Alberta no tax haven for poor

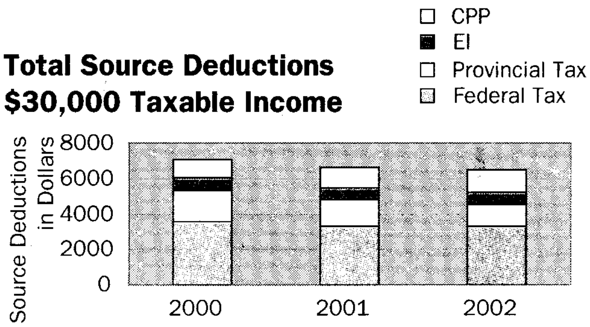
SMART MONEY | There's a thorny side to the Wild Rose province's flat tax rate — that 10 per cent is higher than what a low-income earner pays in B.C., where the government prefers to make up its losses on the backs of higher income earners, **Michael Kane** reports.

Income: Marginal Personal Tax Brackets for 2002 (British Columbia)

Income	Federal Rate %	Provincial Rate %	Salary/ Interest %	Capital Gains %	Dividends %
$ 7,635 to $ 8,168	16.0	0.0	16.0	8.0	3.3
$ 8,169 to $ 31,124	16.0	6.1	22.1	11.0	4.5
$ 31,125 to $ 31,677	16.0	9.2	25.2	12.6	8.4
$ 31,678 to $ 62,249	22.0	9.2	31.2	15.6	15.9
$ 62,250 to $ 63,354	22.0	11.7	33.7	16.9	19.1
$ 63,355 to $ 71,470	26.0	11.7	37.7	18.9	24.1
$ 71,471 to $ 86,785	26.0	13.7	39.7	19.9	26.6
$ 86,786 to $103,000	26.0	14.7	40.7	20.4	27.8
Over $103,000	29.0	14.7	43.7	21.9	31.6

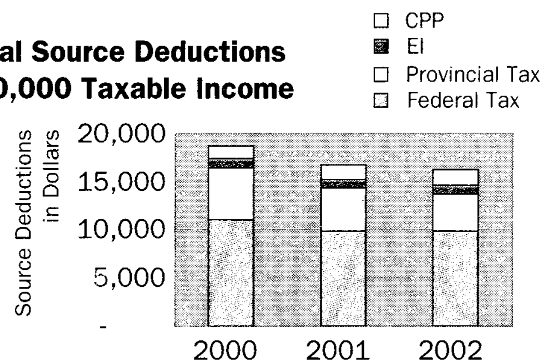
Source: Johnsen Arthur Chartered Accountants

Total Source Deductions
$30,000 Taxable Income



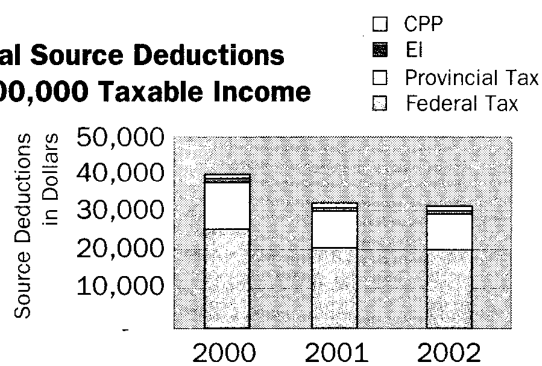
	Fed	Prov	EI	CPP	Total	Savings
2000	3,573	1,740	720	1034	7,067	
2001	3,324	1,474	675	1140	6,613	(454)
2002	3,324	1,228	675	1246	6,473	(140)

Total Source Deductions
$60,000 Taxable Income



	Fed	Prov	EI	CPP	Total	Savings
2000	10,986	5,459	936	1,330	18,711	
2001	9,789	4,568	878	1,496	16,731	(1,980)
2002	9,789	3,917	878	1,670	16,254	(477)

Total Source Deductions
$100,000 Taxable Income



	Fed	Prov	EI	CPP	Total	Savings
2000	22,939	13,300	936	1,330	38,505	
2001	20,128	10,767	878	1,496	33,269	(5,236)
2002	20,128	9,323	878	1,670	31,999	(1,270)

Forget the famous Alberta advantage if you make a modest income. British Columbia's tax rates on incomes below $62,000 are now lower than those in Ralph Klein's prairie paradise of privatization.

Poorer Albertans are being clobbered because the province has adopted a flat tax — everybody pays 10 per cent provincial tax on income above $13,339.

In contrast, British Columbians earning between $8,169 and $31,124 pay just 6.1 per cent in provincial tax. Those in the next bracket with incomes up to $62,249 pay 9.2 per cent, still less than our provincial neighbours.

