Think you know your tax rate? Probably not, says CIBC's Jamie Golombek

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Know your rates before you make any tax decisions or risk paying too much

TORONTO, April 11, 2016 /CNW/ - **CIBC** (CM.TO) (CM) -- With a break for middle-income earners and an increase for the highest-earners, most Canadians don't know if they will pay more or less in 2016, says Jamie Golombek, Managing Director, Tax and Estate Planning, at CIBC's Wealth Strategies Group.

"There's been much discussion about tax rates this year, but most Canadians have no idea what it means to them and if it should change their retirement savings plans," says Mr. Golombek. "When you don't have a handle on what tax brackets you fit into, you are likely to leave tax savings on the table today or be faced with a higher tax bill when you retire. It is critical that people get a better understanding of the recent changes because last year's retirement blueprint may leave you short."

In his new report, It's 2016 – Do You Know What Your Tax Rate Is?, Mr. Golombek explains how your income is taxed and the impact of rates on different income levels.

Understand the lingo

- Your **marginal tax rate** indicates how much tax you will pay if you were to earn an extra dollar of income.
- Your **average tax rate** indicates the total taxes you pay in relation to your total income.
- Your **marginal effective tax rate** (METR) indicates not only how much tax you will pay if you were to earn more money, but also the potential loss of income-tested tax deductions, credits and government benefits, such as Old Age Security, the GST/HST credit, the age credit or the new Canada Child Benefit.

High marginal rates may spur early retirement or relocation

High-income individuals, those making $200,000+ in taxable income, saw their marginal federal tax rate jump to 33 per cent from 29 per cent. But, they also benefit from the 1.5 per cent tax cut to middle-income earners because Canadians pay taxes at graduated rates. "That means the threshold at which the new high-income tax rate will really be felt is when taxable income exceeds about $217,000," says Mr. Golombek.

However, add recent provincial increases to the top marginal tax rate and high-income individuals can be impacted well beyond their tax bill, he adds.

"Marginal tax rates now exceed 50 per cent for the highest income earners in six provinces, most notably in New Brunswick, Nova Scotia, Ontario and Quebec," says Mr. Golombek. "When marginal tax rates exceed 50 per cent, some taxpayers may choose to work less or retire early. This large tax burden could prompt professionals to relocate and even possibly result in some leaving the workforce altogether."

Your marginal effective tax rate may be higher than you think

Depending on your income, you could risk losing some income-tested tax deductions, credits and government benefits, such as Old Age Security, GST/HST credit, or age credit. This can increase your overall liability to the government.

More income-tested benefits, such as the new Canada Child Benefit introduced in the recent federal budget, are likely in the works, which makes it critical to look at your METR as part of your whole financial picture, he says.

Be tax-deduction and credit savvy

It's also important to consider your average tax rate, which is dependent on the type of income you earn, as well as the deductions and credits you claim.

Mr. Golombek suggests that you can decrease your average tax rate by looking for tax-favoured investments, such as Canadian dividends and capital gains, and taking advantage of all possible deductions and credits, including basic ones such as investment-management fees, maximizing charitable donations and RRSP contributions, and taking advantage of child-related credits and expenses.

"While most investors are aware of the different types of tax-favoured investments, there are also a number of common deductions and tax credits to take advantage of," says Mr. Golombek. "Working with a financial advisor can help you determine which investments can benefit you most, and a tax professional can provide guidance on deductions and credits."