TAX TALK

Four tips for filing your 2011 income tax return

In February, the emphasis on personal income tax planning shifts to personal income tax return preparation. Because 2012 is a leap year, you have an extra day to find the income statements, assessment notices, receipts, logbooks, and anything else you need to back up your claims. Lucky you.

With the April 30 filing deadline just around the corner, here are four things to consider as you get your return ready:

Your RRSP contribution

The RRSP deadline this year is Feb. 29, so many Canadians will spend this month scraping together what they can to make a contribution – and wonder whether they're throwing good money after bad given the volatility of the markets. I always remind people of two things:

Tax Talk

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1. Putting something away is better than doing nothing. If you don't put it away today, chances are you'll never have it or keep it yourself.

2. An RRSP is probably the best vehicle you have to reduce your tax obligation because you can deduct the amount you contribute from your earned income. Your tax rate is 25-40% depending on your income. Invest $1,000 in your RRSP and it's like getting $250 to $400 back in your hands today because part of your return on investment is the up-front tax savings.

I'm not a financial advisor, but you can consider GICs and other low-risk RRSP-eligible investments (I suspect you don't hear much about these because there's not much commission in it for the guy selling them to you). You can always park your $1,000 at 0.05% until you're more comfortable making higher-risk, higher-yield investments.

The office in the home

Having an office at home is a great way to keep records and other work organized while generating some useful tax deductions. It can also attract the attention of auditors, so it's important to understand the rules.

First and foremost, the workspace must be your principle place of business. You can deduct a percentage of home maintenance costs such as heating, insurance, electricity, and cleaning materials. You can also deduct a portion of your property taxes, mortgage interest, or, if you rent your home, you can deduct part of the rent.

To determine the percentage to deduct for business use, calculate the area of the workspace divided by the total area of your home. If you use a room for business and personal use, then calculate how many hours in the day you use the room for business and divide that amount by 24 hours. Multiply this result by the business part of your total home expenses.

Be careful about deducting renovations. It may be tempting to save tax dollars today by expensing CCA (Capital Cost Allowance) from home renovations or determining a value on your office, but capital gain and recapture rules will apply when you sell your home or go out of business. Since housing tends to go up in value, you'll likely have a taxable gain on the sale for any percentage of your home you depreciated as a business asset. The short-term tax savings that you enjoyed over many years would have to be repaid to the government all at once.

One more thing: The amount you can deduct for business use of home expenses cannot be more than your net income from the business. In other words, you can't use these expenses to increase or create a business loss.

Hiring credit for small business

The HCSB is a one-time credit of up to $1,000 based on the increase in an employer's employment insurance (EI) premiums paid for 2011 over those paid for 2010. Here's how it works:

To be eligible for the credit, the total EI premiums paid by the business must have been $10,000 or less in 2010 and increased in 2011. The credit is calculated as the difference between these two amounts up to a maximum of $1,000. The CRA will automatically calculate the credit when an eligible employer's 2011 T4 information return is filed.

This isn't a personal income tax issue, but it's still important for owner/operators who paid EI premiums for their employees in 2010 and 2011.

File on time

Even if you can't afford to pay the balance, filing the return on time can save you penalties and fees. 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.

If you need help preparing your personal income tax return, see a qualified professional, preferably one who knows the trucking business (and that meals are at 80% this year). Then, on May 1, get back into tax-planning mode. □

– Scott Taylor is vice-president of TFS Group, providing accounting, bookkeeping, tax return preparation, and other business services for owner/operators. Learn more at www.tfsgroup.com or call 800-461-5970.