The top 10 things the taxman may review on your tax return

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Have you heard the story about the interesting tax auditor? No, me neither. Interesting or not, tax auditors are in abundance these days – and you may run into one. The following is a list of the top 10 items that the taxman is likely to question. These come from conversations with several tax professionals and from a list published by the Canada Revenue Agency (CRA) of the most common mistakes made by Canadians when filing their returns.

Employment expenses. The fact is, employees are not allowed many deductions, so it shouldn't be surprising that the taxman focuses time here. People often deduct things that simply don't qualify (briefcases and calculators, for example). Make sure you have a signed Form T2200 from your employer and have receipts to support any eligible deductions.

Carrying charges. You may be able to deduct certain costs related to earning income, such as interest, investment counsel fees, tax preparation fees and certain legal fees, for example. But many people try to claim non-deductible things such as safety deposit box fees, subscriptions and brokerage fees or commissions. Check out the CRA's website or speak to a tax pro about eligible expenses since it's easy to get it wrong.

Moving expenses. The CRA checks moving expenses regularly because folks deduct ineligible costs all the time, including home staging and house-hunting costs, job hunting costs and the cost of repairing an old residence. People also fail to keep valid receipts for eligible costs. Finally, to be eligible to claim moving expenses, your new home must be at least 40 kilometres closer (by the shortest usual public route) to your new work location or school than your old home.

Medical expenses. The problem here is that, while the list of eligible medical expenses is growing slowly, there's still much that can't be claimed – and people push the boundaries. You can't claim the costs of practitioners not recognized by your applicable provincial authority. Nor can you claim vitamins, natural supplements or over-the-counter medications, recliners, non-hospital beds and certain supplies such as rubbing alcohol, bandages and shoe inserts.

Charitable donations. It's amazing how many people don't have valid donation receipts for donations they claim. CRA knows this and likes to ask for the receipts – particularly for larger donations (i.e. over about $25,000). It's also the case that, several years ago, the donation tax credit became the new favourite strategy for many promoters of tax shelters. So, CRA likes to examine donations of assets other than cash, where the value of what you donate may be up for debate.

Capital gains and losses. Don't be surprised if the CRA asks for details supporting the calculation of your capital gains and losses reported on Schedule 3 of your tax return. Pay special attention to your adjusted cost base (ACB) to ensure it's correct. For example, do you have receipts to verify capital additions to your cottage or another property? Have you reduced your ACB for any returns of capital you might have received from an investment?

Allowable business investment losses. If you've invested in, or loaned money to, a small business corporation that has gone defunct, you may be entitled to claim an allowable business investment loss (ABIL) half of which, unlike a typical capital loss, can be used to offset any type of income, not just capital gains. You should be aware that claiming an ABIL results in an automatic set of questions from CRA. Make sure you've got supporting information handy.

Tuition credits. According to CRA, official receipts are often not kept by students, or the educational institution is not recognized for purposes of the tuition tax credit. The student should receive a T2202A slip from schools in Canada, or a properly completed Form TL11 from schools outside of Canada. For 2017 and later years, the education and textbook tax credits are gone.

Student loan interest. Many students claim the student loan interest tax credit on loans that don't qualify, such as personal loans, student lines of credit and foreign student loans. According to CRA, students also claim interest amounts more than once. Official receipts from the financial institution, with the student's name on it, are often not provided when requested. So, make sure you qualify and have the documentation handy.

Province of residence. If you've changed your province of residence, you're more likely to have questions asked than in the past. The tax-rate differences between provinces has caused some to change their province of residence for tax purposes. This is not as common as when Alberta's highest marginal tax rate was about 10 per cent lower than many other provinces in 2015 and prior years, but provinces are trying to protect their revenue base and will ask questions.

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