



NORMAN'S COMMENTS ON WHAT A LIBERAL MAJORITY MEANS FOR YOUR TAXES

On October 19, 2015, the Federal Liberal Party, led by Justin Trudeau, obtained a majority of the available seats, giving the required strength to quickly pass bills and implement the Liberal Party Platform. At this time what I can confirm are the components of the platform as posted on the official Liberal website related to finance and tax:

Personal

(a) **Personal Tax Rates** – The federal personal tax rate in the 2nd bracket (\$43,954 to \$87,907) will be reduced from 22.0% to 20.5%. A fourth tax bracket will be introduced to start at \$200,000 with a tax rate of 33%, **4% higher than the highest bracket at present**. Prime Minister Justin Trudeau has indicated that his first order of business is to pass these rate changes, at the present time it is unclear if they will apply this effective in 2015 or 2016 and whether there will be a transitional period.

(b) **Family Tax Cut** – The \$2000 tax cut is eliminated. Pension splitting will remain.

(c) **Canada Child Benefit** – The Universal Child Care Tax Benefit, National Child Supplement, and Child Tax Benefit will be rolled into this new Benefit. A base amount of \$6,400 per child under 6 and \$5,400 per child aged 6 to 17 will be paid. The payments will be reduced based on a percentage of family income level. No reduction will occur for income below \$30,000. Amounts will be non-taxable. Per the Liberal campaign materials, Families under \$150,000 will fare better under the Liberal platform.

(d) **TFSA** – The annual contribution limit will revert to the \$5,500 level. The timing and the method for implementing this change has not yet been disclosed. **(See my planning ideas)**

(e) **CPP Benefits** – Consultations are planned on possible increased benefits. **(See my comments on Professional Corporations and the CPP)**

(f) **EI Premiums** – To be reduced from \$1.88 to \$1.65 per \$100 by 2017. Increased availability and flexibility to be introduced.

(g) **RRIF** – The reduction to the minimum withdrawal rates to be maintained in accordance with the 2015 Budget. (See my comments on reducing RRIF income in 2015)

(h) **Teacher and Early Childhood Educator School Supply Tax Benefit** – Proposed refundable credit is planned for 2015. The credit valued at a maximum of \$1,000 x 15% = \$150.

(i) **Guaranteed Income Supplement (GIS)** – The GIS is proposed to be increased by 10% for single, low-income seniors. This is approximately \$60 per month.



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(j) **Northern Residents' Deduction** – The deduction is proposed to be increased by 1/3 from its present levels, and be indexed annually for inflation.

(k) **Home Buyers' Program** – Flexibility to be increased for those that have experienced sudden and significant life changes (e.g. job relocation, death of a spouse, marital breakdown etc.).

(l) **Deduction for Stock Options** – Consideration has been given to a cap on the 50% deduction, however, the first \$100,000 annually would still qualify.

(m) **Labour-Sponsored Venture Capital Corporation Tax Credit** To be reinstated. The 2013 Federal Budget announced a phase-out of this credit from 2015 to 2017.

(n) **Education and Textbook Credits** – To be cancelled in favour of increasing student grants. The Tuition Credit will remain.

Corporate

(a) **Small Business Corporate Tax Rates** – The decrease to the small business tax rate from 11% in 2015 to 9% in 2019, in stages, will proceed as proposed in the 2015 Federal Budget.

(b) **Small Business Deduction Eligibility** – “We will ensure that Canadian-Controlled Private Corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses.”

SELECT QUOTES FROM THE LIBERAL CAMPAIGN

(a) “We will make the **Canada Revenue Agency** fairer, more helpful, and easier to use.”

(b) “We will also invest an additional \$80 million, over four years, to help the Canada Revenue Agency crackdown on **tax evaders**.”

(c) “Modernize the rules governing the **charitable and not-for-profit sectors**.”

(d) “We will conduct a review of all tax expenditures to target **tax loopholes** that particularly benefit Canada's top one percent.”



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NORMAN'S TAX PLANNING IDEAS

Many individuals are speculating what finance and tax proposals are pending under the new Liberal government. I have several thoughts to share as follows:

PLANNING FOR A RATE INCREASE

If you personally earn income in excess of \$200,000. You have a corporation with invested capital, you will need more money in the next 12 months and you cannot otherwise pay dividends to lower tax bracketed individual. It is preferred to withdraw funds from your corporation in 2015 not 2016 when personal tax rates are going to be 4% higher! It's unlikely the tax rate will increase in 2015 and even if they did you are no worse off. Unfortunately this past week, the equity markets are off, so an equity sale now to generate the extra cash is not recommended. You should call to discuss your particular situation with me directly and also speak to your investment advisor.

