Dytuco Financial Services

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Helping you understand what matters most in protecting your family & your family's future

✓ **Define your needs**
Quantify your risks, assets & resources

✓ **Know your options**
Compare tax-efficient options

✓ **Make informed decisions**
Select solutions to meet your specific needs

Contact us for a complimentary plan review & analysis

The Cost of Taxes to your Bottom Line & the Value of Planning with Tax-free options

Quick Answer? If you make $50,000 a year, you'll pay about $15,000 in taxes(1) and get to keep about $35,000. If you're living on $50,000 per year of pension or registered retirement income, for each additional $100 in expenses, you'll need to take out an extra $142 out of your retirement fund. This can add up, e.g. for $10,000 in medical or long term care expenses you'll need $14,200 out of your retirement income. This withdrawal can then also result in a clawback of your OAS (Old Age Security) payments.

How it works

> ***Your Effective Tax Rate*** - is the % of taxes you paid based on your income.

If you were a BC resident earning $50,000 in 2014, you would have paid $10,780 in income taxes (22% effective tax) before deductions. That means for every $100 you earned, you got to keep $78. It also means that for every $100 you spent, you had to earn about $128.

> ***Your Marginal Tax Rate*** - is the % of tax you pay for every additional dollar you earn.

Those rates are: 29.7% for $50,00 annual income or 38.29% for $100,000 annual income.
So if you have $100,000/year of income, an additional $100 earned means $62 left in your pocket, $39 for the government, and for every additional $100 you spend you need to earn $162. If you apply the same formula to a bigger expense, for example, $25,000 in long-term care expenses, you will need to earn over $40,000 to cover that expense.

Some tax-free solutions

In comparison, if you are using or earning tax-free dollars, you'll get to keep every $100 that you earn and every $100 you spend costs you just that, and nothing more. So although there are not too many of these options, here are some that include some common and also not-so-well-known solutions:

- **Tax-Free Savings Account (TFSA)**: allows deposits within the legislated limits.
- **Personal Health Savings Plans (PHSP)**: available to self employed or incorporated businesses; allows use of medical and dental expenses as business expenses to a certain limit.
- **Universal Life Insurance Plans**: most allow extra deposits that earn tax-free within a maximum threshold for policies in place before Jan 2017 (when limits are reduced).
- **Life insurance**: with most types of life insurance, the face value is not taxable at death. In some cases, e.g. with policies paid up early, the gain can be significant. For example(2), premiums for a 10-year old male can amount to $16,000 (paid in 20 years) for a guaranteed benefit of $100,000. This resulting gain of $84,000 would otherwise be taxable if earned as a regular investment income or capital gain.
- **Critical Illness Insurance**: most pay out a lump-sum amount that is not taxable. If you were to need, for example, $50,000 to recover from a heart attack or another major illness, you would need to have earned $81,000 to cover that with taxable earnings.
- **Disability Insurance**: Disability payments from *individually* purchased plans (for example, to cover a mortgage), would not be taxable, unless claimed as a business expense (3).

See www.DytucoFinancialServices.com for more information and some tax-efficient solutions that may be applicable to your situation.

Some Important Notes:
(1) Calculations in the example are before deductions based on 2014 federal and BC provincial tax rates on earned employment income using marginal tax rates (excluding capital gains and dividends). (2) Premiums based on IA Universal Life illustration ran 19Sep15. Tax savings based on tax rates for $100,000 annual income. (3) Life and Health insurance benefits would be taxable if deducted as a business expense.