

# THE Quarterly Dividend

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Your guide to income tax & financial planning

## FAST TRACK



### How To Assist Your Children (Financially)

It is only natural for parents (grandparents, aunts and uncles) to want to help family members (siblings, children, grandchildren) to achieve a "life" that is at least on par with what they have and perhaps a "little better".

This assistance can come in many ways. They provide guidance and advice on topics that are of importance

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## The End Never Justifies the Means

In the summer of 2019 a Major League Baseball player by the name of Tyler Skaggs died at the age of 27. Because of his age and the fact that he was an athlete presumed to be in "peak condition", an autopsy was performed post-mortem. To the surprise of those who thought they knew him, he was found to have OxyContin and other drugs in his system. And his death brought home just how prevalent the opioid crisis was in the United States and other countries in the world.

OxyContin is a narcotic painkiller regarded by many public-health experts to be one of the most dangerous products ever sold on a mass scale. From 1996 until 2019 when its manufacturer was forced by public pressure into bankruptcy, it was produced and marketed as prescription medication by Purdue Pharma Inc., an American pharmaceutical company.

During this period the company generated \$Billions in profits while being at least partly responsible for the deaths of two hundred thousand people in the United States and fourteen thousand in Canada. Their cause of death: addiction to pain killers that started innocently enough with synthetic prescribed medicines that grew into a need for stronger narcotics and heroin when the earlier drugs were not providing the relief they so desperately sought.

How did this happen? The truth of the matter is that no one wants to live their lives experiencing chronic pain. And medical

practitioners are the first trusted professionals patients consult when suffering from ailments that cause them discomfort.

From the outset, pharmaceutical companies reassured the medical community that patients would not become addicted to the prescription opioid pain relievers they had developed. And healthcare providers took them at their word while prescribing them at ever increasing rates.

Before going into the pain-management business, Purdue Pharma Inc. was a small drug manufacturer specializing in laxatives and ear-wax removers. In 1966 it developed a powerful antiseptic intended to prevent infection among returning soldiers who had been fighting in the Vietnam war.

Many of these soldiers returned home addicted to heroin but doctors at the time were leery of treating these veterans with strong medications of any kind. The only place where they were comfortable in prescribing these drugs was in hospices.

In 1972 the company developed a long acting morphine pill intended to allow terminally ill patients to sleep through the night. They reasoned that even if these patients became "hooked" in their final days, at least they had some relief, if even for a short time.

By the end of the decade, the company perfected its timed-release technology and applied it to asthma medication, under the name "MS Contin".

In the 1980's MS Contin became the "go

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to the family member, often offering a perspective that the recipient cannot gain anywhere else.

Most of us have a cherished friend we can turn to on day-to-day matters, but family members, who are usually older, may talk from a position of experience, having an understanding of what the other is "going through" perhaps "having been there themselves".

Another form of assistance that we hear about frequently is the provision of the family home to children (and their spouses) for periods of time while they get themselves "organized" for whatever life's challenges may lie ahead.

Sometimes "the kids" are saving up for a downpayment on a home of their own, living with family while pursuing an education, or "crashing" while between jobs and careers that they may be considering.

A third form of assistance is of course direct financial support in the provision of money that is advanced for a particular purpose or offered with "no strings attached".

No parent or other family member should ever feel

to" drug for cancer care as well as other noncancer ailments. It was not long before the company's R&D went searching for ways to expand their contribution to the chronic-pain movement and turned their attention to oxycodone, a chemical similar to morphine but fifty percent more powerful. They called their new creation "OxyContin".

At first there was some concern about it being addictive, but a study by two researchers published their findings in a medical journal that suggested "long-term opioid treatment was safe and effective so long as patients had no history of drug abuse".

Armed with this testimonial, the company began to aggressively market their product. As early as 2007 the company plead guilty to inaccurately labeling the drug by down-playing its potency while providing "incentives" to medical practitioners to prescribe the pharmaceutical.

The company believed that addicts would not be interested in a drug that was time-released, preferring something that produced the immediate "rush" they craved. They also thought that if the drug was only available on prescription it would not "fall into the wrong hands".

