news from cuasa

Volume 14, No. 12 May, 1984.

REPORT ON CAUT COUNCIL MEETING

by Stan Jones, CUASA Delegate

Delegates to the annual CAUT Council (May 14-17) in Ottawa approved a policy statement and a proposed draft bill on federal financing of post-secondary education. This policy statement will provide an active base for CAUT's lobby with the federal government on funding of universities. In the past, CAUT has only been able to react to proposals put forth by the government or by other lobby groups; now it will be able to establish a position of its own before others set the ground rules for debate. The proposed act, while similar to the new national health act in attempting to guarantee that the provinces will pass along to the universities monies provided by the federal government (three do not now pass along all the federal monies provided), is incentive-based, rather than penalty-based. Provinces that add to the Federal monies (for example, shortly only Federal money will support post-secondary education in B.C.) will receive extra federal funds.

Delegates also listened with concern to discussions of the situation in B.C. It seems clear that the Bennett government has no interest in properly supporting the university system there. Funds are being cut, salary increases are non-existent, faculty and staff reductions are in progress (some 175 at UBC). While it appears that no tenured faculty will be dismissed for the fall term (a number have, however, resigned) the further reductions in funding that the Bennett government is promoting will make it impossible for the universities to continue without such dismissals. While the situation in other provinces is not as desperate (but then Bovey hasn't reported yet), there is the potential for real difficulties all across the country.

Additionally, delegates worked to find ways to make the CAUT Status of Women Committee more effective. That Committee was given more working time and directed to prepare proposals on affirmative action programs, tenure and promotion policies reflecting the special career patterns of women academics, and the effect on women academics of increased reliance on part-time appointments.

The agenda had been organized so as to provide most of the first day for general discussion of issues facing universities and CAUT. This permitted free discussion of such topics as governmental intrusion into university affairs, the effect of the end of mandatory retirement (in 1985), and communication among CAUT, local associations and academic staff. The point of the discussions was not to reach conclusions but to provide guidance to CAUT committees charged with formulating proposals and guidelines.

There will be no fee rate increase for 1984-85. Fees are set at $1.92 per thousand of the national median salary for each rank; because these medians have increased the actual fee each member pays will be slightly higher. The Statistics Canada reports on which CAUT bases its calculations are not complete for 1983-84 so that an exact fee has not been determined, but CAUT anticipates an increase of approximately 5%. If this assumption is correct, the fee for a full professor will be $10.35 per month (up from the current $9.85), for associate professor/Librarian IV $7.90 per month (from 7.50), for assistant professor/Librarian I-III $6.25 per month (from 5.95), for lecturer/instructor $5.10 per month (from 4.85), and for part-time members $1.75 per month (from $1.65). At Carleton this fee is built into the CUASA dues; we collect it and pass it along to CAUT. This fee is remarkably low. The combined CAUT, CAUT Defence Fund and OCUFA fees for a full professor are less than one-fifth of the annual dues a high school teacher pays to OSSTF. That OCUFA and CAUT are as effective as they are given the very marginal funding base is remarkable.

The CAUT budget is very tight and continued effectiveness without more money in the future will be impossible. There are a number of services that CAUT is unable to provide because of budgetary limitations.

Carleton proposed that CAUT fees be more directly related to an individual's salary rather than be based solely on his/her rank. The motion received wide support, but was doomed to fail due to the inability of many local associations to determine what the salaries of their members are.

CUASA continues to have members active in CAUT affiars. Michael MacNeil, Law, was appointed to the Collective Bargaining Committee. Delegates from Ontario elected CUASA President-Elect Stan Jones to the CAUT Board as a member from Ontario.

Sarah Shorten, Western Ontario, was re-elected President of CAUT and Ed Anderson, Manitoba, was re-elected Vice-President (Internal). New officers are Al Sharp, New Brunswick, Vice-President (External), and John Evans, Memorial, Treasurer. Ken McGovern, Regina, continues as Past President.

The following article by Arthur Drache on How to take a year off without really losing is reproduced from The Financial Post Magazine/April 1, 1984. CUASA wishes to thank Mr. Jim Johnston for bringing this article to our attention.

