



Debunking 8 common myths and misunderstandings about taxes (Part 1)

Announcer: Welcome to the empowered investor podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future with a straightforward approach host Keith Matthews of Tulett Matthews and Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.

Marcelo: Welcome to the Empowered Investor Podcast. I'll be your host for today. My name is Marcelo Taboada and today we have a very special guest. There is a lot of misinformation regarding taxes. Misinformation is present everywhere now on social media and it spreads quickly. We've all heard someone around us say. Above \$100,000 I pay 50 percent tax or the rich don't pay tax. Today we have a great guest expert the tax specialist Réginald Pierre-Louis with whom we will go over the most common tax myths to separate the true from the false. Réginald thank you so much for joining us. Tell me a little bit about yourself your background why tax?

Réginald: Hi Marcelo thanks for having me today. I really appreciate the opportunity. So a little bit about me. I'm a CA CPA and I have a Master in Tax. So since I said I'm a CA so that tells a little bit about my experience. I go a little bit way back. In the past 12 to 13 years I've worked for big accounting firms in Canada during 10 years in Canadian Tax. Part of that time I was a Senior Manager in Canadian Tax. After that I started my own practice. I worked with small and middle accounting and law firms as a tax specialist when you needed help about tax organization or tax treatment about some transaction anything related to Canadian tax. Since 2014 I also worked as a teacher assistant for various university at the bachelor level and master level. Since 2021 I'm a full-time professor at ESG UQAM. At second degree master level in Canadian tax. Finally, I'm also a speaker and an author for the Association de Planification Fiscale et Financière commonly known as APFF and I also do conference and training for the CPA order notably relating to real estate Canadian tax or some conformity about deduction for small business deduction and other tax incentive or other tax stuff for the CPA order.

Marcelo: Wow. So you have a very extensive background in private practice you've become an academic. So how have you handled that transition? Do you like it? Did you get surprised by the experience?

Réginald: I was always close to teaching. Even when I finished university I told my teacher that I was coming back for his title but he was young. So I went for another university. But even when I was in a big firm I was always someone who was willing to teach to the juniors I like to teach. It's a passion because it's definitely not for the money that I've did the move. If not I would have stayed in private but it's just the passion. It's fun. It's a real feeling of acknowledgment when you teach and when someone understands something that you're



teaching and also. Like you said at the beginning there's a lot of misinformation about Canadian tax. I remember when I was even young high school even before that you always heard people talking about tax stuff saying all the government is robbing them. All the rich don't pay taxes. I'm not coming from a rich family or anything. So, I was like how is that even possible? Is it true that the Government is robbing us that the tax is not fair that it is illegal we even heard that the tax is illegal and everything. I wanted to know for myself and that's the first thing that interested me that I went into accounting became a CPA and here I am 10-15 years later.

Marcelo: I tell you it is a remarkable skill to be able to teach someone a complex subject. I think only a few gifted people can do it. And if you have the gift for sure it's a great thing. I was listening to your podcast that you did with my colleague Ruben in French which was amazing. If you prefer the French language go listen to that. But I was thinking about like a good analogy for taxes and the misinformation there is and I think it is a little bit like health. Hell sometimes you can neglect it and you can get away with living a long life but sometimes if you neglect it it'll come and bite you. And there's a lot of misinformation out there about what's a healthy lifestyle and all that. So I think that's the best analogy I could find for what we're going to talk about today.

Régnald: I like to use analogy to teach my point or to teach something. So for sure I'm going to come up with some analogy of my own. And the one that I'm probably going to repeat a lot of times is always the red light. This is the one I'm always using when you hear someone say "Oh my friend did that and he never got caught." Everybody passed the stop or passed through a red light. If there's no policeman, you didn't get caught. But your friends can go through red lights all his life and he's never going to get caught and you go to the yellow light and you're going to get caught. So that's one of the problems with the taxes. Sometimes people are going to do things and they're not going to get caught. That increases the feeling of people get angry because it's how we did that or that rich people did that. Okay but it's one person or a small group of people. It's not the majority of the person of the people but we're going to get through this.

Marcelo: For sure. For sure. Okay. Let's start with the first one. So I hear this very often. I'm not married. I may not live with my partner. What makes a person that is in a relationship romantic relationship make that they have to file a tax return?

Régnald: That is a good question to start with. And that is something that we hear a lot that "Oh I'm not living with my partner. I'm single for tax purpose." but let me ask you the question Marcelo. What is for you a girlfriend or a boyfriend? How would you define a girlfriend?

Marcelo: Okay, that's a great question. And I'm married so I have to be very careful about what I say. I think it's someone you share nice meals with and somebody you fight and you can hug five minutes after. That's how I define a girlfriend.

Régnald: That's really safe. That's really safe for a tax purpose. It will be a little bit too large of a definition because there's a lot of person that could be identified as a girlfriend or



boyfriend. But what we hear a lot is that oh if I'm not living with the person or it is not my coming love partner and if I live with someone for 12 months. Or year then we become suddenly common law partner. This is a myth. The real thing is in order to be a common law partner the first date between 12 months of conjugal relationship or the birth of a child.

Marcelo: Okay.