But they were wrong on both counts: (a) other pharmaceutical companies and illegal drug producers quickly developed cheaper generic "copies" of OxyContin that did not need a doctor's "script" to be obtained; and (b) users discovered that each capsule contained a pure narcotic and rather than waiting for it to be "time released", they started to grind down the tablets to extract

its contents directly.

By 2016, the medical community acknowledged that opioids were effective in the treatment of chronic pain for a period of six weeks. Beyond that timeframe, there was evidence of harmful effects. Unfortunately, six weeks is a long time, and the feeling that you may no longer be pain free after that date may lead to an addiction that is already in its early stages.

Once an addiction starts, there are virtually no obstacles that will stand in the way of the addict procuring his "fix". He will resort to all manner of legal and illegal means in an attempt to get his hands on the substance that he craves so strongly.

What can we learn from this? Entrepreneurship and making money are noble aspirations. There is nothing wrong about wanting to be "successful" but the "end" never justifies the means. We have a responsibility to society at large to treat others respectfully, not endangering their physical or mental health in our pursuit of profit.



Here is a list of drug companies operating in Canada who knowingly enabled this situation to arise while putting profit before ethical behaviour:

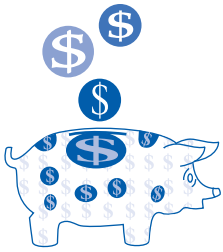
- (a) Johnson & Johnson, the US drug and consumer products giant;
- (b) Teva Pharmaceutical Industries Ltd., the world's biggest generic drugmaker;
- (c) McKesson Corp., of Texas, a leading drug distributor: and
- (d) AmerisourceBergen Corp., of Pennsylvania, a leading American drug wholesaler

## The Public Company's Annual Report

In Canada, publicly traded companies and investment funds are required to file their financial information with securities regulators. The information is made available to the public in order to provide

transparency of the company's financial health to both current and prospective investors.

The requisite financial reports include the following:



obligated to assist others if it would be to their own current or future detriment. They should not feel guilty or ashamed to say "no" if it would mean stretching their own finances by cashing in RRSP's, taking on a second mortgage on their own residences or by depleting other forms of savings that they have built up over the years.

Our first obligation must be to ourselves and our spouses, for the present and with a cushion for the future. No one can predict what lies ahead, and if you help out one child now, there may be other children to consider "down the road". And if you run out of money, it is unlikely you will be able to ask for it back and have them come forward to help you in the same way that you did for them some years before.

There is an old saying that a parent can raise many children, but these same children cannot raise one parent.

It is a sad commentary on life, that as the parent gives so graciously to his children, and this is to be expected, the recipients have short memories of how they got to

#### (a) the financial statements

Audited financial statements and accompanying notes of a public company's annual report or quarterly filing are standardized representations of the company's performance during the past period and its financial position at its conclusion; and

#### (b) management's analysis and discussion of the numbers

Although the company's financial statements are prepared by management and its executives (termed C-suite), they are typically audited by an independent accounting firm or firms only to provide an "opinion" as to the suitability and application of accounting standards to the figures that have been presented to them.

The Management Discussion and Analysis (MD&A) section of the company's annual or quarterly report provides insight to the reader using both quantitative and qualitative analysis indicating how the leaders of the business believe their company has performed over the last period and what the future may bring.

The MD&A should provide a balanced representation that includes both positive and negative information about such topics as (i) growth and strategy - industry trends, financial flexibility, core competencies, (ii)

challenges and opportunities - corporate commitments they have undertaken, uncertainties to be addressed in the near term, their implications and significance to the business; (iii) historical performance and outlook - key performance indicators, observations regarding the accompanying financial statements including earnings and cash flows and whether current results may be indicative of what may be expected in the future, and (iv) financing and investments - liquidity, capital requirements and estimates of critical needs ahead.

In theory, readers of one company's financial report should be able to take the information presented and compare it with other reports prepared by other companies in the same industry or other sectors of the economy. From there they can make "informed" business and investment decisions.

