

Two items for your financial planning agenda

After tax season, I get calls from our self-employed clients wanting to review their past year in terms of both the business operation and their personal income tax.

Some people just have to see the final result on the dreaded tax return before all the talk about planning and preparation finally hits home. These financial reviews can cover a wide range of topics – no individual is exactly the same. But two topics come up year after year:

CPP contributions

One thing I emphasize is just how much money from the tax bill goes to the Canada Pension Plan.

For 2011, the contribution rate for CPP is 4.95% of a salaried worker's gross employment income between \$3,500 and \$48,300. If you're an employee and make \$48,300, the most you'll pay is \$2,217.60, as your employer will match this amount and send it to CRA.

When you're self-employed, you're responsible for both portions of the contribution. On net business income of \$48,300, you'll owe \$4,435.20 as part of your tax bill. For curiosity's sake, I researched some old numbers.

In 1998, the maximum CPP contribution was \$1,068.80. Using the Bank of Canada's inflation calculator, that amount would be \$1,400.82 in today's dollars.

As I said above, an individual's maximum CPP contribution is \$2,217.60.

That's \$816.78 above inflation. We've all read articles about our aging population and how the government is struggling to ensure that CPP stays viable.

Well, you and I are paying more and more to try and make this happen. Because CPP involves significant payments and is a factor in your retirement planning, talk to your accountant or financial advisor about how to make sure your contributions are accurate and paid on time. Service Canada keeps a record for each person who pays into the CPP.

You can ask for a statement at 800-206-7218 or www.servicecanada.gc.ca.

Is it worth it for my spouse to be working?

This question comes more often from clients with young children and daycare costs, but I also hear it from those with kids who are mostly independent.

It's a complicated issue that goes beyond just taxes.

There are "quality of life" issues for the entire family, along with the very personal feelings of your spouse in regards to his or her stay-at-home role.

A spouse who stays home may have a more difficult time re-en-



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tering the workforce at a later date, or certainly reduce opportunities for career advancement.

Of course, there's the biggest issue of all: change. Who really likes it anyway?

Still, let's look at the financial implications. You need to consider the net income generated by a working spouse – the paycheque minus expenses for daycare, transportation, work wardrobe, etc. – in order to gauge the true impact of another income.

Now consider the taxes.

Let's go back to that \$48,300 in income I talked about. A full spousal deduction in 2010 was \$10,382 and would save taxes of \$1,941 using Ontario-based rates. If your spouse got a part-time job making \$10,000 a year, the CPP and EI deductions would be approximately \$1,600. No tax would be deducted and you'd lose your \$1,941 savings.

So your family would have \$6,459 more money, but would that cover the new expenses that would result?

From a financial and tax perspective, hiring your spouse may be the best thing you can do.'

Maybe some of them wouldn't even be a factor. If your spouse got a full-time job making \$30,000 a year, the CPP, EI, and tax deductions would be approximately \$5,700, plus

you lose the deduction.

Now your family has \$22,359 more money in its hands. The question is how much of it is really going to stay there?

Is it worth all the changes you had to make? These are questions only a family can answer.

Maybe your spouse can work with you, earning fair compensation for his or her contribution to the success of the business. Please read that last sentence again – I can't stress its importance enough.

Spouses working together can provide more money to the family through tax savings and also may ease some of those quality of life issues. Talk to your accountant about crunching the numbers.

From a financial and tax perspective, hiring your spouse may be the best thing you can do. From a personal standpoint? I'll leave that up to you. □

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