

## Northern Residents Deduction

It's no secret – Canadians living in the sparsely populated northern regions endure cabin fever and minus fifty wind chills every winter. But come each spring, the warm thoughts of a large tax refund shakes off the chill instantly.

### How do we do that?

The secret to our tax refund? It's the northern residents deduction (**NRD**). This two part deduction is available to taxpayers that live in:

- Prescribed northern Zone A – receive full deduction
- Prescribed intermediate Zone B – receive 50% of the full deduction

All places in Yukon, Nunavut, Northwest Territories and Labrador are in Zone A. In Alberta, High Level (no McDonald's restaurant) is in Zone A whereas Peace River (one McDonald's restaurant) is in Zone B. You get the picture – this deduction favors the cold and the isolated.

Generally, the **NRD** is a standardized \$5,400 plus a travel deduction provided you receive a travel benefit from your employer. The travel benefit is discretionary and larger employers provide it to remain competitive. This benefit can range from a low of \$500 to over \$15,000.

### A walk in the past

What ever inspired the bureaucrats in Ottawa to give us the northern residents deduction? Not voluntarily, for sure.

Before 1987, employers could provide tax-free housing and travel allowances to their employees working in locations north of the 60<sup>th</sup> parallel. These tax-free

allowances compensated for the stratospheric housing costs (if any accommodations could be found) and costly travel. Employers argued these tax-free allowances were needed to attract workers to the North.

It wasn't fair between employees that received these freebies and those that didn't. Beginning in 1987, Ottawa leveled the playing field by taxing all housing and travel benefits. As a compromise, it introduced the northern residents deduction. So now you know.

### Part 1 – Qualifying for the residency deduction

The **NRD** is two separate and distinct deductions:

- A residency deduction for living in zone A or B.
- A travel deduction, if you receive a travel benefit from your employer.



You must live in the Zone for 6 continuous months, beginning or ending in the year, to qualify for the residency deduction. The “6 continuous months” is the easy part. The hard part – what is “beginning or ending in the year”?

Here's what it doesn't mean. It does not mean the first 6 months is a pre-qualifying condition.

Let's use an illustration. You moved from Calgary to Resolute Bay, NT to work from December 1, 2006 to June 30, 2007. Say you rented and paid for an apartment while you were up in Resolute Bay during those seven months.

Period	# of days	2006 Tax Return	2007 Tax Return
December 1-31, 2006	31	You qualify to claim \$465 (\$15 x 31 days) after May 31, 2007 (6 months). Since you have to file your 2006 tax return by April 30, 2007, you have to defer this claim and ask for a reassessment of the 2006 tax return after May 31, 2007.	
January 1-June 30, 2007	182		You qualify to claim \$2,730 (\$15 x 182 days) on your 2007 tax return.

The point to remember – as long as you live in a Zone for more than 6 continuous months you will qualify for each of those days, regardless of whether the period straddles two tax years.

### There is more to the residency deduction.

This is a tax deduction, right, so there is more than meets the eye.



The residency deduction consists of:

- Basic amount of \$7.50 per day if you live in the Zone, and
- Additional amount of \$7.50 per day, if you maintain the residence (you own or pay rent) and no one else is claiming the basic amount from that residence.

If you live alone and maintain your residence, you can claim the Basic and Additional amount (total of \$15 day). If you share a residence, each person can claim the Basic amount. However, if more than one person claims the Basic amount, no one else can claim the Additional amount.

For example, if Mom Dad and three adult children share the house, all five can claim \$2,737.50 (Basic amount). Alternatively, Dad claims \$5,400 (Basic and Additional amount) if no one else claims the Basic amount. How this family maximizes their residency deduction depends on their income level and whether they get along.

### Who can claim the travel deduction?

If you receive a travel benefit from your employer (this amount is reported on **Box 32** of your T4 slip), you can claim a travel deduction. You have to qualify to claim the residency deduction in order to claim the travel deduction.

The travel benefit must be paid by an employer who is not related to you. For example, if you own your company, you may receive a travel benefit but you cannot claim the deduction. Proprietors and partners cannot claim the travel deduction because they have no employers.

### What can you claim?

You can claim the **lowest** of three amounts:

- The travel benefit reported on **Box 32** of your T4
- The total travel costs
- The lowest return airfare available at the time of trip (full fare economy) between the airport closest to your residence and nearest designated cities.

Travel expenses include any of the following amounts:

- Air, train, and bus fares
- Vehicle expenses
- Meals
- Hotel, camping fees
- Others, such as taxis, ferry tolls



### Using the simplified travel claim

The taxman allows you to use the simplified method for claiming your travel deduction for meals and vehicle expenses.

- Meals - \$17 per meal, per person, to a minimum of \$51 day, without receipts.
- Vehicle expenses – a flat rate per kilometer travel, provided you are using your vehicle. The per kilometer rate ranges from 46 cents to 58 cents per kilometer, depending on the province/territory the trip began from. The Canada Revenue Agency website has the current rates <http://www.cra-arc.gc.ca/tax/individuals/segments/north-res/travel-e.html>

### Next question, please

Since the travel deduction was introduced in 1986, we continue to wrestle with the fine points.

The following **Questions** and **Answers** should shed some light on this deduction.

***I work for the Company A. Box 32 on my T4 says \$2,000. My husband works for Company B and doesn't have any Box 32 benefits on his T4. So can I claim all his expenses if we are on the same trip together?***

- Yes

***How many trips can we each claim per year?***

- Each member of your household can claim 2 trips per year. Household is not defined but it generally means everyone living under the same roof. It would include your nanny, for example.

***If I used a "points ticket" can I submit the amount of a regular full-fare ticket?***

- No, the value of your points ticket cannot be claimed except for the processing fees paid to book that ticket. But you could still claim the other related travel costs such as the \$17/meal (or \$51/day) per diem per person, car rental costs, taxis and hotels or airport tax.



***If I'm staying with family, can I claim anything per day for staying with them?***

- No, you can only claim accommodation costs if you incurred a cost and you paid for it. For that

reason, accommodation costs such as campground fees are deductible.

***Once I have arrived by air and if I am staying with family, can I still claim \$17 per meal for each day I am on holidays and without keeping receipts?***

- Yes, the meals per diem are claimable for the entire trip.

***And if I ate more and have an accounting on my credit card, can I claim more for the meals?***

- Yes. You have the choice of claiming actual meal costs (must be reasonable) or per diem amounts.

***If I borrow a car while I am on holidays, can I claim the per-kilometer rate and the gas expenses as they show up on my credit card?***

- No, the per-kilometer rate is intended to reimburse you for the wear and tear of using your own vehicle. You don't incur the same degree of costs if you are using someone else's vehicle, so you can't claim the per kilometer rate with someone else's vehicle. In that case you can only claim your actual cost, i.e., gas cost. It's the same with car rental, i.e., you can't claim per-kilometer with a rented car, just the rental costs and related charges such as gas and insurance.

***What do I do say for a Christmas holiday that starts in December of one year and ends in January of the other year?***

- When a trip straddles two years, you can claim the trip in either year, whichever ever works out best. Just

make sure that you have or will have a **Box 32** benefit for the year you claim the deduction.

**Looking for more information?**

- You must complete Form T2222 to claim the residency or travel deduction. For more information, you can go to the Canada Revenue Agency's website at [http://www.cra-arc.gc.ca/formspubs/topics/northern\\_residents-e.html](http://www.cra-arc.gc.ca/formspubs/topics/northern_residents-e.html) or talk to your accountant.



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