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CALCULATING PERSONAL INCOME TAX AN ILLUSTRATIVE GUIDE

Introduction

The attached calculation sheets are intended to help in estimating how personal income tax will change as a result of tax reform. They are for illustrative purposes only -- they are not sample tax returns. A number of specific measures that apply to relatively few taxpayers are not included in this guide.

To permit comparative calculations based on the 1988 tax year, estimates are provided for a number of payments, exemptions and deductions for that year. These are shown on the appropriate lines of the comparative calculation sheets or indicated in the notes below.

The basic steps in calculating tax remain the same before and after tax reform. The major difference is that a number of exemptions and deductions will be converted to tax credits. As a result, they will be deducted directly from tax in the final calculation stage under the new system.

The 1986 general tax guide provides detailed explanations of existing tax provisions. For detailed explanations of the changes in the new system, please consult the White Paper and the background paper, Income Tax Reform. The background paper contains an illustrative calculation using a specific taxpayer example on pages 29-30. You may wish to read it before using the calculation sheets.

The following information will help in using the calculation sheets:

Sources of Income

CPP/QPP: Current recipients can estimate 1988 value of benefits by multiplying 1986 benefits by 1.12.

Dividends: Taxable amount of dividends is 133 per cent of cash dividends in existing system, 125 per cent in new system.

Taxable capital gains: one-half of total capital gains in existing system and two-thirds of total in new system.

Deductions

CPP-QPP deduction in existing system is 2 per cent of earnings in excess of \$2,700, up to maximum earnings of \$27,500.

UIC deduction in existing system is 2.35 per cent of employment income up to \$29,380.

Lifetime capital gains deduction: see pages 78-81 of Income Tax Reform for explanation of changes in treatment of the capital gains deduction.

Tax Credits

Credits in new system are as follows:

Pension income credit, 17 per cent of pension income to a maximum credit of \$170.

Transferable amount of age, pension and disability credits is equal to total credits minus 17 per cent of transferor's net income in excess of \$6,000.

Tuition deduction is converted to credit under at 17 per cent of deduction.

Education credit is \$10 per month for each month in school; unused portion of the first \$600 of combined tuition and education credit can be transferred to a supporting person.

CPP/QPP and UIC credits are 17 per cent of contributions.

Allowable medical expenses exceeding 3 per cent of net income are converted to credit at 17 per cent.

Charitable credit is 17 per cent of first \$250 in donations plus 29 per cent of additional donations.

Dividend tax credit in existing system is 16 2/3 per cent of taxable dividends and 13 1/3 per cent in new system.

Calculating federal tax on taxable income

Current System:

<u>Taxable Income</u>	<u>Tax</u>
\$1,334 or less	6%
1,334	\$ 80 + 16% on next \$1,334
2,668	293 + 17% on next 2,668
5,336	747 + 18% on next 2,668
8,004	1,227 + 19% on next 5,336
13,340	2,241 + 20% on next 5,336
18,676	3,308 + 23% on next 5,336
24,012	4,535 + 25% on next 13,340
37,352	7,870 + 30% on next 26,680
64,032	15,874 + 34% on remainder

New System:

<u>Taxable Income</u>	<u>Tax</u>
\$27,500 or less	17%
27,500	\$4,675 + 26% on next \$27,500
55,000	11,825 + 29% on remainder.

Federal Tax Calculation

Surtax is 3 per cent of basic federal tax.

Refundable child tax credit of \$524 per child is reduced by 5 per cent of net income (of both spouses) in excess of \$24,020.

Refundable sales tax credit in the existing system of \$50 per adult and \$25 per child under 18 is reduced by 5 per cent of net income in excess of \$15,000 in existing system. New system: credit is increased to \$70 per adult and \$35 per child under 18 and is reduced by 5 per cent of net income in excess of \$16,000.

Calculating Provincial Tax

Every province and territory (with the exception of Quebec, which has its own income tax) collects its income tax at the same time that federal income tax is collected.

Provincial taxes can be obtained by multiplying federal basic tax by the provincial tax rate for the province of their residence.

Tax Rates for Provinces and Territories

(As a percentage of basic federal tax)

Newfoundland	60%
Prince Edward Island	55%
Nova Scotia	56.5%
New Brunswick	58%
Quebec	--
Ontario	50%
Manitoba	54%
Saskatchewan	50%
Alberta	46.5%
British Columbia	51.5%
Northwest Territories	43%
Yukon	45%

This form cannot be used by residents of the province of Quebec to calculate provincial tax. Federal tax calculation allows residents of Quebec an abatement of 16.5 per cent of federal basic tax.

Calculation sheets follow.

