

Income tax basics

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Why file? The benefits of filing

Tax filing is often considered an obligation or responsibility, since it is required of everyone who earns income in Canada. However, even for Canadians who do not earn income or owe income tax, filing a return is still an important way to access income through tax benefits and credits.

Some benefits can only be accessed through tax filing, such as:

- The GST/HST credit
- Canada Child Benefit
- Working Income Tax Benefit

The process of filing your taxes will also establish your income level, which helps you determine your eligibility for income-tested benefits or other supports such as the **Canada Learning Bond** (RESP contribution available for lower income households), and provincial programs such as the **Ontario Electricity Support Program** (available for lower income households). This can only be done by filing a tax return.

For more help determining your tax obligations and whether you need to file a tax return, please visit:

<https://www.canada.ca/en/services/taxes/income-tax/personal-income-tax/your-tax-obligations.html>

Paperwork and forms involved



Filing taxes can be done on paper or online. If you have a modest income and a simple tax situation, you might qualify for tax filing help at a Community Volunteer Income Tax Program (CVITP) clinic in your local community.

To fill out your tax return, you will need all tax information slips that show your income, such as: **T4, T4A (OAS), T4A (P)**, and others.

If you are filing your return on paper, you will need the **T1 General – Income Tax and Benefit Return** for your province, the **Federal Worksheet**, and the **General Income Tax and Benefit Guide**. These are available online, or in hard copy at any post office or Service Canada location.

If you are filing your return online, you will need access to a certified software product that uses the NETFILE program, such as TurboTax or UFile. You will use the software online to complete your return, and it will then provide you with a **NETFILE** file which you will then submit to the CRA. The CRA will issue you a confirmation number after the return is accepted for processing.

The Canada Revenue Agency (CRA) will then send you a **Notice of Assessment** in the mail or by email (if you are registered for online mail). The Notice of Assessment confirms your tax amounts and explains any corrections the CRA may have made to your return.

To find out the status of your return before you receive this notice, go to MyAccount with the CRA online.

Income taxes 101: Deductions, credits, benefits, exemptions, tax brackets

Canadians pay tax on most forms of income, such as money from employment and self-employment. This is called taxable income.

If you are employed, this income tax may be **deducted** from your pay. Your employer must give you a T4 slip before the end of February each year, which shows your total income, and how much you paid in income tax, Employment Insurance (EI), and Canada Pension Plan or Quebec Pension Plan (CPP or QPP), if applicable.

If your income is earned on a reserve, you may be exempt from paying tax on that income.

If you are self-employed or own a business that is not on a reserve, you will need to pay the taxes owing on your income. You can deduct business expenses from your income (keep the receipts in case your tax return is reviewed by the government).

Canadians pay taxes at different rates depending on how much income they make. This is often called your **tax bracket**. Both the federal and provincial governments collect income tax, so the marginal tax rate you owe will be slightly different depending on where you live in Canada.

Combined federal and Ontario tax brackets 2017¹

Taxable income	Marginal tax rate
On the first \$42,201	20.05%
Over \$42,201, up to \$45,916	24.15%
Over \$45,916, up to \$74,313	29.65%
Over \$74,313, up to \$84,404	31.48%
Over \$84,404, up to \$87,559	33.89%
Over \$87,559, up to \$91,831	37.91%
Over \$91,831, up to \$142,353	43.41%
Over \$142,353, up to \$150,000	46.41%
Over \$150,000, up to \$202,800	47.97%
Over \$202,800, up to \$220,000	51.97%
Over \$220,000	53.53%

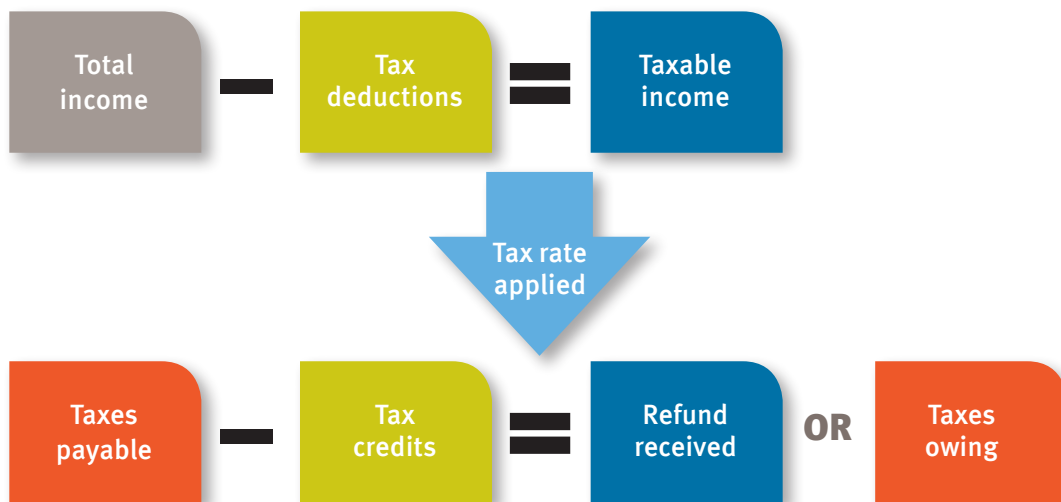
Why is it important to understand tax brackets?

