

CHARLES JEFFERY

Chartered Accountant

Suite 118 - 314 Old Airport Road, Yellowknife, NT X1A 3T3
Phone: 867.920.4722 | Fax: 867.873.5502
info@cjeffery.com

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Northern Residents Deductions – T2222

What are the northern residents deductions?

There are two northern residents deductions. The first deduction is a residency deduction for having lived in a prescribed zone. The second deduction is a travel deduction for travel benefits you received from employment in a prescribed zone.

To qualify you must have lived, on a permanent basis, in a prescribed zone for a continuous period of at least six consecutive months. This period can begin or end in the year under review. Yellowknife, NT is considered to be in **Zone A**.

Residency Deduction

If you qualify, you can claim the residency deduction. You can claim the **basic residency** amount (\$8.25/day) for the days in the year that you lived in the prescribed zone. You can also claim an **additional residency** amount (\$8.25/day) for those days if both of the following apply:

- You maintained and lived in a dwelling in the prescribed zone during that time; and
- You are the only person claiming the basic residency amount for living in that same dwelling for that period

If you share a dwelling, each person can claim the basic residency amount. However, if more than one person claims the basic residency amount for a particular period then no one can claim the additional residency amount for that period.

If three people rent/share a dwelling together each person could claim the basic residency amount unless one person claimed the basic and additional amounts. If one person makes the claim for the basic and additional residency amounts the other two people are no longer able to claim the basic residency amount.

A dwelling is defined as a self-contained domestic establishment or a separate living unit with a kitchen, bathroom, sleeping facility, and its own private entry. This does not include a bunkhouse, dormitory, hotel room or room in a boarding house.

To substantiate your residency claims you should keep at least one of the following on file with your tax documents: lease/rental agreement, rent receipts, property tax statement, annual mortgage statement, and/or utility bills. If you shared a residence with others you should also keep on file their names and note if they claimed any residency. In the case of multiple residences during the course of the year you should keep the above information for each residence.

Travel Deduction

You can claim the deduction for travel if you meet all of the following conditions:

- You qualify to claim northern residents deductions;
- You were an employee not related to your employer;
- You received taxable travel benefits from your employment (Box 32 on T4); and
- You included the travel benefits in employment income (Box 14 on T4)

You may claim a deduction for travel even if you are not claiming a residency deduction. You may claim a travel deduction for a trip that you or any member of your household took providing the household members lived with you at the time of the trip.

Box 32 of your T4 slip and box 28 of your T4A slip will show the value of any taxable travel benefits you received in the year. If you received a benefit that was not for any particular trip, you have to split it reasonably between the trips you are claiming. You may claim two trips per year for either vacation or family reasons. (Reasons other than medical)

The **maximum deduction** you can claim for each eligible trip is the **lowest** of the following three amounts:

- The travel benefit you received from your employer;
- The total travel expense for the trip;
- The cost of the lowest return airfare available at the time of the trip between the closest airport to your home and the nearest designate city (Edmonton is the designate city for Yellowknife)

Travel expenses include any of the following amounts:

- Air, train, bus, and taxi fares;
- Vehicle expenses;
- Meals;
- Hotel and motel fees and camping fees; and
- Incidental expenses such as taxis and road or ferry tolls.

Generally, you can claim only the actual expenses that you incur. However, you can choose to claim a certain amount per kilometre of distance driven and a certain amount per meal for each day you travel instead of using your actual expenses. (NT-2009 \$0.58/km, \$17.00/meal)

The Lowest Return Airfare

The cost of the lowest return airfare is of importance to most people when claiming the travel deductions because it usually is lower than the taxpayer's employment travel benefit and actual expenses. The result is that for most people the cost of the lowest return airfare becomes your travel deduction (multiplied by the number of household members per trip).

Canada Revenue Agency defines the lowest return airfare as:

The lowest return airfare available at the time of the trip means the lowest return airfare for regularly scheduled commercial flights on the date that the travel began. The lowest return airfare to be used is the cost quoted for a flight from the airport closest to your residence to the nearest designated city (even if you did not actually travel by air or to that city).

