
Tax time considerations for Indigenous people living in Canada

In Canada, Indigenous 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-25500-northern-residents-deductions/line-25500-places-located-prescribed-zones.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**
<https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/td1-in/td1-in-21e.pdf>
- 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:

<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4650/northern-residents-deductions.html>