The Ins and Outs of Preparing Your 2021 Tax Returns

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Marcelo: Welcome to the Empowered Investor Podcast. My name is Marcelo Taboada and today we have a very special episode. We are currently in the midst of tax season. This is a very important time for a lot of Canadians. We all have to file a tax return. Today's episode will cover the ins and outs of taxes and what we should do, what we shouldn't do. The ins and outs are all there. Bear in mind this episode was recorded in 2021 for the tax preparation year of 2020. There are still very relevant issues and ideas that were discussed in this episode. This episode was recorded by Ruben Antoine and our very own Hugh Campbell. Hugh Campbell is our resident CPA. Hugh has been with Tulett, Matthews & Associates for a long time. He's not only responsible for a lot of our laughs on a day-to-day basis, he's also responsible for preparing the tax returns of a lot of our clients. Hugh is a remarkable professional but he's also a remarkable human being. I hope you enjoyed this episode and you'll learn a lot about taxes. Thank you so much.

Ruben: Welcome to this new episode of the Empowered Investor Podcast. My name is Ruben Antoine, and I will be your host for today's episode. With the tax season coming up, we thought we would dedicate an episode of the Empowered Investor on the ins and outs of preparing tax returns. So for that, we have a very special guest, our very own Hugh Campbell, who is a longtime partner of our firm. He is also an accountant working with tax for our clients. Welcome, Hugh.

Hugh: Thank you very much for the invitation. Very gracious of you, Ruben. Hopefully, we can help this morning.

Ruben: Yes, definitely. And I'm very excited to have you on the podcast because as a CPA, I'm happy that we finally got our own episode, two CPAs talking about tax.

Hugh: Yeah, yeah.

Ruben: So let's dive in here. We are ending the RRSP season right now, and this is what a lot of investors have in mind right now. So my first question for you will be: What is the value of the RRSP from a retirement perspective but also from a tax perspective?

Hugh: I don't know, Ruben. The nice thing with the RRSP system in Canada is it helps people to achieve that old adage, which is "pay yourself first." We often hear that in business. If you're trying to sort out your priorities, number one priority: pay yourself first. People work really hard for their money. One of the ways they can pay themselves first is by investing in an RRSP. People, while they're working, often will pay high marginal tax rates, 50% or even a little bit more than 50%. What you want to do is put away money in an RRSP to save that hard marginal rate at 50%. So it's not a bad investment. You put $5,000 in an RRSP, you get $2,500 in tax savings. The interesting thing is that the money that's in an RRSP accumulates tax-free—all the investments that Keith and yourself earn on it. When it comes time for retirement, you can pull it out, but often the marginal rate that you pull it out at is quite different because your income takes a dip after retirement from business, and you will pull it at a tax rate of 30% or perhaps even less. That's a significant permanent tax saving that you've achieved on that RRSP money.

Ruben: So what you are saying is basically you're paying tax now at 53%. You save on that tax because you contribute to the RRSP to pay later, maybe at 30%. So that's the value—it's to defer that tax and maybe pay less in the future because you are at a lower tax rate in the future.

Hugh: And the great thing, your full amount of your money is working for you all those years accumulating tax-free. You can't go wrong. You can't go wrong.

Ruben: So it's like using the government's money to make money on it. It's like an interest-free loan in the meantime.

Hugh: They may be listening, so I'll have to be careful.

Ruben: Perfect. So the next question many Canadians sometimes ask themselves is: Tax season is coming right now, so why should they file their tax return by April 30th? Why this deadline and why should they respect it?

Hugh: Yeah, I go to a lot of seminars. I was at two seminars in the months of November and December where representatives from CRA and Revenue Quebec were there. In both seminars, the representatives said exactly the same thing: Make sure your clients file on time. And there are a number of reasons for that. First of all, on the federal side, if you're a pensioner, you will not get your old age security. You will not get your GST credit. If you're a young person like a young teenager in school, you don't get your GST credit because you didn't file a tax return. In Quebec, you don't get your Solidarity tax credit. You're not entitled to certain other benefits because you didn't file a return.

