

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Reference Sheet for Revenue Impacts Arising from Tax Adjustments

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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 queries 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 starting 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, staff of the PBO have 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 2010 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.

The figures provided in the attached table are 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, three 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;
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 tables; and,
3. The figures rely on the economic outlook from fall 2009 and will change over time based on actual results¹.

¹ Version 16.2 of Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) was used to generate revenue impacts for personal taxes. This version incorporates a macroeconomic outlook consistent with the PBO's November 2009 Economic and Fiscal Assessment Update.

II. Illustrative Examples

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

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

The Basic Personal Amount is a tax credit provided to all individuals and was valued at \$10,320 in 2009^{2,3}.

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: Increasing the second bracket threshold by \$10,000 and offsetting the loss by an increase in the highest rate.

In 2009 there were four federal tax rates and associated brackets: 15% on the first \$40,726; 22% on the next \$40,726; 26% on the next \$44,812 and 29% on all subsequent amounts⁴.

Figure 1. 2009 Federal Tax Rates

<u>Rate</u>	<u>Income Levels</u>
15%	on the first \$40,726 of taxable income
22%	on the portion of taxable income between \$40,726 and \$81,452
26%	on the portion of taxable income between \$81,452 and \$126,264
29%	on the portion of taxable income over \$126,264

As indicated in the table, increasing the second bracket threshold by \$5,000 (from \$40,726 to \$45,726; maintaining all other brackets at their current levels) would result in forgone revenues of approximately \$2.7 billion per annum. As such, a \$10,000 increase could be expected to have a \$5.4 billion impact per annum.

Increasing the highest personal income tax rate by one percentage point would raise approximately \$800 million per annum. Therefore, offsetting the revenue loss arising from the adjusting the second bracket would require approximately a 7 percentage point increase in the highest tax rate (to 36%)⁵.

² Information regarding the definitions of federal tax credits is provided at <http://www.cra-arc.gc.ca/E/pub/tp/it513r/it513r-e.pdf>. Accessed January 2010.

³ Information regarding the amounts of federal tax credits in 2009 is provided at <http://www.cra-arc.gc.ca/E/pub/tg/5013-g/5013g-09e.pdf>. Accessed January 2010.

⁴ Information regarding the amounts and levels of federal tax brackets and rates is provided at <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>. Accessed January 2010.

⁵ \$5.4 billion / \$0.8 billion = 6.75

Annex

Estimated Revenue Impacts of Selected Federal Tax Measures Based on 2010 Calendar Year	
Section I: Personal Income Tax	
<i>Revenue Impacts in '\$000,000s</i>	
Adjust Marginal Tax Rates (per percentage point)	
Lowest Rate (15%)	5,500
Second Rate (22%)	1,700
Third Rate (26%)	500
High Rate (29%)	800
\$5,000 change in Tax Brackets	
Second Bracket Threshold	2,700
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	340
Canada Child Tax Benefit (CCTB)	
\$100 increase in each benefit	470
\$1,000 increase in phase-out threshold	60
GST Credit for a Family of Four	
\$35 increase in adult benefit	350
\$15 increase in child benefit	30
\$1,000 increase in phase-out threshold	80
National Child Benefit Supplement (NCBS)	
\$100 increase in each benefit	180
\$1,000 increase in phase-out threshold	100
Section II: Other Taxes	
<i>Revenue Impacts in '\$000,000s</i>	
1 percentage point adjustment in GST	5,400