

Cost estimate of Election Campaign Proposal

Publication date:	2019-09-15
Short title:	Personal income tax rate reduction
Description:	Reducing the rate of the lowest federal income tax bracket from 15% to 13.75%. The reduction will be implemented progressively, starting with a decrease to 14.5% on January 1, 2021, followed by a decrease to 14.0% on January 1, 2022, then finally falling to 13.75% on January 1, 2023.
Operating line(s):	Personal income tax revenues

Data sources:	<u>Variable</u>	<u>Source</u>
	Taxable income	SPSD/M, Statistics Canada
	Federal income tax payable	SPSD/M, Statistics Canada
	Federal PIT baseline	PBO economic model
	Elasticity of Taxable Income (ETI)	PBO economic model
	Marginal Effective Tax Rate (METR)	PBO and SPSPD/M

Estimation and projection method: We use Statistics Canada's Social Policy Simulation Database/Model (SPSD/M, version 27.1) to estimate the static fiscal impact of a 0.5-, 1.0- and 1.25-percentage point decrease in federal PIT rate from 15.0% to 14.5%, 14.0% and 13.75% respectively and repeat the simulation until 2025.¹ We use PBO projections to extend the variables until 2028.

For the behavioural impact, we use PBO's estimate of ETI for low-income earners (0.10).

The new policy is assumed to be implemented on January 1st 2021. All numbers are adjusted to reflect fiscal year amounts.

Uncertainty assessment: The estimate has moderate uncertainty. The uncertainty arises due to the assumptions with respect to the ETI and from the long horizon of the projections.

¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

Cost of proposed measure

\$ millions	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Total cost	-	548	2,778	4,860	5,890	6,085	6,302	6,572	6,849	7,134

Notes:

Estimates are presented on an accrual basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost