

Election Proposal Costing

Reducing the federal tax rate on the lowest taxable income bracket to 14 per cent

April 19, 2025

Replacing the current federal personal income tax rate of 15 per cent with 14 per cent for the first bracket of taxable income. This proposal will be effective July 1, 2025.

Cost of Proposed Measure

Fiscal year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Total cost \$ millions	4,214	5,754	5,948	6,077	6,260	28,254

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/M¹ was used to estimate the static impact of a 1-percentage point 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 0.1.²

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

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 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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