Intelligence MEMOS

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To: Campaign Promise Observers

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Re: **Missing Detail: Tax Savings Lower than Advertised**

Both Liberals and Conservatives have pledged to lower the bottom marginal federal personal income tax (PIT) rate if elected. The Liberals propose reducing the rate from 15 percent to 14 percent, while the Conservatives aim to lower it to 12.75 percent. Liberals claim this will save a two-income family up to $825 a year while Conservatives say their plan will save two-income families $1,800 a year.

Income taxes are determined by first multiplying taxable income by applicable marginal tax rates, and second by subtracting from that result the value of non-refundable tax credits – such as the basic personal credit, age credit, pension income credit, medical expenses credit and charitable donations credit – obtained from multiplying credit amounts by the lowest tax rate.

Section 118(1) of the *Income Tax Act* establishes the method for calculating non-refundable tax credits by applying an "appropriate percentage" to eligible amounts. That appropriate percentage is defined in section 248(1) as the lowest rate of the tax bracket schedule. So lowering the lowest tax rate would reduce both taxes and the value of non-refundable credits.

We simulated the two proposals using version 30.3 of the Social Policy Simulation Database and Model (SPSD/M) to estimate the overall effect on tax payable after taking into consideration the reductions in non-refundable credits. We find that lower non-refundable tax credits diminish the expected benefit of the proposed rate cuts from the respective parties' illustrations.

Table 1 breaks down tax savings by individual taxable income groups.

The reduction in non-refundable credits has a significant impact. Under a 14-percent rate, filers would save an average of $402 before tax credits but lose $215 in non-refundable credits. While under the 12.75-percent rate, the average pre-credit savings for tax filers is $905 and the losses from non-refundable credits is $483 on average.

The reduction in the age credit means that on average, seniors lose more in non-refundable credits than non-seniors – $247 vs. $204 under a 14-percent rate, and $555 vs. $459 under a 12.75-percent rate. Likewise, the reduction in the spousal credit sees married individuals with larger reductions in non-refundable credits than singles – $237 vs. $187 at 14 percent, and $534 vs. $421 at 12.75 percent.

On average, filers would save $180 per year under the 14-percent rate and $405 per year under the 12.75-percent rate. Filers with taxable income above the second-bracket rate would benefit more than those under. Filers with income over $58,000 would save about $321 on average under the 14-percent rate and about $720 under the 12.75-percent rate, while filers with income below the first income tax bracket would see smaller gains or no savings at all with their reduction in initial income tax almost or entirely offset by their reduction in non-refundable credits. Under both scenarios, we estimate that about 28 percent of tax filers receive no tax savings.

Table 1: Average Change in Federal Tax Credits and Tax Payable, by Taxable Income Group

		14% Lowest Marginal Federal Tax Rate			12.75% Lowest Marginal Federal Tax Rate		
Taxable Income Groups for Tax Filers ($)	Number of Tax Filers ($thousands)	Average Change in Federal Income Tax Before Credits Applied ($)	Average Change in Federal Income Tax Credits Applied ($) *	Average Change in Federal Income Tax Payable ($)	Average Change in Federal Income Tax Before Credits Applied ($)	Average Change in Federal Income Tax Credits Applied ($) *	Average Change in Federal Income Tax Payable ($)
Min-16,000	5,054.6	-62	62	0	-139	139	0
16,001-37,000	7,079.5	-264	224	-38	-596	504	-88
37,001-58,000	6,430.3	-472	256	-206	-1060	576	-461
58,001-100,000	7,674.3	-584	252	-319	-1313	566	-717
100,001+	4,758.7	-582	248	-322	-1311	559	-726
Total	**30,997.4**	**-402**	**215**	**-180**	**-905**	**483**	**-405**

*Non-refundable tax credits. The average change in federal credits are shown here as having a positive value since they subtract from rather than add to the tax savings.

Under a 14-percent rate, the total value of non-refundable credits decreases by approximately $6.6 billion, while a reduction to 12.75-percent reduces their value by about $15 billion. Similar to other analyses, our estimates show that lowering the bottom rate from 15 percent to 14 percent would reduce federal personal income tax revenues by approximately $5.5 billion in 2026, while a reduction to 12.75 percent would reduce revenues by $12.5 billion. The Conservative Party notes that the cost will be about $14 billion after full implementation in 2027/28. The Liberal Party has not released an official costing.

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