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Individuals adversely affected by the Middle-Class Tax Cut

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

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

In response to parliamentary interest, this report provides an analysis of tax filers that are adversely affected by the reduction in the personal income tax rate from 15 per cent to 14 per cent.

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Highlights

The Parliamentary Budget Officer (PBO) estimates that the Government's proposal to reduce the lowest personal income tax (PIT) rate from 15 per cent to 14 per cent will adversely affect 19,690 single (less than 1 per cent of single tax filers) and 19,420 couples (less than 1 per cent of couples) in 2026, increasing their federal tax payable by $141 and $155, respectively, on average.

Under the PIT rate reduction, adversely affected tax filers are individuals either subject to alternative minimum tax (AMT)—a parallel tax calculation designed to ensure high-income earners pay a minimum amount of income tax—or have taxable income and a value of non-refundable tax credits that exceed the lowest income threshold.

PBO estimates that adversely affected single tax filers subject to AMT will pay an average of $127 more in federal income tax ($132 for couples) in 2026.

Most adversely affected single tax filers not subject to AMT have high medical expense claims. PBO estimates they will pay an average of $166 more in federal income tax ($195 for couples) in 2026.

Roughly 17 per cent of adversely affected single tax filers (35 per cent of couples) not subject to AMT claim the disability amount, though they represent less than 1 per cent of all single tax filers (less than 1 per cent for couples) claiming the disability amount.

Summary

In response to parliamentary interest, this report provides an analysis of tax filers that are adversely affected by the reduction in the personal income tax rate from 15 per cent to 14 per cent.

On May 14, the Government announced its commitment to reduce the lowest federal personal income tax (PIT) rate from 15 per cent to 14 per cent, effective July 1, 2025. Despite the reduction in the lowest marginal PIT rate, there are two categories of taxpayers that will pay more federal personal income tax:

1. Tax filers subject to Alternative Minimum Tax (AMT); and
2. Tax filers with taxable income and the value of non-refundable tax credits above the first income threshold (projected to be $58,523 in 2026).

This adverse result is attributable to a corresponding reduction in the rate applicable to non-refundable tax credits.

We estimate that 19,690 single individuals and 19,420 couples—less than 1 per cent of all single tax filers and couples—will fall into these categories in 2026. Rather than save an average of $190 per tax filer that PBO previously estimated, adversely affected tax filers will pay an average of $141 more for single tax filers and $155 more per couple.

Adversely affected tax filers subject to AMT—a parallel tax calculation designed to ensure high income earners pay a minimum amount of income tax—will pay more in federal PIT compared to tax filers with taxable income and non-refundable tax credits above the first income threshold. For singles and couples, this difference is $34 and $58, respectively.

Having a value of tax credits that exceeds the first income threshold is uncommon. Many of the federal non-refundable tax credits have a maximum amount that increases with inflation. Two exceptions are the medical expense tax credit and the tuition tax credit, which are linked to actual eligible expenditures. Consequently, most adversely affected tax filers not subject to AMT claim large amounts of medical expenses.

We estimate that less than 1 per cent of tax filers claiming the disability tax credit will be adversely affected, representing 17 per cent of adversely affected single tax filers (35 per cent for couples) not subject to AMT.

Introduction

On May 14, the Government announced its commitment to reduce the lowest federal personal income tax (PIT) rate from 15 per cent to 14 per cent, effective July 1, 2025.[1] In its June 2025 legislative costing note, PBO provided projections of the aggregate cost to Government and savings to tax filers. Despite the reduction in the lowest marginal PIT rate, there are two categories of taxpayers that will pay more federal personal income tax:

1. Tax filers subject to Alternative Minimum Tax (AMT); and
2. Tax filers with taxable income and the value of non-refundable tax credits above the first income threshold (projected to be $58,523 in 2026).[2]

This adverse result is attributable to a corresponding reduction in the rate applicable to non-refundable tax credits. During testimonies at the House of Commons Standing Committee on Finance both the Minister of Finance and National Revenue and Department of Finance officials mentioned they were aware of unintended consequences of the tax cuts and were working on resolving them.[3]

Tax filers adversely affected

PBO estimates that 19,690 individuals and 19,420 couples in 2026 will be adversely affected by this PIT rate reduction. Of those affected, 12,540 single tax filers and 12,290 couples are subject to AMT[4] and 7,150 single tax-filers and 7,120 couples will have income and non-refundable tax credits exceeding the first income threshold (Table 1).[5]

Those subject to AMT tend to have a much higher income but lower values of tax credits since the AMT is designed to limit tax credits, deductions and exemptions compared to the standard PIT structure.

Table 1

Counts and characteristics of adversely affected tax filers by marital status and category, 2026

Category of tax filer and marital status	Counts	Average taxable income ($)	Average non-ref. tax credits ($)	Average change in federal tax ($)
Subject to AMT (single)	12,540	497,000	22,600	127
Subject to AMT (couples)	12,290	647,000	53,950	132
Taxable income and non-refundable credits > 1st income threshold (single)	7,150	154,000	75,300	166
Taxable income and non-refundable credits > 1st income threshold (couples)	7,120	277,000	110,050	195
Total (single)	**19,690**	**372,000**	**41,750**	**141**
Total (couples)	**19,420**	**511,000**	**74,550**	**155**

Source:

Office of the Parliamentary Budget Officer.