To comply with the above would require you to obtain a quote from an airline(s) that services the airport closest to your residence and the nearest designate city to you. You should request this quote be written on airline stationary. You will be responsible to demonstrate to Canada Revenue Agency that your quote is valid should your return be selected for review.

Unlike mileage rates and meal allowances Canada Revenue Agency does not publish a set rate for the cost of the lowest return airfare. Experience shows that they do however use a standard rate during their review process.

A large number of the 2008 returns selected for review by Canada Revenue Agency had the cost of the lowest return airfare reduced and set to \$983. This amount was used for Yellowknife and it's designate city of Edmonton. Canada Revenue Agency did not adjust this amount in all cases and some incidents they made no distinction between Yellowknife and other northern locations. Rates from 2009 are not available at the time of this writing.

There is no way to predict if your return will be selected for review, if the item for review will be travel deductions claimed, or if the amount claimed as the cost of lowest return airfare will be reduced during a review. There is also no way to forecast what amounts Canada Revenue Agency will use during the review and processing of 2010 tax returns.

In the past we have used the "Y-Fares" published by northern airlines. This information at one time was easily obtained. The "Y-Fare" rate also directly tied into the amount posted by Treasury Board of Canada Secretariat as the fixed rate VTA (Vacation Travel Assistance).

In 2008 the fixed rate VTA for travel to Yellowknife was \$1408.00 as set by Treasury Board of Canada on October 1, 2008. In 2008 the "Y-Fare" charged by Canadian North was also \$1408.00. After applying the Edmonton Airport Fee of \$15.00, Nav Canada Charges of \$36.00, Security Charges of \$9.34, and GST of \$84.51 the total "Y-Fare" expense for 2008 was \$1774.86.

In 2009 the fixed rate VTA for travel to Yellowknife was \$1746.00 as set by Treasury Board of Canada on October 1, 2009. In 2010 the Treasury Board of Canada adjusted this amount to \$908.00. Although CRA does not publish the amounts that they use, experience shows that the VTA is a strong comparison and reasonable number to use when actual expenses/receipts are not available.

Most airlines use a fare system that sets a normal rate for travel and then all other rates, seat sales, etc are derivatives of that fare. The "Y-fare" with most of the northern airlines is the regular fare that is available to you on every flight. Other fares and promotional rates are sold during limited periods, have purchasing deadlines, are restricted to certain passenger groups such as shareholders, and do not always apply to the full seat inventory on any given flight.

The Northern Residents Deductions – Travel Deduction has been a source of grief for many. It does seem like it is becoming a targeted item for review by Canada Revenue Agency. During the review process you will be asked to submit a completed T2222 (received with your tax return), a copy of your T4 showing your travel benefit (box 32), a trip summary and receipts for each trip claimed on your T2222. You will also be asked to submit the cost of the lowest return airfare. For many this last amount will be reduced by CRA during the review process to whatever rate they have chosen to use. In the case of 2008 this was \$983. (As of February 1, 2011 – 2009 rates are not available)

The end result is that if this happens to you, you will end up with a bill that will reflect the tax on the difference between the amount as filed and the amount reassessed by Canada Revenue Agency in addition you will be responsible for the interest on this amount from the time the return was due (April 30) until the date of the reassessment.

You must choose the number you wish to use as the cost of the lowest return airfare on your tax return. Some would suggest that picking this number or selecting a high number is "gaming" the system. Since this number is not published and it your responsibility to supply it we do not feel that it is "gaming" to use a "Y-Fare" rate or other proven rate.

We suggest using one of the following amounts with the understanding by our clients that we have no means to verify that these amounts are acceptable with Canada Revenue Agency and that they could be reassessed during a review.

If you want to reduce the possibility of having to repay a larger amount to CRA during a review we suggest using the Treasury Board rate of \$908.00.

You will be asked to select one of the above rates on the personal income tax return engagement letter with our firm.