INSIGHTS INTO CANADIAN TAX COMPLEXITY

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CanadaOne

- TAX COMPLEXITY
- SALES TAX
- GAS TAX
- LAND TRANSFER TAX
- ARRAY OF TAXATION
- REVENUE METHODS

CONTENTS

What's Inside?

Introduction

CANADIAN TAX

This ebook will discuss the pervasiveness and complexity of taxation in Canada. While I believe taxes are needed to pay for important public goods I am against excess complexity.

Taxation has always existed and always will. Since we need public goods (that won't be provided by private markets) we need taxation. Even in Old Testament times, the pharaoh levied an income tax of 20%. The farmers kept 80% of their crops (i.e., their income) and paid 20% to the pharaoh (a flat tax).

We need a method of paying for public goods and user fees are not always feasible. For example, how much should each person pay for public safety or for a water sewage plant[1]? Hence taxation is needed.

As the venerable professor emeritus Stan Laiken likes to say "Tax is a microcosm of life". This ebook will explore this microcosm by examining the various taxes paid by a hypothetical middle-income Canadian including commodity, income, payroll, gas and land transfer tax. In some ways this essay (which focuses solely on taxes paid by a Canadian individual) is a much simplified version of PwC's "Paying Taxes 2012" which comprehensively analyzes worldwide corporate tax complexity.

1 Local residents pay for water treatment through their water and sewage fees paid to their municipality; however water is a shared resource and people living outside the particular municipality benefit from proper treatment of sewage (and are harmed by improper treatment).

Section 1.0

INSIGHTS INTO CANADIAN TAX COMPLEXITY

Section 1.1

COMPLEXITY AND ARRAY OF TAXATION

Broad-based income and value added tax like our goods and services tax (GST) and harmonized sales tax (HST) can be efficient taxes. Efficient since they can raise significant revenue for the government without serious disruption to decision making.

If an income tax is too high, and "too high" will not be defined here (although people will have their own definition), people may work less or may choose to not start a business (or may choose to stop reporting income). Mark Twain said that people are moral, upright and honest 363 days a year. The other two days are the days that people report their income and vote. Those two days are when they undo their "whole year's faithful and righteous worth."

Complexity can cause well intentioned taxpayers to incorrectly report income due to honest error. Canada's tax system is so complex that full-time tax professionals sometimes have trouble keeping up with it. Every federal budget (and some provincial budgets) brings tax changes that add complexity. To paraphrase Milton Friedman, income taxation is "obscenely complex"; the average person cannot fully understand it and governments create the complexity to help them achieve political objectives. While Friedman was referring to U.S. income tax, both Canadian and U.S. income tax laws are incredibly complex.

People with money can hire tax accountants to assist them and this is great, speaking as a former practicing accountant. However, most low-income and some middle-income earners cannot afford an accountant. What happens to them?

Let's consider Michelle's taxes, a hypothetical middle-income Canadian[2]. Michelle, a single woman without children, lives in Toronto, Ontario and makes $75,000 a year in gross salary. Michelle is happy with her income and has significant savings.

2 The taxation of low-income individuals is surprisingly complex and will not be discussed in this ebook.

Section 1.2

MICHELLE'S DAY

Michelle wakes up to her alarm, wipes the sleep from her eyes and gets up. She gets dressed and heads downstairs for breakfast. Everything she touched, her alarm clock, bed, clothes, kitchen utensils and flatware is subject to harmonized sales tax (HST) of 13%[3]. Also, while costs incurred by businesses do not directly affect us, they have an indirect effect. Income and other taxes paid by businesses will, where possible, be passed on to customers in the form of higher prices. However, let's return to Michelle.