Réginald: So therefore, living together is one of the factors that's going to be taken into consideration. But it is not the only factor that's going to be taken into consideration. I see. So, you can have two addresses and still be coming up partners. The best example can be long-distance relationships. Someone living in another country or another city. They're still common law partners. And this is different from someone who is married. When you're married you become husband and wife.

Marcelo: There's a legal document that says that.

Réginald: There's a legal document saying like you share everything but common law partner is the first date between the birth of a child or 12 months of conjugal relationship. Not a big question is what is. A conjugal relationship.

Marcelo: Yeah I was just going to ask you that.

Réginald: And that includes a lot of factors. There's not a specific definition of it. When you look at the jurisprudence and all the documentation from the CRN of Quebec they take into consideration if you live with a person. How do you socially act with a person in public? Social media can be one of the factors.

Marcelo: Oh yeah.

Réginald: When it's on Facebook it's official. Unless if it's not on Facebook it's not true if it's not on Facebook.

Marcelo: You know what they say right? That if it's on a social media it never happened.

Réginald: Exactly. But this is one of the things that they're going to look at. The intimacy would be another thing that they're going to look at. In the same way you can live with someone and not be in a conjugal relationship. When you have a call up or something. So another thing they look at. And the people don't think about it is the insurance work insurance and everything. I don't know about your friends. I have some friends but never a friend's told me "Hey Reggie I like you so much. I'm going to put you in my insurance and pay for you on every of my pay." Says nobody ever. So the only way you're going to pay for someone insurance usually is when you're a little bit closer to that person. So common law partners and kids. So, this is one of the things that they're going to look at on your insurance. Are you alone or do you have someone else? And it's hard to fight that you're not in a relationship with someone. If that person is on your insurance. So it's going to be like a



combination of multiple factors that are going to look at in order to determine if you're in a conjugal relationship or not.

Marcelo: Okay. Thank you for that. That's very thorough. So I appreciate that. Okay. So let's jump into the second one. You're probably going to laugh at this one but it says I have no income, so I don't need to file taxes.

Réginald: That's a good question and that's a good concern. I like that question. We're starting strong. I had the chance just before that just a little story I had the chance to talk with Mr. François Boileau which is the Ombudsman of Canada. Okay, and when we were discussing about tax matters that because when you go see the Ombudsman it's because you have a problem and most of the time it's related to Canadian tax. One of his main concerns during his mandate is across Canada not only Quebec across Canada is to bring the people to do their tax returns even low-income individuals or less fortunate individual is to do the tax returns because these people are leaving money on the table for them. Crazy. All the tax incentives tax benefits that when you have a low income they're there and they're there to pick up for the low income. So the program exists for them. So this is a myth. This is false. If you're 18 and over and even if you don't have any income you need to file your tax return. This is something serious and people should want to tax the tax return in order to get the tax benefit that is owed to them. So that is something important.

Marcelo: That's as clear as water. So thank you for that. The other one I hear often this one makes me laugh because we do some taxes here for clients but my friends and I tell them "Oh I work in a firm that does taxes." They always bring this up. So it goes like this. My accountant is bad. He doesn't do a good job because I have to pay taxes at the end of the year. Or the opposite right? My accountant is a superstar because I get a refund.

Réginald: Totally true. As a CPA we are mandated by the government to decide who pays and who doesn't pay taxes. So this is the high near power of all the CPA in Canada. No I'm being sarcastic here. Jokes aside this is totally false. The income tax is determined according to the income tax law. Yes the accountant can influence or experienced knowledge can affect your tax return but it's not because you pay that necessarily your accountant is not good or because you have a refund that your accountant is the best in the world. It's really important to understand the system. How does it work? Quick example really simple example. Let's say you have a salary of \$100; according to the income tax law you should pay \$20. Then what happens on your salary is on every pay. Your employer is withholding income tax and at the end of the year your accountant do your tax return. So salary \$100 do the calculation income tax \$20 how much did your employer withhold? If he withhold \$25 Then you're going to get a refund of \$5. That's it. If your employers withhold \$15 then you will have to pay \$5. So the accountant can have an impact because maybe you can think about a credit or a deduction that you should have because you're over seventy years old or you're a caregiver you have children they're doing sports, artistic stuff there's a lot of credit especially in Quebec but bottom line, you need to pay your taxes according to your situation depending on how much tax that was withheld or paid by installment. This is going to determine if you get a refund or if you get a balance to pay at the end of the year. And that goes a little bit with the system that we have in Canada and that goes way back until 1917