Note:

The data for filers subject to AMT includes 220 single filers and 470 couples that also have income and tax credits exceeding the first income threshold (see Note 4).

While taxes in Canada are filed at the individual level (rather than the family), some credits or deductions can be transferred between family members to minimize taxes payable for the family. Consequently, couples in Table 1 are those where the sum of federal tax payable of both spouses increases because of the rate reduction.[6]

Individuals subject to Alternative Minimum Tax

The AMT is a separate calculation allowing lower deductions, exemptions and credits and applies a flat tax rate (instead of the progressive rate) to income above an exempted amount. The individual pays the highest amount between the standard tax calculation and the AMT.

Specifically, an adjusted taxable income is calculated by subtracting lower deductions and exemptions and multiplying the resulting amount in excess of $181,440 by a flat rate of 20.5 per cent.[7] Only half of the value of the non-refundable tax credits is then allowed to be subtracted from the AMT.

Since the tax reduction proposed applies to the 15 per cent rate (the lowest marginal rate), individuals subject to AMT will not benefit from the rate reduction since they face a flat rate of 20.5 per cent. However, because of the corresponding reduction in the rate applied to non-refundable tax credits (that will be lowered from 15 to 14 per cent), they will receive a lower value of non-refundable credits to subtract from their tax payable.

Individuals with taxable income and the value of non-refundable tax credits above the first income threshold

Tax filers with taxable income as well as non-refundable tax credits amounts above $58,523 will be adversely affected under the PIT rate reduction because only a portion of their taxable income is subject to the lower rate, whereas the entire portion of their non-refundable tax credits are subject to the lower rate, resulting in higher taxes payable.

Description of adversely affected tax filers that are not subject to Alternative Minimum Tax

Our calculations indicate that there are just over 7,150 individuals and 7,120 couples that are adversely affected and not subject to AMT in 2026.[8] We estimate they will pay an average of $166 and $195 more, respectively, in federal PIT (Table 1).

Having an amount of tax credits that exceed the first income threshold is uncommon. Many of the federal non-refundable tax credits have a maximum amount that increase with inflation. Two exceptions are the medical expense tax credit and the tuition tax credit, which are linked to actual eligible expenditures. In addition to the medical expense tax credit not being capped, an individual can claim all the medical expenses of the family instead of each member claiming their own.

As a result, 81 per cent of these adversely affected single tax filers (66 per cent for couples) are those with claims for the medical expense tax credit. Moreover, many of these adversely affected tax filers have large claims where the medical expense tax credit represents more than half of the value of their total federal non-refundable tax credits.[9]

The tuition tax credit, which is a transferrable credit, likewise reflects actual eligible expenditures and does not have a maximum amount. However, individual claimants of this tax credit make up only 18 per cent of adversely affected individual tax filers (14 per cent of couples).

PBO was also asked to consider tax filers claiming the disability tax credit (DTC). This tax credit, like most federal non-refundable tax credits, is a set amount that increases with inflation. The base amount for eligible adults and children is projected to be $10,341 in 2026, while the supplement available only for eligible children is $6,032. The DTC can be transferred and shared. While the DTC has a maximum amount well below the first income threshold, adversely affected DTC claimants not subject to AMT represent 17 per cent of these adversely affected single tax filers (35 per cent of couples). Their average DTC as a percentage of their total federal non-refundable tax credits is less than 20 per cent, and few DTC filers have multiple DTC claims. Similar to affected tuition tax filers, most adversely affected DTC filers are impacted due to a combination of the DTC and other tax credits.

Impacts on federal non-refundable tax credits

Parliamentarians also asked about the impact on the total value of federal non-refundable tax credits under the PIT rate reduction. Table 2 presents the value of each non-refundable tax credit by tax bracket for all filers, not just the adversely affected ones.

Table 2

Impacts on federal non-refundable tax credits by income tax bracket for all tax-filers in 2026, millions of dollars

Non-refundable tax credit	1st bracket	2nd bracket	3rd bracket	4th bracket	5th bracket	Total value
Basic personal amount	-3,193	-1,544	-373	-93	-70	**-5,273**
Age amount	-550	-81	-	-	-	**-631**
Spouse / Eligible Dependent amount	-204	-104	-36	-10	-7	**-360**
Caregiver and other infirm dependant	-11	-9	-2	*	*	**-23**
CPP contributions (including self-employed)	-151	-242	-66	-16	-12	**-488**
EI contributions tax credit	-49	-73	-20	-5	-4	**-151**
Federal Volunteer Firefighters' Amount	-1	-1	*	*	-	**-3**
Canada Employment Credit	-154	-113	-30	-7	-6	**-310**
Federal Home Buyers' Amount	-5	-8	-3	-1	-1	**-18**
Home Accessibility Expenses	-1	-1	*	-	-	**-2**
Pension income	-91	-47	-8	-3	-2	**-151**
Disability amount	-80	-30	-8	-2	-1	**-121**
Federal interest on student loans	-2	-3	*	*	-	**-5**
Tuition (including transfers)	-147	-11	-2	-1	*	**-161**
Medical expense	-111	-59	-11	-4	-7	**-191**
Charitable donations	-3	-4	-2	-1	-1	**-11**
Alternative Federal Minimum Tax	1	3	5	11	36	**56**
Sum	**-4,753**	**-2,326**	**-558**	**-131**	**-75**	**-7,842**

Source:

Office of the Parliamentary Budget Officer.

