

# Post-Doctoral Fellows

Canadian Income Tax Issues

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# Agenda

- History of rulings related to PDF's
- Taxation for employees (Associates)
- Taxation for Post Doctorate Fellows (PDF's)
- Are you self employed?
- Are you maximizing your tax credits and deductions?
- Non-resident tax reporting
- Closing

# History

- Budget 2006 introduced a full tax exemption for post-secondary scholarships, fellowships and bursaries. Must be enrolled in an educational program that entitles student to Education Tax Credit.
- Budget 2010 – clarified that a post-secondary program that consists principally of research will be eligible for the Education Tax Credit, and the scholarship exemption, **ONLY** if it leads to a college diploma, bachelor, masters or doctoral (or equivalent) degree. ***Accordingly, post doctoral fellowships will be taxable.***





# Taxation in Canada

- Individuals are taxed on their income based on the calendar year
- Taxpayers must self assess and report their world wide income if CDN residents
- The due date for filing and paying any income taxes is April 30, unless you are self-employed
- Self-employed have until June 16<sup>th</sup> to file (tax due by April 30<sup>th</sup>)

# Taxation of Employees

- T4 slip will be issued by your employer (i.e. Western)
- Associates will generally be considered an employee
- Tax, Canada Pension Plan contributions (CPP) and Employment Insurance (EI) are withheld from your pay
- Usually results in tax withheld covering amount owing
- Deductions for employment expense claims are limited
- Requires Employer Certification (Form T777)

# Taxation of PDF's

- T4A slip will be issued
- No tax, CPP or EI will be withheld from T4A, unless you have elected for this to be withheld
- There are reporting options and you will need to assess which one applies to you
  - Research Grant vs. Self-Employed



# PDF Option 1 – Research Grant

- T4A treated as research grant (Line 104)
- A research grant is generally a sum of money given to enable the recipient to pay expenses necessary to carry out a research project.
- Eligible expenses can be deducted
- Only included in income to the extent that they exceed the total of the eligible expenses.
- Included in income for RRSP purposes ( $\$40,000 * 18\%$ )



# Eligible Expenses

- Research related expenses must be non-reimbursed and reasonable.
- Common expenses – vehicle, conference, supplies, home office, phone, technology fees, accounting fees
- Personal or living expenses are not eligible, except for bona fide travelling expenses (including meals and lodging) incurred in carrying out the research.
- The 50 percent meal and entertainment limitation applies to meals that qualify as research expenses.



# Eligible Expenses - special

- Capital items, such as computer & office equipment, are eligible expenses against research grants (i.e. can deduct 100% of computer rather than capitalize)
- Technically expenses are deductible only against research grants received in the year. Administratively, however, the CRA permits the deduction in the year in which the grant is received for expenses incurred in the immediately preceding year or in the immediately following year (if directly related to grant income)

# Example - \$ 40,000 Grant

<b>Income</b>		2013
104. Other employment income		▶ 40,000
	<b>150. Total income</b>	▶ 40,000
<b>Deductions</b>		
	<b>236. Net income</b>	▶ 40,000
<b>Deductions from net income</b>		
	<b>260. Taxable income</b>	▶ 40,000
<b>Non-refundable tax credits</b>		
300. Basic amount		▶ 11,038
363. Canadian employment amount		▶ 1,117
	<b>335. Total amounts</b>	▶ 12,155
338. Credits		▶ 1,823
	<b>350. Non-refundable credits</b>	▶ 1,823
<b>Federal tax</b>		
Tax on taxable income		▶ 6,000
406. Federal tax		▶ 4,177
420. Net federal tax		▶ 4,177
428. Provincial or territorial tax		▶ 1,998
	<b>435. Total payable</b>	▶ 6,175
<b>Credits</b>		
	<b>482. Total credits</b>	▶ 0
	<b>Balance due/refund (-)</b>	▶ 6,175

# PDF option 2 – Self employed?

- Whether a person is an employee or a self-employed contractor is a question of fact, which can only be determined following a complete analysis of the circumstances of a particular situation.
- The contract between the parties, which sets out the rights and obligations of each of the parties, provides important information in determining the type of relationship that exists.
- CRA will look beyond the contract to the actual circumstances surrounding the performance of services and whether such findings of facts agree with what is stated in the contract.