the first income tax law. It's a self-assessment system. One of the incentives to motivate the people to do their tax return. It's the possibility of a refund. If you know you're going to get a refund you're going to do your tax return because you want to get your money back. So that's one of the things that we got okay. So it's a self-assessed system and you want people to do their tax return. It's a little bit linked to the question you asked me before with all the tax benefits that exist. They want people to do their tax return and to hope for a refund if they have to pay it well, they have to pay. And again that's why you make installment the year after. So in order to make sure that you don't have a huge balloon to pay at the end of the year. So that's one of the things. And since we are in the tax season it's important to say the individuals. They have a responsibility to inform their accountant about any changes in their life. A new boyfriend girlfriend, a new kid, a new job, a new issue health issue. We're talking a lot about mental issues, in the past years in the recent years. So if you started to see a therapist and everything your accountant is not there to listen. But if you tell him or her something that's happening in your life it might ring a bell. Have you thought about that credit? Have you thought about that deduction? Can you send it to me? Do you have a kindergarten? Okay you're an educator or it might be a deduction for you. Talk to them. Communicate with them. The responsibility is not 100 percent on the individuals. It's also on the accountant who has the right question. But if you go see your accountant on April 25th and you still have a hundred tax returns to do. He doesn't have the time to take 30 minutes to have a coffee with you. And this is real. I have my own practice but I know all this new tax return. I did it for 15 years. And if you bring me your paper on April 29th April 28th, you want them by April 30th. And we're all busy and we all need to respect the deadline. But on the other side a good accountant can influence your tax outcome. But it's not going to be the one that all because it's good or bad. That's why you pay. You can make a mistake. Everybody can make a mistake. That's happened. A professional that tells you that never did any mistakes. That's either because he never did nothing or because he's lying. So you should not trust someone to say never made any mistake. But with the tax software today. They always ask questions get you diagnostic at the end of the tax return. Have you thought about this, or we saw this and everything so it helps a lot. Usually, all the accountants have questionnaires for their clients to answer at the beginning. So that helps a lot.

Marcelo: It makes total sense what you're saying. If you have a good relationship with your accountant at the end of the day the accountant can be the best one but if you're not transparent or you don't share the information the output is not going to be the most optimal right? And I like what you said about influencing behavior and putting things to the table because if you're aware of things then your brain is starting to think okay like I have to inform my accountant every time I have a life change. So maybe I can get some credits here and there. And like it trains the client to be more transparent and share information that helps the accountant at the end of the day.

Réginald: Totally. Like every relationship communication is the key.

Marcelo: Oh, my wife will love you, Réginald. Okay there's another one that I hear often is I make above \$100,000 a year my tax will be 50%.



Réginald: That's the one that I hear a lot too. It's false. First let me just make a precision here. We're talking about income tax not all the taxes that exist. We're talking about income tax and if you make a salary of around \$100,000 your income tax will be around 25%. So that would be the real answer. But it's important to talk about how the system works in Canada and Quebec. We have what we call a progressive system. It works by tax branch, and you have a marginal tax rate for every tax branch. I'm going to keep it simple because there's if you take into consideration Canada and Quebec you have around 8 to 10 branches combined because they don't have exactly the same branch in each. So I'm going to make it really simple.

Marcelo: It's like a ladder right? Every different branch has a different level.

Réginald: Exactly. So let's say the first \$50,000 are going to be taxed at 20%. Then from 50 to 100 you're going to be taxed at 25% then 100 to 150 you're going to be taxed at 35 and 150 to 200. You're going to be taxed at 40 and then above that and it goes like this. So yeah, it's the latter. But the thing is people have the misconception that if you get to the other tax branch. All your income is taxed at the new rate, but it is not the case. It's only the branch that you're into that's going to be taxed at the increased marginal rate. So I'll use my example again. The first 50 I'm taxed at 20%. From 50 to 100 I'm taxed at 25 and let's say my salary is 130 then 100 to 30 to 130 so my 30 is going to be taxed at 35 percent or 30% I don't remember exactly the rate that I used but for illustration, it's only the tax branch that I am that is taxed at the marginal rate where it is. So, it's not all my revenue. It's not "Oh okay. So I'm doing like 200. So all my income is at 40%." That's not the case.

Marcelo: That's wrong. Yes.

Réginald: And in Quebec the maximum tax rate on a salary is 53.31%. And it applies to income over \$222,000. So, it's only the income that is over \$222,000. That's going to be taxed at 53.31%. So when you make a hundred you're not at 50%. I know it feels like 50% but you're not, when you look at it. And this is something important to do because people when they say 50% usually, they're talking about the income tax. The sales tax and the deduction at source. Because there's other taxes that we pay deduction at source you can think about oh for this one I'm not sure in English but IFQ FQRP.

Marcelo: Yeah QPP, employment insurance, all that.

Réginald: Exactly. And most of them you're going to see later. Let's say the QPP Quebec Pension Plan then when you're retired you should get an amount from the QPP. Employment insurance, I hope you don't have to receive a payment of that but if you lose your job you're going to get employment insurance. And the last one provincial parental Quebec I have QRP it's a parental leave benefit. you have a kid, you're going to receive it. Some people are going to say yeah but I'm not planning on having kids or I already have my kids. Why should I continue to pay? It's because it's a choice of the society to make everybody pay for people who wants to have kid or for the retired so that's why you have to pay. Just think about when you receive it some people pay that they already had kids or choose not have kids, but they pay too so it's collective choice that we make it's a tax policy



tax philosophy. Is it the best one? I'm not here to debate that. It would be really interesting but it's not the subject today. But this is the collective choice that we made as a society that everybody's going to pay for everybody who wants to have a kid or retire or get employment insurance.

