

Marmer Penner Newsletter

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2001 ONTARIO BUDGET

The 2001 Ontario budget was released by Finance Minister, Jim Flaherty, on May 9, 2001. The budget announced no major tax changes for 2001.

The budget confirmed that Ontario corporate income tax rates will continue to decrease until the general provincial tax rate is 8% in 2005 and the preferential tax rate for Canadian controlled private corporations earning active business income is 4%.

Personal income tax rates will decrease for income below \$61,629. As a result, Ontario's tax rates and tax brackets for 2001 to 2003 are expected to be as follows:

| Taxable income brackets* | 2001 | 2002 | 2003 |
|---------------------------------|-------------|-------------|-------------|
| \$0 - \$30,814 | 6.20% | 6.05% | 5.65% |
| \$30,815 - \$61,629 | 9.24% | 9.15% | 8.85% |
| Over \$61,629 | 11.16% | 11.16% | 11.16% |

* tax brackets subject to adjustment after 2001 by CPI.

The reduction in these income tax rates will save taxpayers a maximum of \$60 in 2002 and about \$250 in 2003. The actual tax savings will depend on each taxpayer's individual situation.

Ontario did not introduce a fourth tax bracket for income above \$100,000 as was announced by the federal government in 2000. Accordingly, for the first time, the major tax brackets for Ontario and federal income tax purposes are no longer in sync.

Currently, Ontario levies a 20% surtax on Ontario tax between \$3,560 and \$4,491. Thereafter the surtax increases to 56% of Ontario tax. The Finance Minister proposes

to eliminate the first-level of the surtax such that the surtax starts at 56% of Ontario tax over \$4,491. This change is scheduled to take effect in 2003. The maximum tax savings from the elimination of the first-level surtax is \$186 per taxpayer.

The budget introduces a new refundable tax credit commencing 2002 for the first \$7,000 per child of private school tuition including kindergarten. The credit will be phased in over five years commencing with a 10% credit of the \$7,000 per child, or \$700, for 2002 and increasing in increments of 10% until the credit reaches 50%, or \$3,500 per child, in 2006. This credit will reduce the cost of private school tuition and impact the after-tax cost of this expense which is generally considered an add-on for child support purposes. Family law practitioners should consider the tax savings when determining the cost of this add-on.

This newsletter is intended to highlight areas where professional assistance may be required. It is not intended to substitute for proper professional planning. The professionals at Marmer Penner will be pleased to assist you with any matters that arise. Please feel free to visit our website at www.marmerpenner.com.