

Cost estimate of Election Campaign Proposal

Publication date:	2019-10-11	
Short title:	Change in federal tax rate for high income earners from 33% to 35%.	
Description:	Replacing the current federal tax rate of 33% with 35% for individuals earning taxable income of over \$210,371. This threshold will be indexed to Consumer Price Inflation.	
Operating line(s):	Personal income tax (PIT) revenues	
Data sources:	<u>Variable</u>	<u>Source</u>
	Taxable income	SPSD/M
	Federal income tax payable	SPSD/M
	Federal taxes less transfers	SPSD/M
	Federal Personal income tax (PIT) baseline	PBO
	Elasticity of Taxable Income (ETI)	PBO
	Marginal Effective Tax Rate	PBO and SPSPD/M
Estimation and projection method:	<p>We use Statistics Canada's Social Policy Simulation Database/Model (SPSD/M, version 27.1) to estimate the static fiscal impact of a 2-percentage point increase in federal PIT rate and repeat the simulation until 2025.¹ We use PBO projections to extend the variables until 2029.</p> <p>For the behavioural impact, we use PBO's estimate of ETI for high-income earners (0.38) to calculate the shrinkage of the tax base and hence the offsetting loss of revenue.</p> <p>The new policy is assumed to be implemented on April 1, 2020. All numbers are adjusted to reflect fiscal year amounts.</p>	
Uncertainty assessment:	The estimate has moderate uncertainty. The uncertainty arises due to the assumptions with respect to the ETI and, to a lesser extent, 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	-	-824	-869	-872	-964	-988	-1,081	-1,076	-1,111	-1,147

Notes:

Estimates are presented on an accruals 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.