Chapter 5

Advanced T1 Work

Learning Objectives

At this chapter’s end students will understand:

- How to prepare a T1 when there are dependents
- How ProFile optimizes a T1
- How to prepare a T1 for the self-employed

Additional Resources

This document provides numerous resources to accounting professionals. Refer to these sites to explore additional training opportunities:

- Professional Accounting Software
- Tax Preparation & eFiling Return Software
- Professional Tax Software Training
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Introduction

Intuit ProFile Tax software is reliable and easy-to-use, and it offers sophisticated features that help tax preparers experience a more productive tax season. The following paragraphs summarize the key components of Intuit ProFile Professional Tax software.

ProFile T1 imports and converts data created by competing software products. Whether you carry files forward individually or in batches, you will find the process quick and convenient. Using ProFile’s WYSIWYG (what you see is what you get) forms, you can view and edit federal T1 and Québec TP1 forms in either French or English. You can also print all tax forms in either language at the click of a button.

ProFile T2 is designed for professional preparation of corporate tax returns in all provinces and territories. ProFile T2 includes:
- Federal T2 returns, including T2 RSI (for 2006-2009 and earlier) and Corporation Internet Filing
- Provincial corporate tax returns for Alberta (including AT1 RSI), for Ontario returns with taxation years ending prior to January 1, 2009 (including CT23 disk filing) and for Quebec (CO-17).
- Provincial capital tax returns for Manitoba, Saskatchewan and British Columbia

ProFile T3 prepares Trust income tax returns and supporting schedules, including T3 and T5 slips that the trust receives. Simply enter slip information on intuitive income-reporting screens and ProFile T3 automatically transfers the amounts to the appropriate forms. ProFile T3 also integrates business and rental income statements. In addition to T3 slips, the software allows you to prepare NR4 slips for non-resident taxpayers (including the NR4 summary).

ProFile FX (Forms Expert) gives you more than 80 of the most commonly-used CRA forms which supplement the form-sets in Intuit’s other tax applications. Here are a few highlights of ProFile FX:
- Customizable options help you complete and file the forms you need.
- Automatic form selection facilitates form printing.
- Audit and review features help pinpoint potential errors
- Forms flexibility lets you print facsimile forms on plain paper or directly onto pre-printed CRA forms. ProFile FX also prepares magnetic media files for T4, T4A, T5, T5018 and NR4 slips, as well as for the RL1, RL2, RL3 and RL4.
- Import identification from an existing ProFile T1 or T2 data file minimizes potential data entry errors.
Benefits of Using ProFile

ProFile is powerful, efficient and secure tax software that helps you get your work done fast and efficiently. Here’s how you benefit by using Profile:

- With phone, email or in-product live chat support, you have year-round access to knowledgeable Canadian technical experts
- With its comprehensive set of forms and schedules, ProFile lets you handle just about every tax scenario in any jurisdiction, including Québec
- With a built-in auditor that runs up to 2,800 diagnostic checks of your tax returns, ProFile has your back
- Flexible Licensing means you can install ProFile on more than one personal computer without having to pay additional licensing fees
- Work with QuickBooks? So does ProFile! There’s no need for manual data entry because you can now export data from QuickBooks directly into ProFile

Plus, with ProFile you enjoy a consistent level of advanced features that include:

- Customizable client correspondence
- Database queries and reporting
- Online tools to quickly and easily stay in touch with your clients
Chapter 5: Advanced T1 Work

DEPENDANTS AND DEDUCTIONS

Now that you have learned the basics, let’s explore T1 preparation at a more advanced level. Chapter introduced a married couple Angela Carsson and Martin St-Pierre. We also prepared a separate and independent tax return for a university student by the name of Johnny Carsson. Chapter 4, therefore, assumed no relation between the married couple (Angela and Martin) and the student (Johnny). In this chapter, you will learn how ProFile optimizes tax returns—using a feature called *Family Linking*—when there is a relationship amongst various taxpayers.

Let’s begin, though, by assuming that the married couple, Angela Carsson and Martin St-Pierre, submit even more forms.

- These forms include the following RSP slip

![Image of RSP slip]

- And a schedule of Medical Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Provider</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 14, 2018</td>
<td>Angela Carsson</td>
<td>Clear Sight Eyes</td>
<td>Eyeglasses</td>
<td>1588.44</td>
</tr>
<tr>
<td>June 28, 2018</td>
<td>Angela Carsson</td>
<td>Dr. Nicholls</td>
<td>Dental</td>
<td>888.78</td>
</tr>
<tr>
<td>November 30, 2018</td>
<td>Angela Carsson</td>
<td>Barclay &amp; Associates</td>
<td>Physiotherapy</td>
<td>1044.22</td>
</tr>
</tbody>
</table>

- Further assume that Angela submitted to you the following T4 and tuition slip for her daughter, Carla, who was a full-time student at Concordia University
Recording RRSP contributions

- With Angela and Martin’s tax return open, press F4, enter RSP in the Search field, and Profile will open the RRSP/PRPP deduction form
• When entering RRSP contributions on this form, scroll down to enter or confirm the taxpayer’s deduction limit (which you will find on CRA’s Notice of Assessment). Note that ProFile will not allow an RRSP deduction until you fill in this field.

