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Biggest mistakes people make on their income tax returns

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If there's muttering coming from my husband's home office and piles of paper all over his desk, it's a pretty safe bet that it's tax time. He does a great job preparing income tax returns electronically and e-filing for both of us and my mother.

Nevertheless, every year or two after we get our Notice of Assessment from the Canada Revenue Agency, we're asked to send in receipts to verify expenses claimed or re-assessed because we filed too early, before receiving the last T5 slip.

Offshore omissions

Accountant and lawyer David Rotfleisch, a partner in the Toronto law firm Rotfleisch & Samulovitch, says there are lots of other common mistakes people make when filing their taxes. One he sees most frequently is people who forget to declare offshore pensions.

“People from the UK come to Canada. They know their UK pension is tax-free, and they don't realize they have to declare these payments as Canadian pension income even if they haven't received a T4," he says. “Then I go back and discover they may not have claimed it for 15 or 20 years."

Rotfleisch adds: "Offshore assets valued at over $100,000 is another category that is poorly understood. If you have a Florida rental condo, a U.S. stock portfolio or a Swiss bank account, you have to report details of the asset, capital gains or interest income from that asset on a Form T1135 and pay taxes on that income."

Reporting casual income

And much closer to home, he reminds taxpayers that all income must be reported, even if it's casual income or internet income. “A hobby that turns into a business is a very common situation for many retirees. If you make bread boards and sell them at farmers' markets, you can deduct all your expenses, but you still have to report the income."

Applying for the disability tax credit

Warren McCann, a partner in the Toronto accounting firm Kudlow & McCann, says the most expensive mistake he frequently sees is that qualified people do not **apply for and claim the disability tax credit (DTC).** The purpose of the DTC is to provide for greater tax equity by allowing some relief for disability costs, since these are unavoidable additional expenses that other taxpayers don't have to face.

Being eligible for the DTC can also open the door to other federal, provincial, or territorial programs such as the registered disability savings plan, the working income tax benefit, and the child disability benefit. “Taxpayers can claim for themselves, a spouse, a child or even a parent living with them. I'm constantly doing back filing for people because depending on how

the physician completes the T2201 tax form, taxes can be reassessed for up to 10 years, resulting in a tax refund of thousands of dollars," McCann says.

Pension splitting

When and how to most effectively manage pension splitting opportunities is an area where Caroline Battista, a senior tax analyst for H&R Block™ in Vancouver, says many taxpayers can benefit from additional education.

“There is an option to pension split when completing an income tax return and the income is actually transferred to the other spouse. Just because you did it last year doesn't mean you automatically have to do it this year," she says."For example, if one spouse moved to a nursing home where fees are based on income, pension splitting may no longer make sense."

Battista acknowledges that understanding complex tax rules and getting all the tax credits and deductions you're entitled to is not for the faint of heart. To avoid a last-minute panic, she says: “Think of tax time as all year long. Find out what is available to you in early January and get organized, so all of your medical, charitable and other receipts are at your finger tips when you need them."

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