

Reducing tax at source

TAX & ESTATE BULLETIN



Reduced income tax withholdings on employment income

Each spring many Canadians wait for their tax refunds. These refunds are the result of various deductions or tax credits, such as Registered Retirement Savings Plan (RRSP) contributions, that they claimed on their tax returns to reduce their taxable income. However, many taxpayers may not be aware that it is possible to increase cash flow during the year by reducing the income tax withheld on employment income.

How to increase cash flow

If the amount of income tax withheld on employment income is reduced, less income tax is paid over the year rather than overpaying and then applying for a refund the following year. And instead of the Canada Customs and Revenue Agency or CCRA (formerly Revenue Canada) having the use of these excess tax withholdings during the year, individuals get to keep their own money.

This increased cash flow can help you make regular commitments, such as RRSP contributions. The RRSP deduction limit is frozen at \$13,500 for 2000 through 2003. This limit will increase to \$14,500 in 2004 and \$15,500 in 2005, after which the limit will be indexed to increases in the average wage.

With everyday financial demands consuming so much income, it is becoming more difficult to contribute a lump sum each year. And by delaying contributions to the end of the RRSP season, the opportunity to shelter that year's investment income from tax is lost.

The best way to reach your RRSP limit is to contribute monthly. Notify the CCRA that your taxable income will be reduced by the annual RRSP contribution, thus allowing a reduction of payroll withholding taxes.

For instance, the 2000 limit of \$13,500 amounts to contributions of \$1,125 per month. By notifying the government of this contribution, your monthly tax bill could fall by as much as \$585, or 52 per cent of the contribution. When combined with other available reductions described below, the savings can be substantial.

CCRA requirements

While the legislation requires that there be "undue hardship" before the CCRA can reduce employee withholdings, many district offices apply this rule liberally and will routinely permit a reduction of withholdings for certain deductions and tax credits. As in the case described above, the CCRA will normally permit a reduction in withholdings for RRSP contributions made early in the year. The CCRA may accept receipts showing that contributions have been made, based on RRSP contributions made in prior years, or they may accept a copy of a contract indicating that contributions will be made during the year. This reduction in withholdings not only applies to RRSP contributions, but can also be permitted based on the following deductions or credits:

- Tax-deductible alimony or separation allowance payments paid pursuant to written agreements or court orders
- Tax-deductible child support payments paid pursuant to written agreements or court orders made before May 1, 1997
- Tax-deductible interest and carrying charges on an investment or business-related loan
- Medical expenses
- Allowable business investment losses
- Child care expenses
- Employment expenses
- Charitable donations

To apply for a reduction in withholdings, you must send a completed *CCRA Form T1213, Request to Reduce Tax Deductions At Source for Year(s) _____*, with all supporting documents to the Client Services Division of your tax services office, indicating which deductions or credits you rely on to support the reduction in withholdings tax. This form is available online at the CCRA web site at www.ccr-a-adrc.gc.ca or by calling the CCRA at 1.800.959.2221.

You should also ensure that all tax returns due have been filed and all taxes owing with respect to prior years have been paid before applying for reduced source deductions.

If the CCRA grants the request, it will send a letter to your employer indicating that tax withholdings can be reduced by a specific amount. A copy of this letter will be sent to you. Four to eight weeks should be allowed for processing of the request. This procedure must generally be repeated each year.

Group RRSPs

If you are a member of a group RRSP, your employer's payroll department will handle your RRSP contributions and your tax deductions. However, if you do not contribute to your RRSP through payroll deductions, you need to send a letter of request to the CCRA.

Quebec Residents

Residents of Quebec must send a separate letter to the Quebec Ministère du Revenu in addition to the request sent to the CCRA. This should ensure Quebec taxpayers obtain both provincial and federal withholdings relief.

We don't intend this summary to be legal advice for any particular unitholder. We strongly recommend you consult your own tax advisor to understand the tax implications set out in this bulletin.

This Taxation Bulletin has been prepared with assistance from the Chartered Accounting firm of

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