

TAX ALERT



TAX ALERT is a commentary on topics of current interest – usually topics relating to recent changes in tax law, new CRA administrative practices or current interpretations arising from tax cases. Professional advice should be obtained before acting on any of this information.

INCOME TAX FOLIOS - THREE CHEERS FOR THE CRA

Income tax *folios* were first rolled out in March of 2013 and provide taxpayers with the CRA's interpretations of our tax laws as they apply to the material aspects of various tax issues that commonly confront taxpayers. They are not intended to be exhaustive nor do they explain how every aspect of the law will apply to potential situations. These words are taken almost verbatim from CRA's publication, *Introducing Income Tax Folios* - so as not to stray too far from the precise wording of the CRA and the scope of the new folios.

Income tax folios are replacing the older interpretation bulletins which date back to the 1970's and are being phased out. As new folios are issued which cover bulletins that deal with the same subject, the bulletins will be cancelled. As a matter of fact, many bulletins have already been cancelled because they were outdated and no longer reflected the CRA's current position.

Folios will be an excellent source of information to taxpayers on everyday tax topics. They are very readable and do a good job in dealing with some of the complicated laws where taxpayers are looking for guidance. If a particular area concerns you, they are highly recommended reading and should help you to understand the rules and CRA's take on them. A folio should be the thing you reach for first when you are having trouble understanding a tax provision.

ORGANIZATION – SERIES, CHAPTERS AND FOLIOS

The folios have been divided into seven different *series*. This makes it easy to get started and avoids going through all of the folios to locate the one that you want. The seven series are as follows:

1. Individuals
2. Employers and Employees
3. Property, Investments and Savings Plans
4. Business
5. International and Residency
6. Trusts
7. Charities and Non-profit Organizations

Individuals are most likely to be interested in series 1, 2, 3, and perhaps 4 and 6. That's not to say that others will not apply because in some cases they will.

Each series has a number of topic-specific *chapters*. This organization helps you get where you want to be very quickly. Take for example in Series 1 dealing with Individuals there are six chapters under the following headings:

1. Health and Medical
2. Students
3. Family Unit Issues
4. Personal Credits
5. Transfers of Income, Property, or Rights Third Parties
6. Deceased Individuals

You can see that the thoughtful organization of the new folios makes it easy to move around and find out if CRA has published a folio on something of interest to you. That is a great step forward. Even tax professionals look at these things to gain added insight about CRA's thinking on a particular matter. The CRA will issue a conditional folio first and hold it for 30 days for public comments before it is declared final. That's fairer than fair.

You can find a list of current folios on the CRA's website by going to <http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/menu-eng.html>. I prefer to Google *folios* and it gets me there just as fast without typing in a complicated address that more than likely I will get wrong.

KNOWING CRA's POSITION

If you have a tax issue that concerns you, folios are a great help. They let you know where the CRA stands. The flip side of this of course is that it may be an uphill battle to get CRA to see your point of view if it concludes with a different interpretation – despite CRA's statements to the contrary. If you call the CRA hotline to get an answer to a tax question, chances are you may get a folio read back to you with no further comments from the CRA person on the line – end of discussion. People on CRA's answer line are not that highly qualified so the value of their interpretation is sometimes questionable. Before relying on their answer, you may want to get some professional advice if you disagree.

COMPLYING WITH THE CRA

Sometimes there is more than one way to carry out a transaction or even describe it. If you are in this situation and if there is a way for you to complete it to comply with CRA's position or to do it another way - what should you do? I think you know the answer – comply with the CRA's view of course.

CRA's new folios are a big positive for taxpayers. They are very readable and generally fair. I suggest that you use this library of information to help you carry out your transactions and comply with the CRA from the get go if at all possible.

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