How to take a year off without really losing

BY ARTHUR DRACHE

ONE OF THE SOCIOECONOMIC changes of recent years, as compared with the past, is the phenomenon of people taking a year or so off work. The notion of a "sabbatical year" was the norm in academic circles, but most people, once they entered the work force, stayed in until retirement. Nowadays, it is not uncommon to find that people take a year off, either to return to school or just to travel or otherwise enjoy themselves.

Linked to this phenomenon, of course, is the increasing number of women who are in the work force. Gradually, we have recognized that it is not unusual for a woman to work, take some time off to have children and then return to the ranks of the employed. The voluntary withdrawal from the labor force can be made much easier through good planning. There is not much that can be done in a situation where you lose your job suddenly, but where you have planned to leave work for whatever reason, various steps, taken in advance, can produce the best results from a tax point of view. Here, we will look at this type of planning, with an emphasis on three aspects: income-averaging, investment, and retirement funding.

Income-averaging

AS YOU WILL BE AWARE, THE CANADIAN tax system is progressive. This means that as your income rises, you pay a proportionately higher rate of tax. For example, if you live in Ontario and in 1983 have $10,000 of taxable income, you would pay $2,228 in tax. But if you earned $20,000, your tax bill would be $5,317. Thus, though your income went up 100 percent, your tax bill increased by more than 138 percent. A corollary to this progressivity is that a person who earns $20,000 a year for five years will pay substantially less tax than a person who earns $10,000 for four years and $60,000 in the fifth year.

In order to make the system somewhat fairer, the tax system provides a formula for income-averaging, which is supposed to modify radical shifts in income and the resulting tax. Up until 1982, the averaging system was automatic. Revenue Canada's computers would work out the benefits you were entitled to, and a refund would be paid, if necessary. It is interesting to note that under that system, the benefit only could be achieved if your income rose in future years.

But the system was totally reversed for 1982 and subsequent years. A new approach was taken, which would produce a benefit only if income dropped in a subsequent year. The new system will only appeal to people who are certain that their incomes will drop, and normally you don't figure on that happening. But if you *know* that you are going to be dropping out of the work force, then you may wish to take the requisite steps to get the benefit of the forward-averaging system.

It works like this. Revenue Canada figures out for you what is known as your threshold amount, which is based on your prior three years' income, with some adjustments for inflation. This figure was shown (in 1983) on the mailing label of your personalized tax return in the bottom right-hand corner. (In 1984, you will have to work it out yourself or ask Revenue Canada what it is.)

If your income is over the threshold amount, you may choose to forward-average the excess, as long as it is at least $1,000. To forward-average, you must fill in the appropriate form and pay tax on this amount at the *top marginal rate of tax applicable in your province*. Obviously, unless you are in the top tax bracket, you will, in the year of averaging, pay more tax than is necessary.

At any time in the future, you can elect to bring back into your income all or part of the amount you have averaged. But you also get a tax credit equal to the full amount of tax you paid on the income you made the election on. What should happen, if your income has dropped, is that you will end up with a refund. And, hopefully, the amount of the refund will be more than the excess you paid initially. To complicate the system a little further, both the income you average and the amount of the credit you get will be increased for inflation during the interim.

The workings of the system can best be demonstrated through an example. Suppose that in 1983 you have $40,000 of income and $33,000 of taxable income.

Forward-averaging your income in preparation for a long leave from work can bring a tidy tax refund during the lean times

Your threshold amount, as reported by Revenue Canada, is $25,000. You can therefore forward-average $15,000.

Let's assume that the top, combined, federal-provincial tax rate in your province is 50 percent, which means that you will have to pay $7,500 in tax to forward-average the full $15,000. But if you did not forward-average, your tax liability on that $15,000 would be about $5,400. Therefore, you must decide whether you will "overpay" your taxes in 1983 by $2,100. Let's say you decide to do this because you are leaving the work force at the start of 1985. By 1985, because inflation over the two years has been 10 percent, your average amount has grown from $15,000 to $16,500. Your potential tax credit has grown from $7,500 to $8,250.

Now let's take the extreme case and assume you have no income at all in 1985 because you have returned to school full time. You then elect to bring back into your income the full $16,500. After taking into account your various deductions (such as tuition and personal exemptions), you find that your taxable income is just $3,000 and your tax on this, say, $500. Under the system, you have a tax credit of $8,250, so you will get a refund of $7,750. After allowing for the fact that you initially "overpaid" your taxes by $2,100, you end up $5,650 ahead of the game through forward-averaging.

