A Retiree’s Guide to Income Tax Filing in Canada

RETIREMENT PLANNING

MARCH 15, 2019

It’s tax time and if those words fill you with dread, read on. While income tax filing can be very confusing, our mini income tax guide for 2019 will hopefully help to make the process easier and ensure you don’t pay more tax than you need to. It breaks down how to prepare your income tax filing, the different ways you can submit your taxes and standard deductions for older Canadians.

Our income tax guide for 2019 also looks at tax credits that can bring savings for all Canadians, as well as tax credits for older Canadians that you may not know about.

Getting started: prep makes perfect

Before you sit down to start on your income tax filing, collect every bit of relevant information to ensure that your tax return is correct. You will need the following documents to ensure your income tax filing is complete and that you receive all of the standard deductions for your age and other tax credits you qualify for.

- Tax slips such as T4s (working income), T3s and T5013s.
- Income details including sources in Canada and anywhere else in the world. This includes:
  - Employment or self-employment income
  - Old age security pension
  - Canada Pension Plan/Quebec Pension Plan
  - Other pensions, including from abroad
  - Property rental income
  - Registered Disability Savings Plan
  - RRSP/RRIF withdrawals
  - Investment income (including interest, dividends and capital gains)
  - Benefit income (e.g., Workers’ Compensation and Social Assistance)
- Details for all deductions. You can see everything that can be claimed ***here***, but you should include credits and deductions for all of the following if they apply:

    - Caregivers
    - Education
    - Disability
    - Pension and savings plans
    - Employment expenses
    - Self-employed business costs
- Details of changes to your personal information. This could have an impact on your tax credits, so be sure to include any changes to your marital status, children or other family members in your care, your banking information and your address.

Deductions and tax credits for older and retired Canadians

On top of the deductions list above, there are some ***tax credits and standard deductions*** that you need to be aware of. These can make a big difference to the amount of tax you pay annually and could also provide big tax rebates this year:

Age amount**:** if you're 65 or older and earn a net income under $84,597, you could claim tax credits up to $7,225.

Medical expenses: you could be eligible to claim a wide range of medical expenses including medical equipment, prescription drugs, accessibility renovations and household mobility aids, attendant care and hearing/vision aids. Find out more about ***CRA Medical expenses here***.

Pension income-splitting: this tax credit allows you to split up to half of your pension income with your spouse. If your spouse is in a lower tax bracket in Canada, this could save you a significant amount in tax. You can see all eligible types of income ***here***, and it is a standard deduction for Canadians aged 65 and older.

The ***Canada caregiver credit***: a tax credit for people with a spouse or dependant age 18+ with a physical or mental impairment, up to a maximum of $6,883.

The ***disability tax credit***: this is a tax credit that many retirees do qualify for. The name can be slightly misleading – you don't in fact have to be disabled to qualify. You however need to prove that your health condition(s) restrict your everyday functions. For example, if it takes you three times longer than an average person to walk 100 metres or to dress yourself, you could qualify. This tax credit can be backdated *up to 10 years*. You may still qualify regardless of your tax bracket in Canada. If you're interested in learning more, your accountant can help you apply.

Income tax filing can also lead to accessing other tax credits and benefits like the Guaranteed Income Supplement, GST/HST credit and the Registered disability savings plan.

Income tax filing: how to submit

There are various methods of income tax filing. Whichever way you choose to do it, you need to submit by April 30 to avoid late filing penalties or June 15 if you or your spouse are self-employed.

The paper route: you can complete your tax returns the traditional (old-school) way, by filling out paper forms and mailing them to the ***relevant tax centre***. You can ask the CRA to send you the necessary forms, pick them up from your post office or print them off the ***CRA website***.

File them electronically: if you are looking for a simpler way, there is CRA-approved tax software that allows you to complete your income tax filing electronically and submit it online through ***NETFILE***. Because this is all completed online, it can be a much easier and quicker method than paper filing. You just fill in each relevant box step by step, calculations are done automatically and you don't need to physically mail it.

Some examples of CRA-certified income tax filing software include:

- ***GenuTax***, free software for PC only (not available in Quebec)
- ***TurboTax***, which is downloadable for PC and Mac
- ***UFile*** either through UFile Online or installed on PC

Hire a tax professional: for many people, income tax filing is too much of a headache to do it themselves. Having a tax professional prepare them on your behalf can save you a lot of time and stress. Although this option comes at a cost, good accountants are worth their fee just for their knowledge of tax credits. Be sure to give them as much information as possible to ensure an accurate return. Also, provide them with summaries of your income and expenses to keep their fee down.

An alternative to paying for an accountant

If you can't afford a tax professional but really need help with your income tax filing, you may qualify for help from a ***free tax clinic***.

If your income is less than $45,000 (per couple) and you have a simple tax situation (income from your pension, CPP or employment only and NOT self-employed) you could qualify. Volunteers complete your returns for you, either as a walk-in or by appointment and can help you receive standard deductions.

How a reverse mortgage can help you at tax time

Some retirees choose to take out a reverse mortgage to boost their retirement income with no tax implications. The amount you take is tax-free and can save you the tax you would otherwise have to pay if you were to withdraw money from your RRSPs, RRIFs or other taxable accounts/investments.

Similarly, if you find that you owe the CRA a considerable sum of money and have no means of paying it, a reverse mortgage could help you to settle your debt with them, without affecting your monthly income.