- Your tax rate determines **how much income tax you may owe**
- If you are at the very lower end of your tax bracket, tax deductions will be even more beneficial to you to help lower your tax rate to the next tax bracket below

¹TaxTips.ca. 2017. <http://www.taxtips.ca/taxrates/on.htm>

The income tax process

- **Tax deductions** will reduce your **taxable income**
- **(Refundable) tax credits** will reduce your **taxes payable**
- If you do not have any taxable income, then refundable tax credits will not reduce your income further (since your income is \$0)



Tax deductions

Many Canadians seek to reduce their marginal tax rate through tax deductions. Tax deductions reduce the amount of income you claim, and therefore reduce the amount of tax you will owe.

However, they will not result in a refund if you earn no income, since claimed income cannot be reduced farther than \$0. So, if you earn no income or very little income, then tax deductions will have limited value.

Some examples of these are:

- **Moving expenses for work/school** (Line 219): If you had to move at least 40km closer to your new work or school, you may can claim eligible moving expenses.
- **Annual professional or Union dues** (Line 212): This amount will be shown in box 44 of your T4 slips
- **Other employment expenses** (Line 229): You can deduct certain expenses you paid in order to earn employment income. This can be done only if you were required to pay the expenses and you did not receive an allowance for them.
- **RRSP deductions:** Each time you contribute to an RRSP, the amount of that contribution is deducted from your gross income. (If your income is tax exempt under Section 87 of the *Indian Act*, RRSP contributions cannot be deducted from your income).

Even if you earn no income or very little income, you should file a tax return because it is the only way to access certain tax credits and benefits.

Tax credits

Tax credits are divided into two types: Non-refundable and refundable.

Refundable tax credits can result in a tax refund, non-refundable tax credits will not.

Non-refundable tax credits reduce the amount of income tax you owe, if you owe money at tax time. These reduce taxes which would otherwise be payable. Once the tax filer has enough credits to be equal or greater than their taxable income, they do not need to claim more.

If a person has no income or very low income, these will be of limited financial value at the moment of tax filing, but might enable other financial supports to be accessed (in the case of the Disability Tax Credit, for example). These can often be confused with refundable tax credits, and result in frustration when they are of limited immediate value to low-income tax filers.

Some examples of non-refundable tax credits are:

- **Disability Tax Credit** (Requires Form T2201) in order to claim disability amount
- **Medical expenses** (on line 330 or 331 of tax return)
- **Caregiver amount** and **Family Caregiver amount** (Line 315 and Line 367)

Refundable tax credits may result in a tax refund for the tax filer. You can claim them by filing a return. Each uses separate schedules and worksheets to calculate them.

Some examples of refundable tax credits are:

- **Working Income Tax Benefit (WITB)**, a tax credit for eligible working low-income individuals and families already in the workforce
- **Children's Fitness Tax Credit (in Ontario)** allows you to claim a maximum of \$500 per child for eligible fees paid for the cost of registration or membership in a physical activity program

Tax benefits

Tax benefits are paid directly to the tax filer through government agencies, often several times throughout the year. These are payments meant to help individuals and families.

Eligibility for tax benefits is determined through tax filing, and these are paid separately from the tax refund.



Common tax benefits are:

- **GST/HST credit**, a payment intended to offset all or part of the GST or HST they pay. This is paid 4 times a year.
- **Canada Child Benefit (CCB)** is a monthly payment that is determined based on your family's net income, your marital status, and number of children in your family.
- **Ontario Trillium Benefit (Ontario)** is a payment for low income people who own or rent a principle residence in Ontario. This includes the Ontario Energy and Property Tax Credit (OEPTC). It is paid monthly, or in a one-time lump sum if the total payment is low.