# Factors to Consider

- Assess written contract
- Control over worker's activities? (assignment / work hours)
- Whether worker supplies own tools and equipment?
- Does worker have ability to sub-contract work or hire assistant?
- Degree of financial risk taken by the worker
- Degree of responsibility for investment and management by worker
- Workers opportunity for profit

# PDF Option 2: Self – Employed

## Canada Pension Plan:

- Must pay CPP (both employer and employee) which is a costly way to pay into CPP
- Half is claimed as deduction in computing income
- Half is claimed as a tax credit

# PDF Option 2: Self – Employed

## Tax Installments:

- Will be required to pay tax installments in 2014 if tax owing in 2013 or 2012 was >\$ 3,000
- Installments are due quarterly – Mar 15, June 15, Sept 15, Dec 15 and interest charged if not made (currently 5% compounded daily)



# PDF Option 2: Self – Employed

## Employment Insurance Option (EI):

- You must enter into an agreement with the Canada Employment Insurance Commission through Service Canada to participate in the EI program for access to EI special benefits
- Only available to Canadian citizens and permanent residents of Canada
- Once registered, must wait 12 months before making a claim
- EI paid at 1.88% per \$ 100 insurable earnings and max is \$ 48,600 or maximum of approx. \$ 914 / year premium

# PDF Option 2: Self – Employed

- **Employment Insurance Option: (con't)**
- Max. benefit \$ 501 / week (2013)
- Other earnings could reduce benefit entitlement
- Maternity benefits – up to 15 weeks, or a total of about \$ 7,710 ( $48,600 / 52 \text{ weeks} * 55\% = 514 \times 15 \text{ weeks}$ ).
- Could also be eligible for parental benefits for up to 35 weeks or a total of about \$ 17,990
- More questions? - [serviccanada.gc.ca](http://serviccanada.gc.ca) or 1-800-529-3742 or you can visit a centre

# Example - \$ 40,000 Self emp.

<b>Income</b>		2013
135. Business		40,000
	<b>150. Total income</b>	<b>40,000</b>
<b>Deductions</b>		
222. Deductions CPP/QPP		1,807
	<b>236. Net income</b>	<b>38,193</b>
<b>Deductions from net income</b>		
	<b>260. Taxable income</b>	<b>38,193</b>
<b>Non-refundable tax credits</b>		
300. Basic amount		11,038
308-310. CPP/QPP		1,807
	<b>335. Total amounts</b>	<b>12,845</b>
338. Credits		1,927
	<b>350. Non-refundable credits</b>	<b>1,927</b>
<b>Federal tax</b>		
Tax on taxable income		5,729
406. Federal tax		3,802
420. Net federal tax		3,802
421. Self employment CPP		3,614
428. Provincial or territorial tax		1,786
	<b>435. Total payable</b>	<b>9,201</b>
<b>Credits</b>		
	<b>482. Total credits</b>	<b>0</b>
	<b>Balance due/refund (-)</b>	<b>9,201</b>



# Self-Employed?

## 4 Common CRA tests

- **1. Control Test** – The objective of this test is to assess if the individual is limited or restricted under a "master-servant relationship". It recognizes that in most cases, the degree of control an employer has over the employee is greater than it is in an independent contractor relationship. For instance, in an employee-employer relationship, the employer can order or require not only what is to be done, but also how and when it shall be done. In contrast, an independent contractor is usually allowed to choose the manner in which the services are performed.
- **2. Integration Test** – This test acknowledges that work performed by an employee under an employment contract is done as an integral part of the business. Under a contract for services, although the work is done for the business it is not integrated, but only accessory to the business.

## 4 Common CRA Tests – con't

- 3. Economic Reality Test - This test assesses the economic aspects of the relationship between the parties to determine whether the taxpayer is carrying on business independently or working for someone else. The objective of the test is to verify the existence of various factors of an economic nature and, using these factors, attempt to assess the nature of the relationship. Factors to be considered in applying this test include the required investments to be made by the individual, permanency of the relationship, and the skill required by the individual.
- 4. Specified Results Test - This test acknowledges that an independent contractor relationship usually involves the undertaking of a specific task after which the relationship ceases and it does not usually require that a particular individual carry out the undertaking. In contrast, in an employer-employee relationship, the employee makes himself or herself available to the employer, to be used by the employer without reference to a specified result.