Ruben: Oh, so even students with lower income—there's value in filing the tax return even if they don't pay tax to get those credits.

Hugh: On the federal side as well, you've got single moms—that's happened to me—where a single mom hadn't filed for a couple of years. There was a divorce, a messy divorce involved, but she hadn't filed for a couple of years. For four years, she hadn't got her child tax payments. Taxes just filed. There was some difficulty. We got it filed. And one day she went to the mailbox unexpectedly because sometimes they don't pay arrears. But in this case, the federal government did pay arrears. She had a check for $24,000 in her mailbox for child tax credit. She hadn't been getting those four years. So you don't always do that, but you've got to file on time. The other reason as well, these tax representatives say, is the minute you file late, your file is red-flagged with Revenue Quebec and Revenue Canada. They will scrutinize your tax returns more closely because they say there has to be a reason that this person is messing up by not filing on time. You'll get more scrutiny on your tax return as a result.

Ruben: Oh, I see. I see. So not to attract attention to ourselves, one way to do it is just to file on time.

Hugh: Absolutely. And if people sometimes file late and say, "I have a refund," they'll take their time processing that refund because, again, they will scrutinize the return to see if this refund is really justified. I've seen people have their refunds delayed as long as five or six months while they scrutinize the tax returns.

Ruben: I see. But when you have a family, for example, should the family file together?

Hugh: That's a good question. It's a problem we run into every year. The teenagers are growing up, the young adults are growing up, and they say to their mom and dad, "Yeah, we're going to do it on our own. We can do it online. We know how to do it." But they forget certain things. One of the things is that there has to be coordination between the student and the parent as far as tuition fees are concerned. The parents have financed the tuition fees, but the declaration and the claiming of tuition fees must go on the student's return. The student must then delegate to his parents the ability to have a tax deduction for those fees. If there's no delegation made by the student, the parent doesn't get a tax deduction. So working with a tax preparer, he'll make sure that's coordinated and certain forms may have to be signed off to allow that transfer of a tuition fee credit from the student to the parent. Also, it will allow that the parents can, in certain cases, claim the student as a dependent and get a deduction for the student or the young adult as a dependent because their income is so low. But if that's not coordinated, the parent doesn't get anything.

Ruben: So in other words, filing together allows an optimization of the tax situation of the whole family. There's a big value in that. So in the current context, what should Canadians be thinking about this year's tax season? What I mean by the current context is we all know many Canadians got some support payments due to COVID last year. Is there any consideration regarding the support payments, like CERB, for example?

Hugh: All the payments people have received as individuals, whether it be CERB or any other form of government program, are all taxable. They have to be declared on a tax return, and taxes may have to be levied. Now, the anticipation is that most people had such a difficult year that even though they have to declare that income, taxes will be nominal at best. But sometimes we find that people near the end of the year got picked up new jobs or they got called back to work, and they have more income than anticipated. So they're going to have a tax bill to pay. So again, because it's going to be a tax bill to pay, you want to make sure you file on time to avoid penalties and interest.

Ruben: And some of these people may have spent all the money they received because they needed to. They didn't put any money aside. So that's where they may have a surprise with the tax payment.

Hugh: But the government, at least on the federal side anyway, has come back and said they recognize that some people have not been prudent to set aside some money for taxes and they may extend payment terms, interest repayment terms on taxes for 2020 only, but it all depends on you filing on time and making the proper declarations.

Ruben: And I would say as well, I know it's tight, but one way to help for people who have extra funds in their account is to do an RRSP contribution as soon as possible to see if they can reduce their income and hence pay less tax or not pay any tax due to support payment. What about home office expenses? Because a lot of people are asking themselves, because of COVID they had to work from home. And usually people that even before COVID, if they were working from home, some of them may qualify for some deduction, but now most of us are working from home. So what can we deduct and then what are the different rules around that?