A couple of important points should be borne in mind. If, after you choose to average, your plans change and you do not withdraw from the work force and your income rises, you will end up a "loser" in the averaging game because you will have overpaid at the beginning, and will get little if any benefit from bringing the income back in the future. The additional income would be piled on top of your other income for the year, raising your tax liability higher.

Second, if your income in your year of averaging is quite low, the cost involved in averaging may be too high to contemplate. In our example, the "cost" was $2,100. But if your marginal tax rate had been significantly lower than in our example for 1983, that "cost" would rise proportionately, perhaps to the point where it just did not make any sense to use the system.

In other words, while the forward-averaging system may produce a major tax benefit if you take a year or two off work, you must be absolutely certain that you will have a significant income drop. The system works best when your income is quite high in the year you elect to average and very low in the year you bring the averaged income back. Before you choose to average to provide for a year off, consider what other sources of income you might have in that later year. If you have planned things in such a way that you will have a substantial income even though you have taken time off, averaging may not be for you.

In the example we used, we postulated a year with essentially no income, but this takes some planning. Consider the more normal case, for example, where you become pregnant and plan to take off a year. What may very well happen is that you work for four months earning your salary, and then you get maternity benefits under the Unemployment Insurance program. You stay away from work from May until the following May. In the second year, you will get salary for eight months. Thus, though you have taken a year off, you will have some significant income during both calendar years, and this income would lessen any benefit you might have from forward-averaging.

The "bottom line," as they say, is that if you are planning to use forward-averaging, you must work out very clearly what you expect to happen in the year you take off and then figure out whether the potential initial cost is worth the benefit at the end. Averaging can be extremely beneficial, but this will only be the case where substantial thought and planning has gone into its use.

Investing

APART FROM THE POSSIBLE USE OF FORward-averaging, planning for a year off work is based primarily on the concept of shifting income forward to that year from the years in which you are working and then getting as many deductions as possible in your working year.

For example, suppose that you are working in 1984 but plan to take a year off in 1985. Your taxable income in 1984 is in the $25,000 range and, while you have some savings, you do not anticipate a large income in 1985. At the end of 1984, your employer says that you are to be paid a performance bonus of $2,500. You are also an active member of your church and usually contribute $500 a year at Easter.

If you ask your employer to send you the bonus cheque in the first week of January, 1985, rather than in late December, 1984, two things occur. First, you have reduced your 1984 tax liability on the bonus, which would have been about $925. When you bring it into income in 1985, it is treated as income from employment, and you will be able to claim the maximum $500 employment-expense deduction in 1985. (You already will have had the maximum for the 1984 tax year.) You may find that you will have no tax liability on the $2,500 bonus and have thus saved the full $925 in tax.

Now let's look at the church donation. If you make it around Easter, 1985, you may find that because your income is so low, you will get little or no tax break for the gift. But if you made the gift to the church around Christmas, 1984, you would have an additional $500 deduction, worth $185 in reduced taxes for 1984.

These two simple examples demonstrate the benefits to be derived from shifting income from a year of high income to one of low income, and deductions from a year of low income to a year of high income. How does this apply to investment?

Psychologically, it may be easier to save stock dividends to produce money in your year off than to squirrel away cash dividends

Suppose you have $10,000 invested in a guaranteed income certificate. You always take it for one year, and it generates $1,000 a year. You pay your tax on this amount annually. Now let's suppose that you plan to take 1985 as a sabbatical year. In January, 1984, instead of investing the money for one year, you invest it for two years, with the two years' interest being payable in January, 1986. In 1986, you will have $2,100 of taxable interest (since the interest compounds), when presumably you have a low rate of tax. Had you followed your original pattern of one-year investments, much of the $1,000 that would have come into income in 1985 would have been taxed away.

Two points should be noted. First, if this represents your only investment income, you may be better off using the one-year investment, since the $1,000 of interest will be totally tax-sheltered by the $1,000 investment-income deduction. Thus, this approach only makes sense *after* you have arranged to use your full investment-income deduction each year. Second, while you can plan ahead for the year off, remember that you can only defer income generated by a bond or GIC for a maximum of three years. Thus, if you are planning to take a year off, the longest term you wish to take is three years ending in the year you are off work.