Entering Medical Expenses
• To optimize a married couple’s tax return, you will want to combine and claim medical expenses on only one of the spouse’s returns. Assume, therefore, that you have decided to enter the medical expenses on Angela’s T1
• Press F4, enter Med in the Search field and ProFile will open the Medical Expenses form
• Enter the medical expenses as illustrated below
Recording Dependant Information

- With all of the spouses’ information entered in ProFile, the last step is to record the slip information for the couple’s daughter, Carla. To do this, you will use a ProFile’s *Family Linking* feature.

**FAMILY LINKING**

When you create a dependant’s tax return, ProFile will link the return with that of the parents. You can tell *Family Linking* is enabled by the toolbar icon and dropdown menu that lets you toggle amongst the family’s tax files.

- With the spousal return open, Press *F4* and enter *Dep* in *Form Explorer’s Search field*
- Enter Carla’s personal information on the *Dependant information* form
To create Carla’s T1 return, right-click on any field in the form and select *Return for Carla*.

ProFile will open a window to confirm the action. Click *OK*.

From Carla’s tax file, return to *Form Explorer* and enter her T4 and T2202 (tuition) information.
Tuition transfers
When a student’s income isn’t high enough to use up all of the tuition credit, CRA allows that student to transfer the excess credit to a family member. ProFile takes care of this transfer automatically. It does so by a process called optimization.

- Because Carla had excess tuition expenses, ProFile automatically transfers the applicable tuition credit to the appropriate spouse. A quick glance at line 324 of Martin’s S1 form confirms the transfer.

There is a setting in ProFile that toggles family linking on or off. To make sure that this setting is enabled, go to Options > Module and scroll down, under the General tab, to the section that reads “Allow family linking.”

As mentioned in the previous paragraph, ProFile provides seamless, invisible optimization, and it alerts you with audit messages designed to achieve the most beneficial tax results for a tax preparer’s clients.
Here is what ProFile’s optimization prowess includes: medical expenses; donations and losses; foreign tax credits; advantageous caregiver and infirm dependant claims between spouses; smart disability credit transfers; and intelligent transfer of tax credits between taxpayers and their dependants.

**Pension Splitting**
Splitting pension income is another example of ProFile’s optimization capability. Let’s look at an example.

The screenshot below shows the Tax Summary for a married couple named Mary and Frank. Mary earns significantly more than her spouse, Frank, some of her income stemming from a pension of $48,950. Tax practitioners will know that there is an opportunity, therefore, to split the pension income and reduce the couple’s overall tax liability.

- To optimize pension income, go to the pension-transferor’s return and open form *T1032*
- Scroll down the form and click *Split-Pension Income*

ProFile opens the *T1032Opt* pension worksheet form. Right-click the form and select *Optimize split pension income*
• As illustrated in the window below, ProFile will run an analysis and then suggest the pension income to transfer.

• The form highlights the net benefit of accepting the suggested transfer.

• And it also provides a chart outlining the tax liability with different transfer amounts.

• To accept ProFile’s suggested transfer, right-click the form and select **Elect split-pension amount of $24,475**.

To learn more about optimizing, go to **Help > ProFile Help**, click the **Search** tab and enter “Optimizing” in the Search field.
**ProFile and the Self-Employed**

As professional-grade tax software, ProFile can accommodate many types of income scenarios. Examples include rental income, investment income and income from self-employment. This section will illustrate ProFile’s ability to accommodate the latter scenario.

Sam Hruzec, runs an un-incorporated marketing business called SH Marketing Services. Sam has asked you to prepare a T1. Sam has no income or expenses, other than the Statement of Revenue and Expenses below.

