

How does SURPLUS INCOME work?

The *Bankruptcy and Insolvency Act* (“BIA”) requires bankrupts to submit monthly Statements of Income and Expense to their Trustee for the purposes of determining if the bankrupt has **surplus income**. The government has set net monthly income thresholds for a person or a family to maintain a reasonable standard of living in Canada. Every dollar that a bankrupt family makes above the level set by the government is called surplus income, and the bankrupt is required to pay 50% of this surplus income while they are bankrupt.

Here’s a simple example: John lives alone and his take home pay is \$2,470 per month. Under the surplus income rules, the monthly surplus payment that he is required to make would be:

$$\text{NET INCOME} - \text{THRESHOLD} = \text{SURPLUS} \times 50\% = \text{PAYMENT}$$

$$2,470 - 1,870 = \$600 \times .5 = \$300$$

NET INCOME includes the take home pay of everyone living in the household of the bankrupt. If in our example John had a wife, her income would have been added to John’s to determine the total household income.

NET INCOME is defined as a person’s GROSS PAY minus TAXES, CPP & EI. Any voluntary payments (eg RRSP contributions) are added BACK. Certain expenses are then deducted from your NET INCOME before the surplus calculation.

DEDUCTIONS include: support payments, child care payments, medical bills, fines and penalties, any other employment expense that you normally deduct when preparing your income taxes.

THRESHOLD - set by the Office of the Superintendent of Bankruptcy. It is based on the number of persons living with the bankrupt. See the chart on the reverse.

PAYMENT - if more than one person’s income is included in the NET INCOME figure, the required payment is pro-rated to each person based on their income’s percentage of the total.

It is important that you understand that **SURPLUS INCOME PAYMENTS ARE REQUIRED BY LAW**. The BIA clearly sets out how to calculate the required payment and your Trustee is required to report to the Court whether or not those payments have been made. If the required payments are not made, you will not be discharged from bankruptcy. If your surplus income is greater than \$200 per month, your bankruptcy will be extended. Please contact our office for further details.

The reverse side of this page is a worksheet to help you determine what your SURPLUS INCOME PAYMENT requirement will be. If you have any questions on how the calculation works, or whether or not something is deductible, contact our office.

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SURPLUS INCOME PAYMENT WORKSHEET

Number of persons	1	2	3	4	5	6	7
Threshold	\$1,870	\$2,328	\$2,862	\$3,474	\$3,941	\$4,444	\$4,948

<u>Sources of income:</u>			
Personal take home pay per month			
ADD BACK: voluntary deductions (please specify):			
ADD BACK: voluntary deductions (please specify):			
Spouses take home pay per month			
ADD BACK: voluntary deductions (please specify):			
ADD BACK: voluntary deductions (please specify):			
Child tax benefit			
Social assistance			
Pension income			
Other (please specify):			
SUBTOTAL	(A)		
<u>Deductions from income:</u>			
Support payments			
Child care expenses			
Medical expenses			
Court fines			
Other (please specify):			
SUBTOTAL	(B)		
INCOME SUBJECT TO SURPLUS (A-B)	(C)		
LESS THRESHOLD AMOUNT FROM THE TABLE	(D)		
SURPLUS INCOME (C-D)			
SURPLUS PAYMENT REQUIRED (50 %)			
TOTAL SURPLUS PAYMENT REQUIRED PER MONTH			
Base monthly contribution required			
TOTAL PAYMENT REQUIRED PER MONTH			

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