



CESTNICK

TAX MATTERS

A new year means more surprising tax increases and a life less affordable

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Okay, I'll admit that some things have taken me by surprise recently. Two things come to mind. The first is that my nephew, Lewis, after spending four years earning a university degree, has settled into his new profession – as an armpit sniffer. No, really, it's a thing. He's been hired by a research company that tests deodorant products and earns a starting salary of \$67,000 annually (before an annual bonus) to smell the armpits of people who have just run on a treadmill. I didn't tell him his job stinks.

The next surprise worth mentioning affects every Canadian resident and has to do with tax increases that became effective Monday. No, there were no government announcements about it. I bet your local member of Parliament isn't even aware of it. But it's real. Let me explain.

Make owning a home more affordable in 2024

The increases

You've no doubt experienced the impact of inflation over the past two years. Inflation peaked at 8.1 per cent year-

over-year in June 2022, and although the pace of inflation slowed in 2023, it still clipped along at a 3.1-per-cent rate in November 2023. So, your money has lost purchasing power.

To make matters worse, there are certain tax provisions that ignore inflation. And when this happens, life becomes more expensive on an after-tax basis. That is, the amount of goods and services that you – or your business – can purchase using your after-tax dollars declines meaningfully over time.

Consider the example of Peter. He's a small-business owner living in Ontario. The first \$500,000 of his active business income is taxed at 12.2 per cent. The problem? The \$500,000 threshold has not changed since 2009. If that threshold had been indexed to inflation each year, it would be \$684,300 at the end of 2023. If the threshold had been indexed to inflation, he'd pay \$26,355 less in corporate taxes on the first \$684,300 of income. But alas, no such adjustment for inflation has been made.

Now, consider the example of Janice. Janice bought a new condo to live in last

year and paid \$650,000, plus \$32,500 of GST for it, for a total of \$682,500. She had wanted to claim the GST/HST new housing rebate, which allows a buyer to recover some of the GST, or federal part of the HST, that's paid on a newly built residence. But she didn't qualify because her purchase price was not less than \$450,000. The \$450,000 threshold has been the same since 1991. If that threshold had been indexed to inflation, it would be \$851,300 today and the calculation for the rebate would have allowed her to recover the full amount of the GST she paid. This would have reduced the cost of purchasing her condo by \$32,500.

While it's true that some tax amounts are indexed annually, such as tax brackets and basic personal credits, there are a host of items that aren't indexed. Some of the key items are listed in the table and were calculated by the C.D. Howe Institute and published in an e-brief called Double the Pain: How Inflation Increases Tax Burdens, on Aug. 9.

The moral

Here's the bottom line: When our government fails to index important amounts to inflation, the effect is to increase the tax burden with no transparency or legislative oversight. Sure, lower inflation is an effective way to reduce the impact of these covert tax increases, but even at the Bank of Canada's target inflation rate of 2 per cent, the increased burden is meaningful over the course of time. Perhaps the government should start by indexing amounts that haven't been indexed for many years. Canadians will appreciate how this can make life more affordable.

A life less affordable

TAX ITEM	CURRENT VALUE	DATE ESTABLISHED	DECLINE IN REAL VALUE SINCE ESTABLISHED (%)	CURRENT EQUIVALENT (2023 DOLLARS)
Child care expense deduction	\$7,000	1998	42	\$12,000
Northern residents deduction	\$5,475	1991	47	\$10,045
Exemption on gains of personal-use property	\$1,000	1972	86	\$7,244
Guaranteed Income Supplement - earnings exemption	\$5,000	2020	13	\$5,700
Guaranteed Income Supplement - turnaround threshold	\$10,000	2020	13	\$11,500
Year's basic exemption for CPP and QPP	\$3,500	1996	43	\$6,100
Small-business deduction	\$500,000	2009	27	\$684,300
GST/HST smaller supplier threshold	\$30,000	1991	47	\$56,750
GST/HST new housing rebate	\$450,000	1991	47	\$851,300
GST/HST exemption for food and beverages	\$4	1989	53	\$9
Exemption for returning travellers, more than 48 hours	\$800	2012	22	\$1,028

THE GLOBE AND MAIL, SOURCE: EXCERPT FROM C.D. HOWE INSTITUTE E-BRIEF, DOUBLE THE PAIN: HOW INFLATION INCREASES TAX BURDENS, AUGUST 9, 2023.

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