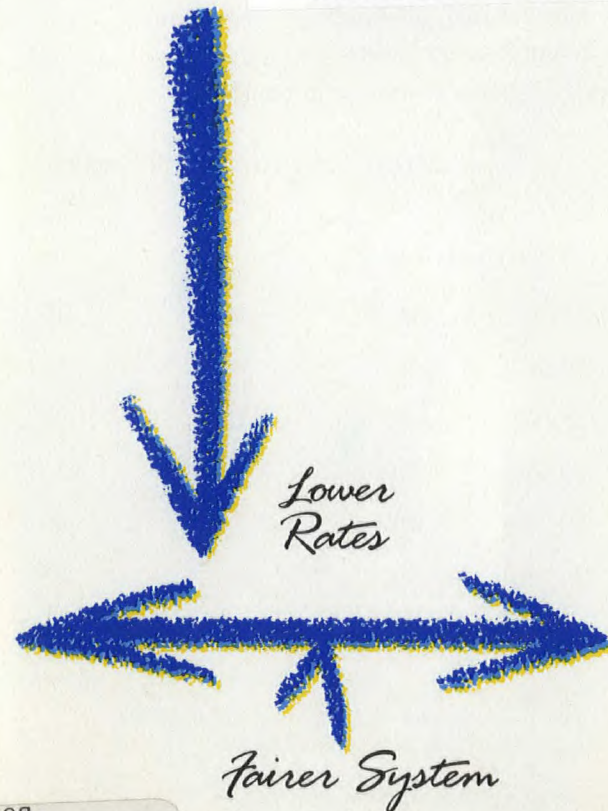


# How Tax Reform Benefits Families (Under 65)



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## Highlights for Families

The vast majority of Canadian families will pay less tax.

## The New System

**Lower Rates:** Personal income tax rates will be lowered. The present 10 tax brackets, with federal tax rates rising as high as 34 per cent, will be reduced to three brackets for tax year 1988:

Taxable income	Tax rate*	Proportion of taxpayers
Up to \$27,500	17%	66%
\$27,501 - \$55,000	26%	29%
\$55,001 and over	29%	5%

\* These rates apply to the portion of a taxpayer's income that falls into the ranges shown.

**Fairer System:** A number of exemptions and deductions will be replaced by tax credits. Exemptions, which reduce taxable income, are worth more to taxpayers in the higher income brackets than in the lower. The new federal tax credits are fairer. They directly reduce tax and provide the same tax reduction for all taxpayers.

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New tax credits - 1988	Federal tax* value for all taxpayers	Federal tax value of current exemptions with new rates	
		0 - \$27,500 of taxable income	Over \$55,000 of taxable income
Basic personal	\$1,020	\$725	\$1,240
Married or equivalent	850	635	1,085
Age (65 and over)	550	455	775
Disability	550	495	845
Dependant under 18**	65	65	115
Infirm dependant (over 18)	250	250	425

\* The value of the federal credit is about two-thirds of its total value in all provinces except Quebec since Quebec levies its own personal income tax. For example, the basic personal credit of \$1,020 on federal tax will reduce provincial taxes by an average of about \$560 for a total value of \$1,580.

\*\* Under present law, the child tax exemption is scheduled to equal the value of the family allowance by 1989. The new credit has been set at a level equal to 17 per cent of the estimated family allowance payable in 1988.

Many other deductions will be converted into federal tax credits at 17 per cent of their value. These include employees' Canada and Quebec pension plan contributions and unemployment insurance premiums, tuition fees and education deductions (transferable up to \$600), eligible medical expenses above 3 per cent of net income, the first \$1,000 of private pension income, and charitable donations (17 per cent for the first \$250 and 29 per cent for further donations).

Tax advantages now accorded for capital gains will be reduced in the interest of fairness. The dividend tax credit will be reduced to reflect lower corporate tax rates. There will be tighter rules on deducting business expenses and new rules against artificial tax avoidance.

## Benefits for Families

- The income level at which families start paying tax will rise. For example, a couple with one earner and two children will not pay any tax until their income reaches \$18,470, compared with the present threshold of \$16,770. More than 285,000 additional married couples and single parents will no longer pay any federal income tax.
- The conversion of the married exemption to a tax credit removes the tax penalty that can now discourage a second-income earner from entering the labour force. Currently, the first earnings of a spouse who is a dependant for tax purposes are effectively taxed at the higher marginal tax rate of the supporting spouse. This will no longer be the case.
- Lower-income families will benefit from the higher refundable sales tax credit in 1988 - to \$70 from \$50 for adults, and to \$35 from \$25 for children. This increase, which will benefit more than two million families, will protect lower-income Canadians from the changes being made to the federal sales tax in the first stage of reform. The credit will be significantly enriched and extended to more Canadians in stage two of tax reform when the current federal sales tax is replaced.
- Lower-income and middle-income families will benefit from changed treatment of education expenses. The current \$50 per month educational deduction will become a \$10 per month tax credit and the tuition fee deduction will become a tax credit at 17 per cent. Up to \$600 of these credits will be transferable from the student to a supporting parent, spouse or grandparent.
- The current tax deduction for child care expenses will remain unchanged, pending the final development of the federal government's policy on child care.

## How Taxes Will Change

The tables that follow show how taxes will decline for most families with primarily wage and salary income and with standard deductions and tax credits. Some families claiming special tax deductions or exemptions, with substantial investment income or self-employment earnings, will be subject to stricter rules and therefore may experience tax increases. The increase in the sales tax credit is not included in the tables.

### Personal Income Tax Changes in 1988 for a One-Earner Couple With Two Children Claiming Standard Deductions and Exemptions

(Federal-provincial taxes combined)

Income level	Old tax	New tax	Tax cut*
\$10,000	-\$1,015 **	-\$1,050**	\$ 35
15,000	80 **	- 335**	415
20,000	1,470	955	515
25,000	2,925	2,285	640
30,000	4,705	4,150	555
40,000	9,010	8,755	255
50,000	13,465	13,110	355
75,000	25,345	24,290	1,055

\* The federal tax reduction is about two-thirds of the total reduction shown. The federal-provincial calculation approximates the average tax cut in the nine provinces party to personal income tax collection agreements.

\*\* A minus sign represents a refund. The minus signs at the two lowest income levels mean these taxpayers receive larger refunds.

### Personal Income Tax Changes in 1988 for a Married Two-Earner Couple With Two Children Claiming Standard Deductions and Exemptions

(Federal-provincial taxes combined)

Income level	Old tax	New tax	Tax cut*
\$10,000	-\$1,050 **	-\$1,050**	\$ 0
15,000	- 455 **	- 665**	210
20,000	415	240	175
25,000	1,415	1,180	235
30,000	2,510	2,295	215
40,000	5,810	5,365	445
50,000	9,460	8,635	825
75,000	18,595	17,385	1,210

