

Tips and Traps for Real Estate Investors

How to Avoid 5 Costly Mistakes On Your Tax Filing

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Solving clients accounting needs one at a time

5 LARGEST FILING MISTAKES

Here are some pointers to get your tax return prepared efficiently and avoid costly errors while keeping more money in your jeans - tax \$ and accounting fees!

1. Do a Cost/Benefit analysis

Many times we lose ourselves in technical details. At the end of the day, let's look at cost benefit analysis. Let's say you have a \$2 receipt for a coffee at Tim Hortons. Have you ever wondered how much it costs to handle this receipt? Consider the time it takes to keep it in your purse, then add the time to take it out again, read it and file. Then you would need to add it and include it in the report or get a bookkeeper to add the receipt. How much did the receipt actually cost you to process? Is it worth the amount it saves you on taxes?

Similarly, you have a situation when you have an opportunity to amend your return because you have a loss carry back or you have forgotten to include something. Take a look at your cost to file the amended return and the risk. CRA can audit a return 3 years from the mailing date of your notice of assessment. If the return is reassessed because you filed a loss carry back, your audit period date moves forward. For the amount of refund your amended return generates, is it worth the risk of an audit?

Take a look at asking hypothetical questions. Again, you are paying good money for getting advice. Do you get your money's worth?

Key Point: Focus on significant issues only

2. IRRELEVANT INFO

You pay your bookkeeper and your accountant for their time. When you send irrelevant information, it costs you money for them to process it. Granted, most clients do not understand what an accountant needs so they send everything so that the accountant has it all.

Let's look at some common items which look relevant but are not relevant. If you have summarized all the income and expenses for your rental properties, you do not need to send the receipts to the accountant. You need to keep your receipts for the tax auditors, but your accountant does not need them

For your RRSP, all you get is a deduction for your contribution. May people send all the investment information or their monthly statements, but all of this is not needed. All you need to do is send the contribution receipts.

For stock transactions, get your broker to give you a summary of the transactions so that your accountant does not have to summarize them

When you are dealing with professionals, try and keep your stories to bullet forms. This will help you keep the costs down as long stories are hard to follow.

Key Point: Don't waste your time on data that is not relevant

3. AVOID LAST MINUTE RUSH

Doing paperwork is not always fun and not a top priority for many people. But there are ways to keep it to a minimum and make it less painful. Let's start with our objective. 100% accuracy is not desirable as it is costly and not needed. You need to be reasonably accurate. When you find an error ask the question, "so what?" If the error is insignificant, no need to work on it. If the error is significant, then work on getting it corrected.

There is an old saying, "haste makes waste". That is true in tax preparation as well. It is best to do it in 3 lots. First, complete most of the rental property statements in January. Prepare a list of missing items. Prepare a second batch in early March. Send that over to the accountant. Lastly, in early April you should have all your documents.

If you are missing documents, estimate the amounts. For example, with property taxes, you can always add 5% to last year's and you will be within reason of the actual amount. The same applies to insurance. With rental income, you have to be a bit more accurate in estimating.

Key Point: Use good time management skills to batch your work.

4. SECOND GUESS

There is a big difference between second guessing a professional and thinking through an issue. If you are not sure, ask. For example, if you are not sure if a deduction is allowed, firstly try and follow the logic from the professional so that you can address the issue coming up next time.

Let's take the case of interest expense. Most people confuse 2 issues. Mortgage payments are not deductible. Only interest expense for funds directly borrowed for investment purposes is deductible. So it does not matter whether it is called Mortgage, Heloc, Line of Credit – that is not relevant

When you look at the "direct use of funds" rule people will use logic to justify their actions and then debate. As an accountant I am not interested in debating. My job is to present to you what CRA's position is and the likelihood of it sticking. Sometimes CRA's position is incorrect, but then how do you justify the costs of fighting it?

When it comes to instalments, CRA's instalments carry a heavy interest penalty. Pay those on time and you will more than likely cover your accounting fees. Remember, absolute answers do not exist in many cases.

Key Point: Seek to understand, not to debate or be understood

5. Tax Planning

Tax planning is a year round affair. When you have questions, ask. Before you set up, ask. That is tax planning. It involves estimates. Do not spend lots of money when a plan is in thinking stages. Once it starts working, then act on it quickly.

RRSPs are a tool in tax planning and investment planning. If you plan to contribute to RRSPs, do so only when you are in high brackets. When you are in low brackets plan to take some money out. Make sure you do not over contribute as the penalties are heavy.

A common expense forgotten is children's tuition fees for post secondary education as they are not mailed. Kids have to download it from the universities website.

Key Point: Tax planning is event planning. Ask questions before an event happens

Questions or free ½ hour consultation:

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Tax Reporting

Tax reporting is easy. If you have a good bookkeeping system where you keep on top of it on a monthly basis, it will be simple. If not it will be painful.