

Marmer Penner Newsletter

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2003 Federal Budget

On February 18, 2003 Finance Minister, John Manley, released his first budget.

RRSP Contribution Limits and Employment Insurance Premiums

RRSP contribution limits will be increased from \$13,500 in 2002 to \$14,500 in 2003, \$15,500 in 2004, \$16,500 in 2005 and \$18,000 in 2006.

Employment insurance premiums will be decreased slightly in 2003.

Child Tax Benefit

The maximum benefit for one child is currently \$2,444 per annum. This is scheduled to increase to \$3,243 by 2007. The amounts for additional children are also scheduled to rise in the same time period. The threshold above which these benefits begin to erode is currently \$22,397 of annual income. This will continue to be indexed for inflation annually.

Corporate Small Business Deduction

Since 1984, Canadian controlled private corporations have been taxed at a preferential rate on the first \$200,000 of active business income earned in Canada. The budget proposes to increase this threshold to \$300,000 by 2006. The annual threshold rises to \$225,000 in 2003, \$250,000 in 2004 and \$275,000 in 2006. For high income owner-managers of Canadian

businesses, this may impact their personal incomes and what is calculated as their income for support purposes.

A rule of thumb used by many tax planners is to “bonus down” a corporation’s income so that it pays no income tax above this small business deduction threshold. In the past, that meant paying the shareholder all of the company’s income except for \$200,000. Now that amount may change. In effect, owner-managers have an income tax incentive to leave up to an extra \$25,000 of taxable income in their corporations this year with that amount soon rising to \$100,000. It will be a question of fact whether they have access and control over this additional corporate income.

Employee Stand-By Charge

Employees who are provided with an automobile by their employer are required to have included in their employment income the prescribed value of this benefit known as the stand-by charge. This is in addition to the value of operating expenses, such as gas, insurance and repairs, that may be paid by the employer.

In the past, the stand-by charge could be reduced where an employee used the vehicle less than 10% for personal use and personal use driving did not exceed 12,000 kilometres in a year. The budget proposes to allow a reduced stand-by charge for employees who drive up to 20,000 kilometres per year for personal use, but still use the vehicle primarily, that is more than 50%, for business use.

In general, lower stand-by charges translate to lower amounts reported on an employee’s T4 slip.

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 Inc. will be pleased to assist you with any matters that arise. Please feel free to visit our website at www.marmerpenner.com.