Sunil and Nita LLP
Tax and Business Advisors Chartered Professional Accountants

Interest Rates and You:

You may have recently heard that Bank of Canada is hinting to increase interest rate again. Bank of Canada increases interest rates to keep the inflation between one and three percent. A low stable interest rate helps grow our economy as well as promote job creation. We don't want our economy to grow too quickly or not grow at a desired pace. Bank of Canada plays an important role by regulating interest rates. You may not be impacted if your mortgage or debts are at fixed rates. But, you are exposed to higher cost of borrowing if your debt is at a variable rate. You will have to pay little extra every month to cover the higher interest which means squeezing or cutting down expenses somewhere else. Remember, borrowing to pay higher interest is a bad idea! Here are few ideas to protect you with increasing interest rates:

• Consider converting debts to fixed rates,
• Change variable rate credit card to low interest fixed rate credit card,
• Do your own stress test every month to see where you stand. Check how 1% increase in interest rate will impact your monthly budget. Think what expense you are willing to cut to pay for higher borrowing cost ?, and
• Keep an eye on current economic news specially job creation numbers which is an indication about how economy is doing and enquire about Bank of Canada's next move.

Tax Free Saving Account (TFSA) and share trading account

Tax Free savings Account (TFSA) is around for many years. You may have a TFSA account invested in GIC or higher interest rate savings account. Have you considered opening a share trading account as TFSA? If you don't need money immediately; think about investing TFSA money in blue chip shares such as bank stocks, pharmaceutical company with proven track record, resource sector stocks etc. You will see that your money will grow tax free at faster rates over long term period. Investing in shares has risks but blue chip companies stocks have higher rate of returns over long period of time.

How to Avoid CRA (Canada Revenue Agency) Audit? :

Chances are that you know somebody who does not report all his/her income in tax return or report extra expenses to get higher refund. Also, most of the people are not interested in reporting the tax evasion to CRA. There are serious consequences for filing incorrect tax return. We suggest to remember following point to keep tax man at bay:

• Report all your income. Check CRA web site to make sure all T slips (i.e. income slips) have been reported. Our research shows most of the times mistakes happen in calculating taxable capital gains,
• Claim tax credit correctly. There are some tax credits CRA loves to review such as tuition fee transfer, significant donation amount, and travel expense details etc.,
• Claim only realistic expenses. For example, if you claim auto expenses over 90% as business expense, CRA may ask you to show travel log book.
• Showing business loss all the time is not advisable. CRA understands that not every new business makes profit in first few years but you cannot have a business to create loss.
• Make sure your HST calculations are accurate and returns are up to date

Remember, once CRA finds something wrong in your return, you will be in their radar for long time. Let us know if we can help you to keep your taxes on check.