In practice, this is very difficult to do unless one is willing to spend the time and effort to really understand the nuances behind each company's presentation of information. While the accounting may be somewhat standardized, and readers have some familiarity with its content, analysis and discussion is very much an individual "affair" that may take some time to master.



## Enhanced Canada Pension Plan Contributions

One of the changes you will find on the 2019 personal income tax return is the way contributions to the Canada Pension Plan are "handled" this year from the way they were treated before.

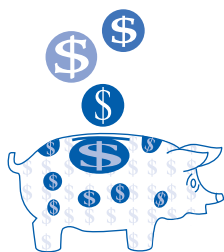
In previous years if a taxpayer contributed to the Plan, the entire amount qualified as a "non-refundable tax credit" and the contributor received a tax credit for 15% of the contribution toward his Federal income taxes and a Provincial tax credit that depended upon his province of residence.

Commencing with the 2019 taxation year when the CPP maximum contribution is \$2749, some 97% of this amount is termed the CPP "base contribution" while the much smaller portion is called the CPP "enhanced amount".

Over the next six years, through 2025, the enhancement percentage will increase until it reaches 14 percent of the annual CPP contribution.

At that time, taxpayers will be contributing larger amounts into the Plan in an effort to





where they wanted to be, and who helped them along the way.

That is not to say, "don't help out your family if you can".

Just remember that if you want to assist them, and you can afford to do so, (a) gift the funds with no expectation of their being paid back; or (b) lend the money at a "favourable" interest rate with the understanding that it will be repaid at some time in the future. If, for some reason, you decide to "forgive the loan" then that will be a decision that you can make when that time comes.

Whichever route you take, document the transaction. If one child is benefiting at the expense of another, it is important that you try and do something for the "other" child that can be seen as relatively even-handed.

#### Thanks for Your Referrals

We very much appreciate your referrals. If you know of someone who can benefit from the services we provide or who would like to receive our publication, please let us know. We will send them a copy with your compliments.

fund the expected increase in CPP claims that it will have to honour to our aging population, as well as "enhanced" benefits promised to those currently in the workforce when it will be their time to "cash in".

Let's see the changes from 2018 to 2019 in "dollars and cents":

Abby is a salaried employee who draws a "Canada Pension Plan maximum salary" from her company each year. Here is how the new CPP regime plays out for her: Columns (a) and (c) show the changes between 2018 and 2019.

	(a) Salary 2019 \$	(b) Self-Employ 2019 \$	(c) Salary 2018 \$
Salary	57400		55900
Self-employment income		57400	
CPP contribution			
(a) base contribution	2668	2668	2594
(b) "enhanced" amount	81	2830	
	2749	5498	2594
Income tax implications:			
Earnings	57400	57400	55900
CPP contribution deduction	-81	-2830	
Taxable income	57319	54570	55900
(a) Federal income taxes	9131	8568	8896
Basic personal amount	12069	12069	11809
Canada employ amt/EI premium	2082		2053
CPP base contribution	2668	2668	2594
	16819	14737	16456
Non-refundable tax credit rate	15%	15%	15%
(b) Non-refundable tax credit	2523	2210	2468
Net Federal income tax (a) minus (b)	6608	6358	6428

There is one anomaly when it comes to distinguishing the "regular" contributions from those that are termed "enhanced". As you can see from the above table, if Abby received her \$57400 as self-employment income, her "enhanced" CPP contribution is significantly higher than it would be if she received it as an employee. To the extent that when it comes to collect her CPP benefits, the amount she will collect in the "enhanced" part

of the calculation will be higher than what it would have been had it been calculated under the "regular" part of the calculation.

If Abby the employee had other sources of income which "pushed" her into the next Federal marginal rate of 20.5% her income tax picture would look like this for each of 2018 and 2019:

Salary	57400	55900
Other income (not dividend income)	37859	37308
	95259	93208
Less: "enhanced CPP contribution" as above	-81	
Taxable income	95178	93208
Federal income taxes (a) 1	6892	17077
Non-refundable tax credits (as above) (b)	-2523	-2468
Net Federal income tax (a) minus (b)	14369	14609
Note: The non-refundable tax credits do not change even when the income increases.		