Marcelo: Of course. So, I grew up in El Salvador and I know exactly what it is to have a country that doesn't have proper tax laws or even just pay taxes income filing right? Like people just there's a lot of black economy and people don't file taxes. The infrastructure of the country is falling apart. There's no social safety net. So not to get into the politics but sometimes I hear "Oh the roads are like crap but I try to avoid taxes and do like sketchy stuff on my rental income." So, you don't really have a right to complain if you're not playing fair, right? And the same thing with people who say "Oh I don't have kids. So why should I pay the school tax and parental leave and all that?" But at the end of the day the benefit of society as a whole because at the end of the day even people who don't have children will have to get a pension. So, who's going to pay for all those pensions this population growth if we don't have no people, we know we don't have a pension we don't have a tax system, right?

Réginald: You're right. And the thing is the idea the concept, yes, we can debate about it but I think this is another question. The real question for me is not about if the systems fair or not but just how is it managed? That is totally another question.

Marcelo: Yeah that's a different conversation. So what I'm hearing is before we move on. So I think the misconception comes Réginald where people say okay let's say you make \$250,000. People say I'm in the 53 percent marginal bracket. So, they assume that person is paying 53% but that would be his marginal tax bracket. But his average tax will be completely different as of someone who makes \$100,000 because of those ladders that get taxed at different levels right? So, I think that's where the misconception comes from.

Réginald: Totally. You summarize it really well. And yes, this is a misconception. And there's not a lot of people in Quebec that makes more than \$222,000. I'm going to get into a little bit of statistics but it's really not a lot. And yes, the people have this misconception.

Marcelo: Perfect. Perfect. Okay. Let's talk about the next one. This one makes me laugh too. It says I don't think I will accept this salary increase or work overtime because it is unnecessary since my tax is more than the salary increase.

Réginald: Again, this is false. Like we just discussed, the maximum marginal tax rate in Quebec is 53.31%. So, for sure if you make one more dollar in salary you're not going to get taxed 150%. It's impossible. There's a problem with the deduction at source. If that happens, sometimes what happens is that the employer is going to make more withholding for the deduction at source on overtime for the QPP employment insurance and the parental leave. But there are maximum to those deduction at source. So maybe your overtime is going to do more withholding for the income tax or the deduction at source in order for you to pay the full amount quicker. And after that your pay is going to increase because you will finish paying your deduction at source. That can happen. But only income



tax wise, you're not going to get taxed more than the dollar you make the dollar more that you're making but it can be demotivating to know that oh okay it withholds some deduction at source. So you look you do some overtime you think you made a hundred dollars. Finally there's only \$40-50. So you sell the deduction at source. Yeah, it can hurt. But believe me you're not going to get taxed more than anything. There's only the change of bracket that can happen but even though even then just remember there's tax rate to every income level, so you're not supposed to get taxed more than the question you said." Oh, I'm doing overtime and I'm getting taxed more than my overtime." No. Again it's a perception but a thing that can happen. What we see and we're going to separate ourselves from the income tax for a second is what we call it the marginal effective tax rate.

Marcelo: Okay.

Réginald: And when people say because you probably saw in some articles say Oh you got 80 percent tax in Quebec or anything the marginal effective tax rate it's an increase of every taxes. So income tax the deduction at source, tax benefit. For an increase of income of 1000. So in some rare cases the marginal effective tax rate can go high as 80%. But it's generally for people making and this is a roundup number is not the exact number but less than \$25,000. Let me explain. How can it be so high? So when you have a low income let's say from 10 to 25 you receive tax benefit. For tax benefits. So, the objective of these tax benefits is to motivate the individuals to work. But those tax benefits also disappear as you make more money. So just for an example these are not the real numbers but it's just for an example. Let's say you make 15 000. You have tax benefits of \$5,000. Let's say you make now \$20,000 then you will have a tax benefit of \$1,000. So, when you look at that when I was making 15 I received \$5,000 in tax benefit which is going to be a refund in my taxes. So I said "Oh cool. So, I'm doing \$15,000 and I'm receiving \$5,000. And when I'm making \$20,000, I'm receiving only \$1,000." So, the tax benefit decreases but the thing is yes, the tax benefit decreases but you made more money. So, if you're between \$15,000 and \$25,000 that hurts a lot because you're going to have a reduction in tax benefit. Let's say you went from \$5,000 to \$1,000 that's \$4,000. So divided by 20 it's a 20 percent increase in the marginal effective tax rate. So that hurts. So it makes you feel like Oh I'm getting tax as more money as you make down the way. Let's say you make \$40,000 instead of \$15,000 then the \$4,000 doesn't become relevant anymore. I see. So that's where the people say "Oh when you have a low income", but this is really for low income let's say between \$10,000 and \$25,000. So that's where people sometimes say "Oh I'm getting taxed at \$80,000", but it's not only the income tax it's the tax benefit that they lose, and that is what hurts them. Yes, that could be seen as an issue. Would it be possible to there's a book leaf scale that exists in Quebec in order to reduce the impact of the losing of the tax benefit? And could it be better? Could it be improved? Again I think yes but depends on the idea it's going to have depends how much you make, how you see life how you think people are. So that would be the only time when you can get a huge tax rate. Again, it's not only income tax it's the deduction at source income tax benefits all together.