In regard to stock market investments, you will recall that dividends are an attractive form of investment because the dividend tax credit will often wipe out tax liability, provided your marginal rate of tax is less than 33⅓ percent. When taxable income in 1983 is in excess of about $16,500, some small amount of tax may start to be payable on dividends.

On the other hand, remember it may be possible to get stock dividends. Such dividends are not taxable when they are received, but produce a capital gain when they are sold. If you are investing in the stock market and you pay some tax on your dividends even after taking into account the dividend tax credit, you may wish to shift to stock dividends in anticipation of your year off. Such a shift may lower your tax liability during the years you are working and produce a relatively low-taxed capital gain in the year you are off. While capital gains normally are not attractive to low-income taxpayers, which you will be during the year you are not working, you may find that the net saving is large enough in the earlier years to more than offset the tax payable in the later year. You may also find that, psychologically, it is easier to save stock dividends to produce cash for your sabbatical year than to squirrel away cash dividends, which may well be spent in the year they are received.

The key planning point, if you are fortunate enough to have investments, is that to the extent you can defer the recognition of the return on the investment from a high-income year to a lower income year, you may well produce some significant tax savings. At the same time, you will generate cash to help finance your year out of the work force.

Registered retirement savings plans

BY THIS TIME, YOU WILL PROBABLY have recognized that the one tax-planning vehicle perhaps ideally suited to the game plan for a low-income year is the registered retirement savings plan. It has the following features:

- Funds can be contributed to it in high-income years, reducing tax liability substantially.
- Other types of income can be rolled over into the plan, deferring tax liability.
- The plan can be wound up at any time and the money withdrawn. This will produce income in a low-tax year, which can be used to live on.

Apropos of this latter point, we should note that, technically, you cannot make a partial withdrawal from an RRSP. That is, if you have $10,000 in your plan, you cannot ask that just $5,000 be paid to you. There is a technique for getting around this problem, however. You can set up a separate plan and transfer from the first plan to the second that amount you wish to continue to save. You then wind up the first plan, which will have just the amount of money you require. There is another point we should make relating to the importance of long-term savings under an RRSP. If you use your RRSP funds to live on during a year off work, you will never be able to recoup that money for pension purposes. Therefore, while the RRSP offers an invaluable vehicle for this type of planning, a long-term cost is involved in using it.

Now let's look at some specifics. Suppose you are earning $30,000 a year and are contributing $1,500 to your employer's pension plan. If you are planning to take time off in the future, it makes sense to contribute whatever you can, in this case, $2,000, to an RRSP. In following this route, you get a deduction in the year, tax-free accumulation of income during the period the plan is in place and, finally, the use of the money in the year you take off, if you choose to collapse the plan.

If you follow this approach, there are traps to be avoided. In selecting a plan, you will not want an insurance plan where the front-end load (commission charges) is taken off the top. If you wind the plan up in just a couple of years, this could leave you with substantially less money than would a trusteed plan. With a trusteed plan, make certain that you do not invest in one that puts the money into investments that cannot be liquidated. For example, if you put the money into a trust company plan that buys five-year guaranteed income certificates, you cannot collapse the plan until the certificates mature in five years.

You may want to bear in mind some other aspects, particularly if you are leaving your employer permanently. Let's say you have contributed to the employer's pension plan but your funds are not yet vested. You will likely be entitled to a refund of the money you paid. You should arrange for one of two things. Either the funds should be paid during the calendar year you are off work, which may be feasible if you leave late in the year you worked, although most plans won't hold the money for you for any significant period of time after you cease to be an employee. Or, you arrange for your refund to go directly into an RRSP. This procedure will mean that the employer will not withhold any tax on the payment, and the money will be available in the plan when you need it.

If your employer is one of those who gives a retiring allowance when you leave, you should arrange, once again, either to have it paid to you in the calendar year after you have stopped work or have an amount within the allowable limit paid directly to your RRSP.

