that property.

Keith: That's a very good point, Hugh. So for all individuals that own property in the United States or in Europe or in Central America, as long as they use it for their personal use, it's okay. The second they rent it, it's got to be reported. That's excellent. Thank you. Let's keep on going. We've got a list here that we've got to get through here. This is all great stuff. Charitable donations. So I've got cash versus stock donations. And obviously, when we say cash versus stock, let's just talk about cash. What happens when an individual makes a cash donation to a charity and gets a tax receipt?

Hugh: Lots of concerns there. I see this every year. First of all, it has to be a cash donation to a charitable Canadian institution who gives you a valid Canadian charitable receipt. As long as you get that, you can deduct it on your federal and Quebec tax returns. No problem at all. But we have a lot of organizations now that go around and say, "Save our children," or something like that. It's not a charitable organization. It's just a non-profit that says, "Thank you very much for your donation," but it's not a charitable donation. You cannot deduct that for tax purposes. So you have to make sure if you're dealing with an organization that it's a Canadian charitable organization and it has a number for that. If they don’t have that number, you won’t get a deduction.

Keith: The other question you could ask is, can you provide a tax receipt?

Hugh: Yes, you can ask that. And the other thing as well, people saying it's on television all the time, "Oh, yeah, here's this organization. It's a charitable organization in the States," and you donate to it. That's great. However, you cannot deduct that in Canada because it's a U.S. charity. And in that situation, the only way you can deduct it is if you had U.S. source income, such as employment income or some other source of income from the United States. You can deduct it against that income, but you cannot deduct it against your Canadian sourced income.

Keith: Very interesting. Very interesting. All right. So let's look at the other option here, which is if you're an individual and you own a non-registered portfolio and you have stock in it, and the stock has a low ACB, so you purchased it many years ago and it's appreciated, but you also have cash. What are the benefits to giving the stock away instead of cash to the charitable institution?

Hugh: The issue with the stocks is that if either side will sell it first and make a cash donation, the issue is that you have a capital gains treatment, and you have to pay tax on capital gain. The government's allowed out of its wisdom to allow you to donate the stock itself, and so there is no capital gains treatment for you. So you avoid that, but you get a tax receipt for the fair market value of the security. So for example, you have a stock that's worth $10,000 and you bought it for $5,000. If you decide to give the cash equivalent, you have to sell the $10,000. You have a capital gain of $5,000. You have to pay tax on the

$5,000. Or you can donate the stock. You donate the stock, there's no capital gains treatment, so you avoid that tax issue on your personal return, but the tax receipt you're going to receive from the charity is for $10,000, and you can deduct that as a capital donation. So you've done two things before the tax consequence for the capital gain, and you got a tax break on the full value of the stock, which is $10,000.

Keith: And we see that a lot. We have quite a few clients that, on an annual basis, are extremely generous and are donating stock, appreciated stock. We actually have a process. It's very straightforward where we transfer the stock from the client's account to the charitable organization's custodian. We get the account number, we transfer the stock. They receive the stock. The second they receive the stock, that's the value of the gift. And then they trade the stock on their end.

Hugh: So the only thing I say to people on this thing is do not leave this to the last minute, let's say the end of December, because first of all, you have to make sure that the charity is in a position to receive the stock donation because not all charities have a brokerage account. They have to open a brokerage facility in order to receive that stock. If you do not have that, then they can't receive it. You're not going to get your tax break you're looking for, and the time frame you're looking for. Charitable donations of stock have to be planned out between you and the charity involved in order to facilitate getting the best possible tax break for everybody concerned.

Keith: That's a terrific point, Hugh. I know for our clients, we start the process in September. We reach out to clients that have been doing this, and we start the process in September to try to wrap it up by October-November because we've seen that when individuals try to do this at the last minute and they contact us at December 23rd and they're feeling like they want to give a gift, it's just not enough business days left between the 23rd and the 31st sometimes to execute this.

Hugh: Correct.

Keith: All right. Let's keep on going here. Principal resident exemption. So I know that there's a few things that have changed now. In the old days, like 10 years ago, you used to sell a house and that was about it. You moved on. What's changed since then and what's required when you sell a principal property?