Before we start trumpeting the B.C. benefit, however, we need to acknowledge that the government in Victoria makes up its losses on the backs of higher income earners with provincial rates topping out at 14.7 per cent.

Poorer Albertans can also drown their sorrows with cheaper booze from privatized outlets that, like everything else they buy, is free of provincial sales tax.

The up side for British Columbians engaged in year-end tax planning is that last year's provincial income tax cuts had twice the impact in 2002. That's because the cuts were introduced on July 1, 2001, so taxpayers effectively got half the reduction last year and the full reduction this year, says Russ Wilson of Johnsen Archer chartered accountants.

The downside is that lower income taxes were offset by higher premiums for Canada Pension Plan. Those premiums will jump another half a percentage point in January when they will be capped at 9.9 per cent of the average industrial wage ($39,900 in 2003, up from $39,100 in 2002).

As the charts show, somebody making $30,000 in 2002 is better off by just $140 than they were last year, once employment insurance and CPP premiums are taken into account. At $60,000, you're ahead by $477 and at $100,000 you're up by $1,270.

Radio phone-in callers often suggest that B.C. would be better off if it, too, adopted a flat tax, but Wilson doesn't buy the idea it would make our complex tax system simpler.

He points out that the Income Tax Act, which is about as thick as two phone books and with smaller type, contains only a couple of pages dealing with tax rates. The rest of it deals with how you determine your income.

"So I don't think a flat tax makes anything simpler and it is at odds with the philosophy of marginal tax rates, which has always been that the more money you make, the less you need the last dollar that you make," Wilson said.

"If you make $20,000 a year, most of that is covering food and shelter, so you generally would pay a lower tax rate, whereas if you make $1 million a year, your food and shelter are adequately covered, so your millionth dollar would be taxed at a higher rate.

"The flat tax in Alberta is against that whole intuitive argument."

Whether you live in B.C. or Alberta, this is a good time of year to look at legitimate ways to reduce your tax burden. Here are some time-tested techniques:

Tax-loss selling

Investors should consider "tax-loss selling" before Christmas to ease the pain they have likely suffered during the grizzly bear market. This involves selling shares at a loss, which can then be claimed against previous capital gains.

Wilson notes that capital losses can only be deducted against capital gains. While losses can be carried forward indefinitely, they can only be carried back three years. They are also deductible at the same tax rate that applied to the original capital gain.

The significance of these rules is that many investors enjoyed capital gains in 1999 when the capital gains inclusion rate was 75 per cent — if you had a $1,000 capital gain, you paid tax on $750.

The inclusion rate was subsequently reduced to today's level of 50 per cent — if you have a $1,000 capital gain, you pay tax on $500.

"So if you have a $1,000 capital loss today you can carry it back to 1999 and offset it at 75 per cent," Wilson explains.

"That opportunity will be lost with the arrival of 2003. You can only carry a loss back three years, so next year you won't be able to carry it back to 1999."

Wilson advises investors to check their 1999, 2000 and 2001 tax returns for capital gains that they might be able to offset with losses.

He notes that if you sell a stock you want to keep, your loss will be disallowed if you buy it back within 30 days. Canada Customs and Revenue Agency will also disallow your claim if you sell a stock and then have a related person repurchase it immediately.

Registered retirement savings plans

Your deadline for a tax-deductible RRSP contribution for 2002 is March 1, 2003. However, if you have any excess cash you should consider planning for your 2003 contribution as well. You can make that contribution at any time after Jan. 1, 2003.

Putting funds into an RRSP will allow them to grow tax-free, rather than you having to pay tax on any interest that you earn during the year.

Wilson notes that all RRSP income is treated as ordinary income when withdrawn, even dividends and capital gains that are usually taxed as much lower rates, as the charts show. If you maximize your RRSP and have additional investment funds, it makes sense to balance your portfolio so that income investments are inside the RRSP and dividends and capital gains are outside.

Spousal RRSPs

Consider contributing to a spousal RRSP, even if you are in a common-law relationship. Your maximum deductible contribution is the same regardless of whether you contribute to your RRSP or your spouse's, or some combination of the two.

If your spouse is likely to have lower income than you in future years, a spousal RRSP contribution will allow your spouse to withdraw the money down the road and likely pay tax at a lower rate than if you withdrew the funds from your own RRSP.

A spousal RRSP is also useful if you are over 69 but your spouse is younger. Once you reach the year in which you turn 69, you cannot contribute to your own RRSP and must convert the plan into an annuity or registered retirement income fund from which you draw taxable income every year.

However, you can still make contributions to a spousal RRSP if you have eligible earned income and your spouse is under 69 at year-end.

Registered education savings plans

There is a "use it or lose it" aspect to RESPs because the maximum Canada Education Savings Grant is $400 per year per beneficiary — Ottawa kicks in 20 per cent of the first $2,000 of annual contributions.