Marcelo: But generally speaking, if you're a person making let's say I'm throwing out a number here, \$100,000 and you get a bonus. You're net positive. You're not going to pay more taxes on the bonus just because you made that bonus. So I think that's where the



misconception comes. And I think it comes a little bit because it's painful when you get a bonus like your boss says "Hey you're going to get a \$10,000 bonus" and you only get like \$5,000 and it's I think that's where the misconception I'm rounding up numbers. But what you're saying is the bonus will be added to your income and then that will respect the ladders and different levels of taxation that we're talking about. So it's impossible that extra \$10,000 of bonus will be taxed more than your overall income. It just doesn't make sense right?

Réginald: Doesn't make sense. No. And another thing that I see is that sometimes people pay taxes and they feel that their tax rate is out of control. Let's say you have one job, and you make \$100,000. Your employer knows you make \$100,000, so they're going to withhold tax according to your gross revenue. Let's say now that you have 10 jobs, one job per month, and you make \$10,000 every month from each job. The personal tax credit, the base personal tax credit, means on the first \$15,000 you usually don't pay taxes. So let's say you have 10 jobs; you jump from one job to another and you always make \$10,000. Not every employer is going to consider the revenue that you earned before. So, every employer is going to say, "Oh, you only make \$10,000. I don't need to withhold a lot of tax. Maybe I'll withhold \$1,000, which is 10% because at that level you usually don't even pay tax." But at the end of the year, you need to combine and add all of those jobs. So, you have a \$100,000 salary, but when you look at the income tax withheld, it's nothing, peanuts. So, you pay at the end of the year and then you're mad at the government.

Marcelo: So, a person will be stuck with a large tax bill because the proper deductions haven't been done. We see that a lot now; you hear a lot of people in the tech industry, for example. I heard this in the news the other day that now you have a lot of these companies allowing people to work from home, and some people are working two jobs, and the other employer doesn't even know. So, if the deductions are not done properly, you're going to get hit with a big tax bill, right?

Réginald: Yes. Or if you have two jobs around \$100,000 each, or depending on how much it is, yes, you're going to get hit really hard at the end of the year. So that is something that I see often, and particularly for young people or students. They work maybe three months here, three months there, three months somewhere else. They do \$10,000-\$15,000 per job, but at the end of the year, they've made \$60,000. But every employer withholds nothing because they consider that they have their personal tax credit and some school credits. So they say, "Okay, you're not going to pay tax, so I'm not withholding any income tax," or they withhold the lowest they can. But at the end of the year, the student thinks, "I'm a student, I'm not supposed to pay taxes." There's no exemption in the income tax law that says, "Oh, you're a student, you pay no tax." That doesn't exist. It's just that usually you don't make \$50,000 or \$60,000. But the example is really good because with everybody working from home, even students work from home. So they can go to school at home from there. I know most of my students are always at home because it's distance learning. So they work from home and can even follow a class and work at the same time.



Marcelo: So we go back to the same concept of transparency and communication. So if you have two jobs, tell your accountant and let them know in advance to make sure that they advise you properly, right?

Réginald: Yes. They're going to tell you to tell one of your employers to withhold more taxes.

Marcelo: That's it. All right. So the next question, just make sure that the podcast doesn't get to your regular restaurants that you go to because it may have some consequences, but it goes something like this: I work at a restaurant or a bar. I get good tips. Is it tax-free? So the question is, are tips tax-free or do I have to declare them?

Réginald: All right. So this is a good question. And the good thing is nobody sees our faces, so I should be good to go to the restaurant again. The tips are not tax-free. On the contrary, it's not true because sometimes you hear some people working with tips. They're saying, "Oh, I pay 50 percent of my tips." We've been through this; we know it's not 50%. Let's take that out of the way now. Revenu Québec imposed the employer to add a tip of 8% of the sales before taxes of the person to the relevant, the equivalent of the T4 in Québec. So they tax themselves on 8% regardless of how much they really received. Now they're supposed to tax themselves on all the tips that they receive. I've worked in bars and restaurants. To be cautious I'll say one person, but I don't remember one person telling me, "Oh yes, I keep track of all my tips and I pay taxes at the end of the year." So that's why there's 8%, because usually they will tax themselves on 8% and they're supposed to balance and put the rest of the money they receive. They don't. So, it's true that they do pay taxes on their tips, but it's not on the 15% tips or 20% tips. It's 8% and that is the minimum. Now if they declared all their tips, yes, they'd tax themselves on all, but even then, to pay 50% tax, that means that as a person who's working in a job with tips, they need to make more than \$222,000 in 2022 in order to pay more than 50%. That's a really good job with tips, a really good one. And on the other end, let's say when you go to the restaurant you have the little machine at the end. Let's say your meal costs \$100 plus sales tax \$115. You add 20%, and the machine is going to add it on the meal and sales taxes, when usually the tips are on the meal before sales taxes. But even though this is not an issue, on \$115, a 20% tip is \$23. So if the waiter taxes himself on 8% and pays 25% tax, he's going to pay \$2 in tax but receive \$23. He's going to have \$21 in his pocket. So the thing is, the restaurant—that's not related to income tax at all—but from my experience, it's what causes because sometimes the employer asks the waiter to pay a cut to the cook, to the busboy, to all the other personnel. And that's what causes them a lot. But that's not related to income tax at all. And also we need to be careful because it's not every job that has tips that has to pay 8%. When you go to the Revenu Quebec site you can see they list the jobs that are targeted, but you need to put the 8% for the employee, but it's not every job.

