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94 Cumberland Street, Suite 200, Toronto, Ontario M5R 1A3
Telephone: (416) 961-5612 Fax: (416) 961-6158
e-mail: valuators@marmerpenner.com

Marmer Penner Newsletter

Edited by Steve Z. Ranot, CA, CBV, CFE and Michael S. Penner, BBA, CA, CBV, ASA, CFE

2000 Federal Budget

As usual, the federal budget was met with mixed reaction. Those that favoured the budget praised Paul Martin's tax cuts. Those opposed seemed to be split among different permutations of not enough cuts/too much spending/not enough spending/too many tax cuts. Once again, this confirmed that one can only please some of the people some of the time.

The highlights of the budget were as follows:

(a) full indexation restored to the personal income tax system – this affects the bracket thresholds and the value of certain tax credits for individuals;

(b) reduction of the middle tax rate over the next few years for individuals– the middle rate of 26% will be reduced to 23%, commencing with a 1% reduction in 2000;

(c) elimination of the last remaining federal surtax on personal income over the next four years – the 5% surtax will be reduced over the next four years. Simultaneously, the income level at which it is triggered will be increased;

(d) reduction of the general corporate income tax rate – the general corporate tax rate of 28%, which applies to non-manufacturing and processing income, will be reduced to 21% over the next five years;

(e) reduction of the corporate tax rate on small business income – an additional $100,000 of active business income earned by Canadian controlled private corporations will now be subject to a lower rate of income tax commencing in 2001;

(f) reduction of the capital gains inclusion rate – the rate at which capital gains must be included in income, will be reduced from 75% to 66 2/3% for dispositions after February 27, 2000;

(g) deferral of taxation for individuals on exercise of certain high tech stock options;

(h) enhanced Child Tax Benefits for individuals; and

(i) increased child care expenses available to parents of disabled children.

How do these changes impact on family law practitioners?

Every tax measure highlighted above increases the after-tax income available to a taxpayer, both corporations and individuals. As a result, where taxable/deductible support is being paid, both the payer and recipient benefit from this budget. For those receiving non-taxable support, the budget measures do not impact the recipient if the recipient has no other income.

Both federal and Ontario tax rates have now decreased since 1997. For example, for a single taxpayer earning $100,000 of income of which $10,000 is capital gains, the tax savings between 1997 tax rates and those in effect once these budget measures are fully implemented, amount to about $6,000 per annum.

While all taxpayers will realize tax savings, the level of the tax savings will not be uniform.