Middle income earners hit hard for '88

Middle income people will get "nailed quite drastically" with the government changes in this year's income tax system, according to a local accountant.

Mark Bulicki, owner of two H and R Block franchises in Halton Hills, says he "sympathizes" with anyone making over $35,000 a year.

"I think a lot of the middle-income people got nailed quite drastically," said Mr. Bulicki of the over 90 tax forms he has completed to date for 1988. Middle-income people are those in the $27,500 to $55,000 range, he said.

Welfare recipients, the first arrivals to the tax office because they don't have to wait for T4 slips, are "reaping the benefits" of the government tax reforms.

"Anybody under $25,000 has been saving about $400 to $500," said Mr. Bulicki.

And upper income earners "came out pretty good," he said.

And this year's tax forms have physically changed. The new system puts all income earners under $27,500 in the same tax category. The former seven category system is replaced by a three-category system.

"I think the government is trying to stress a flat-tax system," said Mr. Bulicki.

Claiming a dependent this year will reap less of a rebate than in 1987. Mr. Bulicki said an income earner averaging $30,000 a year and paying 25 per cent combined federal and provincial tax, will pay an extra $52 to have a child.

"All the (tax) credits they give you are at 17 per cent. So, you're behind nine per cent right away."

Common-law husbands and wives must watch out, said Mr. Bulicki. "We have many common-law marriages in Georgetown and Acton," he said.

So, for the general public, he recommends having a professional review this year's tax form. But for live-in mates who are unmarried, he says "get an expert opinion, not a second opinion."

For everyone this year, there are "surprises," said Mr. Bulicki.

Personal exemptions on the 1987 income tax form are replaced by tax credits, said Graeme Goebelle of Goebelle, MacAdam and Alexander, Chartered Accountants in Georgetown.

Mr. Goebelle gave the example of a $30,000 a year income earner. In 1987, a basic deduction of $4,270 was taken off for living expenses before income tax was tallied.

For 1988, a general tax credit is issued, meaning that the taxpayer will get a $1,020 grant subtracted from the total tax payable on his annual income.

Mr. Goebelle also pointed to government information on deductions. For 1988, the $1,000 interest income and dividend deduction and the $500 employment expense deduction was eliminated.

Turn your RRSP into a retirement savings

Retirement planning does not stop when your RRSP matures at 71, especially now that the government is encouraging us to take more responsibility for our golden years.

One vehicle that has become especially attractive over the past two years is the RRIF, an extension of the RRSP, that allows you to further spread out your tax load to age 90.

When your RRSP matures, you simply roll it over into a RRIF - a registered retirement income fund - at your credit union, trust company or bank. The financial institution will continue to invest that money and pay you a rate of return that is as good as the rate on RRSPs.

Here's how 'tax reform' affects retirement savings

It's been a long and rocky road for the government to pin down the new ground rules for retirement savings in the first phase of tax reform, while nail-chewing taxpayers waited apprehensively on the sidelines.

We may not have heard the last word even now, but most recently — in August, 1988 — the Minister of Finance revealed a one-year delay in implementation of previously-announced changes to some of the rules for Registered Retirement Savings Plans.

So, as matters stand, your 1988 RRSP contribution will be calculated on the same basis as in 1987. But you should also bear in mind that both the $1,000 investment income exemption taxpayers have come to know and love and the federal employment expense deduction have already been eliminated.

Significant shelters

Whatever the details, RRSPs will still provide a significant tax shelter for most Canadians — almost the only one to survive. They mean taxation on part of your income is deferred until you retire or choose to draw income from your plan at any time up to the year in which you become 71.

In the "shelter" period, your savings earn compound interest year-by-year and can build up to become the basis of a solid and assured income for your retirement years.

Limits for 1988

These are the RRSP limits for the 1988 tax year: If you are a member of a company or other pension plan, your maximum contribution is 20 per cent of earned income to a maximum of $3,500, minus your own and your employer's contributions to the plan in the year. Or if you are not a member of a pension plan, as an employee or if self-employed, you can contribute 20 per cent of earned income to a maximum of $7,500.

As matters now stand, these same limits will also apply for the 1989 tax year.

Contribute right away

Contributions for 1988 must be made by March 1, 1989. That's the deadline. But it makes good sense to get the job done as soon as possible before that. You can still beat most of the annual RRSP stampede that way, advisers will have more time to talk to you and, of course, you earn even more interest.

In fact, it's not too early to make your 1989 contribution too. That way, you'll earn almost a full year of additional interest.

If you don't have cash on hand to make your 1988 RRSP contributions (or those for 1989 either), should you borrow money to do so? The answer is probably "yes". But make the decision on the basis of your own specific circumstances. How much tax would you be able to defer by borrowing? How much would the loan cost? How much interest will the contribution earn?

Numerous options

There's no doubt the tax rules remain complex. Also there's a bewildering choice of plans to choose among — practically every financial institution of every kind wants your money at this time of year, it seems.

So, if you're relatively unsophisticated in financial matters, it's a good idea to get professional advice to review the rules relative to the circumstances and needs of you and your family.

But don't put it off. Don't miss out on the important savings available through RRSPs. In the short term, if you haven't yet been able to make up your mind, the best bet may be to deposit your contributions in a special RRSP savings account or a one-year guaranteed investment certificate in one of the major financial institutions. It can stay there in comfort and earn interest until you decide on the next move.

Donations still mean tax relief in reform era

Chances are your tax breaks as a result of charitable donations will increase marginally under tax reform — at least if your *taxable* income is less than $55,000.

But it's likely to be a bit more complicated because from now on you get "credits" instead of deductions. The credits are 17 per cent on the first $250 you give and 29 per cent on additional amounts.

Other rules are unchanged. So credits are still limited to a maximum of 20 per cent of your net income for the year; carry-forwards of unused amounts are permitted for five years; and special rules for donations of cultural property, gifts to the Crown and gifts of property as opposed to cash are all as they were in pre-reformed days.

As before, in most cases it's still best for one spouse to claim all donations made by both partners. There are exceptions, however, and you'll want to check these out if you and your partner have donated fairly large amounts to charity in the year.

Also make certain your credits don't exceed your total tax liability because they're not refundable. Instead, plan to carry any balance forward to benefit in a future tax year.