Hugh: So the federal government's offered a couple of programs. Quebec hasn't really said they'd cooperate, but we haven't seen the results of that. But the first thing that the federal government has offered is that you can claim home office expenses, but the first criteria is that you must have worked from home for four consecutive weeks. As long as you've done that, then you may be entitled to a credit up to $400. No paperwork has to be filed. No receipts have to be maintained. They just give it to you. What they could do in that case is they may call your employer and say, "Hey look, was this person really working from home?" That's all that may happen. However, some people say, "I've incurred other costs. I have some other enhanced costs." The government has offered that people can fill out what is called a form T2200. It must be signed off by the employer. The employer will have to agree. Yes, this employee has had other costs that they've been out of pocket for and should get some tax relief on it. But the employer must fill out that form and provide it to the employee, which is then included in the employee's tax return. So in that case, you have to have that form signed by your employer and you must keep all receipts that you're making a claim on. No receipts, no claim.

Ruben: When you say receipts, you're referring to electricity and all...

Hugh: Some minor repairs and maintenance. Maybe you had to buy a computer, maybe you have to incur extra telephone costs or internet costs, but you have to keep all your receipts for that to back up what you're making a claim on.

Ruben: I see and I assume it's prorated based on where you were working at work, like that?

Hugh: It's usually prorated based on square footage of livable space taken up by the office. And the feds in Quebec are pretty strict about that. They say the space has to be dedicated to work.

Ruben: A lot of people were working on their kitchen table, I'm sure.

Hugh: You may find that the actual deduction is very limited if you haven't got a dedicated space.

Ruben: I see.

Hugh: Generally, for most people that $400 credit is the best you're going to be able to do. And it'll cause you the least amount of grief.

Ruben: Do you think some people will say, "I was working on my kitchen table but I didn't use it to have any dinner anymore, so it was dedicated."

Hugh: It happens. It happens.

Ruben: Yeah.

Hugh: I also have people come to me and say in past years, "Now I use 20% of my house for business." Come on. But you never know. Sometimes there can be reasons, but it all has to be justified in the end. So the thing is, you have a choice. You do the $400 credit, no justification other than you work four straight weeks at home, or you go the more complicated route, which requires paperwork, forms being signed by your employer, and calculations being made. As long as you want to do the work and you can justify the cost, go ahead and do it.

Ruben: One last question on that. What about people who are working from home and they may have a mortgage on this home? Can they deduct, of course by prorating it, but can they deduct the interest that they pay on that mortgage?

Hugh: That's not available to salaried employees. That's something that's only going to be made available to self-employed individuals. So that's not available to the average person. Anybody who can qualify, there's a special set of forms that must be signed off by the employer in order for the employee to qualify. That's much more complex.

Ruben: So generally speaking, when is interest deductible on someone's tax return?

Hugh: There's two reasons for tax returns. First of all, there's the general rule of taxation, which is an expense is deductible only to the extent there was an expectation to earn income. That's a very important rule. If you incurred a cost such as a loan because you're pursuing a business interest, normally, as long as you have the backup document, that interest is tax deductible. Similarly, if you invested in the stock market and you can show that, "Oh yes, this loan I took out was invested fully in the stock market," that interest will be tax deductible. However, if the government after the fact comes back and says, "You know what? You never had an expectation to make any money on that," they can go back and reverse the interest charges and charge you retroactively by back to your tax return year. It's not deductible. So just be cautious when you're making those kinds of claims.

Ruben: Okay, very interesting. So let's talk about the retirees and the seniors. Some of them were in senior residences, some of them were at home because they are spending their retirement in their own home. What are the tax benefits or credits that are available for seniors and retirees?

Hugh: The first thing you have to look at is how much income you made because both federally and Quebec, there are certain programs that are available but they're all income-dependent. So once you reach $50,000 of income, you're not going to be entitled to anything. So first of all, look at your overall income. But to the extent you have income less than $70,000 in Quebec, there's some generous programs that you may be entitled to benefits on. If you live in a condo, not a senior residence but a condo, you can go to your condo associations. There's a special form they'll fill out that will allocate to you the maintenance costs that are either your condo fees. And so you go get that form, you get a tax deduction on your tax return. If you're in a senior's residence, you go to your administration, they will give you a form that will say, "Oh yeah, this person has received services for nursing, cleaning bills, certain other," and again, you can take that as a tax deduction on your tax return. For individuals that have significant problems, let's say a spouse with dementia or other, I would encourage go get the disability tax credit application filled out, submit it with your doctor's permission and help. And that could entitle you to even more relief on the medical expense side. A good part perhaps of the costs that you pay at a senior assisted living dwelling. So there's different grades of deductions depending on the circumstance of individuals.