<table>
<thead>
<tr>
<th>SH Marketing Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;L</td>
<td></td>
</tr>
<tr>
<td>Jan - Dec 2018</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>91,773</td>
</tr>
<tr>
<td>EXPENSES</td>
<td></td>
</tr>
<tr>
<td>Accounting Fees</td>
<td>4,800</td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td>1,447</td>
</tr>
<tr>
<td>Interest &amp; Bank Charges</td>
<td>1,547</td>
</tr>
<tr>
<td>Office expenses</td>
<td>1,398</td>
</tr>
<tr>
<td>Telephone</td>
<td>626</td>
</tr>
<tr>
<td>Travel Expense</td>
<td>780</td>
</tr>
<tr>
<td>Vehicle Expenses</td>
<td></td>
</tr>
<tr>
<td>Biz KM</td>
<td>3255</td>
</tr>
<tr>
<td>Total KM</td>
<td>10061</td>
</tr>
<tr>
<td>Fuel</td>
<td>827</td>
</tr>
<tr>
<td>Insurance</td>
<td>914</td>
</tr>
<tr>
<td>Repairs</td>
<td>637</td>
</tr>
<tr>
<td>Parking</td>
<td>112</td>
</tr>
<tr>
<td>Home Office Expenses</td>
<td></td>
</tr>
<tr>
<td>Total space</td>
<td>1695</td>
</tr>
<tr>
<td>Business use space</td>
<td>317</td>
</tr>
<tr>
<td>Home Insurance</td>
<td>628</td>
</tr>
<tr>
<td>Home Rep/Maint</td>
<td>1775</td>
</tr>
<tr>
<td>Heat</td>
<td>1288</td>
</tr>
<tr>
<td>Hydro</td>
<td>764</td>
</tr>
<tr>
<td>Property Tax</td>
<td>3840</td>
</tr>
</tbody>
</table>
T2125
You will record all of Sam’s business-related revenue and expenses on form T2125, *Statement of Business or Professional Activities*. After entering Sam’s personal and contact information on the Info page, use Form Explorer to find and open the T2125.

Here’s how to complete form T2125:

- Enter the business contact details and other required information under identification area, and record the gross sales under Part 3 – Business Income.

- Record all business expenses in Part 4 of the T2125.
• Note, however, that you don’t record vehicle expenses on the T2125 itself, but on the Business Auto ancillary form (see illustration below), and you indicate, at the top of the Business Auto form, where to send the vehicle expenses.

Here are other key points to consider with the Business Auto form:

• You must indicate the business kilometers and the total number of kilometers driven in the tax year. ProFile uses these values to calculate the allowable vehicle expense.

• Any vehicle loan or leasing costs are calculated in a separate area of the Business Auto form. See Chart D, at the bottom of the window below, which is where the eligible leasing cost is calculated.

One further step in recording Sam’s business expenses is to enter the allowable home office expense. As a self-employed individual working from home, Sam can deduct a portion of her home expenses. This portion is calculated by adding up all of Sam’s home expenses and multiplying it by a factor that represents the percentage of the home’s area used to run her business.

• To record home expenses, scroll down to Part 7 at bottom of the T2125.
- Enter the home’s total area and the area used for business
- Enter the operating costs for the home including heat, electricity, insurance, etc.
- ProFile will calculate the allowable home office expense and include as an eligible business expense on the T2125

After entering all required information on the T2125, ProFile will calculate the gross and net business income and transfer it to the T1 Jacket.

**PART-YEAR RESIDENTS**

In this section, we’ll briefly describe how to set up ProFile for newly-arrived residents.

**Working on a part-year resident return**

If someone is newly arrived in Canada, follow these steps to set up a T1 return.

- Complete the Info page as you normally would. So that ProFile can prepare the proper schedules, ensure that you select the correct province of residence
- Report the date of entry into Canada
- After reporting the date of entry, ProFile will open additional fields, including Line 5292 and 5293. In these fields, report Canadian and foreign-sourced non-resident income. In this example, there is $10,000 of foreign-sourced, non-resident income
• Once you enter an amount on either Line 5292 or 5293, ProFile will tick the box to prorate non-refundable tax credits.
• Note how the auditor alerts you that amounts are prorated.
• You may then complete the rest of the return as you normally would.

Residency rules, for both Canadian citizens and non-Canadians, can be a complex affair. For more information, consult CRA’s guides, such as T4058 Non-Residents and Income Tax, and T4055 Newcomers to Canada.
Chapter 5 Quiz

**Question 1:** The feature that allows you to prepare T1s for married couples and their dependants is called:

A. Hub and Link  
B. Synchronization  
C. ProFile Review  
D. Family Linking

**Question 2:** True or False: ProFile will calculate the allowable RRSP deduction even if no deduction limit indicated:

**Question 3:** Select the best way to create a dependant’s T1:

A. Go to the *File* menu and click *New T1*  
B. Right-click a T1 Jacket and select *New*  
C. Click the *Synchronize* icon  
D. Right-click the dependant’s name on the *Dependant* form, and click *Return for...*

**Question 4:** True or False: If a dependant has excess tuition credits, ProFile will transfer the excess amount to a parent’s linked return

**Question 5:** True or False: ProFile has an option to toggle Family Linking on or off

**Question 6:** Which of following tax situations does ProFile’s Optimization verify?

A. Medical expenses  
B. Charitable donations  
C. Tuition credits  
D. All the above

**Question 7:** True or False: The T1032 form allows you to optimize and split pension income between spouses
**Question 8:** True or False: ProFile cannot prepare tax returns for self-employed individuals

**Question 9:** To prepare a T2125, ProFile requires the following. Choose the best answer:

A. ProFile cannot prepare a T2125 return
B. A statement of revenue and expenses (Income Statement or Profit & Loss)
C. A balance sheet
D. None of the above

**Question 10:** True or False: ProFile can prepare a T1 for part-year residents