MICHELLE'S MORNING

Some of Michelle's breakfast could also be subject to HST. While most basic groceries are exempt, some items like soft drinks, snack foods, single serving foods and prepared food are subject to GST/HST. When Michelle buys six bagels or more, she doesn't pay HST; however when she buys less than 6 bagels she pays HST. See Table I for current federal and provincial (harmonized) sales tax rates in Canada. The average rate is 12.3% (in 2011 the average was 12.2%). Ontario's HST

3 If these items were purchased prior to July 1, 2010 they would have been subject to the federal goods and services tax (GST) and Ontario's provincial sales tax (PST).

rate is slightly above the provincial average. More GST/HST complexity will be discussed later (when Michelle goes to lunch).

Michelle looks about her one bedroom apartment as she eats her bagel and sips her orange juice. Residential rent is free from HST; however, if the landlord bought the home from a builder the landlord would pay HST on the new home which could lead to higher rents (as the landlord tries to recoup some or all HST paid[4]). Michelle is sick of renting, but more on that later since Michelle is late for work.

MICHELLE'S DRIVE TO WORK

During her drive to work, Michelle realizes she can't escape tax. Gasoline and car lease payments (or the purchase price of a new car) are all subject to HST. Gasoline is also subject to federal gas tax of 10 cents per litre plus provincial gas tax of 14.7 cents per litre (in Ontario). HST is charged on the cost of gas including the gas tax. See Table II for current federal and provincial gas tax rates in Canada. The average rate is 26.3 cents per litre (in 2011 the average was 25.8 cents per litre). Ontario's combined federal and provincial gas tax rate is slightly below the average.

I should note that a tax on negative externalities, like pollution, can be a good thing since a tax on pollution increases the cost of, and hence can reduce the amount of, pollution[5]. The gas tax, to the extent that driving causes pollution, can be thought of as a tax on a negative externality (i.e. the pollution) from driving[6].

Michelle estimates that she pays $543 each year in gas tax (see Appendix for calculations).

4 Prior to July 1, 2010 a new home purchased in Ontario was subject to GST but not PST. As of July 1, 2010, the cost of a new home in Ontario increased (as did the cost of most services and gasoline) due to the implementation of the HST. There is no GST/HST on resale homes. A partial rebate of GST/HST is available for (certain) new home purchases that cost less than $450,000. Commercial rent (unlike residential rent) is subject to GST/HST.

5 A negative externality is a cost borne by someone other than those involved in the transaction. For example, pollution from a vehicle's exhaust is a cost on all people living in the area.

6 Not everyone agrees that pollution taxes, and increased gas taxes in lieu of a pollution tax, are a good idea. Jack Mintz has discussed some disadvantages in "Point-Counterpoint. The Carbon Tax Tango."

MICHELLE AT WORK

While at work, Michelle takes a short break and considers the taxes paid by her employer. In addition to income tax, her employer must pay federal payroll tax for Canada Pension Plan (CPP) and Employment Insurance (EI)[7]. Employers must also pay provincial payroll tax in some provinces like Ontario's Employer Health Tax (EHT) on total payroll in excess of $450,000 per year. Hence, as can be seen in the Appendix, Michelle's employer will face an annual payroll tax of $5,168 or 6.9% of Michelle's $75,000 salary. Her employer would get an input tax credit for any HST paid and would need to pay corporate income tax (not discussed here)[8].

Her employer's payroll taxes do not directly affect Michelle but they can have an indirect effect. A potential employer may try to reduce payroll tax by: (a) not hiring or hiring less people; and/or (b) paying less salary. In addition to discouraging hiring, payroll taxes must be paid even when companies lose money. Unlike corporate income tax, which is only paid in profitable years, payroll tax must be paid in both profitable and loss years[9]. But I digress.

MICHELLE'S LUNCH

After a productive morning, Michelle goes out for a quick lunch and orders a slice of pizza. If the pizza costs $4 or less there is no provincial portion of HST, but if it costs more than $4 there is 13% HST. So if Michelle buys one slice for $3.99 she pays $4.19 ($3.99 plus 20 cents GST), but if she

7 Employers pay 1.4 times what an employee pays for EI. Quebec residents have the Quebec Pension Plan (QPP) instead of the CPP.

