

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU
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Revenue Impacts Arising from Tax Adjustments: 2014

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Key Points of this Note:

- The revenue impact arising from changes to federal tax rates, credits and brackets are among the most common questions posed by parliamentarians.
- The Parliamentary Budget Officer (PBO) has prepared a reference table of the potential revenue impacts arising from adjusting the Goods and Services Tax (GST) rate, as well as some of the more prominent personal and corporate income tax rates, brackets and benefits in the federal tax system.
- It is expected that this reference guide could provide a sound starting point for parliamentarians to broadly estimate the revenue impact of some adjustments to the federal tax system.

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1 Overview

The Parliamentary Budget Officer (PBO) receives many requests pertaining to the potential revenue impacts arising from adjustments to the federal tax system.

To address some of these requests, the PBO has prepared a summary table that outlines the potential revenue impacts to the federal treasury that would arise from adjusting various tax brackets, rates and credits during the 2014 calendar year.

The figures were prepared using two approaches:

- *Personal income tax* figures were prepared using Statistics Canada’s Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the simulation results were prepared by the staff of the PBO and responsibility for their use and interpretation rests with PBO.
- *Goods and Services Tax and corporate income tax* figures were prepared using the PBO’s economic and fiscal forecast.¹

The figures in the reference table (see Appendix) are intended to provide a starting point for parliamentarians to broadly estimate the revenue impact of some aspects of the federal tax system. They may also provide a framework for assessment of various proposals that may emerge through legislative pre-budget consultations. However, two important caveats apply:

- i. The estimates are static and do not include any behavioural changes that could be induced as a result of potential amendments; and,
- ii. The figures are intended to provide a rough approximation only. Precise cost figures of more complex tax changes (e.g.

multiple adjustments) may differ materially from the results suggested in the tables.

2 Examples

Four examples are provided to demonstrate the practical use of the reference table (see Appendix).

Example 1: Increasing the Top Bracket Threshold by \$10,000

As indicated in Table 2-1, the top bracket for federal personal income taxes will begin at \$136,270 in 2014.² As indicated in the reference table (see Appendix), each \$5,000 increase to this bracket would cost approximately \$100 million in forgone revenue in 2014 (Box 2-2). Therefore, a \$10,000 increase would result in approximately \$200 million in forgone revenue to the federal treasury in 2014.

Table 2-1

2014 Federal Tax Rates and Brackets

RATE	BRACKET
15%	• on the first \$43,953 of taxable income
22%	• on the portion of taxable income between \$43,954 and \$87,907
26%	• on the portion of taxable income between \$87,908 and \$136,270
29%	• on the portion of taxable income over \$136,270

Source: Canada Revenue Agency 2013.

¹ http://www.pbo-dpb.gc.ca/files/files/EFOU_2013_EN.pdf Accessed November 2013.

² Tax brackets for 2014 were retrieved from the Canada Revenue Agency. <http://www.cra-arc.gc.ca/nwsrm/fctshts/2013/m11/fs131113-eng.html>. Accessed November 2013.

Box 2-2

Increasing the Top Bracket Threshold

Increasing the top tax bracket threshold in effect makes the tax bracket directly underneath the top tax bracket larger.

In this way taxpayers earning between \$136,270 and \$146,270 would be paying 3 per cent less in income tax on that \$10,000 than they would under current conditions (reflecting the difference between the 29% top marginal tax rate and the 26% marginal rate for the tax bracket below).

In general, there should be no effect in taxes for those people earning less than \$136,063 annually.

Example 2: Increasing the Basic Personal Amount (BPA) by \$1,000

A \$100 increase to the BPA would result in forgone revenue of approximately \$260 million in 2014. As such, a \$1,000 increase could be expected to result in forgone revenues of \$2.6 billion in 2014.

Example 3: Decrease the General and Small Business Corporate tax rates by 1-percentage point each

A 1-percentage point decrease in the general corporate tax rate would decrease revenues by approximately \$1.85 billion in 2014.

A 1-percentage point decrease in the small business tax rate would decrease revenue by approximately \$590 million in 2014. In combination, these changes would result in lower federal revenues of approximately \$2.44 billion in 2014.

Example 4: Increasing the Goods and Services Tax rate from 5% to 7%

As indicated in the reference table (see Appendix), each 1-percentage point increase in the Goods and Services Tax rate would result in additional revenue of approximately \$6.4 billion in 2014. Therefore, a 2-percentage point adjustment would result in additional revenues of approximately \$12.8 billion in 2014.

APPENDIX

Reference Table for Tax Adjustments Based on 2014 Calendar Year

Section I: Personal Income Tax Revenue Impact in '\$000,000s

Adjust Marginal Tax Rates (*per percentage point*)

Lowest Rate (15%)	6,310
Second Rate (22%)	2,000
Third Rate (26%)	560
High Rate (29%)	1,060

\$5000 change in Tax Brackets

Second Bracket Threshold	2,980
Third Bracket Threshold	410
Top Bracket Threshold	100

\$100 change in Basic Personal and Spousal Amounts

Basic Personal Amount	260
Spousal/Equivalent to Spousal Amount	30

Change Capital Gains Inclusion Rate

By 5 percentage points	420
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Child Tax Benefit (CCTB)

\$100 increase in each benefit	480
\$1,000 increase in phase-out threshold	60

GST Credit for a Family of Four

\$50 increase in adult benefit	540
\$50 increase in dependant benefit	100
\$1,000 increase in phase-out threshold	90

National Child Benefit (NCB) Supplement

\$100 increase in each benefit	200
\$1,000 increase in phase-out threshold	110

Reference Table for Tax Adjustments
Based on 2014 Calendar Year

Section II: Corporate Income Taxes

Revenue Impact in '\$000,000s

General Corporate Rate

Increase by 1 percentage point 1,850

Small Business Rate

Increase by 1 percentage point 590

Section III: Goods and Services Tax (GST)

Revenue Impact in '\$000,000s

1 percentage point adjustment in GST 6,390