Ruben: What about the one that stayed in their own home but paid services such as snow removal, cleaning the house?

Hugh: As long as your income is under $70,000, you must have the invoices, and I'd also recommend that you have proper invoices where it has the name, the address of the individual providing the service. Normally, the government likes to see a GST or TVQ number because that means they're properly registered for tax purposes. So you keep all those receipts. You must have the receipt and then give them to your tax preparer. He'll prepare the appropriate line item to make a deduction in particular on your Quebec tax return, but to some degree on your federal.

Ruben: Yeah. These are very key information for seniors. Thanks for sharing that, Hugh. Let's switch gears a bit to something that a lot of people are talking about: the real estate market. Last year and even now, the real estate market is very hot. A lot of overbidding, bidding wars on properties, getting many offers. Very crazy. Many people sold their houses actually last year. Let's discuss the reporting that is necessary for real estate transactions even when it's your own home. So can you tell us a bit more about the pitfalls, what needs to be done, and the penalties when it's not done?

Hugh: So about six or seven years ago, the federal government in particular and Quebec has copied them, got very strict about the reporting of real estate transactions. If the reporting is not done correctly, there's a significant penalty. Penalties can add up to $8,000 or more even though there's no tax paid, no tax consequences because you didn't file a form on time or you didn't file a form completely. You may be subject to quite severe penalties.

Ruben: Even if you don't have any tax to pay?

Hugh: Even if you don't have any tax. So if you sell your home, which is called your principal residence, and you do not report it, even though there's no tax to pay, you do not report that there's a special set of boxes and forms that must be completed on your tax return. If you do not fill out those special forms and boxes, the penalties can be upwards of $8,000 for not having done that. Now, there's other consequences for things like cottages and vacant land. Again, these things have to be reported. If it's not done correctly, you could face penalties. If the calculation of the capital gain is not done correctly, you could face significant tax consequences because your taxes are not calculated correctly.

Ruben: Yeah, for the purpose of the listeners, this is a rule that the government put in place when, two years ago, you said?

Hugh: No, it's about six years ago. The problem the federal government in particular and Quebec were having was people who were buying homes and flipping them.

Ruben: Yeah, because many people were like buying a house and flipping it, staying in that house for a year or two, and then moving to another one. And because it was their principal residence, they were never paying tax, but it's actually a business. That's why.

Hugh: So the government's got risk. The government's looking—if you start flipping properties and claiming the principal residence multiple times, you're in big trouble. It will not work.

Ruben: Actually, it's a business. It's not really a principal. Okay, that makes sense.

Hugh: Just to clarify one thing because there's other problems that are happening on the real estate front, which is there's people in our generation now whose parents are dying. And when they die, they leave behind houses and cottages. You have to report those things very carefully on the final return because people who are executors or beneficiaries, if you do not do that correctly, you as people responsible for the estate, you could be subject to significant penalties in the estate. You want to avoid that. Get proper tax advice. And the handling of the real estate on deceased people, by the way, when a person dies, if they own a home, it's deemed to be sold. So that same form that must be filled out when you actually sell a house when you die, it's called a deemed disposition. That form has to be filled out in the year of death as well.

Ruben: Even if actually the house is not actually sold yet.

Hugh: And again, if you don't do it, significant penalties.

Ruben: Very important. That's a very good point. We are talking about tax here. We are talking about tax income and the fact that Canadians need to be careful what they need to be careful about in paying tax. So let me ask you a general question. Do you pay tax on income earned in Canada only or do you pay tax on income worldwide?