8 I'll make one comment on simplifying corporate income taxation, made in response to the sentiment that the small business deduction (SBD) favours "smallness" expressed in the excellent paper "Taxing for Growth" by the Institute for Competiveness & Prosperity. The SBD could be expanded to all Canadian Controlled Private Corporations earning up to $500,000 of Canadian active business income; i.e., the taxable capital threshold that eliminates the SBD for "large" corporations could be eliminated. This would simplify corporate taxation and would solve the critique that the SBD inhibits growth. The lost revenue to government(s) could be easily recouped (as discussed below).

9 Since the CPP is a funded government pension the federal government could make matching CPP payments instead of employers (and perhaps in return raise corporate income tax rates in a revenue neutral fashion).

buys 2 slices for $3.99 each she will pay $9.02, i.e., $7.98 plus $1.04 HST[10]. She decides one slice is enough.

MICHELLE'S HOUSE HUNT

Michelle, like many middle-income earners, is currently renting but she would like to buy a house. After work she decides to go house hunting. Michelle is not a spendthrift and has saved enough for a significant down payment.

While house hunting Michelle spots a beautiful detached home with an asking price of $800,000[11]. Buying property in Toronto is now subject to a Toronto land transfer tax (LTT) in addition to a provincial LTT[12]. LTT is typically levied at the provincial level (i.e., there is no federal LTT) and LTT typically increases as the purchase price increases. See Table III for current land transfer tax rates in Canada. As can be seen from Table III, Alberta and Saskatchewan do not have land transfer tax. Hence if she buys this house Michelle would pay total LTT of $24,200[13].

Toronto's former mayor Rob Ford cancelled the city's $60 annual car registration fee upon becoming mayor but kept the city's LTT. Note how Michelle's potential Toronto LTT is $11,725 which is 195 times more than her (now cancelled) annual $60 Toronto car registration fee.

Is a land transfer tax efficient? It's not broad based since it only applies to property purchases. Does purchasing property lead to a negative externality, like pollution? If so taxing it to increase its price and reduce demand may make sense. However, I see a positive externality (i.e., a benefit) from property ownership. In fact many governments encourage property ownership; for example, Canada's federal and provincial governments encourage home ownership through income tax laws such as the principal residence exemption. The principal residence exemption allows capital gains

10 There is a point of sale rebate of the provincial portion of HST (8% in Ontario) on prepared foods in Ontario that cost $4 or less. Michelle could buy one slice for $3.99, wait and then buy another for $3.99 and avoid the provincial portion of HST but she's too busy to do that.

11 $800,000 is well above the average house price in Canada although it is below average for a detached home in Toronto (believe it or not).

12 There is a modest first time homebuyers rebate which can reduce the LTT for people who do not already own property. The maximum first time homebuyers credit, not included in the Appendix, is $2,000 in Ontario and $3,750 for the city of Toronto.

13 If Michelle qualified for the first time homebuyers LTT rebate she would pay $10,475 (i.e., $12,475 - $2,000) for Ontario LTT and $7,975 (i.e., $11,725 - $3,750) for Toronto LTT.

earned on a principal residence to be tax-free[14]. Why have conflicting government tax policy on homes?

Michelle wonders if she can afford the mortgage and property tax payments on this beautiful house. Her savings could be used to pay the closing costs and to make a large down payment. She estimates her monthly mortgage payments would be $2,900 and her other non-tax monthly bills are approximately $1,600.

Property tax rates vary by municipality, but include two important factors: 1) a rate which is set by the municipality (and which often goes up); and 2) the estimated fair market value of the property which is set by the province (and which almost always goes up). Hence if a municipal government freezes its property tax rate (which might sound nice) your property tax bill will still go up if the value of your property rises. Michelle estimates that if she buys the house she will be assessed annual property tax of $6,400.

Michelle's estimated total monthly bills, so far, would be $5,033. Since she makes $75,000 a year, or $6,250 a month before tax, she thinks she may be able to afford it. Let's double check.

