

## Election Proposal Costing

# Reducing the federal tax rate on the lowest taxable income bracket to 12.75 per cent

April 22, 2025

Lowering the federal tax rate of the first income bracket by 15%. Starting with a reduction of the tax rate to 14.25% in the 2026 tax year, 13.5% in the 2027 tax year, and 12.75% in the 2028 tax year.

### Cost of Proposed Measure

Fiscal year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
<b>Total cost</b> \$ millions	1,066	5,408	10,030	13,698	14,118	44,319

### Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

### Estimation and Projection Method

SPSD/M<sup>1</sup> was used to estimate the static impact of the decrease in the federal personal income tax rate, adjusted using PBO's 2025 Election Proposal Costing Baseline.

Decreasing the tax rate would also induce a behavioural response, growing the tax base and offsetting some of the decrease in revenues from the lower marginal effective tax rate. This impact was estimated using an elasticity of taxable income (ETI) of 0.1.<sup>2</sup>

### Sources 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

#### Taxable income

SPSD/M 30.3

#### Federal income tax payable

SPSD/M 30.3

#### Federal taxes less transfers

SPSD/M 30.3

## **Marginal effective tax rates**

SPSD/M 30.3

## **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 (SPSD/M). The assumptions and calculations underlying the SPSD/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. See PBO's November 2024 report, [Costing personal income tax changes: the role of the elasticity of taxable income](#).

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