Hugh: Great question. Great question. Cause I have clients who have pensions that come in from the UK or France or other countries and they say, "I don't have to declare that." No. If you're a Canadian resident, the law says, the tax law says you must declare your world income, not your Canadian income, your world income. So anywhere in the world that you've earned income, you must report it on your Canadian tax return and you must pay tax. Sometimes, where there's tax taken off in a foreign jurisdiction, you'll get a foreign tax credit. So you won't be subject to necessarily double taxation, but the critical thing is to make the declaration and recording. Every year we get people coming in who haven't done that. And then we have to take them through a real nightmarish process.

Ruben: You are saying world income. And that reminds me when I was at university in my tax course, I had a teacher who used to say you need to pay your income you earn anywhere in the universe. So if you even earn an income on planet Mars, you have to pay tax on it or at least declare it. So definitely this is very important. And I think many people sometimes they think that if they have, let's say, real estate in another country or some income, the CRA, the Canadian Revenue Agency, they will not find out about it. But the countries are working together now and with technology, everything is related right now. So people need to come forward if they can. And when you come forward, you have a chance to get back in line and declare it. So you don't have any issue with the government.

Hugh: In the case of individuals who have not declared. Every year I have one or two people that come to me, they haven't declared income in a foreign jurisdiction. As long as the government hasn't caught up with them, they can go to a lawyer and make what is called a voluntary disclosure. And that can significantly reduce the penalties. By the way, if you have a security in a foreign jurisdiction and you haven't recorded the fact that you have a security in a foreign jurisdiction, there's no way to come to report. You just have to report that you have it. If you do not report that you have it, the penalty starts at $2,500 each year that you haven't reported that you had that foreign security.

Ruben: Oh wow.

Hugh: It's a lot of money.

Ruben: The more you wait, the more hefty the penalty can be.

Hugh: Absolutely. So there's penalties for not reporting the fact that you had a foreign security or foreign real estate. And then there's penalties when they find out, "Oh yeah, there's also income earned," then there's penalties and interest on that as well. Some people are like, on a $50,000 investment held in, let's say, the UK or France that you haven't reported for 10 years, you could wipe out and lose the value of the whole security just on penalties.

Ruben: Yeah.

Hugh: Just on penalties and interest. And by the way, if the government comes after you to say, "Oh, we found out from the Bank of England that you had a UK pension or a UK security and you didn't report it to us," you're not allowed to make a voluntary disclosure. And then you're going to get full penalties assessed to you.

Ruben: So it's better to come forward before the government discovers anything. Be proactive. So many of our clients and many Canadians like to support the cause and the charities that they care about. What about charitable donations? What is the impact of making donations on someone's tax return? And given that we are talking mostly to investors as well, what is the value in making a donation directly as an investment in kind without selling that investment?

Hugh: Both the federal and Quebec governments have really tried to encourage people to be generous and support charities. And so they've offered some enhancements which I think are very interesting. So, the stock market has done very well for the last 10 years for most people. So, let's say 10 years ago you bought a Bell Canada for $10,000. Today that very security might be worth $20,000, for example. You're in a position where you don't need the money. Say, you know what? I'm going to donate the value of that security. Some people would say, "Okay, I'll cash in. I'll give the $20,000. I'll give the money, whatever money I have left after tax." The government offers you an alternative which is to donate the marketable security itself to the charity.

Ruben: Directly.

Hugh: Directly. Most charities will accept that, they have a program for that. And then what you get is a significant benefit. First of all, the $10,000 capital gain that you had in that security, you don't have to report that for income tax purposes.

Ruben: Which you would have to do if you sell that security to then do the donation.

Hugh: Exactly. And then the government says the charity will be allowed to give you a tax receipt, not for $10,000 what you originally paid for it, but for the value that you had on the day you donated, which is $20,000. So you got a tax receipt for $20,000, and in Quebec that is worth a $10,000 tax credit. So in other words, for the $10,000 that you pay for the investment, you now have a $10,000 tax credit that can reduce your taxes dollar for dollar by $10,000.

Ruben: Oh wow. I think most people will be thinking they should sell the investment and give the money, but that's definitely a better alternative to give the investment directly.

Hugh: You sit down, you talk with your investment advisor, and you talk with the charity that you want to do it with, and between the two you can work out an arrangement.