There are other “income tested” programs that you may be eligible for once your taxes have been filed and your income level has been determined. For example:

- **Canada Learning Bond (CLB)**, a free education savings contribution to RESPs for low income families
- **Ontario Energy Support Program (OESP)**, a provincial program which offsets cost of energy and home heating for low income families
- **Guaranteed Income Supplement (GIS)** and **Old Age Security pension (OAS)** after you turn 65 (eligibility is assessed based on income thresholds)

Tax credits and benefits available for different groups

People living on low to moderate incomes

Goods and services tax/harmonized sales tax (GST/HST) credit

The GST/HST credit is a tax-free quarterly payment that helps individuals and families with low or modest incomes offset all or part of the GST or HST that they pay.

Working income tax benefit (WITB)

This is a refundable tax credit intended to provide tax relief for eligible working low-income individuals and families who are already in the workforce. It is also intended to encourage Canadians to enter the workforce.

Ontario Trillium Benefit (OTB)

Includes the Ontario Energy and Property Tax Credit (OEPTC), Northern Ontario energy credit, Ontario sales tax credit.

Ontario Energy and Property Tax Credit (OEPTC)

This credit helps low- to moderate income individuals with property taxes and the sales tax on energy. The credit is part of the Ontario Trillium Benefit.

Families

Canada child benefit (CCB)

Replaces the Canada child tax benefit (CCTB), the national child benefit supplement (NCBS) and the universal child care benefit (UCCB).

Child disability benefit (CDB)

This is a tax-free benefit for families who care for a child under the age of 18, who is eligible for the disability tax credit. Requires Form T2201 Disability Tax Credit Certificate.

Children's Fitness Tax Credit (Ontario)

You can claim a maximum of \$500 per child for eligible fees paid for the cost of registration or membership in a prescribed program of physical activity

Seniors

Old Age Security (OAS)

The OAS is a monthly payment available to seniors aged 65 and older who meet Canadian legal status and residence requirements. You need to apply for it to receive it.

Guaranteed Income Supplement (GIS)

The GIS is a monthly non-taxable benefit for low income recipients of the OAS, who are living in Canada and meet annual income requirements.

Ontario senior homeowners' property tax grant (OSHPTG)

The Ontario senior homeowners' property tax grant (OSHPTG) is intended to help offset property taxes for seniors who own their own home and who have low to moderate incomes. This program is funded entirely by the Province of Ontario. The CRA administers this program for Ontario.

People with disabilities

Disability tax credit (DTC)

The disability tax credit is a non-refundable tax credit that helps persons with disabilities or their supporting persons reduce the amount of income tax they may have to pay. An individual may claim the disability amount once they are eligible for the DTC. This amount includes a supplement for persons under 18 years of age at the end of the year. Requires Form T2201, Disability Tax Credit Certificate.

Caregiver Amount and Family Caregiver Amount (FCA)

Line 315 and Line 367 of the tax return. Eligible if you maintain a dwelling with yourself and one or more dependents who is 18 yrs or older, and meets income and impairment criteria (for Caregiver Amount), OR who is a child under 18 yrs old with impairment in physical or mental functions or an adult 18 yrs or older who is dependent on you (FCA).

Considerations for Aboriginal Canadians at tax time

In Canada, Aboriginal people follow the same tax rules as other residents of Canada, unless their income is eligible for a tax exemption under section 87 of the *Indian Act*.

Key considerations are:

- Is your income earned on or off reserve?
- Is your employer located on or off reserve?
- Do you live on reserve?
- Do you live in a prescribed zone² that qualifies you as a Northern Resident?

If the answer to any of the first three is “on reserve,” then there may be tax exemptions under section 87 of the *Indian Act*. This exemption means that income earned through employment or through operating a business on a reserve is not taxed. When the income is partially earned on reserve, the amount of income tax may be pro-rated.

Similar exemptions apply to income earned from investments, rental properties, dividends, or royalties, when this income or rental property is situated on a reserve. If you need help, call the CRA toll free at **1-800-959-5525**.

If you qualify as a Northern Resident, then you may be eligible for other tax deductions (see below).

Other considerations

- If you earn exempt income only, RRSP contributions cannot be deducted on your tax return. If you earn taxable income and contribute to an RRSP, the normal rules apply on claiming RRSP deductions.
- If you earn exempt income only, any investment earnings you withdraw from the RRSP will be taxed in the same way as interest and investment income.
- If you receive Old Age Security (**OAS**) benefits including the Guaranteed Income Supplement (**GIS**), these amounts are **not** eligible for the tax exemption. This is because OAS and GIS are not related to previous employment and are therefore considered to be off-reserve.
- If you receive US Social Security benefits or Pension income from the US, these do not qualify for the tax exemption since they are not connected to a reserve in Canada.
- If you live on a reserve and receive support payments as a spouse or common-law partner, or for a child, these payments are exempt. If you do not live on a reserve, you may have to include these in your income.

