

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



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Revenue Impacts Arising from Tax Adjustments: 2012

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Key Points of this Note:

- Federal revenue and tax-related questions are among the most common questions posed by parliamentarians.
- The Parliamentary Budget Officer (PBO) has prepared a reference table of the potential revenue impacts arising from adjusting the Goods and Services Tax (GST) rate, as well as some of the more prominent personal and corporate 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 adjustments to the federal tax system.

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1. 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 2012 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 (SPSD/M). 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 and corporate income tax* figures were prepared using the PBO's economic and fiscal forecast.¹

The figures in the reference 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, 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 a rough approximation only. Precise cost figures of

more complex tax changes (e.g. multiple adjustments) may differ materially from the results suggested in the tables.

2. Examples

Four examples are provided to demonstrate the practical use of the reference table.

Example 1: Increasing the Top Bracket Threshold by \$10,000

As indicated in Table 1, the top bracket for federal personal income taxes will begin at \$131,693 in 2012. As indicated in the reference table, each \$5,000 increase to this bracket would cost approximately \$100 million in forgone revenue in 2012. Therefore, a \$10,000 increase would result in approximately \$200 million in forgone revenue to the federal treasury in 2012.

Table 1
2012 Federal Tax Rates and Brackets

RATE	BRACKET
15%	• on the first \$42,477 of taxable income
22%	• on the portion of taxable income between \$42,477 and \$84,954
26%	• on the portion of taxable income between \$84,954 and \$131,693
29%	• on the portion of taxable income over \$131,693

Source: Statistics Canada: SPSP/M. 2011.

¹ http://www.parl.gc.ca/PBO-DPB/documents/EFO_November_2011_EN.pdf. Accessed December 2011.

Example 2: Increasing the Basic Personal Amount (BPA) by \$1,000

As indicated in the reference table, a \$100 increase to the BPA would result in forgone revenue of approximately \$260 million in 2012. As such, a \$1,000 increase could be expected to result in forgone revenues of \$2.6 billion in 2012.

Example 3: Increase the General and Small Business Corporate tax rates by 1-percentage point each

As indicated in the reference table, a 1-percentage point increase in the general corporate tax rate would increase revenues by approximately \$1.5 billion in 2012. A 1-percentage point increase in

the small business tax rate would increase revenue by approximately \$630 million in 2012. In combination, these changes would result in increased federal revenues of approximately \$2.1 billion in 2012.

Example 4: Increasing the Goods and Services Tax rate from 5% to 7%

As indicated in the reference table, each 1-percentage point increase in the Goods and Services Tax rate would result in additional revenue of approximately \$6.7 billion in 2012. Therefore, a 2-percentage point adjustment would result in additional revenues of approximately \$13 billion in 2012.

Reference Table:

Estimated Revenue Impact of Selected Tax Measures <i>Based on 2012 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%)	5,970
Second Rate (22%)	1,870
Third Rate (26%)	510
High Rate (29%)	1,030
\$5000 change in Tax Brackets	
Second Bracket Threshold	2,910
Third Bracket Threshold	390
Top Bracket Threshold	100
\$100 change in Basic Personal and Spousal Amounts	
Basic Personal Amount	260
Spousal/Equivalent to Spousal Amount	30
Capital Gains Inclusion Rate	
Change by 5 percentage points	340
Child Tax Benefit (CCTB)	
\$100 increase in each benefit	480
\$1,000 increase in phase-out threshold	60
GST Credit for a Family of Four	
\$50 increase in adult benefit	540
\$50 increase in dependant benefit	100
\$1,000 increase in phase-out threshold	90
National Child Benefit (NCB) Supplement	
\$100 increase in each benefit	200
\$1,000 increase in phase-out threshold	100

Reference Table

Section II: Corporate Income Tax

Revenue Impact in '\$000,000s

General Corporate Rate

Increase by 1 percentage point	1,500
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Small Business Rate

Increase by 1 percentage point	630
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Section III: Goods and Services Tax (GST)

Revenue Impact in '\$000,000s

1 percentage point increase in GST	6,670
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