Note

Reducing the lowest federal personal income tax rate to 14 per cent

Legislative Costing Note

Published on June 18, 2025

The value in the "5-Year Cost" table for Average savings per tax filer for fiscal year 2025-2026 was revised from $90 to $110 to account for an overestimation of the number of tax filers in calendar year 2025.

On May 14, 2025, the government announced a plan to reduce the lowest federal marginal personal income tax (PIT) rate from 15 per cent to 14 per cent, effective July 1, 2025.[1] This PIT rate is also the rate for most federal non-refundable tax credits.[2]

This note summarizes the impact of reducing the lowest federal marginal tax rate over a five-year period. The analysis covers the cost to the government, savings for tax filers and a detailed breakdown by income.

5-Year Cost

$ millions

Fiscal year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Federal tax rate*	9,530	13,000	13,290	13,640	14,520	63,980
Non-refundable tax credits rate**	-5,300	-7,240	-7,460	-7,620	-8,110	-35,730
Net cost*	4,230	5,750	5,840	6,020	6,400	28,240
Average savings per tax filer, $ dollars*	110	190	190	190	200	

· *Includes behavioural response.
· **Includes the alternative minimum tax.
· Results for 2025-26 are lower because the rate is only reduced to 14.5% in 2025.
· Estimates are presented on an accrual basis as would appear in the budget and public accounts.

[1] Government of Canada delivering middle class tax cut - Canada.ca., May 14, 2025 (last accessed May 28, 2025). To reflect a one-percentage-point cut in the lowest tax rate coming into effect halfway through the year, the full-year tax rate for 2025 will be 14.5 per cent.
[2] Non-refundable tax credits are contained in sections 118 to 118.81 of the *Income Tax Act*, R.S.C., 1985, c. 1 (5th Supp.) and are calculated based on the "appropriate percentage" which is defined in subsection 248(1) as the lowest percentage referred to in subsection 117(2) – this lowest percentage corresponds to the tax rate of the first income bracket. (last accessed May 28, 2025).

· 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).
· Amounts are rounded to the nearest $10 million. Totals may not add due to rounding.

While reducing the lowest federal marginal PIT rate offers relief to taxpayers, it also affects federal revenue. The Parliamentary Budget Office (PBO) estimates this PIT rate change will cost the government $4.2 billion in 2025-26, saving tax filers an average of $110. The cost will gradually increase to $6.4 billion in 2029-30, saving tax filers an average of $200.[3]

The isolated impact of reducing the lowest marginal PIT rate, an estimated $9.5 billion cost to the government in 2025-26, is partially offset by an associated $5.3 billion in savings to the government in 2025-26 due to the reduction in value of federal tax credits.

The decrease in the value of federal non-refundable tax credits is a universal 1 per cent of their amount. However, the aggregate decrease in the value of these credits is also proportionate to their use. As well, Canada's personal income tax (PIT) system is progressive, meaning individuals pay a higher percentage of tax as their income increases. This structure remains unchanged even after the PIT rate reduction. In 2026-27, the average estimated savings is $90 for lower-income individuals (tax filers in the lowest tax bracket), compared to $330 for all other tax filers. The savings generally represent a higher share of income for individuals in the first tax bracket compared with those in the other brackets, thus maintaining the progressivity of the tax system.

Cost by tax bracket, 2026-27

$ millions

Taxable income	1st tax bracket	2nd tax bracket	3rd+ tax bracket	Total
Cost*	5,770	5,360	1,870	13,000
Cost recovery	- 3,970	- 2,430	- 850	- 7,240
Total cost after recovery*	1,800	2,940	1,020	5,750
Total cost*/tax filer	90	330	330	190

· *Includes behavioural response.
· **Includes the alternative minimum tax.
· Amounts are rounded to the nearest $10 million. Totals may not add due to rounding.