Michelle will have to pay federal income tax in 2014 of $11,083 and her provincial income tax would be $5,357. Michelle will also have to pay CPP and EI contributions. Since her income is above the maximums, Michelle will pay CPP of $2,426 and EI of $914 in 2014.

Sadly after considering income tax and payroll contributions, Michelle's monthly bills amount to $6,682 which is more than she makes; accordingly she cannot afford to purchase the house.

Since employees can benefit from CPP when they turn 65 and can benefit from EI if they lose their jobs, arguably they should pay for this benefit. A user fee can make sense when the person who benefits, or who may benefit, pays. After all if the person who benefits doesn't pay then who should? However, the employer's portion of CPP and EI is a payroll tax, as are provincial payroll taxes (such as Ontario's Employer Health Tax). But I digress...

14 A taxpayer's principal residence is a dwelling that they or their immediate family members live in. This tax policy cost the federal government $4 billion dollars in lost tax revenue in 2013 (and cost provincial governments additional revenue as well).

MICHELLE'S EVENING

Michelle is discouraged after realizing she cannot afford her dream home. After returning home for dinner, she pours herself a glass of Chilean Cabernet Sauvignon. In addition to HST on the wine, there is significant alcohol tax and the HST applies on top of the alcohol tax[15]. Not to worry though, Michelle will not be upset for long since we've yet to consider her boyfriend.

While unknown to Michelle, her boyfriend Jim is currently at the jeweller right now and looking for an engagement ring. Jim spots a $5,000 diamond and white gold ring. If Jim pays cash for the ring he could save $650 in HST and the jeweller would likely also not pay income tax on the sale. However, not paying HST and not reporting income exposes one to hefty penalties and interest on top of any taxes owing. Accordingly, Jim and his jeweller will fully obey the tax laws.

MICHELLE'S SURPRISE

A few days later, after making the purchase and picking up the ring, Jim surprises Michelle while walking together through Toronto's picturesque High Park. Jim gets down on one knee, pulls out the ring and asks her to marry him.

Shortly afterwards Michelle and Jim move in together and with both incomes they can now afford her dream home. Michelle and Jim live happily ever after.

WHAT HAVE WE LEARNED

But what have we learned. First, Michelle, even with a good salary and significant savings, cannot afford the house she wants without a second income. Second, in the short time that we have observed Michelle she has directly paid (or will soon pay) $53,131 in total taxes in 2014.

In 2014 Michelle pays $53,131 in tax and earns $75,000; hence, somewhat shockingly, 71% of her current year's income (i.e., $53,131 / $75,000) is paid in taxes. However, the LTT was paid out of her savings; hence this high percentage is not an annual tax rate. Excluding LTT, Michelle pays $28,931 (i.e., 53,131 - $24,200) in annual taxes in the year or 39% of her current year's income (i.e., $28,931 / $75,000). This annual amount (i.e., $28,931) is very significant and is almost as high as her annual mortgage payments of $34,800 (i.e., $2,900 x 12). In 2011, after adjusting for inflation, Michelle would also have paid 39% of her current year's income (i.e., $27,723 / $71,822) in annual taxes. Hence, despite government claims to the contrary, taxes paid by some middle-income Canadians have not declined (after adjusting for inflation) over the past 3 years.

15 Alcohol tax rates (and other sin taxes) which Michelle will also pay are not discussed in this ebook.

Section 1.3

METHODS TO INCREASE REVENUE

There are ways to increase government revenue without raising tax rates. For example, lottery winnings are currently tax-free. Why should a multi-million dollar lottery winner pay $0 tax on their winnings?[16]

Also, highly paid executives receiving stock option-based compensation generally earn half of their stock option-based employment income tax-free. Why is all of Michelle's income taxable when only half of an executive's stock option-based compensation taxable?[17] The estimated 2013 loss in federal income tax revenue from the employee stock option deduction is $720 million.[18] This estimated loss in annual federal income tax revenue has been higher in the past, for example it was over $1 billion in both 2006 and 2007.

