TAX TALK

Happy returns: Tips for filing your 07 tax return

Tax Talk

Scott Taylor

Like some kind of financial equinox, March is the time when personal income tax planning shifts to personal income tax preparation. The guest bed in the back room becomes a landscape of paper piles: income statements, assessment notices, logbooks, receipts, and any other item that offers the hope of a deduction. As you work your "system" this month, remember that every federal budget adds or alters credits and deductions that can affect your tax payable. Here are four items not to overlook when you prepare your 2007 return:

Meals, lodging and showers

After years of ambiguity, Canada Revenue Agency's 2007 Employment Expense Guide now includes an entire chapter on how to claim meal and lodging expenses (including showers) if you're a transportation employee.

The big change is a new category of worker called "long-haul truck driver," an employee whose main job is operating a heavy truck or tractor designed for moving freight. Starting on March 18, 2007, an employee in the long-haul truck driver classification can deduct 60% of a meal and beverage expense incurred during an "eligible travel period." An eligible travel period is one where the driver is away from home for 24 hours or more, and his route takes him beyond a 160-kilometre radius from the location where he regularly reports for work. If the meal is not consumed during an eligible travel period, the 50% deduction limit applies.

The increased meal deduction limit for long-haul truck drivers applies to employees and self-employed owner/operators. It will be increased by 5% a year (2008 is 65%) until 2011, when the deductible portion will be 80%. Meal expenses made before March 18, 2007, are subject to the standard deduction of 50%.

If you do not fit the definition of a long-haul truck driver, you are entitled to deduct 50% of your meal expense. You should apply the 50% deduction limit for all of 2007.

Lifetime capital gains exemption

The lifetime capital gains exemption limit will be increased to $750,000 from $500,000 on gains arising from dispositions of qualified property after March 18, 2007.

This is great news for owners of incorporated small businesses. A "qualified property" includes shares in a small corporation owned by you, your spouse or common-law partner, or a partnership of which you were a member.

We've discussed before that sometimes the most tax-beneficial way to pass along your business when you retire is through the sale of your corporate shares rather than the assets. There are quite a few rules regarding this exemption, and taking advantage of this opportunity requires time and deliberate planning.

Consult with your tax advisor two years before your planned exit to make sure your corporation qualifies.

Canada employment credit

In 2007, anyone with employment income is eligible to claim a $1,000 tax credit for work-related expenses. You can claim $1,000 or the total of the employment income you report on your return, whichever is less.

Credits for families

The 2007 tax year brings several new credits and deductions for families. Among them:

Child Tax Credit: You can claim $2,000 for each child who is under 18 years of age at the end of 2007. You may be able to transfer this amount to your spouse or common-law partner, or to claim his or her amount.

Scholarships: Elementary and secondary school scholarships and bursaries are no longer taxable. Post-secondary scholarships, fellowships, or bursaries you received in 2007 are not taxable if you're entitled to the education deduction provided with a valid tuition receipt.

Children's Fitness Credit: Parents can claim up to $500 of expenses for a child in a program that promotes physical activity. To qualify, the child must have been under 16 at the start of 2007 and the program must be ongoing; supervised; suitable for kids; and require physical activity.

Life beyond deadlines

The deadline for submitting your personal income tax return is Apr. 30. If your return is late, there's a minimum 5% penalty of the balance owing, plus 1% per month for a maximum of 12 months. If you have filed late before, the penalties may be higher.

Even if you can't afford to pay the balance, filing the return on time can save you penalties and fees. You will also be in a better negotiating position with CRA regarding a payment plan. Filing late sends a bad message.

If you need help preparing your return, see a qualified professional, preferably one who's familiar with trucking companies. Then, the day after you mail your return, tilt your world back into tax-planning mode. Talk to an accountant or business advisor about how to reduce your tax obligation in 2008 and beyond. □

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