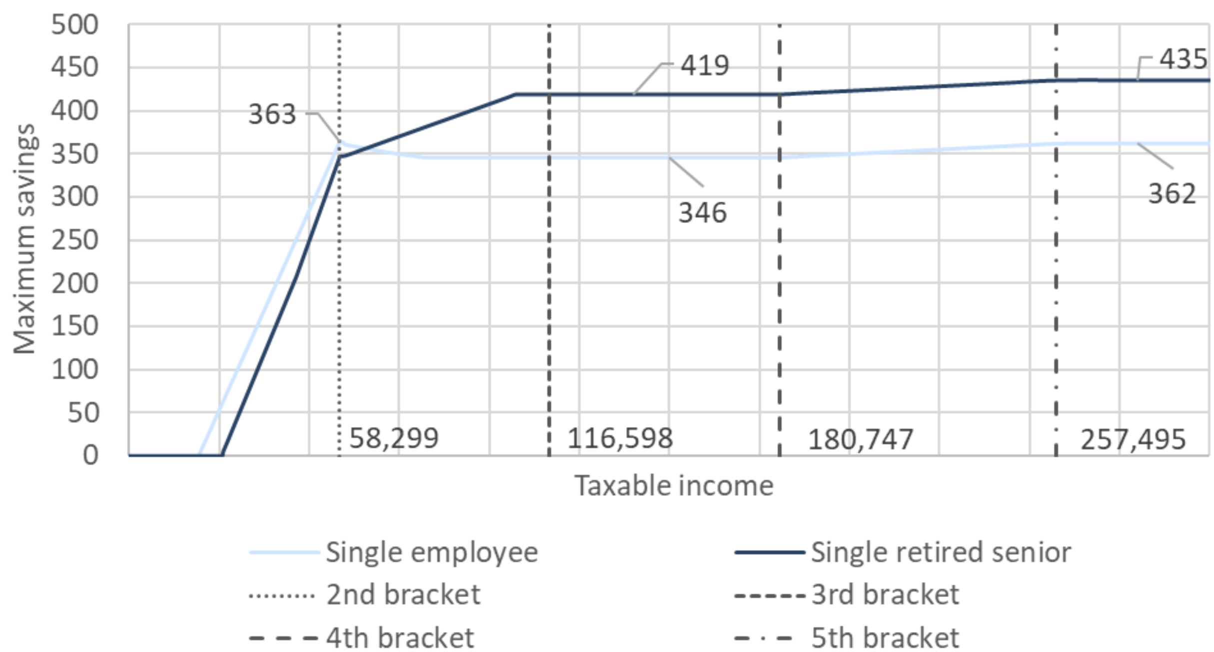
[3] Note that tax filer is defined as an individual who is estimated to pay more than $0 in federal or provincial income taxes prior to this policy change, or who had negative income components, received provincial tax credits, child tax credits or the sales tax credit prior to this policy change.

Furthermore, the basic personal amount and age amount, as well as other tax credits, are means-tested. As a result, the savings realized from this PIT rate decrease can vary depending on income.

To demonstrate this, PBO calculated the maximum savings an employee and a retired senior could obtain in 2026 assuming eligibility for certain means-tested tax credits, by income.[4] In general, the greater the income, the greater the savings in dollars, but the lower as a share of income for individuals in the second tax bracket and above. For example, in 2026 an employee will only start paying federal income tax when earning more than $19,127 (because of the basic personal amount of $16,389, plus contributions to the Canada pension plan and employment insurance premiums being eligible for a non-refundable tax credit). As employment income increases, the savings will culminate at the end of the threshold for the second tax bracket ($58,299). Any additional income would be taxed at the next rate of 20.5 per cent which is not modified by the proposed tax cut.

In the case of someone aged 65 or more, because of the age amount, they would only start paying federal income tax when their taxable income is above $25,562. The age amount is means-tested, gradually phasing out between $46,255 and $107,411.

Maximum savings by income, $ dollars, 2026



[4] Federal non-refundable tax credits included in this calculation were the basic personal amount, age amount, Canada pension plan contributions, and employment insurance premiums.

