

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

2011 Reference Sheet for Revenue Impacts Arising from Tax Adjustments

Ottawa, Canada

January 10, 2011

www.parl.gc.ca/pbo-dpb

The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, the estimates and trends in the national economy.

Key Points of this Note:

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

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I. 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 2011 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. 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 us.
- *Goods and Services Tax* figures were prepared using actual revenues and nominal rates.

While the reference table currently does not include *Corporate Tax* figures, the PBO is working with Statistics Canada to develop estimation techniques for the most prominent rates and brackets.

The figures provided in the attached Summary Table is 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:

1. The estimates are static and do not include any behavioural changes that could be induced as a result of potential amendments; and,
2. The figures are intended to provide an order of magnitude estimate only. Precise cost figures of more complex tax changes may differ materially from the results suggested in the table.

II. Examples

Two examples are provided to demonstrate the practical use of the table.

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

As indicated in the table, a \$100 increase to the BPA would result in forgone revenue of approximately \$250 million. As such, a \$1,000 increase could be expected to result in forgone revenues of \$2.5 billion per annum.

Example 2: Decreasing the Goods and Services Tax rate from 5% to 3%

As indicated in the table, each one percentage point decrease in the Goods and Services Tax rate would result in forgone revenue of approximately \$5.9 billion. Therefore, a 2 percentage point decrease would result in forgone revenues of approximately \$11.8 billion per annum.

Example 3: Increasing the Top Bracket Threshold by \$10,000

As indicated in Figure 1, the top bracket for federal personal income taxes begins at \$127,021¹. As indicated in the reference table, each \$5,000 increase to this bracket would cost approximately \$100 million in forgone revenue. Therefore, a \$10,000 increase would result in approximately \$200 million per annum in forgone revenue to the federal treasury.

Figure 1. 2010 Federal Tax Rates

<u>Rate</u>	<u>Income Levels</u>
15%	<i>on the first \$40,970 of taxable income</i>
22%	<i>on the portion of taxable income between \$40,970 and \$81,941</i>
26%	<i>on the portion of taxable income between \$81,941 and \$127,021</i>
29%	<i>on the portion of taxable income over \$127,021</i>

¹ <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>

Summary Table

Estimated Revenue Impact of Selected Federal Tax Measures <i>Based on 2011 Calendar Year</i>	
Section I: Personal Income Tax <i>Revenue Impact in '\$000,000s</i>	
Adjust Marginal Tax Rates (<i>per percentage point</i>)	
Lowest Rate (15%)	5,700
Second Rate (22%)	1,800
Third Rate (26%)	500
High Rate (29%)	1,000
\$5000 change in Tax Brackets	
Second Bracket Threshold	2,900
Third Bracket Threshold	400
Top Bracket Threshold	100
\$100 change in Basic Personal and Spousal Amounts	
Basic Personal Amount	250
Spousal/Equivalent to Spousal Amount	20
Change Capital Gains Inclusion Rate	
By 5 percentage points	300
Child Tax Benefit (CCTB)	
\$100 increase in each benefit	490
\$1,000 increase in phase-out threshold	75
GST Credit for a Family of Four	
\$35 increase in adult benefit	360
\$15 increase in child benefit	40
\$1,000 increase in phase-out threshold	90
National Child Benefit (NCB) Supplement	
\$100 increase in each benefit	190
\$1,000 increase in phase-out threshold	110
Section II: Other Taxes <i>Revenue Impact in '\$000,000s</i>	
1 percentage point adjustment in GST	5,900