

## FROM THE DESK OF:

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Assante Financial Management Ltd.

Buds are appearing on trees, the ground is getting warmer, the days are getting longer and the glorious season of Spring is here. It is the time of year you open up your windows and let the fresh air. As you start to make plans for your Summer gardening and Summer holidays, it may also be a good time to review your wealth plan. Call our office to schedule your next review.

## A NEW YEAR: REVISITING MARGINAL AND AVERAGE RATES

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When income tax is withheld at source by an employer, the final balance owing or refund due at the time of tax filing is typically quite small because of the high degree of accuracy in the published withholding tables used for payroll purposes. While tax withholding is predictable, understanding the actual tax rates can be advantageous for financial planning purposes.

### Upcoming Events:

**Business Owners Luncheon –  
Wednesday, May 24<sup>th</sup>, 2017  
Safe Money with Brad Charlton**

**Client Education Event with Heartland  
CPAs - Estate Planning  
Plan before you go  
Thursday, May 25<sup>th</sup>, 2017**

**Client Education Day  
Market Update – April 27<sup>th</sup>, 2017**

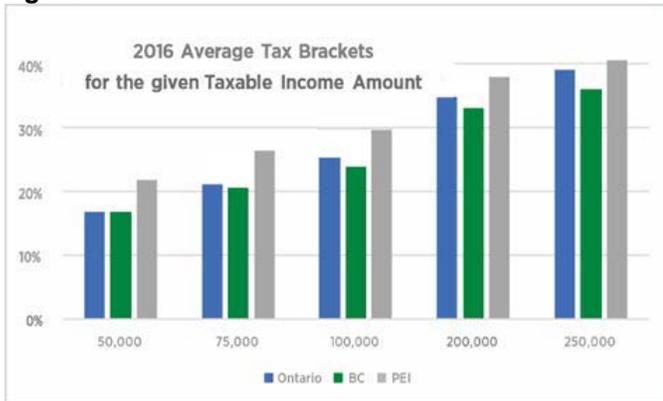
One aspect of tax planning is the appropriate use of the average and marginal tax bracket information for maximum leverage. These rates are important when undertaking financial planning and making financial decisions. Using the wrong rate at the wrong time could lead to flawed decisions.

### *Average Tax Rate*

An individual's average tax rate is derived by dividing total income taxes due by total income. This is an important percentage because it considers the taxpayer's situation at a macro level, identifying the percentage of a taxpayer's total income being spent on income taxes.

Figure 1 presents the 2016 average tax brackets, using three provinces and five different taxable income amounts.

**Figure 1**



The average tax bracket is a good measure for financial forecasting as it considers the total amount of income taxes due relative to a certain salary amount earned. Assuming the federal and provincial governments continue to index tax brackets, a taxpayer's average tax rate would be a safe assumption when calculating inflationary adjustments.

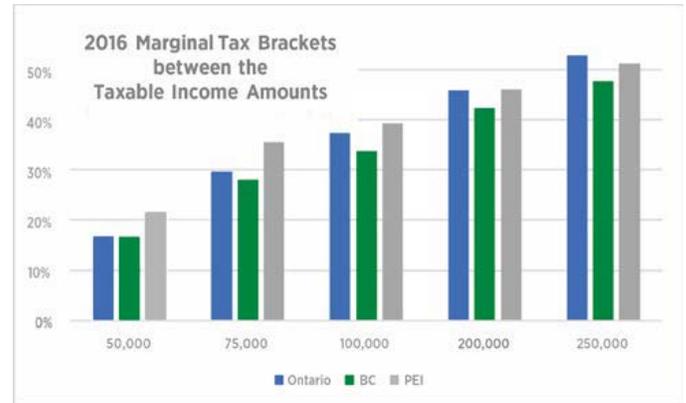
A taxpayer's average tax rate is also a good figure to use when creating a cash flow budget. By multiplying the average tax rate by salary earned, the result provides good guidance when developing after-tax cash flow projections.

*Marginal Tax Rate*

A taxpayer's marginal tax rate is derived by dividing the amount of income tax due on the next dollar of taxable income earned by a factor of one. Sometimes \$1,000 of income is used (instead of a factor of one) so that decimal places can be more accurately determined. For example, if John's tax bill increases by \$330 because he earns an extra \$1,000 of income working overtime, his marginal tax rate is 33 percent.

Figure 2 below presents the 2016 marginal tax brackets, using three provinces and five different taxable income amounts.

**Figure 2**



The marginal tax rate was calculated as the extra income earned on the income above the amount shown in the prior data point. This is an important figure because it allows the individual to determine the effect of a tax deduction. For example, an individual's marginal tax rate would be used to determine how much income tax would be saved by making an RRSP contribution. A second use for an individual's marginal tax rate is to evaluate the financial benefit of redeploying non-registered savings to pay down a mortgage or make a TFSA contributions.

Other Considerations:

There are several tax reductions that impact a taxpayer's income tax liability that are not determined using an individual's average or marginal tax rate. For example, tax credits available to individuals (e.g. the medical expense tax credit or pension income tax credit) typically utilize the lowest tax bracket for both the federal and provincial calculation. For charitable gifts, the tax credit utilizes a split calculation with the first \$200 applied at a low tax rate and amounts in excess of \$200 applied at a higher tax rate.

Both the average and marginal tax rates are important considerations when individuals prepare their financial plans and projections.

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Charlie “Tremendous” Jones famously stated that, “You will be the same person in five years except for the people you meet and the books you read.”

While this statement is for the most part true, I think that it may be missing an important qualifier. I think it would be very important to be proactive in this matter. It would likely be difficult to plan on who you were going to meet, but choosing people to spend time with who are positive and who encourage you to be a better version of yourself is very much a doable. In the same way having a game plan or strategy for your reading time could I believe result in significant growth. At the end of the day we all have the same amount of time. What we do with our time will make all the difference!

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**Both David and Juana are always happy to meet with new people and provide a second opinion on their current financial strategies. Do you know someone we can help? Have them give us a call!**

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Expecting a tax refund this year? You may already be thinking about how to treat yourself with this little windfall – a vacation, a new t.v.

While balance in life is incredibly important and spending things on things you enjoy is fine, try not to lose sight of the bigger picture.

By using that cash strategically, you could be building a better future for yourself and your family. For example, paying down debt or investing in your RRSP. We would be happy to help you explore your options.

Simply give us a call and we will plan a time to meet.

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## HOLIDAYS & BUSINESS TRAVEL

### Office Closed:

- Good Friday - April 14<sup>th</sup>, 2017
- Victoria Day – May 22<sup>nd</sup>, 2017

David & Juana in Alberta

- June 21<sup>st</sup> – 24<sup>th</sup>

David & Juana in BC

- June 26<sup>th</sup> – 28<sup>th</sup>, 2017



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