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 2019[1]

Taxable income	Marginal tax rate
On the first $43,906	20.05%
Over $43,906, up to $47,630	24.15%
Over $47,630, up to $77,313	29.65%
Over $77,313, up to $87,813	31.48%
Over $87,813, up to $91,101	33.89%
Over $91,101, up to $95,259	37.91%
Over $95,259, up to $147,667	43.41%
Over $147,667, up to $150,000	46.41%
Over $150,000, up to $210,371	47.97%
Over $210,371, up to $220,000	51.97%
Over $220,000	53.53%

Why is it important to understand tax brackets?

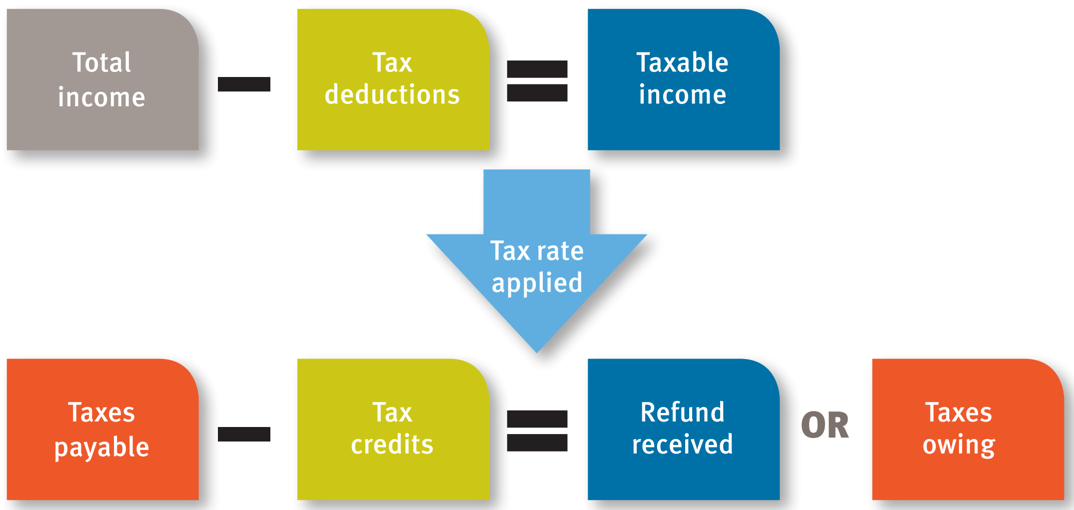
- Your tax rate determines **how much income tax you may owe**
- If you are at the very lower end of your tax bracket, tax deductions will be even more beneficial to you to help lower your tax rate to the next tax bracket below

[1]TaxTips.ca. 2019. http://www.taxtips.ca/taxrates/on.htm

Find other provincial marginal tax rates at: https://www.taxtips.ca/marginaltaxrates.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.

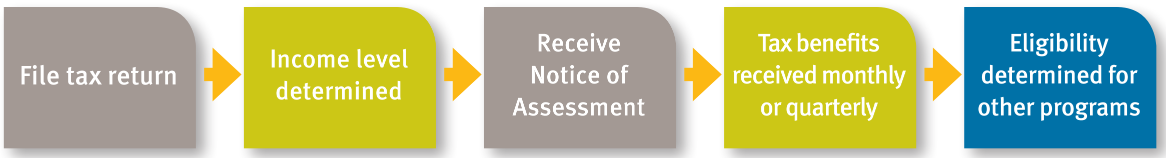
Some examples of refundable tax credits are:

- **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)