# Residency Status

- For CDN residents (deemed or factual), tax is imposed based on world wide income.
  - Resident is taxed from the date they entered Canada (also credits prorated)
  - Factual resident – question of fact, guidelines are to establish residential ties (primary - house, spouse, dependents / secondary – bank accounts, personal property, licence, vehicle, memberships)
- Deemed resident – “*Sojourner*” - spent 183 days or more in Canada
  - Example – spent 200 days in Year 1, 150 days in Year 2.
  - Year 1 - CDN resident in year one, taxable on all sources of income
  - Year 2 – non-resident, taxable only on CDN source income
- Dual residency – in theory, you could be resident in two countries at the same time → tax treaties will prevent double taxation and have tie break rules in place to determine residency status
- CRA Forms NR73 (Leaving Canada) and NR74 (Entering Canada) can be filed to determine residency status



# Non-residents

- Non-residents are taxed only on CDN source income.
  - Tax return must be completed, due April 30<sup>th</sup> (same rules as residents)
  - Taxpayer usually argues for non-resident status and CRA often disagrees since CRA wants the tax for world wide income
  - Employment income, scholarships, grants must be reported
  - If lived in multiple provinces during year, need to complete form T2203
  - If from investment income, tax should have been withheld (NR4 slips)
  - Tax deductions and credits will normally be allowed, but could be subject to 90% test (that 90% of income earned was in Canada)
  - Any tax paid in CDN, can be claimed on resident countries tax return as a tax credit.
- International tax office handles rulings and you can request one in advance based on your situation (1-800-267-5177)



# Maximizing Tax Deductions

## *Deductions reduce taxable income*

- RRSP's – watch contribution room
- Child care expenses – claim on lower income spouse
- Union & professional dues
- Employment expenses
- Carrying charges to earn income – i.e. Interest, accounting fees, safety deposit box



# Maximizing Tax Deductions

- **Moving Expenses**

- Eligible Relocation: a relocation that occurs to enable the taxpayer to carry on a business or to be employed at a new work location, where the new residence is located at least 40 kilometres closer to the new work location than the old residence
- travelling costs, including meals, lodging and vehicle expenses, in the course of moving the taxpayer and members of the household
- transportation and storage costs for household effects
- costs for up to 15 days of meals and temporary accommodation near either residence
- costs of selling residence (legal fees, real estate commissions)
- Must be a resident of Canada prior to move



# Maximizing Tax Credits

Tax Credits – 15% Federal / 5.05% Ontario

- Basic credit - \$ 11,038 for 2013
- Spousal or eligible dependent – if spouse does not have income can transfer credit, or a primary caregiver for a child (\$ 11,038)
- Children amount - \$ 2,234 per child born 1995 and later
- First time homebuyers - \$ 5,000 (federal only)
- Child Fitness & Arts Credits - \$500/child for each credit

# Maximizing Tax Credits

- **Tuition** – watch for federal or provincial carry forward balances → check 2012 notice of assessment
  - May be able to transfer to spouse or parent if cannot use
- **Medical expenses** – must be more than 3% of income on Line 236 (i.e.  $40,000 * 3\% = 1,200$ ). Claim on lower income spouse to maximize credit, can claim any 12 month period
  - Can claim medical expenses of spouse and dependent
- **Other** – Donations, interest on student loans, caregiver, public transit passes

# Checklist (typical items for PDF)

- T4, T4A, T3, T5 slips
- T2202A (tuition)
- 2013 rent costs or annual property tax statement
- donation / medical receipts
- bus pass receipt
- 2012 notice of assessment (cfwd. balances, ie tuition)
- prior years tax return if possible



# Non-residents – what's required

- Temporary SIN documentation
- Background information since entering Canada to assess residential ties (i.e. your story)
- All income slips received in Canada
- Summary of worldwide income for the year to calculate 90% test
- Email Hugh for word version of more detailed checklist

# Closing

- Contact Hugh Morton, CPA, CA

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