Hugh: So the big problem that the government was experiencing was these people who were flipping homes at huge profits and then saying, "We lived in it for five or six months, therefore we're entitled to a principal residence exemption," which at the time was true. And the laws have all changed, so that is no longer possible. So that's why the government has required the reporting of all real estate transactions. Of course, there's other things as well. People would sell property, they got a cottage and not report it. The government said, "No, all real estate transactions must be reported on your personal tax return. All will have a capital gains consequence." However, in the case of homes where you've lived at a home for a number of years, you'll be allowed to have a principal residence exemption on that capital gain as long as it meets certain criteria. That criteria would be things like you haven't rented

it out to somebody. And I've run into that situation in the works. Somebody sells the home, and I found out after the fact it was a duplex and they used to rent it out as well at one time before they moved in. You have a calculation you have to make because there will be a capital gains consequence to that.

Keith: So when you say you have to report, is there like a line on a tax return that says, "Did you sell a house?" And you have to say yes, you have to disclose the price and the address? How does it work exactly?

Hugh: So those are called capital transactions. All capital transactions must be reported on a tax form. Capital transactions, for instance, can be the most common ones, a sale of a stock. There's also an option, there is real estate and buildings. And so all of them are reported on this line that says, "I sold a property, investment property of some sort," whether the property take the form of stocks and bonds or whether it take the form of real estate. And so you report it, and then as long as you report it correctly, everything's fine. However, in the case of a home, the government has allowed, as is common throughout the years in Canada, on your home, your principal residence, you can claim the principal residence exemption.

Keith: Okay. All right. So let's take this example and make it a little bit more complex now for individuals that own multiple properties and the decision as to which property they should use for this exemption. So let's take an individual that has a home in a city, a cottage. Let's start with that. And then let's add a property in Florida. So let's start with the two properties in Canada, but the cottage appreciated more than the home. How does one actually account for that?

Hugh: Normally, if you look at this criteria, what is a home for principal residence exemption? That's a place you normally live. It's livable there all year. So if it's a cottage that is not livable in the wintertime, it's hard to claim principal residence exemption because it's not livable in the wintertime. Also, it depends on the acreage, for instance. Some people live in the country and they'll have a 70-acre property. They don't get a principal residence on 70 acres. They only get it on certain portions of the land relative to the house. The rest of the acreage is going to be subject to capital gains. There's a number of criteria that you have to go to figure out what is subject to the principal residence exemption. But it's your choice. You can make it the cottage, you can make it the house, as long as it meets the criteria for what is considered a home by the government.

Keith: Okay. Those are some nice little nuances that you threw in there. So what you're saying is if you have a standard cottage, a four-season, it can be used all year long, especially nowadays that people are spending more time in cottages, and you have a home, you can choose to use your capital gain exemption on the property that has appreciated the most. And I guess you've got to just keep track of, "I used my exemption on this property now, and then I use my exemption on the next property at this point." And I guess the best way to back that up would be to get evaluations done and keep those in your record so that you can prove to the government the details that you're trying to keep.

Hugh: It's really interesting right now because we're doing tax returns. A lot of, there are seniors who are passing away or they're moving on because they just, they cannot manage the property themselves. And you find that they bought their house in 1965 or 1964, even before capital gains even existed. Capital gains only came in 1971. So you had to figure out what was the value in 1971. There's all sorts of things, intricacies that you have to deal with on these long good properties and figure out what they were worth. But it's interesting stories. You see these houses on the West Island, they've lived in them for 50 years, they bought it for $5,000, now they're selling it for half a million dollars.

Keith: Way more than that. Hugh, let's complicate it one more step. A person owns a house, a cottage, and a property in the United States, but it's a personal use property. It's not a rental property. Can you declare the U.S. property as your principal residence?

Hugh: I know we've done it in the past for a couple of clients. Again, there's various restrictions on that. You have to read what the restrictions are and the eligibility criteria are to get the principal residence exemption. So is it possible? Yes, it's possible.