When looking at the various forms of census families, the average savings range from $50 for a low-income single senior, to $750 for high-income couples with children. The average savings for a single low-income senior is much lower than the maximum possible because of the progressive nature of the PIT and the average income of these individuals. The average savings for high-income couples with no children appear to align more closely with the estimated maximum savings.[5]

Average savings for census families, by type, 2026-27

Census family type	Average savings ($)	Average taxable income ($)
Single senior, 1st income bracket	50	27,380
Single, no child, 1st income bracket	100	25,080
Single parent, 1st income bracket	140	50,190
Seniors couple, both 1st income bracket	150	63,630
Couple, no child, both 1st income bracket	230	58,820
Couple with child, both 1st income bracket	250	74,600
Single senior, 2nd income bracket	330	111,160
Single parent, 2nd income bracket+	340	132,840
Single, no child, 2nd, 3rd & 4th income bracket	350	95,760
Single, no child, 5th income bracket	350	475,130
Seniors couple, one 1st income bracket, one 2nd income bracket+	440	157,470
Couple no child, one 1st income bracket, one 2nd income bracket+	460	145,780
Couple with child, one 1st income bracket, one 2nd income bracket+	460	171,180
Seniors couple, both 2nd income bracket+	680	259,950
Couple, no child, both 2nd income bracket+	710	230,910
Couple with child, both 2nd income bracket+	750	276,690
ALL	**280**	**100,670**

· Amounts are rounded to the nearest $10.

[5] Multiplying $363 by two suggests a high-income couple with no children could save up to $726, compared to the average savings of $710.

Even with the reduction in the value of non-refundable tax credits, no family will see an increase to their federal taxes payable.[6]

Tax filers in Quebec get 16.5 per cent less tax savings from the proposed rate reduction than residents in the rest of Canada as Quebec residents benefit from a reduction of 16.5 percentage points of federal personal income tax through the Quebec Abatement.[7]

List of federal tax credits*

Basic personal tax credit
Age tax credit
Spouse / Eligible Dependent tax credit
Caregiver and other infirm dependant tax credit
CPP contributions tax credit
EI premiums tax credit
Federal Volunteer Firefighters' Amount
Search and rescue volunteers' amount
Canada Employment Credit
Federal Home Buyers' Amount Credit
Home Accessibility Expenses Tax Credit
Adoption expenses
Digital news subscription expenses
Pension income tax credit
Disability tax credit
Federal interest on student loans tax credit
Tuition, education and textbook tax credit
Medical expenses allowed tax credit
Charitable donations tax credit
Multigenerational Home Renovation Tax Credit
Minimum Amount due to the Alternative Minimum Tax**

· *Only federal credits that indicate use of the appropriate percentage in the *Income Tax Act*.

[6] Some individuals within a family may pay more to minimize taxes payable within the family unit by transferring eligible tax credits. As well, it is possible families with members subject to the federal minimum tax are the exception.
[7] The province chose to opt-out of arrangements for certain federal-provincial programs and was transferred tax percentage points from the federal government instead of cash payments. For more details on the abatement, consult this page.

· **The Federal Minimum Tax is not a tax credit but is linked to the appropriate percentage in the *Income Tax Act*. It ensures high income earners pay a minimum amount of tax, despite the use of tax credits and deductions that would otherwise reduce their taxes payable below this minimum.

Estimation and Projection Method

SPSD/M[8] was used to estimate the static impact of a 1-percentage point decrease (0.5 percentage point in 2025) in the federal personal income tax rate and associated federal tax credits, and a rate of 0.5 for the capital gains inclusion 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.[9]

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.

Note prepared by

Carleigh Busby, Advisor-Analyst

Prepared under the direction of

Govindadeva Bernier, Director, Budgetary Analysis

Data Sources

Federal income tax payable
SPSD/M 30.3
Marginal effective tax rates
SPSD/M 30.3
Federal personal income tax (PIT) revenue baseline
PBO EPC Baseline

[8] 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.
[9] See PBO's November 2024 report, Costing personal income tax changes: the role of the elasticity of taxable income

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