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Speaking Notes – Standing Committee on Finance – Charlottetown Hearings

Date: October 1, 2018

Thank you Mr. Chair and thank you to the committee from being given this opportunity. I am obviously not a big organization, so I will give you a little background. I am a self-employed CPA, Chartered Accountant with 40 years of tax experience working with individuals and small businesses. I am also a Registered Financial Planner and a Chartered Financial Divorce Specialist with 20 years' experience working with separated couples.

I have two recommendations for the committee to consider, and although not directly related to the budget theme, fairness is an important principle to any economy. One recommendation is to correct the tax credit legislation for claiming children in shared custody. The other is asking for Canadians contributing to CPP to be guaranteed at least a return of their premiums if they die too young to receive a reasonable pension.

On the first issue, the Income Tax Act provides a tax credit called the Eligible Dependant Amount for single parents who have support of a child. Years ago this was called the Equivalent to Married Exemption. Where a single parent has sole custody of a child, they can save about \$2,500 in taxes (using PEI rates). Section 118(5.1) says that couples who have shared custody of the same children on a more or less equal basis can also claim this credit. However, to qualify in this case, they must each be **legally obligated** to pay child support to each other.

In a shared custody situation, support must be calculated for each parent based on their individual incomes, meaning the higher income parent will pay more than the other parent. Net cash will flow to the lower income parent. According to current tax law, if the parents are **legally obligated** to write a cheque to each other, each parent can claim the credit for one of the shared children. In this scenario, they will save a combined total of about \$5,000 in taxes, the same as if they had sole custody of one child each. However, instead of writing two cheques, if they agree for convenience that the higher income parent will only pay a set-off amount to the other parent, **then only the receiving parent can claim the credit**. The other parent can claim nothing. The net result of the child support is the same, but \$2,500 of tax savings are lost. Two families may be in identical situations, but one family saves \$2,500

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more than the other solely because their separation agreement requires two cheques to be written instead of one. Is this not unfair, and perhaps even silly?

You might ask why parents do not just simply agree to write each other separate cheques to avoid this problem. The answer is set out in detail in my submission, but primarily relates to enforcement issues where one parent's cheque bounces.

Parents sharing custody of their children should each be able to claim the eligible dependant amount when there is more than one child regardless of how the payment is made. When there is only one child, changing the legislation to allow for sharing of that one credit equally make sense – in the same way that the Canada Child Benefit must be shared. Children should come first, and this law should be fixed.

My other recommendation relates to the Canada Pension Plan and a little known feature. If a person dies before they have collected the CPP, and a surviving spouse already receives their own CPP retirement benefit, which is at the maximum amount, they are not entitled to a **survivor** benefit. Over a 40 year work history, premiums paid by an employee in today's dollars would amount to about \$100,000 to receive the maximum pension. It is double that for business owners. Is it reasonable for Canadians to invest in a pension plan if we know that our estate or our family will receive nothing if we die early? This will happen if we do not have a living spouse or where our surviving spouse already has a full CPP pension on their own account. We should be entitled to at least a premium refund plus interest on the same terms as the Public Service Pension Plan and all other pension plans that I have seen.

Thank you for your time and consideration.

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