In 2016 salary may be cheaper than dividends due to the gross up, higher tax rates and my speculative comments below.

TAX FREE SAVINGS ACCOUNT (TFSA)

For some the opportunity to contribute to your TFSA before the limit drops from \$10,000 to \$5,500 may be in your best interests. Speak to me and or your investment advisor.

PROFESSIONAL CORPORATIONS AND THE CPP

I speculate that when the Liberals say: "We will ensure that Canadian-Controlled Private Corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses." A method to implement this change could parallel what Quebec did. The Liberals could choose to deny corporations the 17% Federal Small Business Deduction (SBD) if they are not engaged in manufacturing and processing, or do not employ more than three (3) full time workers. Professional corporations could find it difficult to meet these criteria and this could result in a huge tax cost (17% federal and 5% provincial) for Professional corporations. This also dovetails with the fact that the Ontario's Liberal Premier, Kathleen Wynne wanted to implement a mandatory Ontario Pension Plan (OPP) and/or increase the Canada Pension Plan (CPP). This Federal measure could force corporations with less than three employees and or a dividend only (no salary) strategy to now choose to pay annual salaries and therefore pay the higher CPP and OPP. Since if you pay only dividends the company may not have enough full time workers and therefore will lose the 17% SBD. Some Professional's who share Administrative and other staff may have disagreement on how they are organized as everyone may now want the common employees under their Professional Corporation to be eligible for the SBD. In some cases if you only have one or two employees you may no longer be entitled to the SBD. This is my



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hyperbole speculation; we must wait to see what actually comes to pass with either: the April 2016 Budget or perhaps a sooner announcement.

STOCK OPTIONS

Considering the potential changes to the tax treatment of stock options as well as the 4% jump in top personal tax rates some people are considering exercising their stock options and paying the tax in 2015 vs. 2016 or future years. The analysis will also depend on the projected future stock prices as well. The final answer will depend on your personal situation as well as your own decisions and expected future stock appreciation.



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And finally some levity for the one percent

THE TAX SYSTEM EXPLAINED IN BEER

Suppose that every day, ten men go out for beer and the bill for all ten comes to \$100...

If they paid their bill the way we pay our taxes, it would go something like this...

The first four men (the poorest) would pay nothing.

The fifth would pay \$1.

The sixth would pay \$3.

The seventh would pay \$7..

The eighth would pay \$12.

The ninth would pay \$18.

The tenth man (the richest) would pay \$59.

So, that's what they decided to do..

The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve ball.

"Since you are all such good customers," he said, "I'm going to reduce the cost of your daily beer by \$20". Drinks for the ten men would now cost just \$80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They would still drink for free.

But what about the other six men ? How could they divide the \$20 windfall so that everyone would get his fair share?

They realized that \$20 divided by six is \$3.33. But if they subtracted that from every body's share, then the fifth man and the sixth man would each end up being paid to drink his beer.

So, the bar owner suggested that it would be fair to reduce each man's bill by a higher percentage the poorer he was, to follow the principle of the tax system they had been using, and he proceeded to work out the amounts he suggested that each should now pay.

And so the fifth man, like the first four, now paid nothing (100% saving).

The sixth now paid \$2 instead of \$3 (33% saving).

The seventh now paid \$5 instead of \$7 (28% saving).

The eighth now paid \$9 instead of \$12 (25% saving).

The ninth now paid \$14 instead of \$18 (22% saving).

The tenth now paid \$49 instead of \$59 (16% saving).

Each of the six was better off than before. And the first four continued to drink for free. But, once outside the bar, the men began to compare their savings.

"I only got a dollar out of the \$20 saving," declared the sixth man. He pointed to the tenth man, "but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar too. It's unfair that he got ten times more benefit than me!"

"That's true!" shouted the seventh man. "Why should he get \$10 back, when I got only \$2? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison, "we didn't get anything at all. This new tax system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had their beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!

And that, boys and girls, journalists and government ministers, is how our tax system works. The people who already pay the highest taxes will naturally get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start drinking overseas, where the atmosphere is somewhat friendlier.

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