When it comes to income tax rates, rates can be increased on high-income earners and held constant (or reduced) for low and middle-income earners. Why does someone earning several million dollars a year face the same federal marginal income tax rate as someone earning over $136,270 (in 2014)? These examples are not meant to be comprehensive.

16 The government could draft legislation that specifically taxes lottery winnings and disallows the deduction of any lottery/gambling losses. To be practical, small lottery winnings should remain tax-free and only winnings in excess of a certain amount each year (perhaps $10,000) should be taxable. Note that taxing all gambling winnings would be more complex than just taxing lottery winnings.

17 Some have argued that by taxing stock option-based compensation lightly (i.e., ½ taxable) Canada would encourage executives to move to Canada (or stay in Canada). Personal income tax rates are just one of many factors that influence where a person chooses to work. Two economic factors that are likely more important than personal tax rates are: 1) which location has more job opportunities? and 2) which location pays higher compensation?

18 Note provincial income tax revenues are also reduced by the stock option deduction in addition to these federal figures.

Any additional tax revenue collected could be used to eliminate payroll tax and/or land transfer tax. People often dislike higher taxes (and new taxes) since in addition to reducing their after-tax cash flow, they sometimes do not see additional services (or benefit) from the additional tax. If people saw a tax eliminated (perhaps the payroll tax on employers and/or the land transfer tax) then they may be more accepting of tax changes since they'd see the benefit[19].

An obvious way to simplify the income tax system, which can be revenue neutral, is to stop adding new personal tax credits and eliminate many existing credits and instead raise the existing basic personal tax credit. Each new personal tax credit adds complexity to the tax system and reducing complexity should be a priority[20]. Given the politicization of tax law we should start thinking about transferring control over changes to federal taxation from politicians to an arm's length body like the Bank of Canada. We generally agree that interest rates are too important to risk politicizing and hence they are set by the Bank of Canada, and arguably, the same is true of our federal tax laws[21].

As one, non-comprehensive, example the following personal tax credits, which collectively cost the federal government $10.5 billion in lost tax revenue in 2013 could all be eliminated: children's arts tax credit, Canada employment credit, volunteer firefighters tax credit, caregiver credit, child tax credit, family caregiver tax credit, infirm dependant credit, children's fitness tax credit, disability tax credit, medical expense tax credit, age credit, pension income credit, first-time homebuyers tax credit, public transit tax credit, and refundable medical expense supplement. And, instead of these particular credits the basic personal tax credit, which all taxpayers get, can be significantly increased.

Finally, note that while GST/HST is broad-based it does not apply to unreported transactions. Some services are provided for cash and not reported to tax authorities to save the 13% HST (in Ontario). This leads to a double tax loss since the government loses out on the GST/HST and also loses out on income tax since the service provider is likely not reporting the cash sale for income tax purposes. By eliminating GST/HST on certain services the government could increase income tax revenue. It is possible that for certain services that tend to be paid in cash, removing the GST/HST on those

19 The benefit of removing employer payroll tax directly accrues to employers; however, reducing the cost of payroll should encourage more hiring which can benefit employees (and the economy) overall. The benefit of removing land transfer tax directly accrues to home buyers; however, reducing the cost to home buyers should benefit renters since landlords have fewer costs to recoup which can lead to lower rents.

20 Personal tax credits, when available, must be multiplied by the lowest personal tax rate to determine their value. Many low income taxpayers do not benefit from (non-refundable) tax credits since their income is too low. For an excellent discussion on problems with our numerous tax credits see "Taxing for Growth..." by the Institute for Competiveness & Prosperity.

21 Elected politicians can decide, big picture, if federal taxes should be raised or lowered (or created or removed) but the actual tax changes could be determined by an arm's length body like the Bank of Canada so they are as simple, apolitical and efficient as possible. Experts currently working at the Department of Finance could be transferred to the Bank of Canada if this change were to occur.

services could lead to extra income tax revenue that would more than offset the lost GST/HST tax revenue.