Your sabbatical strategy should include an RRSP. It can be wound up any time and will provide income in a low-tax year

You should also be aware of two common types of payment you may be entitled to receive. If you get a payment in lieu of vacation time you have not used, this payment is treated as ordinary employment income and cannot be transferred to an RRSP. On the other hand, if you get a payment for unused sick leave, this is considered to be a retiring allowance and can be transferred into an RRSP. In situations where you are taking time off because your employment has been terminated, a lump-sum payment made because you were fired, say, without adequate notice, does qualify as a retiring allowance and may be transferred into an RRSP.

Though we have been primarily considering cases where you drop out for a year or so and then return to work, it will be apparent that some of the planning with RRSPs is quite appropriate for somebody who does not plan to return to work. Consider the case of a working woman who plans to have children and does not plan to return to the work force in the foreseeable future, if at all. It makes a lot of sense for such a woman to maximize her RRSP contributions during her working life and to utilize any available rollovers when she leaves her job. She will be subject to little or no taxation in the upcoming years; and the RRSP offers a vehicle for getting deductions while she is paying substantial tax and withdrawals when her tax rate is very low. With respect to our general concern about maximizing retirement income, the long-range benefits may be enhanced through her husband making his RRSP contributions to a spousal plan. This may be kept in place for the long haul to produce a pension for the wife or may be utilized earlier through a collapse of the plan.

Such a technique could allow the husband to tuck away several thousand dollars a year on a tax-free basis, to be withdrawn by his wife a few years later to help fund the purchase of a house or to help pay down a mortgage. In such a situation, instead of an individual taxpayer shifting potentially highly taxed money to a low-tax year, the higher-taxed spouse shifts money to the lower-taxed one. Note, however, that to avoid the income-attribution rules, the recipient spouse cannot withdraw funds from a spousal RRSP within two years of contribution. If such a withdrawal is made too early, the contributing spouse will have to pay tax on the withdrawn funds.

In the final analysis, the RRSP provides the best vehicle available to achieve the key requirements for "sabbatical" planning. It allows the maximization of deductions in high-income years and flexibility in getting your hands on low-taxed dollars in the year you are not working. It would be hard to contemplate this form of "year-off" planning without bringing an RRSP into play.

Conclusion

THE KEY OBJECTIVE IN PLANNING FOR a year off work is to provide yourself with a source of income for support while forgoing your salary. The best approach is to pay for that year with funds that are deductible in a working year or to defer income from a working year to the year you are not working. The forward-averaging provisions may provide some additional help, but only in cases where you have carefully planned your situation. In this respect, for example, you should recognize that if you are shifting substantial funds to the "off year" through the use of an RRSP, this will detract from any benefits you might get from forward-averaging, which produces the maximum benefit in a year when your taxable income is lowest. But if your deductions will be high in the off year, for example, because you have substantial tuition fees, it may be possible to get the best of all worlds, with the RRSP income being "sheltered" by the deductions while the forward-averaging gets applied to what amounts to a low-tax year as a consequence of the deductions.

No matter how you look at it, good planning for a year off takes some considerable time and effort. Happily, if you structure matters properly, the effort can produce a very comfortable year. ■

SUMMER COUNSELLING - REGISTRAR'S OFFICE

The Dean of Arts and the Dean of Social Sciences are asking for two faculty employees to work in the counselling service of the faculty Registrar's office for summer registration. Faculty considering applying for or accepting one of these positions should know that CUPE 2424, the support staff union, has argued that these jobs are properly jobs covered by that union's contract. We have examined the issue and find that work of this type is indeed covered by job descriptions in CUPE 2424, although one faculty member performed such work last summer. We cannot prevent members of CUASA from accepting these jobs, but we do remind CUASA members that CUPE 2424 will regard anyone accepting such jobs as working against the interests of members of that union.

This is not to say that the work should be in CUPE 2424, but to say that it is and that it has been recognized by the employer as being appropriately performed by members of CUPE 2424 (because it appears in job descriptions approved by the management). If the employer feels that it is more appropriate for faculty to do this work (as one Dean has told us) then it is up to management to negotiate with CUPE 2424 the transfer of such work to the CUASA bargaining unit which would involve CUASA in determining whether this work should properly be assigned to CUASA bargaining unit members.

Recognizing that CUPE 2424 may have legitimate claims to the work, we would ask CUASA members, until this issue is settled, to think carefully and consider the consequences before accepting a position in the summer advisory service.

Stan Jones, President-Elect