Module 2 Video: Tax Deductions, Credits, and Benefits

(light music)

- [Narrator] Canadians pay tax on most forms of income,

including money from employment and self-employment.

This is called taxable income.

There are ways to reduce the amount of tax you pay

through tax deductions and tax credits.

Tax deductions reduce your taxable income.

They are the amounts you subtract directly from your income

before calculating tax.

Some common examples of tax deductions include

moving expenses for work or school, employment expenses,

annual professional or union dues and RRSP deductions.

Let's look at Enzo as an example.

Enzo has a taxable income of 25,000 a year.

Pretend that without deductions Enzo would pay $4,000

for his taxes.

However, Enzo is eligible for a $2,000 tax deduction

from his moving expenses for work.

This amount gets removed from Enzo's taxable income.

And Enzo now only owes 3,500, that's $500 less.

Tax credits reduce your taxes payable.

They are taken away from the amount of tax you owe.

There are two types of tax credits,

non-refundable and refundable.

Non-refundable tax credits reduce the amount of tax you owe

if you owe money at tax time.

If the non-refundable credits add up to more

than the tax amount you owe,

you will not receive a refund for the difference.

Some of the most common non-refundable tax credits are

medical expenses tax credit, charity tax credit,

disability tax credit, and Canada caregiver credit.

In our example,

Enzo is eligible for a non-refundable

Canada caregiver credit,

and a Saskatchewan home renovation credit.

The two non-refundable credits add up to $4,000.

This is more than the 3,500 he owes to the government.

His taxes owed get reduced to zero,

but he will not receive $500 back as a refund.

On the other hand,

refundable tax credits may end up giving you a tax refund

if they add up to more than the taxes you owe.

To claim them,

you must file a tax return.

Refundable tax credits include climate action incentive,

Canada workers benefit,

and the Ontario childcare tax credit.

Let's look at Tess's situation.

Tess lives near Sudbury, Ontario, and has three children.

She qualifies for the refundable

Ontario childcare tax credit

and the Northern Ontario energy credit.

The refundable tax credits total $3,000.

Tess originally owed 1,000 in taxes.

The refundable tax credits will reduce her taxes owed

to zero, and she will get the $2,000 remaining

as a tax refund.

The government also offers tax benefit programs

for Canadians who meet certain income criteria.

You need to file your taxes in order to claim these.

Benefits are generally paid directly

to the individual several times throughout the year.

Common tax benefits are the GST/HST credit,

Canada child benefit, and Ontario trillium benefit.

So not only does Tess receive a refund from the government,

she also receives a monthly payment

from the Canada child benefit and Ontario Trillium benefit

by filing her taxes.

In summary, tax deductions will reduce your taxable income.

Tax credits will reduce how much tax you owe

and refundable tax credits may even result in a refund.

And tax benefits are paid several times throughout the year

after your taxes have been filed.

Visit the Canada Revenue Agency website

to learn more about the benefits and credits

that you may be eligible for.