Marcelo: I see. Perfect. I think that's clear as water. And let's move to, I think the next two are some of my favorite ones because I hear this a lot and I think they hurt. I think specifically the one on RRSPs hurts a lot of people because they hear this misconception and then it ends up hurting them long term because they don't apply them properly. So it goes something like this: RRSPs are useless because future withdrawals are taxed.



Réginald: RRSPs are not useless. They're just misused. It's not the same thing. Yes, the objective of an RRSP, there are two objectives. One is to postpone the income tax. This is the first, the main objective, a potential economy. And there's a different situation. There are two types of economy. It can be a financial one and a tax one. And also, it gives you a bigger investment capacity because there's no tax on the RRSP. So, to make a quick example, let's say now Marcelo you're in your prime. You make good money, your family, so you contribute to your RRSP now. And you remember there are ladders, different tax levels according to the brackets and everything. So we're going to go big. Let's say you make more than \$222,000 per year. So you contribute RRSP \$10,000. You're going to save 53.31% in income tax because you're at the highest level and you are 25 years old. You start, you go out a lot, life costs a lot. You're 35. Now you have kids. Life costs a lot again. Yes, 45, then you have a teenager. Yeah, life costs a lot. And then finally you get there, 55-65, you retire, the children are not there anymore. You're full of grandchildren, but hey, that is funny money. So technically when you retire your cost of living should decrease. And your income should also decrease because you're not working anymore. You're withdrawing your RRSP. So, you're not going to be at more than \$200,000. Maybe you're going to be at \$100,000 because you don't go out as much or you've more come at home. So therefore, your tax rate is going to be 30-35%. So when you withdraw your RRSP, you took the deduction at 53.31%. You postpone the taxes. And when you withdraw your RRSP, you pay taxes at a tax rate of 30%. So you save money. Because with the \$10,000 you save 53%, so \$5,300. And when you withdraw your \$10,000 you pay 30%, so \$3,000. You had an economy of \$2,300. And you were able to postpone the tax. So you also have an economy of cash value and time.

Marcelo: It's just what people don't think about. It's like you said, it's not only the tax deduction you're getting today at 53%, but when you take it out, on that same dollar you're going to pay 37% later on. But the growth on that dollar, the time value of money of that dollar today compounded over 30 years with no taxes is huge.

Réginald: Exactly. So this is the utopia. This is how it should work. Now real life can hit you hard. And what happens is the hazards of life. We can talk about sickness, accidents, divorce, anything that can happen. What happens is, let's say we use the same example. You're 35, you make more than \$200,000. You contribute to your RRSP. Then at 45, something bad happens. Accident, health, sickness, whatever. You withdraw your RRSP. But the problem is you're still in your prime, so you're going to pay a higher tax rate. So let's make it even worse. At 35, you had a tax rate of 40%. You contribute \$10,000, you save \$4,000. At 45, you're at 50%. You need to withdraw your RRSP because something goes wrong, you pay 50%. So the same \$10,000 saved you \$4,000 and now you need to pay \$5,000. That hurts. And sadly that's what happens a lot. That's why people say, "Oh, RRSPs suck. They're not good. They're useless. I'm getting taxed on my full amount." Yes, because you had a deduction on your full amount too. And you didn't withdraw it like you're supposed to at your retirement, but it's not your fault. Something happened. You needed to get out of the house. There was an accident. There were some health issues. This is where people have misconceptions because everybody has a horror story about someone that withdrew their RRSP. So that's one of the things. Or even worse, not even worse, but



sometimes people say, "Oh, I need to travel and I need to get out. I'm going to withdraw my RRSP and go on a trip." That's not what the RRSP is for.

Marcelo: No, it's there to create a pension for yourself.

Régnald: Exactly. And that's where the misconception comes. And let's say you contribute \$10,000 over a couple of years and you withdraw \$50,000 in one shot. That \$50,000 just adds up to all your revenue. So that's why it hurts a lot because you had a \$10,000 contribution with a little \$3,000-\$4,000 economy each year, and then you withdraw \$50,000 in one shot, pay your tax, \$20,000 one shot. You're like, "Ouch, this thing doesn't work. It's useless. It's useless." And by the way, I'm not working for the government so I'm not defending them, but I'm just saying this is how it works. And this is why people sometimes are angry at the RRSP and maybe they should have used the TFSA instead.

Marcelo: Yeah, I think the issue comes mostly because our brains sometimes are wired to think in terms of black and white. And we have a very hard time with nuanced situations, but I think that's why rule of thumbs can be dangerous when it comes to RRSPs and different things because you need someone to explain to you the different aspects. You're looking at the RRSP, your full range of options and how things work. And the RRSP is exactly that. If you apply the logic of what they're there for, you're going to come up ahead. But if you're just blindly putting into the RRSP without doing some analysis, then that's a problem. Even young people who maybe have a promising career and are making \$40,000-\$50,000, I would even argue, use your TFSA for now, save that room when you have the gunpowder and it's going to give you a 53% deduction as opposed to a 37% or 35% deduction. So what I'm saying is every situation is different and it should be given some thought and analysis into why you're doing and how you're saving into those vehicles.