Keith: Okay. So obviously to our listeners who have multiple properties, if you want to use the exemption, make sure you speak to a tax advisor to get it correctly because there are opportunities, but you want to make sure you're doing it in a fair way. What are the penalties? You sell your principal residence, you don't report it properly. What are the penalties?

Hugh: Minimum penalty federally is $8,000 for non-reporting of the property.

Keith: And is that a one-time item or can that kind of somehow creep into a cumulative?

Hugh: It's one time, but the penalty, depending on when it's picked up, but then because it was, let's say, three years ago, that penalty is charged as if you did the transactions, you did do it three years ago, and then there's accumulated interest from the time that the debt was owed.

Keith: Gotcha. Okay. We're going to fire off a few easy ones here. What are individuals supposed to do with their notice of assessment?

Hugh: Those are very important legal documents because they're used for a number of different things. Always conserve your notice of assessment. Put it in the tax papers for that year and hold on to it. Do not throw it out. Don't treat it lightly. For some people, they say, "I only do it electronically." Go ahead, take the trouble, print it off, put it in with your files so you have access to it. Some people say, "Okay, I'm comfortable going online to Revenue Canada or Revenue Quebec to obtain what I need." That's fine too. That's up to yourself, but certainly make sure you can get access to a copy. Especially don't leave it so that you have access online, but you've never given your spouse that access or the information to have access because now the spouse has a problem. So it's better to kind of print that out so everybody has access to those documents. But they are needed for certain things as well. And if you try to have a conversation with Revenue Quebec or Revenue Canada on certain

things, they're going to ask you a question. What is online such and such of your assessment notice? And if you don't have the information available, they stop asking your questions. They say, "Forget it."

Keith: Yeah, so it's a great document as a reference document.

Hugh: Yeah.

Keith: What do you do if you owe money? You do your tax return yourself or you get it done by a professional and they tell you that you owe money. What do you do?

Hugh: Owing a debt to Revenue Canada or Revenue Quebec, it's common, it happens. And people run into situations where they are cash short for a while. Do not ignore when you owe a debt to Revenue Canada or Revenue Quebec. Generally, they let it ride for at least 90 days after you get your initial bill. You won't hear much from them. They assume that you're making the arrangements to get it paid. After 90 days, they'll send you another letter saying, "You haven't paid us yet. What's happening?" Some people will continue to ignore that, and then they finally get a warning letter saying, "Either you contact us, make an arrangement to pay, or else." When you receive a letter like that and you still continue to ignore it, that's when seizures of bank accounts start. And it freezes your accounts.

Keith: Okay, so how does that work exactly? Let's say you haven't been on top of your tax affairs. You haven't paid what the money's owed. They're going to come in and actually go into your bank account and do what exactly? What does that mean?

Hugh: First of all, they will send a letter to your bank and they will say, "This person owes us a thousand dollars." If you have the money in it, they just take the money out and they remit it to Revenue Canada on your behalf. If your account only has $800, they'll pay the $800 and then they freeze your account until such time as the balance is paid, so you can't use your account for anything.

Keith: So at the end of the day, you got to get this thing paid for.

Hugh: Yeah, don't ignore it. It's not good. And it red flags your file as well so that Revenue Canada now says, "You're, quote unquote, let's say a troublemaker for lack of a better word." And then they pay even more special attention to your tax returns because obviously you're not handling your affairs properly. You can't handle paying your obligations. Maybe you haven't reported things correctly, so they'll audit you.

Keith: Last quick question here. What do you do about record retention? How long should an individual keep their tax returns?

Hugh: I get asked that question every year. The average person, it's seven years. The current year plus six previous years. That's for normal returns. What are abnormal returns? Where you hold an investment property, a rental property, or you have very unusual marketable securities, you may be required to hold all the returns from the date of inception that you

bought that rental property because, for instance, a rental property, you bought it in 1995, you need to know what the adjusted cost base, what you declared in that year. You need to have a record, did you make a capital cost allowance claim in any year after that? All these things affect your tax returns, when the property is disposed of, you have to have all those records at hand. Did you have a partner? Did you have your wife make a declaration for your wife? All sorts of things. Same thing with marketable securities that are very unusual, sometimes private corporations. "Oh yeah, I bought a private corporation and here's what I paid for it." So you got to keep all these records to figure out adjusted cost base and certain other details so that when it's time to sell or it's deemed sold, you have the records to be able to do the calculations.