Note:

* Less than $1 million

Totals may not add up due to rounding.

Table 3 presents the impact for tax filers claiming the disability amount. The loss in tax credit value is concentrated in the first two brackets, consistent with the concentration of the number of tax filers and with the results for all tax filers. This indicates that a sizeable share of the loss in caregiver and other infirm dependant tax credits amounts are attributable to DTC tax filers, who will see a decline of $10 million of the $23 million decline in the value of these tax credits.

However, consistent with this report and previous PBO analysis, the majority of tax filers will pay less federal income tax as a result of the PIT rate reduction despite a corresponding decrease to the non-refundable tax credit rate.

Table 3

Impacts on federal non-refundable tax credits by income tax bracket for tax-filers claiming the disability amount in 2026, millions of dollars

Non-refundable tax credit	1st bracket	2nd bracket	3rd bracket	4th bracket	5th bracket	All
Basic personal amount	-126	-48	-13	-3	-2	-192
Age amount	-35	-6	-	-	-	-41
Spouse / Eligible Dependent amount	-11	-4	-1	*	*	-17
Caregiver and other infirm dependant	-5	-4	-1	*	-	-10
CPP contributions (including self-employed)	-3	-5	-2	*	*	-11
EI contributions tax credit	-1	-2	-1	*	*	-4
Federal Volunteer Firefighters' Amount	*	*	-	-	-	*
Canada Employment Credit	-4	-3	-1	*	*	-8
Federal Home Buyers' Amount	*	*	-	-	-	-1
Home Accessibility Expenses	*	*	*	-	-	-1
Pension income	-6	-3	*	*	*	-9
Disability amount	-80	-30	-8	-2	-1	-121
Federal interest on student loans	-	-	-	-	-	*
Tuition (including transfers)	-2	*	*	-	-	-2
Medical expense	-5	-2	*	*	*	-8
Charitable donations	*	*	*	-	-	-1
Alternative Federal Minimum Tax	-	*	*	*	*	1
Sum	-280	-107	-28	-5	-4	-424

Source:
Office of the Parliamentary Budget Officer.

Note:

* Less than $1 million

Totals may not add up due to rounding.

Notes

[1] This commitment was presented as part of Bill C-4, *An Act respecting certain affordability measures for Canadians and another measure*, which was introduced in the House of Commons on June 5 and is yet to receive Royal Assent.

[2] The income thresholds are indexed annually to the consumer price index (CPI). The first $57,375 of income in 2025 are taxed at the lowest rate, and we project this amount to be $58,523 in 2026 based on Statistics Canada monthly CPI data from October 2023 to September 2025.

[3] Meetings 4 and 5 of the House of Commons Standing Committee on Finance, 45th Parliament, 1st Session.

[4] Approximately 690 of these tax-filers will meet both criteria, including 470 who are married or common-law and 220 that are single. This includes tax-filers who are children or grandchildren within the family (even when they are 18 years of age or older) who do not have their own common-law partner or spouse or child living within the dwelling.

[5] 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.

[6] When simulating a tax change in SPSD/M, the model optimizes the allocation of transferable credits between family members to minimize tax payable at the family level. Consequently, some individuals that would otherwise be adversely affected (because they fall into one of the two categories) will instead have a reduction in tax payable from the optimization transferring additional credits to them. For presentation purposes, we focused only on couples where combined federal tax payable would be higher. That said, there could be couples where one spouse would be adversely affected but the benefits of the rate reduction for the other spouse would more than offset the additional tax payable, lowering their combined tax burden. Moreover, we count each adversely affected couple only once regardless of whether one spouse or both spouses fall into one of the categories of adversely affected tax filers.

[7] The basic exemption is $177,882 in 2025 and is indexed annually to CPI. The projected amount of $181,440 in 2026 is based on Statistics Canada monthly CPI data from October 2023 to September 2025.

[8] There are 30 couples where one spouse is adversely affected because they are subject to AMT while the other spouse is adversely affected because they have taxable income and non-refundable tax credits above the first income threshold.

[9] In our analysis total federal non-refundable tax credits correspond to the amount reported on line 35000 of the T1 Income Tax and Benefit Return, but exclude donations and gifts reported on line 34900. Only the first $200 of charitable donations are multiplied by the lowest PIT rate of 15 per cent (or 14 per cent after the tax change). Consequently, the reduction of one percentage point in the applicable rate would at most increase tax payable by $2 for charitable donations.

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