²Government of Canada. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-255-northern-residents-deductions/line-255-you-qualify-northern-residents-deductions.html>

Employer source deductions

- When it is established that employment income paid to an Aboriginal person is exempt from tax, this employee can ask their employer to waive the tax deductions at the source. This is done using form **TD1-IN**
<http://www.cra-arc.gc.ca/E/pbg/tf/td1-in/README.html>
- Income that is exempt under section 87 of the *Indian Act* is also exempt from CPP contributions. However, an employer can elect to participate in the CPP, using Form CPT 124. An employee can elect to participate in the CPP by filling in Form CPT 20.
- EI premiums are not exempt under section 87 of the *Indian Act*. So, tax-exempt salary or wages are subject to EI premiums. EI benefits received are not taxable if the benefits relate to employment that was exempt under section 87.

Considerations for Northern Residents

There are two Northern Residents tax deductions, on Line 255 of the tax return.

These are:

- **Residency deduction**, for living in a prescribed zone (Form T2222 step 2)
- **Deduction for travel benefits**, received from employment in a prescribed zone that was included in your income (Step 3 of Form T2222)

You qualify for these deductions if you have lived permanently in a prescribed northern zone (Zone A) or a prescribed intermediate zone (Zone B).

Detailed information about this can be found on the Canada Revenue Agency website:

<http://www.cra-arc.gc.ca/brgnls/ndns-eng.html>

Key terms

CVITP

The Community Volunteer Income Tax Program. A volunteer-led program that supports tax filing for Canadians living on low incomes.

Read more at:

Canada.ca › Taxes › Income tax › Personal income tax › Community Volunteer Income Tax Program

Indian Act

The *Indian Act* is a Canadian Act of Parliament passed in 1876, is the primary document which defines how the government of Canada interacts with First Nations bands in Canada and their members. The term 'Indian' has legal meaning in this act, although many First Nations people in Canada do not use this term to describe themselves.

Section 87 of the *Indian Act* affects income tax for those with status under the act.

Find out more at:

<https://www.canada.ca/en/revenue-agency/services/aboriginal-peoples/indians.html>

Notice of assessment

When you file a tax return, a notice of assessment is sent to you which confirms the result of the assessment of your return. It is sent after your return has been processed. The assessment tells your refund or taxes owing, and explains any changes and other important information such as RRSP deduction limits.

Find out more at: Canada.ca › Canada Revenue Agency › Understanding notices and letters

Northern Resident

Canadians who live, on a permanent basis, in a zone identified as a 'prescribed northern zone' or 'prescribed intermediate zone' for at least 6 consecutive months, may qualify for the Northern Residents Deduction (Line 255).

Read more at :

Canada.ca › Taxes › Income tax › Personal income tax › All about your tax return › Completing a tax return › Deductions, credits, and expenses

Resources for more information

For help determining your tax obligations and whether you need to file a tax return:

<https://www.canada.ca/en/services/taxes/income-tax/personal-income-tax/your-tax-obligations.html>

Canadian income tax rates for individuals

<http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>

CRA – Doing your taxes

<https://www.canada.ca/en/services/taxes/income-tax/personal-income-tax/doing-your-taxes.html>

More details on the *Indian Act* exemptions and guidelines

<http://www.cra-arc.gc.ca/brgnls/gdlns-eng.html>

Aboriginal peoples information at CRA

<http://www.cra-arc.gc.ca/aboriginalpeoples/>

Guides, forms, and other publications

<http://www.cra-arc.gc.ca/formspubs/clntgrp/thrs/brgnls-eng.html>

Northern residents information

<http://www.cra-arc.gc.ca/tx/ndvdl/sgmnts/nrth-rs/menu-eng.html>

Form TD1-IN

<http://www.cra-arc.gc.ca/E/pbg/tf/td1-in/README.html>

Provincial and territorial programs (Canada Revenue Agency)

http://www.cra-arc.gc.ca/bnfts/rltd_prgrms/menu-eng.html

All deductions, credits, and expenses

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/llddctns-eng.html>

Ontario Tax Credit Calculator

<https://www.ontario.ca/page/tax-credit-calculator>

OAS payment calculator

<https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/payments.html>