Keith: Hugh, what you're talking about here is not necessarily keeping the tax return of 20 years ago. What you're talking about is keeping the records of the assets that you might have reported something on in a tax return, but if there's assets, whether it's a business, cottages are another one. People are constantly making improvements on cottages and they're constantly making renovations. Those renovations can increase the cost base so that when you finally do sell your cottage, the capital gain is lower because you've included the improvements. That's what you're talking about. Is that correct, Hugh?

Hugh: Yeah, I'm talking about that, but also in the case of capital cost allowance. If you make a capital cost allowance claim on a property, you have to keep records of that. You can only see that from your tax returns.

Keith: Ah, okay. Fair enough. Yeah, so that is a unique situation. Listen, Hugh, thank you for answering all those general tax questions. We're going to move into the last section of our discussion here, and it's really opinion-based now. We're looking for your thoughts on two main things. Let's go with the first one here. What do you think can make the overall tax return process easier, either for people doing it on their own or for individuals who are hiring tax professionals to help them?

Hugh: One thing that you can do is go look at your tax return for the prior year. Look at what you declared that prior and make sure you account for all those documents this year. Obviously, if you dispose of something, you have to worry, but if you saw on last year's return, "Oh, yeah, that's right. I had capital gains because I had marketable securities," make sure you have the information about your marketable security transactions for the current year. Hand it in to the taxpayer or include it on your tax return. Follow the guideline of last year's tax return to put all the paperwork together. Do not omit bank accounts. For instance, you might have earned $50 on interest from a bank account like a savings account. You don't get a tax slip for that, but you're required to report it, and they follow up on that.

Keith: Okay, and on that same vein then, what are some of the common mistakes that you see people do?

Hugh: There's a couple of common mistakes. One, not reporting all your income because you haven't kept proper track of all your assets, whether it be bank accounts, investments, whatever the case may be. Another very common mistake is in the area of deductions. For

instance, a person says, "Oh yeah, I had a thousand-dollar dental bill that I paid," and so they claim a thousand-dollar dental bill. But what they don't disclose is the fact that they got reimbursed $800 from their insurance company for that. You're only allowed to claim what you're out of pocket for, not what you paid in total. So if you're only out of pocket $200, that's all you can claim. Keep proper records of your medical costs, what you originally paid, and what was reimbursed because only the net is deductible on the tax return. Same thing with charitable donations, keep a record of all the receipts. Make sure you have all the proper receipts. Over and over again, I get people saying, "I gave $200 to the Cancer Society. Why do I need a tax receipt? I didn't get it or I lost it." You're going to have to get it; otherwise, they can't use it on your tax return.

Keith: Fair enough. Those are great points, Hugh. Let's get ready to end today's show. This has been a fabulous, very detailed, very thorough episode. I want to get you to reflect a little bit, Hugh, because we joke around a little bit in the office here about this being your last tax season. You've worked so hard over the years. You've been incredibly generous with your time with clients. And I know a lot of your friends and the contacts you help, but if this really is your last tax season, Hugh, I'm not a hundred percent sure. But if this is your last tax season, let's reflect a little bit. So a couple of questions. What are your thoughts in terms of how the Canadian tax system has evolved over the last 20 years? Has it improved? Has it become more challenging? What are your thoughts in terms of the evolution of tax?