This essay does not propose jurisdiction specific solutions. Any actual tax change should be done in the most straightforward manner possible and could be revenue neutral. The correct option will likely differ for each jurisdiction. For example, jurisdictions with relatively low gas tax rates, like the federal government (at 10 cents per litre), arguably have the capacity to raise gas tax rates. Whereas, British Columbia, which has a significantly higher gas tax rate (i.e., 42.17 cents per litre, including the federal gas tax), arguably does not have capacity to increase its gas tax rate.

OUR OBSERVATIONS

Observing Michelle we see that Canada has many tax systems, each complex, and middle-income earners pay a significant portion of their income in tax.

Can we eliminate less efficient (or non-efficient) taxes, like payroll tax and land transfer tax[22]? Can we simplify our tax systems (especially income and commodity tax)? Can we add or increase taxes on negative externalities (like pollution, crime and/or junk food)? The gas tax, arguably, can be thought of as a tax on pollution, and since it already exists increasing it may be a simple way of taxing pollution without creating a new (pollution) tax.

Proposing tax changes is difficult since many middle-income people, like Michelle, already feel (and arguably are) overtaxed. However, if Michelle's employer did not have to pay payroll tax, if land transfer tax were eliminated, if income tax and GST/HST were simplified, and/or if a higher gas tax led to cleaner air and water, then Michelle may accept the tax changes as the cost paid in return for the benefit.

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22 Ideally property tax would also be eliminated and an increase in income tax and/or GST/HST would take its place. This would eliminate an unfair and insufficient tax along with all the administration and bureaucracy that goes with it and instead increase an existing and efficient tax (such as income tax and/or GST/HST). The difficulty here is that different levels of government would need to work together since property tax is municipal.

Appendix A

TABLES & REFERENCES

Appendix A

TABLE I

The rates below for each province include the 5% federal GST plus the provincial sales tax.

CURRENT FEDERAL & PROVINCIAL SALES TAX RATES IN CANADA*

Province	Current Tax Rates
Alberta	5% *(no provincial sales tax)*
British Columbia	12%
Manitoba	13%
New Brunswick	13%
Newfoundland	13%
Nova Scotia	15%
Ontario	13%
Prince Edward Island	14%
Quebec	14.975%
Saskatchewan	10%
Provincial average *(including 5% GST)*	**12.3%** *(in 2011 average was 12.2%. Manitoba, and Quebec increased their sales tax rates and PEI lowered [and harmonized] theirs)*

** The 3 Territories are excluded.*

Appendix A

TABLE II

The federal gas tax of 10 cents per litre is included in the provincial gas tax rates below.

CURRENT FEDERAL AND PROVINCIAL (UNLEADED) GAS TAX RATES IN CANADA (CENTS PER LITRE)*

Province	Current Gas Tax Rates
Alberta	19
British Columbia	42.17 *(Varies by region. The South Coast B.C. region rate is listed here. This includes a B.C. carbon tax of 6.67 cents per litre)*
Manitoba	24
New Brunswick	23.6
Newfoundland	26.5
Nova Scotia	25.5
Ontario	24.7
Prince Edward Island	23.1
Quebec	29.2 *(Varies by region)*
Saskatchewan	25
Provincial average *(including federal 10 cents/litre tax)*	**26.3** *(in 2011 average was 25.8%. B.C., Manitoba, and Quebec increased their gas tax rates and PEI lowered theirs)*