Régnald: You're totally right and there's a lot that can be said about the RRSP because it's a great tool and people don't know it. And I like your example, let's say now you make \$30,000-\$40,000 but you know that next year for any reason you're going to change jobs and you're going to make \$80,000. You can, and people don't know this, but your deduction of RRSP can be postponed. So you can, let's say you have the money now but you're making \$30,000 and you know that you're going to make more in one year or two. Because also don't forget, I prefer to have \$1 now than a potential \$2 in two years. That's all the finance analysis and I'm leaving that to you. So I'm going to take care of the tax, but you can postpone your RRSP deduction. And sometimes if you know that next year you're going to change brackets and you're going to go from \$40,000 to \$45,000, that's a 5% economy just right there for one year. So that may be worth it.

Marcelo: You know what? I think that's a better option than saving in the TFSA and then moving it into the RRSP because the behavioral aspect of having it in the RRSP, sometimes with the TFSA when you know it's available you may spend it.

Régnald: There's a lot of psychology.



Marcelo: Yeah. I came into the business saying people are rational. I studied economics like I did economics in school and like behavioral finance. And then you think about people as rational, we make decisions based on rationality. And the more I'm in the field and the more you start to understand humans, a lot of it is psychology but it's framing. And that's why professionals like yourself and myself and Ruben and people who are working with clients and money decisions, we need to frame things properly for the client because the client doesn't perceive things in the same way that we do.

Réginald: You're totally right. And that's one of the things that I'm telling my students is if you go in the private sector, you're not only going to be an accountant. You're not only going to be a lawyer, you're going to be a psychologist. I had a client who was in the middle of the transfer between the parent and the child and I had a good relationship with both of them. And I remember the dad asked me to go to lunch. I thought we wanted to talk business. Okay, cool. Then we go to lunch and then it started. "My child is lazy. He comes to work at nine. He always leaves at four or five. When the client is arguing a little bit it's always, 'Oh, let's forget the client. Let's abandon him. Show him that we don't need him anymore.' He doesn't know what it is. Can you talk to him?" I'm the tax guy. What do you want me to tell him? That makes you lazy. So I cannot really talk to him but maybe I can refer you to psychologists and family business advisors because that exists. Business psychologists and advisors. Who are there to assess the emotional side of it. But the story doesn't end there. One or two weeks later the child called me, "Reggie can we go for lunch?" I'm like this is bad because I haven't talked to him. I was like okay cool. And I want to talk to you. "Your dad, we need to talk to you." He said, "Yeah I want to talk to you about that." Then we go to lunch. "My dad doesn't understand anything. He's old, he should retire. It's not true that I'm not working. I'm working from home when I get up and after that I'm doing other stuff at home." I'm like so I just quit the firm. But it was just okay this is out of my out of above my pay.

Marcelo: You should take it as a compliment that people feel comfortable confiding in you. So that's a good thing.

Réginald: But when you're young and you're like "Oh I want to be the counselor. I want to be the person that they refer to, they go to," and you want to be that person until there's a real problem and you're that person. Love it. Like you said. You think you're rational until it becomes non-rational and as a professional you always have to be careful because you don't want to see you're in a transaction, a business deal, a merger, and acquisition. You don't want the deal to abort because of you. And particularly in a transition like this. I was part of a deal recently where the professionals were only helping the seller but they were paying no attention whatsoever to the buyer who were employees. And it was like, "Do you know what's going to happen when the employee is going to get on top? You're going to get moved because you didn't pay any attention to them. And you're with someone that is phasing out." But it's fun. Honestly, you're right. And yes, let's say for the ego it's comforting but this kind of situation, it's fun to live. You don't want to live it every week, but it's a good story after it's out.



Marcelo: Of course. Of course. Okay. Before we end part one let me ask you, I think this one is another one that stirs a lot of anger in people and you hear it a lot. Quebec is the most taxed place in North America or Canada.

Réginald: Yeah. We'll focus on Canada because I don't know about the United States.

Marcelo: Sure. Let's do that.

Réginald: First thing I need to ask you is what type of tax are we talking about? Income tax, sales tax, deduction at source, property tax, which one are we talking about? Let's talk about income tax. So, Quebec has technically the second highest tax rate. One of the maritime provinces has 54 percent or Quebec, 53.31. We're getting there, working on it. I'm talking with Legault we're going to increase, no I'm joking. But I saw actually during this podcast that I realized there was another province that has the highest tax rate but I didn't see the bracket so maybe it could be some nuances but we're in the top three for sure. And this is on a salary and other income. If you look at the dividend the highest tax rate is between 40 and 49 percent dependent on the nature of the dividend on the top tax bracket. So even though don't forget that this marginal tax rate is the highest level of the top tax bracket. This is not all the Canadians that are making that much money. We're talking about maybe 5 percent or even less than the population that is making more than \$222,000. So, when people say we are taxed. Let's be honest, in Quebec more than 95 percent are not taxed at that level.

Marcelo: Okay interesting.