Illustrative Individual Income Tax Calculation Sheet

Existing System

	Existing system
Sources of Income	
1. Net employment income
2. Old age security pension (\$3,740)
3. Canada/Quebec pension plan benefits
4. Other pension income
5. Family allowance payments (\$388 per child)
6. Taxable amount of dividends
7. Interest income
8. Net rental income
9. Taxable capital gains
10. Net self-employment income
11. Other income
12. Total Income (add lines 1 to 11 inclusive)
Deductions	
13. Employment expense deduction (max. \$500)
14. Canada/Quebec pension plan contributions (max. \$496)
15. Additional contributions by self-employed (max. \$496)
16. Unemployment insurance premiums (max. \$690)
17. RPP & RRSP contributions
18. Union & professional dues
19. Tuition fees
20. Child care expenses
21. Other deductions (e.g. moving expenses)
22. Sub-total (add lines 13 to 21 inclusive)
23. Net Income (subtract line 22 from line 12)
Personal Exemptions	
24. Basic personal	\$4,270
25. Married (\$3,740)
26. Age (\$2,670)
27. Dependent children under 18 (\$470 per child)
28. Dependants 18 and over (infirm: \$1,470, Others: \$1,000)
29. Disability deduction (\$2,920)
30. Sub-total (add lines 24 to 29 inclusive)

Existing System (cont'd.)

Other Deductions

- 31. Interest & dividend income deduction (max. \$1,000)
- 32. Pension income deduction (max. \$1,000)
- 33. Net medical expenses deduction
- 34. Education deduction (\$50 per month in school)
- 35. Charitable contributions
- 36. Age, pension, & disability deduction transfers
- 37. Lifetime capital gains deduction
- 38. Other deductions (e.g. non-capital losses of other years)

- 39. Sub-total (add lines 31 to 38 inclusive)

- 40. **Taxable Income** (line 23 minus lines 30 and 39)

- 41. Tax on taxable income (see attached schedule)

Tax Credits

- 42. Dividend tax credit

- 43. **Basic Federal Tax** (before surtax, child tax credit,
and refundable sales tax credit)
(line 41 minus line 42)

Federal Tax Calculation

- 44. Surtax

- 45. Sub-total (line 43 plus line 44)

- 46. Refundable child tax credit
- 47. Refundable sales tax credit

- 48. Sub-total (add lines 46 and 47)

- 49. Net federal tax payable (line 45 minus line 48)

- 50. **Provincial Tax** (before provincial surtaxes and credits)
(line 43 times provincial tax rate on attached schedule)

Illustrative Individual Income Tax Calculation Sheet

New System

	New system
Sources of Income	
1. Net employment income
2. Old age security pension (\$3,740)
3. Canada/Quebec pension plan benefits
4. Other pension income
5. Family allowance payments (\$388 per child)
6. Taxable amount of dividends
7. Interest income
8. Net rental income
9. Taxable capital gains
10. Net self-employment income
11. Other income
12. Total Income (add lines 1 to 11 inclusive)
Deductions	
13. Additional CPP/QPP contributions by self-employed (max. \$496)
14. RPP & RRSP contributions
15. Union & professional dues
16. Child care expenses
17. Other deductions (e.g. moving expenses)
18. Sub-total (add lines 13 to 17 inclusive)
19. Net Income (line 12 minus line 18)
20. Lifetime capital gains deduction
21. Other deductions (e.g. non-capital losses of other years)
22. Sub-total (add lines 20 and 21)
23. Taxable Income (line 19 minus lines 22)
24. Tax on taxable income (see attached schedule)

New System (cont'd.)

Other Deductions

Tax Credits

25.	Basic personal	\$1,020
26.	Married (\$850)	
27.	Dependent children under 18 (\$65)	
28.	Infirm dependant 18 & over (\$250)	
29.	Age credit (\$550)	
30.	Pension income credit (max. \$170)	
31.	Disability credit (\$550)	
32.	Age, pension, & disability credit transfers	
33.	Tuition & education credit	
34.	Tuition & education credit transfer (max. \$600)	
35.	CPP/QPP contributions (max. \$84)	
36.	Unemployment insurance premiums (max. \$117)	
37.	Net medical expenses credit	
38.	Charitable contribution credit	
39.	Dividend tax credit	
40.	Sub-total (add lines 25 to 39 inclusive)	
41.	Basic Federal Tax (before surtax, child tax credit, and refundable sales tax credit) (line 24 minus line 40)	

Federal Tax Calculation

42.	Surtax	
43.	Sub-total (line 41 plus line 42)	
44.	Refundable child tax credit	
45.	Refundable sales tax credit	
46.	Sub-total (add lines 44 and 45)	
47.	Net federal tax payable (line 43 minus line 46)	
48.	Provincial Tax (before provincial surtaxes and credits) (line 41 times provincial tax rate on attached schedule) ...	