** The 3 Territories are excluded.*

Appendix A

TABLE III

CURRENT LAND TRANSFER TAX RATES IN CANADA*

Province	Land Transfer Tax Rates
Federal	**None**
Alberta	None
British Columbia	**1%** on the first $200,000 of FMV; *plus* **2%** on the FMV in excess of $200,000
Manitoba	**0%** on the first $30,000 of FMV; *plus* **0.5%** on the FMV in excess of $30,000 and up to $90,000; *plus* **1%** on the FMV in excess of $90,000 and up to $150,000; *plus* **1.5%** on the FMV in excess of $150,000 and up to $200,000; *plus* **2%** on the FMV in excess of $200,000
New Brunswick	**0.5%** of FMV
Newfoundland	**$200** *plus* **0.4%** of FMV in excess of $500 *plus* **0.4%** of mortgage in excess of $500
Nova Scotia	Varies by municipality. In Halifax, it is **1.5%** of FMV

CURRENT LAND TRANSFER TAX RATES IN CANADA* *(continued)*

Federal	None
Ontario	**0.5%** on the first $55,000 of FMV; *plus* **1%** on the FMV in excess of $55,000 and up to $250,000; *plus* **1.5%** on the FMV in excess of $250,000 and up to $400,000; *plus* **2%** on the FMV in excess of $400,000
Prince Edward Island	**1%** of FMV
Quebec	**0.5%** on the first $50,000 of FMV; *plus* **1%** on the FMV in excess of $50,000 and up to $250,000; *plus* **1.5%** on the FMV in excess of $250,000. In Montreal, it is **2%** of FMV in excess of $500,000
Saskatchewan	**None**
City of Toronto	**0.5%** on the first $55,000 of FMV; *plus* **1%** on the FMV in excess of $55,000 and up to $400,000; *plus* **2%** on the FMV in excess of $400,000

** The 3 Territories are excluded.*

Appendix A

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Appendix B

CALCULATIONS & NOTES

Appendix B.01

TAX CALCULATIONS

Figure b.01 – MICHELLE'S GAS TAX

Estimated kilometers driven *(20,000)* **x** estimated fuel efficiency *(11 litres per 100km)* = ***total litres***	**2,200 L**
x Federal gas tax *($0.10)*	$220
x Provincial gas tax *($0.147)*	$323
Total Amount *(Federal gas tax + Provincial gas tax)*	**$543**

Figure b.02 – EMPLOYER'S SHARE OF EI

1.4 **x** 1.88% = 2.632% **x** $48,600 *(max.)* =	**$1,279**

Figure b.03 – EMPLOYER'S SHARE OF CPP

4.95% **x** $49,000 *(max.)* =	**$2,426**

Figure b.04 – MAX. PENSIONABLE AMOUNT

(maximum pensionable amount - exemption = total) $52,500 **-** $3,500 **=**	**$49,000**

Figure b.05 – EMPLOYER'S EHT

(assuming payroll is above $450,000) 1.950% **x** $75,000 **=**	**$1,463**

Figure b.06 – ANNUAL PAYROLL TAX

Employer's Share of EI	$1,279
Employer's Share of CPP	$2,426
Employer's EHT	$1,463
Total Annual Payroll Tax	**$5,168** *(6.9% of salary)*

Figure b.07 – ONTARIO LTT

0.50% **x** $55,000 =	**$275**
1.00% **x** ($250,000 - $55,000) = 1.00% **x** $195,000 =	**$1,950**
1.50% **x** ($400,000 - $250,000) = 1.50% **x** $150,000 =	**$2,250**
2.00% **x** ($800,000 - $400,000) = 2.00% **x** $400,000 =	**$8,000**
Total Ontario LTT	**$12,475**

Figure b.08 – TORONTO LTT

0.50% **x** $55,000 =	**$275**
1.00% **x** ($400,000 - $55,000) = 1.00% **x** $345,000 =	**$3,450**
2.00% **x** ($800,000 - $400,000) = 2.00% **x** $400,000 =	**$8,000**
Total Toronto LTT	**$11,725**

Figure b.09 – TOTAL LTT

(Ontario LTT + Toronto LTT) $12,475 + $11,725 =	**$24,200**

Figure b.10 – MICHELLE'S PROPERTY TAX

(Estimated Rate x Property's FMV) 0.80% **x** $800,000 =	$6,400
Estimated Monthly Property Tax *(Annual Property Tax / 12 months)*	**$533**