Unused CESG contribution room may be carried forward until the beneficiary reaches the age of 18. However, it is only possible to claim one year of unused grant at a time since the maximum allowable annual contribution you can make to an RESP is $4,000.

Depending on the age of the child and your contribution history, you may never be able to recover this year's grant if you fail to make a 2002 RESP contribution. Missing the Dec. 31 deadline could mean passing up a guaranteed 20-per-cent return.

Spend now, pay back later

Other expenditures that must be made before year-end to qualify for deductions when you file your 2002 tax return include medical expenses, child-care expenses, safety deposit box fees, charitable donations and moving expenses.

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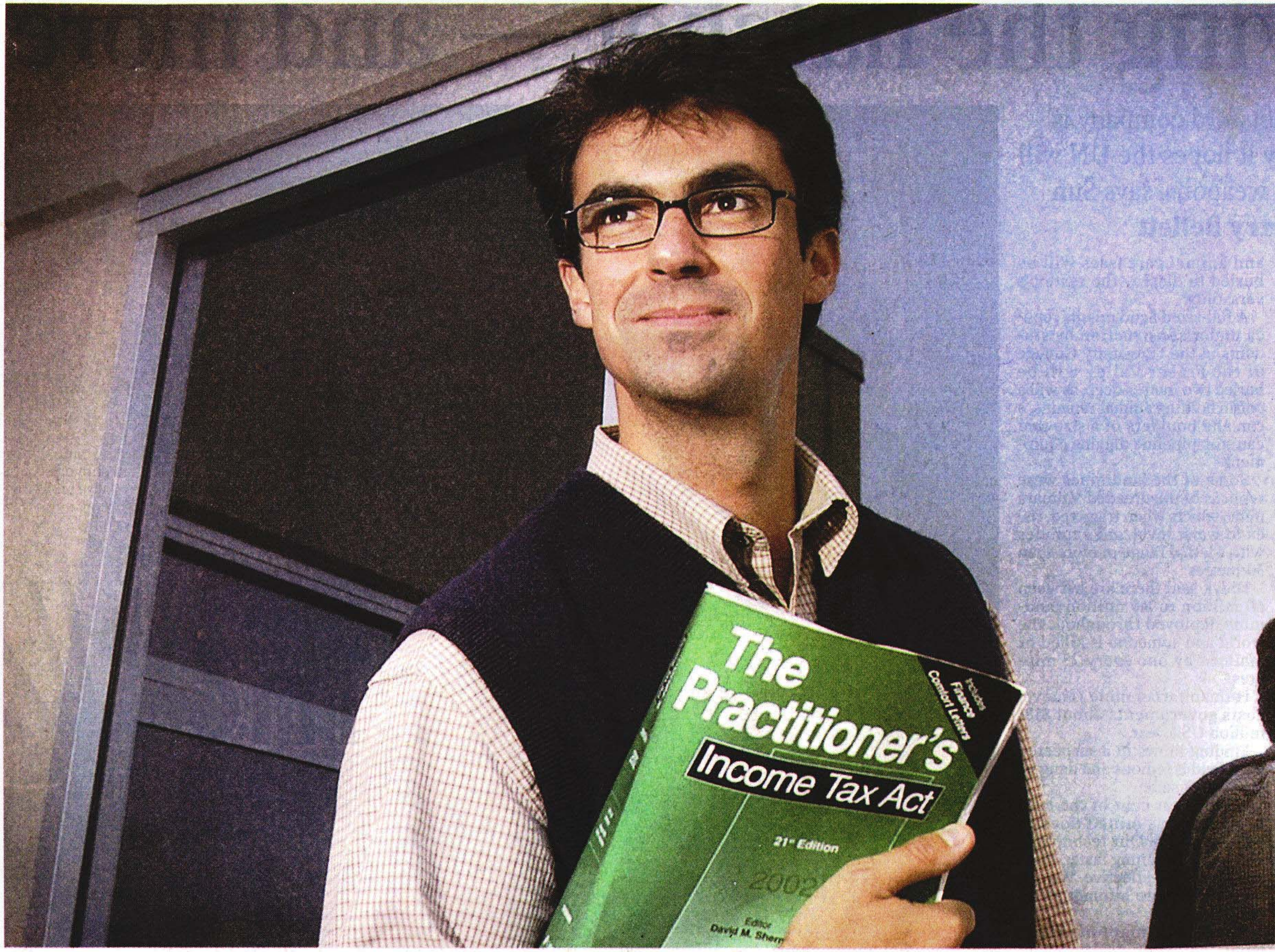

Russ Wilson of Johnsen Archer chartered accountants gives year-end tax tips and says we are better off than last year, due to a full year of provincial tax cuts.