Hugh: It's not that there's been an improvement. The biggest difficulty with the tax system is how complex it is. Every year they add more and more complexity to it. That's making it really difficult for people to really, even tax preparers, to keep up to date to make sure they prepare the tax returns properly and for individuals who sometimes don't pass on all the information correctly about things like RRSPs or charitable donations to give that information on to the tax preparer so they can again give them the best tax advantages. You know, it's amazing how often I'll have to go to a senior and say, "Look, you own your home. You must have paid for this or for that." "Yeah, yeah, yeah, where's your receipt?" "Oh, no, I paid under the table, paid cash." You don't get a tax break for that. So there are lots of subtleties in doing things. For instance, another big thing is, at points in time, you may want to make some home improvements because you have a disability, a person with a disability in the house. You say, "Okay, fine, I incurred $10,000 in costs." Did you pay under the table? If so, you get nothing. Do you get proper invoices from the person who did the work? Identify themselves as to a name, address, their tax numbers for tax purposes. You need all that information to get a proper deduction. People who have rental properties. Quebec requires that if you make an improvement in a rental property, you must have a valid invoice from the supplier, identified with either his SIN number or QST number or BN number. If you don't have one of those three, you're not allowed to deduct anything for that thing on your tax return, you get no break. So you spent $1,000 on a roof, you don't have a valid receipt, you get nothing. And that information has to be supplied on your tax declaration, so it wouldn't even be accepted if you don't have that information.

Keith: You raised a very good point about the complexity of tax, and if I'm not mistaken, the statistics are now showing that fewer and fewer individuals in Canada and in the United States are doing their own tax returns. I think partly because they view it as complex. The

flip side to that is the accounting profession has never been in such demand for personal tax. But there's a shortage of accountants in the industry, both in the United States and in Canada. So there's a bit of a traffic jam occurring soon, and we're seeing it because individuals are desperately looking for accounting advice.

Hugh: Oh, you're absolutely right, Keith. I am retiring this year. And so I'm just trying to handle the best I can. Yesterday, I got calls from two people saying, "Look, I have these situations for some friends. Please look out for them. They can't find anybody." I had to say, "Look, I can barely handle what I have for my existing client base. I cannot help you. I just can't help you." And I feel really bad about that. I really do. But that's just the limitations of my own personal capacity. I only have so much time available to do this stuff.

Keith: And the challenge with the tax business, as you very well know, is it's crammed into two months. Why doesn't the government sort of shift, I guess they couldn't do it, multiple end-of-year tax seasons, because it would shift the workload out throughout the entire year instead of making this entire moment happen in this six-week period, which is just crazy.

Hugh: Yeah, but it's not a tax system anymore. It's a social benefit system as well. Huge transfers of wealth are taking place by doing the tax returns. And so they have to do that at a point in time to treat everybody fairly at the same time. You look at last year, 2021, Quebec came up with a thing saying, "For everybody there's a certain income level. We're going to give you a $500 bonus as a tax refund if you file your tax return." It was a big hassle at the last minute. Even the tax software people couldn't adjust their software to accommodate. So we were filing tax returns without claiming the $500, assuming the government will make the adjustment, which they did for the $500. And so everything's getting more and more complex. The complexity of this has more and more types of reasons to say, "I don't want to do this anymore. It's not worth listening to the gripes of people who are really unhappy because certain things didn't get treated correctly."

Keith: Hugh, it sounds like a great time to retire. So listen, that's the complex side. Here's your last comment that we'd love to hear from you, Hugh. What are you going to miss most about doing taxes for clients, contacts, and friends?

Hugh: It's the same thing that I felt when I finished my BSC at Price Waterhouse. What I really enjoyed about it was satisfying my curiosity about delving into different things and seeing different things, but in particular, dealing with people. I was very reserved back then. I was shy. And so that opened me up. I enjoyed dealing with people. I still enjoy that. So the big thing that I will miss is not the taxes, I have no problem missing that, but I enjoy dealing with the people and having good times with them, reminiscing, looking at past things. I'll miss all that. I'll miss all that.

Keith: You're very good at it, Hugh. You've been an incredible person to work with. I know the clients love working with you as does the team. So I want to, on behalf of our listeners, our clients, contacts, and friends, I want to thank you, first of all, for taking time out of your very busy schedule—you've just taken an hour and 15 minutes out of a busy tax season to share your thoughts on tax, to try to help others through the podcast. So I want to thank

you so much for taking that time to do it. And then on behalf of all of our clients and everybody who's worked with you over the last 20 years, I want to thank you so much. And while you may think this is your last podcast, Hugh, we will get you back on one more time, maybe in a year or so. So thank you very much, Hugh.

Hugh: Thank you, Keith. Thank you very much. And to all the clients, thank you as well.

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