Integra Market Insights

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Don't let the cold weather fool you, tax season is upon us! Along with it will undoubtedly come the tax return sales at Home Depot and the big home renovation stores that profit from the newly lined pockets of Canadians filing for their income tax return.

Not so fast; before we go spending these new found dollars, let's take a minute to reflect on where these dollars come from. Few Canadians understand that the tax return you are receiving is generally your money that you have lent to the .gov without interest. How very generous of you. ☺

Self-employed individuals are painfully aware of the amount of dollars they shell out in taxes as they have to remit the amounts themselves. For the bulk of Canadians working as employees however, taxes are withheld on every paycheque, the summary of which is shown on the T4 you receive from your employer. Look a little closer at that document and you will find that box 22 shows you just how much was withheld for you for the year.

Your employer withholds this amount based on what they assume you will earn for the year, foregoing any other income or deductions you may have earned during the year. Did they withhold enough, too much, or a Goldilocks just right?

This is the purpose of the income tax filing process. By submitting all your documents, you essentially verify with the .gov if you remitted enough taxes for the year. If you gave too much throughout the year, you get a return, if not, you have a balance owing.

As an example, say you are a T4 employee whose salary is expected to be $100,000. Your accounting department thus withholds enough tax on every paycheque to account for the $100,000 of income. Now say you own a rental property that generates $500 per month of taxable profit. Come year end, your total income will be $106,000 while you will only have been paying tax as if you were earning $100,000, thus resulting in income tax owing when you file your return.

Conversely, if you earned $100,000 but made an RRSP contribution of $10,000 which lowers your taxable income, then you would only have to pay tax on $90,000 despite your employer having withheld taxes for a $100,000 taxable income. As such, you can expect a tax return.

There is very little magic to the tax return process. Any good preparer will tell you the key to maximizing a return is to know your client and to make sure they have remembered all their receipts! In our case, we compare the returns to previous years to look for commonalities that may have been forgotten including tuition or sport receipts for children, recurring donation credits or union dues to make sure you get every dollar that is owed to you. Our interest in doing so is quite clear; the more money in your pocket, the more money you have to invest with us!

It is important to note that the money received from a tax return can be one of the easiest ways to boost savings for your retirement. As discussed in previous newsletters, reinvesting the dollars saved from RRSP contributions is the only way to make RRSPs' a viable solution. If you don't have the discipline to reinvest RRSP tax savings, then perhaps TFSAs are a better solution for you.

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