Figure b.11 – MICHELLE'S MONTHLY BILLS

Mortgage	$2,900
Other bills	$1,600
Property tax	$533
Total Monthly Bills	**$5,033**

Figure b.12 – MICHELLE'S FEDERAL INCOME TAX

0.00% **x** $15,604 = *(see **note 1**)*	$0
15.00% **x** ($43,953 - $15,604) = 15.00% **x** $28,349 =	$4,252
22.00% **x** ($75,000 - $43,953) = 22.00% **x** $31,047 =	$6,830
Total Federal Income Tax	**$11,083**

Figure b.13 – **MICHELLE'S PROVINCIAL INCOME TAX**

0.00% **x** $13,009 **=** *(see **note 2**)*	**$0**
5.05% **x** ($40,120 **-** $13,009) **=** 5.05% **x** $27,111 **=**	$1,369
9.15% **x** ($75,000 **-** $40,120) **=** 9.15% **x** $34,880 **=**	$3,192
Total of Above	**$4,561**
20% *(Surtax)* **x** $4,331 *(Ontario tax above)* **=** *(see **note 3**)*	$46
Ontario Health Premium *(see **note 4**)*	$750
Total Provincial Income Tax	**$5,357**

Figure b.14 –
MICHELLE'S MONTHLY INCOME TAX AND PAYROLL CONTRIBUTIONS*

Federal Tax = $11,083 / 12	$924
Provincial Tax = $5,357 / 12	$446
CPP (max.) = $2,426 / 12	$202
EI (max.) = $914 / 12	$76
Total of Above	**$1,648**
+ Michelle's Monthly Bills *(see **figure b.11**)*	$5,033
Monthly expenditures (total of above)	**$6,682**
Monthly income ($75,000 / 12 months)	$6,250
Monthly Shortfall	**$432**

** Some totals are slightly off due to rounding.*

Figure b.15 –
MICHELLE'S TOTAL TAXES PAID IN THE YEAR (WITH %)*

HST (*see* ***note*** *5*) $1,600 **/** 1.13 **x** 13% **x** 12 **=**	**$2,209**	4%
Federal tax	**$11,083**	21%
Provincial tax	**$5,357**	10%
CPP (max.)	**$2,426**	5%
EI (max.)	**$914**	2%
Gas tax	**$543**	1%
LTT (Ontario and Toronto) (*see* ***note*** *6*)	**$24,200**	46%
Property tax	**$6,400**	12%
Total Taxes Paid	**$53,131**	100%

** Some totals are slightly off due to rounding.*

NOTES

NOTE 1*

Basic Personal Amount Tax Credit	$11,138
Employment Credit	$1,127
CPP Credit	$2,426
EI Credit	$914
Total Credits	**$15,604**

The first time homebuyers tax credit is ignored since it's a one-time tax credit (and not a recurring tax credit). This credit, if applicable, can reduce federal income tax by $5,000 x 15% = $750.

** Some totals are slightly off due to rounding.*

NOTE 2*

Basic Personal Amount Tax Credit	$9,670
CPP Credit	$2,426
EI Credit	$914
Total Credits	**$13,009**

** Some totals are slightly off due to rounding.*

NOTE 3

In Ontario, tax above $4,331 and below $5,543 is subject to a surtax of 20% and tax above $5,543 is subject to a 56% surtax.

NOTE 4

Ontario's Health Premium rises as income rises (to a maximum of $900).

NOTE 5

I have assumed that all her estimated monthly expenses of $1,600 per month are subject to HST as a simplification.

I have also assumed that the $1,600 includes the HST.

NOTE 6

The LTT will not be annual. It will only be paid in the year that property is purchased.

About the Author

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NOTEWORTHY LINKS:

- *CFE/UFE Tax, 4th edition*
- *UFE Case Writing*

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