

Marmer Penner Inc. Newsletter

Written by Steve Z. Ranot, CPA, CA•IFA, CBV
Edited by James A. DeBresser, CPA, CA•IFA, CBV

2014 Provincial Budget – Family Law Implications

Ontario Finance Minister Charles Sousa tabled the 2014 provincial budget yesterday. In a nutshell, our provincial government's solution to Ontario's woes is three-pronged – tax more, spend more and borrow more. Not surprisingly, there were increases to both personal and corporate income tax rates.

Both the Progressive Conservative and the New Democratic Party have indicated they will not support this budget, likely for very different reasons.

Two years ago, the Dalton McGuinty-led Liberals introduced a 2% tax increase on high-income earners, defined then as those individuals earning more than \$500,000. With the Ontario surtax, the announced 2% hike was actually a 3.12% increase, which raised the highest marginal rate in this province from 46.41% to 49.53%. Not wishing to offend a slew of other taxpayers, yesterday's inclusive budget brought those earning \$220,000 or more into the high earner's club. Those earning between \$150,000 and \$220,000 will be hit with one-half of the increase, or a 1.56% increase to 47.97%. Unlike federal and other provincial brackets, these will no longer be indexed to inflation so those earning less than \$150,000 may eventually be thrust into the higher tax brackets

due to nothing more than cost-of-living increases. These rates will also be retroactive to January 1, 2014.

The new 2014 tax brackets for regular income – that is, income other than capital gains and dividends – will be as follows:

| Prior to the 2014 Budget | | | New Rates Pursuant to the Budget | | |
|--------------------------|-----------|--------|----------------------------------|-----------|--------|
| First | \$40,120 | 20.05% | First | \$40,120 | 20.05% |
| \$40,121 to | \$43,953 | 24.15% | \$40,121 to | \$43,953 | 24.15% |
| \$43,954 to | \$70,651 | 31.15% | \$43,954 to | \$70,651 | 31.15% |
| \$70,652 to | \$80,242 | 32.98% | \$70,652 to | \$80,242 | 32.98% |
| \$80,243 to | \$83,237 | 35.39% | \$80,243 to | \$83,237 | 35.39% |
| \$83,238 to | \$87,907 | 39.41% | \$83,238 to | \$87,907 | 39.41% |
| \$87,908 to | \$136,270 | 43.41% | \$87,908 to | \$136,270 | 43.41% |
| \$136,271 to | \$514,090 | 46.41% | \$136,271 to | \$150,000 | 46.41% |
| Over | \$514,090 | 49.53% | \$150,001 to | \$220,000 | 47.97% |
| | | | Over | \$220,000 | 49.53% |

As a result of these increases, the new income tax gross-up rate for unreported income or personal expenses charged as business expenses for individuals with income above \$220,000 pursuant to the *Child Support Guidelines* can be as high as 98.1%, up from the previous rate of 86.6% when using the 46.41% tax rate for many high income spouses.

Income tax rates on capital gains and dividends will also be increasing as a result of this budget.

Prior to Mr. McGuinty's election in 2003, Ontario had one of the lowest provincial tax rates in Canada. Now, we look longingly west at our Alberta brethren, with their highest marginal rate of 39%.

Starting in 2017, payroll taxes will increase in Ontario as individuals not already members of an employer pension plan will be required to contribute up to \$1,710 annually to an Ontario version of the Canada Pension Plan to be called the Ontario Retirement Pension Plan. Employers will, of course, be required to match these contributions. In a province still suffering job losses, one has to wonder which economist suggested raising payroll taxes as a solution.

The corporate income tax increase comes from the phase-out of the Ontario small business deduction for Canadian-controlled private corporations with more than \$10 million of taxable capital employed in Canada. This affects business valuations as the tax rate on such corporations rises and, presumably, both after-tax maintainable earnings and valuations will decline.

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Marmer Penner Inc. is pleased to announce that James Savelli, CPA, CA, has joined our firm after practising for a number of years at a regional accounting firm specializing in small to medium-sized businesses. James is enrolled in the CBV program and his hourly rate is \$170.

This newsletter is not intended to substitute for proper professional planning. It is intended to highlight areas where professional assistance may be required or enough to discuss at the next hoedown. 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.