Ruben: Yeah, definitely. Now, Hugh, there's a tax season coming and I know it's one of the busiest times in your life. I know you help a lot of people with their taxes. I remember when I used to do taxes, I started my career in a small accounting firm where I was doing, in addition to accounting and audit, I was doing taxes for individuals and entrepreneurs and their businesses. One thing I didn't like is when clients would come with a shoebox with a lot of receipts and a lot of papers, and it's a mess, and they expect me to put everything in order and things like that. So that's what I hated when I was working in tax. Is there anything you hate or you hate to hear, for example?

Hugh: Every year, the one comment I hate when people walk into my office is, "My friend got a tax deduction for this," or, "My friend doesn't pay the same amount of taxes." That drives me crazy because I know nothing about your friend. And taxes vary a lot. I had two clients—two separate clients. They were not related. They both got exactly the same amount of pension money and they both had a spouse who didn't work, minimal pensions for the spouses because they were stay-at-home moms. But it was very interesting. The end result was that one got a huge tax break on income splitting; the other did not. And there were reasons for that. And the one who didn't get it, who was expecting to, said, "What is going on with me? My friend gets it." I had to take a walk. This is why you didn't get the income splitting tax deduction. And that's why you have more of a tax burden. And so no two people are alike. Everybody's the same. So it's really hard when you come to a tax preparer and say, "My friend." Now, you want to make informed decisions. You have to come with informed questions. Don't just say, "My friend," you come with specifics. Say, "Because of this circumstance, what is your opinion or how can you help me?" I'll give you a straight answer, but don't tell me, "My friend got them to pay the same amount of taxes." It doesn't work that way.

Ruben: Fair enough. Fair enough. Thanks for sharing what you hate. I like that. So clients come to see you, they do their tax return, they file on time before April 30th like you said, why this is important, and then the government sends them a letter, a paper called the Notice of Assessment. What do they have to do with the Notice of Assessment? And if they owe money to the taxman, what do they do about it?

Hugh: The Notice of Assessment is very important, in particular in Quebec, because there's a lot of government programs that you can be involved with and they will ask you, "Give us your Notice of Assessment number." Keep your Notice of Assessment, in particular for Quebec and the Fed, keep it safe, put it in your tax file so it's accessible when you need it. That's the first thing. Also, the federal assessment, if you have a mortgage or a loan, the banks will inevitably ask you, "We want a copy of your federal assessment notice." The idea being they want to make sure that you're up to date with your taxes. So keep those documents in a safe spot so you have access to them when needed. Now, the other thing is don't ignore pieces of paper. When you get a letter from the government—I know we all prefer to be an ostrich, stick our head in the sand, and say, "If I don't look at it, it will go away." It doesn't work that way. Open your correspondence and you may look at it and say, "This doesn't make any sense." That's possible. Call your tax preparer and say, "I got this." Send a copy to him. He'll help you look after it. I had an instance this year where the client got an assessment and the government said, "You owe $8,000." After I said he had a hundred dollars refund or whatever the case may be. He was breakeven. He wasn't happy with me. Said, "Leave it. We will investigate." And sure enough, it went to Revenue Quebec and they made an assessment error. They actually double-charged him on some of his investment income. Got it straightened out with Quebec, he got a new assessment notice, he owed nothing. So he was a lot happier at that point in time. These things take time. Do not let it sit in a drawer. Do not ignore it. There are serious consequences to doing that when the government starts chasing you. Follow up with your tax preparer. Make sure things are looked after. If you owe money on your tax returns, some people again will say, "I don't have the money," and they just put it in a drawer. "I'll forget about it. Maybe it'll go away." It won't go away.

Ruben: It doesn't work like that.

Hugh: It doesn't work like that. But both governments are very sensitive. Even before COVID, they're fairly sensitive to the fact that if a person had a problem paying the bill, call the government. There's a phone number on your assessor's call. Call them. "I cannot pay this money right now." They will come up with a plan that will work for you that can give you up to a year to actually pay those taxes.

