



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Cost Estimate of Election Campaign Proposal

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Short Title: Change in federal tax rate for high income earners from 33% to 35%

Description: Starting on October 1, 2021, replacing the current federal tax rate of 33% with 35% for individuals earning taxable income over \$216,511 (indexed to inflation going forward).

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		-460	-683	-702	-735	-773	-3,352

Notes:

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a reduction in the budgetary balance (lower revenues or higher spending). A negative number implies an increase in the budgetary balance (higher revenues or lower spending).
- "-" = PBO does not expect a financial cost.

Estimation and projection method: SPSPD/M¹ was used to estimate the static impact of a 2-percentage point increase in the federal personal income tax rate, adjusted for PBO's 2021 Election Proposal Costing Baseline and relevant Budget 2021 announcements.

Increasing the tax rate would also have a behavioural response, shrinking the tax base and offsetting increases in revenues from the higher marginal tax rate. To estimate this impact, an elasticity of taxable income (ETI) of 0.38 was used². All numbers are adjusted to reflect fiscal year amounts.

Source of Uncertainty: The main sources of uncertainty relate to the projected income tax base used to estimate the static impact and the assumed elasticity of income underlying the behavioural response.

Data Sources:	Variable	Source
	Taxable income	SPSPD/M 28.1
	Federal income tax payable	SPSPD/M 28.1
	Federal taxes less transfers	SPSPD/M 28.1
	Federal personal income tax (PIT) baseline	PBO EPC Baseline

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¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSPD/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.

² For more information please see: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/PIT/PIT_EN.pdf