Réginald: We're only talking about a bunch of people. So, let's say we're, I think we're 8 million or something like that. There's maybe 2-3 percent of the population that is taxed at that level and only on the income exceeding that level. So yeah. Let's say 8 million. So, let's say maybe between 80,000 and 200,000 persons that are taxed at that level on the 8 million that we are. And in order to say that we are the place that is the most taxed in Canada we will need to look at every branch from every province, every tax rate, the sales tax, the deduction at source, and every type of tax in order to compare. But yes, we are taxed. We are one of the places that is the most taxed in Canada. Yes, we are. Are we the first one? I'm not ready to say that. Are we in the top five? Are we on the podium? Probably but Quebec is also the place with the most public services. School fees, tuition fees, daycare, the subsidized daycare. And we have a lot of programs for low-income or homeless people. We have a lot of programs in Quebec, but we need to finance this program. And it's a, again, it's a collective choice. It's a society choice. You can agree, you can disagree. It's up to you. I'm not saying it's the best thing but I'm stating facts. We have the most services of all the provinces. So, in order to have those services, we need to tax more. But the real question is, are all these services relevant? Are they the best quality? Are they well managed? That's a different conversation.

Marcelo: Yeah, that's a different conversation.



Réginald: That's totally different. And I remember there was an article about two weeks ago and I can even send it to you saying a family with two adults, two children and the sweet spot about the revenue, I think it was between \$50,000-70,000 per person, can receive more than \$200,000 during the first 18 years of their children. And helps from the government and from different sources. That's \$10,000 per year that they're going to receive when they're in the sweet spot with the right revenue. And again, the tax benefits, the tax incentives, and depending on the revenue, if your revenue increases, the tax incentive decreases. But when you're in a sweet spot, you can receive up to \$10,000 per year. That's a lot per kid, so \$20,000. So that's where we need to look and say, yes, we pay a lot of taxes, but we have access to a lot of services. Are the services good? Are the roads good? Believe me, every time I get a flat tire, I'm swearing at the government and asking why am I paying these taxes? But it's a choice that we make. Even the healthcare system has a lot of problems. But if you ever went to the hospital and I'm being careful here with my words, I don't want anybody throwing tomatoes at me, but if you go with a real problem, like a life-threatening problem, you're not going to wait 12 hours. Or go there with an allergy where you cannot breathe. I'm thinking about clients or friends that had children with life-threatening problems. And honestly, they've been taken care of in minutes if not seconds and now they pay their taxes and they don't argue anything about that because they say, yes, if you have a real problem they're going to take care of you pretty quickly. I remember one of the partners and one of the firms that I worked with was telling a story about one of his clients that was always complaining, a rich client that was always complaining about the tax that he needs to pay. It's a lot. Every year was a viewing. Then he went on a philanthropic trip and when he came back the partner did his tax return. Came to him and said, okay he's not going to give it to you again he's going to yell. Then he just signed, the client just signed, he said thank you. The partner looked at him and said, oh change of attitude what's happening? And he just said, I went to another country which has no tax at all. I've seen the conditions there. And believe me, I will never again argue about the taxes that I pay here with all the services I have access to. Are they the best? Can we improve? There's always room for improvement. But this is a collective choice again.

Marcelo: I think we've all heard the horror stories of even a country like the United States who has an effective tax system right? They collect taxes and all that and it's the biggest country in the world and the richest country in the world. Like people have to mortgage houses to save a loved one or pay for a surgery or they have to declare bankruptcy. I got ACL surgery which is not a life-threatening surgery but my care was top-notch. I got free physio. The surgery was incredible. It was performed by one of the best orthopedic surgeons in Quebec. It was literally the guy who does the surgeries of the Montreal Canadians and UFC athletes. And I didn't request them. I didn't pay anything to get him. I just. It was pure luck. Again, price is what you pay, value is what you get. Of course, if you get a cold and you're going to the emergency room you're going to wait 12 hours because the system is there to prioritize based on levels of priority. So, you are going to get it back. Can it be managed differently? We can't get into the politics of this discussion, but I think on a broad scale we are getting something back for what we're paying in Quebec.

Réginald: One of the situations that I talked to you about the children of a friend, he had some breathing issues since birth. And we're talking about a baby here. And in the surgery,



there were four surgeons, top-notch in Quebec. It's like a lung specialist for children, a brain specialist for children, one who's doing the surgery, another who's doing another procedure. But it's just, I'm like, man if it was in the States, it's really sad to say but maybe the baby would not be here. So, it always depends. Does the system have some failures sometimes? For sure. Every system has failures. Even the income tax system sometimes starts getting the wrong person. For sure. Another analogy, when you see someone getting arrested or pulled over on the road, when you pass, you're always like, oh, I'm sure you did it, you earned it. But when it's you that gets pulled over, hey there's an explanation. I can explain.

Marcelo: Of course. Of course. All right, Réginald. Listen, thank you so much for joining us for part one. We're going to see you in a few weeks for part two. And yeah, thank you for listening.

Réginald: Thank you, Marcelo, for having me.

Announcer: You've been listening to the Empowered Investor Podcast hosted by Keith Matthews. Please visit tma-invest.com to subscribe to this podcast, learn more about how his firm helps Canadian investors, or to request a complimentary copy of The Empowered Investor. Investments and investing strategies should be evaluated based on your own objectives. Listeners of this podcast should use their best judgment and consult a financial expert prior to making any investment decisions based on the information found in this podcast.