



Topic: "Marginal Rates – Sample Calculations"
Opinion by: Justice Doug Campbell

Date: December 5, 2014

See Also : Issue No. 4: "Marginal Rates of Income Tax Simplified"

This memorandum was prepared by Justice Doug Campbell in reply to the request of ACJ O'Neil as outlined in his Notice to the Bar dated November 6, 2014. It represents Justice Campbell's personal viewpoint and may or may not require some adjustment to conform to the preferences or practices of individual Judges. That will be left up to the Judge and the lawyer, if any, involved. Readers who make use of the within material do so therefore at their own discretion and subject to their own judgment.

Formulation: 1) The Marginal Rate Chart can be used for "on the spot" calculation of tax savings from a Tax Deduction (or tax owed from an Income Inclusion) such as periodic Spousal Support;

2) The Marginal Rate Chart can also be used to calculate the overall tax payable after accounting for a Tax Deduction such as periodic Spousal Support.

Discussion:

The following fact patterns are designed as examples of simple and then more complicated problems to illustrate the first mentioned use of the chart. The chart is reproduced on the final page herein. The reader is invited, if he or she chooses to do so, to perform the calculation herself/himself. I have provided my answer to the questions on the next page.

First problem: In the 2014 year, a taxpayer who earns \$146,270 of taxable income expects to become eligible to claim \$10,000 in periodic Spousal Support as a deduction against income. What amount will that taxpayer save in income tax as a result? To assist with this task, the 2014 combined Federal/provincial Marginal Tax Rates chart is reproduced below. Assume that the below chart accurately specifies the tax brackets and rates. Use it to answer.

Second problem: The spouse of that taxpayer will be required to include the above \$10,000 of periodic Spousal Support in income. The income of that spouse from all other sources is \$29,590. How much tax will the Spousal Support attract, using the below table to calculate the answer.

Third problem: In the year 2014, a taxpayer who earns \$137,270 of taxable income expects to become eligible to claim \$10,000 in periodic Spousal Support as a deduction against income. What amount will that taxpayer save in income tax as a result? Assume that the above chart is accurate as to brackets and rates. Use it to answer.

Fourth problem: The Spouse of that taxpayer will be required to include the above \$10,000 of periodic Spousal Support in income. The income of that spouse from all other sources is \$26,590. How much tax will the Spousal Support attract, using the below table to calculate the answer.

My answer and explanation thereof for the four problems is as follows:

First problem: (Payor)

Other Taxable Income	\$146,270.
Less: Spousal Support	10,000.
Adjusted Taxable Income	\$136,270.

The adjusted taxable income or \$136,270 is in the 46.5% marginal tax bracket; therefore the Taxpayer saves $\$10,000 \times 46.5\% = \$4,650$

Second problem: (Recipient)

Other Taxable Income	\$29,590.
Add: Spousal Support	10,000.
Adjusted Taxable Income:	\$39,590.

The adjusted taxable income is in the 33.5% marginal tax bracket; therefore, the taxpayer owes $\$10,000 \times 33.5\%$ which equals \$3,350.

Note: the payor saves \$4,650 while the recipient owes \$3,350, a net savings of \$1,300 to the separated couple.

Third problem: (Payor)

Other Taxable Income	\$137,270	
Next Lower Marginal Tax Bracket	136,270	
Difference	$\$1,000 \times 46.5\% =$	\$ 465
Remaining Spousal Support at 43.10%	$\$9,000 \times 43.1\% =$	3,879
Total tax savings on Spousal Support		\$4,344

Fourth problem: (Recipient)

Next higher Marginal Tax Bracket	\$29,590	
Other taxable income	26,590	
Difference	\$ 3,000 x 25% =	\$ 750
Remaining Spousal Support	\$ 7,000 x 33.5% =	2,345
Total tax owing		\$3,095

Note: The payor saves \$4,344 while the recipient owes \$3095; the net savings is \$1,249 to the separated couple.

Notice that in the first and second problem, all of the spousal support dollars are taxed in one marginal tax bracket for each of the spouses; however, in the third and fourth problems both taxpayers face a “straddling” of 2 brackets with their spousal support dollars. When “ball parking” on the spot, you can roughly weight – average the two marginal brackets and estimate the tax saving/owing.

Nova Scotia 2014 Combined Federal / Provincial Marginal Tax Rates

Taxable Income Above	Basic Tax	Tax on Next	Marginal Rate
\$11,138	0	\$18,452	25.00%
\$29,590	\$4,113	\$29,590	33.50%
\$59,180	\$14,026	\$28,727	38.67%
\$87,907	\$25,134	\$48,363	43.10%
\$136,270	\$45,979	\$13,730	46.50%
\$150,000	\$52,363	Remainder	50.00%