Ruben: Oh, that's interesting. So if you owe money and you have something in your personal situation that you cannot pay that bill right away, you can make an arrangement with the government.

Hugh: And make the arrangement. They're very happy to do that. But do not ignore it. Because if you ignore it, it goes up the ladder in the tax offices. It goes to different departments. If it goes to the collection department, there is no compromise. They're going to hound you and they're going to want that money right away. Not only that, they start charging administrative penalties and the administrative penalties start at between $125 and $200 for each letter they send out to you. So a small tax bill can end up being much bigger just for administrative costs. And they charge interest on their penalties when you don't pay the penalty right away. So don't ignore your assessment notice. Don't ignore your balance that you owe. Deal directly with the government. If you need help, call the tax preparer. He can walk you through the steps that you need to take.

Ruben: Wow. Very good points because like you said, sometimes just because tax is something people don't necessarily like, they might leave it there, procrastinate, and don't look at the letters, but there are consequences. Appears because of that. So what about you've done all that, you've done your homework, filed your tax return, you open your letters, but then everything is done, you have all those papers. How long should you keep them? What are the rules around record retention?

Hugh: So both the federal government and Quebec government say record retention is seven years. So you must keep seven years of records. For the average person, that's fine. Once in a while, though, there are other taxpayers who have rental properties or significant business interests. Then it becomes a little bit different. If you have a rental property, you should keep a record of that rental property for as long as you hold it. I've dealt with some properties where the person held it for 30 years. And when you look at the file, four different tax preparers have been involved over the years because tax preparers come and go. We change careers, we live, we die. And so there were four different people involved in the file, but I needed information. When the property is eventually sold, that had to go back 30 years earlier to when it was purchased to pick up certain costs, certain other items. There's something called a V-day value. There's things called the 1994 valuation day value. There's all these things that affect these long-term holdings. So when you have real estate holdings, make sure you keep all the records because it will be needed. So the seven-year clock only starts ticking on those records after you've actually sold the property. So the year you sell it, count seven years, and then you can store everything.

Ruben: Oh, okay. Okay. That's a particularity that I didn't know about. Very interesting. Thanks a lot, Hugh. This has been great. To be honest, like I'm a CPA. It's been a long time since I did any taxes, but being a CPA, I still learned a lot. And I would say my key takeaway is when you don't do what you're supposed to do, penalties can be very hefty. So people need to be careful not only about filing on time, paying on time, but things like just opening your letters in case there's something that you need to know about, don't procrastinate and be proactive. That's my key takeaway for the listeners. What would you say is the key takeaway you would like our listeners to have from all that you just shared?

Hugh: Two things: Tax returns are more than just about calculating income taxes. There's a whole bunch of other things and forms that are involved that have reporting requirements. Make sure you get the proper advice to make sure you understand and prepare the forms properly that have to go along with the tax return. If you miss out something accidentally, there could be consequences. The second thing is the old biblical adage which is, "Do unto others as you would have them do unto you," which is treat the taxman with respect. If he sends you correspondence, if he makes you a telephone call, make sure you answer things correctly. Use your tax representative, your tax preparer to help you with these things. You're not there alone. If you pay for a service, have a tax preparer help you. But respect the tax authorities. If you respect them, they'll respect you. And they generally will make your life quite a bit easier. But if you ignore them, you do so at your own peril.

Ruben: Very good point, Hugh. Like they say, there are two things you cannot avoid in life: death and taxes. So definitely a lot of respect to the taxman is needed. Thanks a lot, Hugh, for this great episode. I hope you enjoyed it, Hugh, and I hope our listeners really enjoy this tax episode and they have learned from it. We will see you everyone in the next episode of The Empowered Investor. Bye everyone. Bye.

Announcer: You've been listening to the Empowered Investor Podcast hosted by Keith Matthews. Please visit TMA-invest.com to subscribe to this podcast, learn more about how his firm helps Canadian investors, or to request a complimentary copy of *The Empowered Investor*. Investments and investing strategies should be evaluated based on your own objectives. Listeners of this podcast should use their best judgment and consult a financial expert prior to making any investment decisions based on the information found in this podcast.