

Understanding your Canada Revenue Agency (CRA) Assessment

As Canadians living in Canada and elsewhere, we are obliged to file an income tax form each year, declaring our earnings, deductions, and tax credits. AND our world wide financial holdings. Did you know when you sign off this document, you are indicating what is stated as truth and understanding of any consequences if incorrect information has been made. Most people are in fear of CRA and when it comes time to file these papers, the blood pressure rises. I am not in fear, willing to pay my share of taxes, but also understand the pitfalls of the various types of income we all accumulate. Lets look at income generation – employment income, pension income, interest income, dividends income, bank savings income, RRSP redemption as income, Bond income, it all adds up on the tax form. If you are a working employee or retired, there isn't much you can do to reduce these income-producing amounts. We have expenses or credits we can claim as well as personal amounts to reduce the income, but in the end, taxes are based on income, and the majority of Canadians pay more tax when they file. If you have a proprietorship, or home based business that is not incorporated, you again have revenue income, but you also can use expenses created for that business to offset the income, thereby possibly reducing your overall taxable income. Once we file our tax return, CRA then sends us an assessment, of which indicates all was correct on the filing, or an error has occurred and either additional money is required or a cheque is created as you overpaid on the initial filing. The assessment tells another story. On the last page of your assessment, you will see your RRSP contributions, deductions, and allowable room if carried forward from year to year. This is a key component to your tax return. CRA allows you to top up your RRSP's to this amount and take the deduction in the following year. You can use some or all of the allowable room to reduce your tax owing. Talk to your financial advisor about this, it is important if you continually pay too much tax. (Remember RRSP's do have to be turned into a RIF (Registered Income Fund) at age 69, again producing income). RRSP's are a tool to save and build wealth, but should be cashed out at your convenience when you need to use it, not at 69 when it is mandatory to come to you as income. Another factor to watch for on the tax assessment is a continuing carry forward of Capital Losses. If you have claimed some Capital Losses for investment losses during the year, CRA will carry forward this and apply the loss to any investment Capital Gains in further years. You should be aware of this feature, it is to your benefit.

*Pension Paradigm Solutions at:
www.pensionparadigm.com or call
250-472-8100 for any questions or concerns on
employer pension plans, or financial advice.*

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WORD SEARCH

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