

New tax cut proposed by Liberal government

Tax alert | December 2019

On December 9, 2019, Minister of Finance Bill Morneau and newly-appointed Minister of Middle Class Prosperity Mona Fortier held a joint press conference to announce a tax cut for the middle class.

The tax cut announced on Monday morning is almost identical to the one included in the [Liberal party's election platform](#). It will begin in 2020 and will result in an increase to the basic personal amount (BPA) beyond the standard increase, which is currently indexed to inflation. This increase would apply to the basic personal tax credit for all Canadian resident individuals, as well as to the married or common-law credit (for those claiming a spouse or common-law partner as a dependent) and the eligible dependent credit (for those claiming someone other than a spouse or common-law partner as a dependent living with them).

Taxpayers with income below \$150,473 in 2020 (i.e., the income threshold for the second-highest tax bracket in 2020) will receive the full amount of the planned increase to the BPA that year. The increased BPA would offer tax savings in the form of an increased tax credit equal to 15 percent of the amount of the BPA. In other words, since the BPA in 2020 is being increased from \$12,298 to \$13,229, this offers an increase in tax savings of \$140 [15 percent x (13,229 - 12,298)] for every taxpayer who qualifies for the full increase.



These tax savings can be better illustrated in the following table:

Tax savings when income is less than income threshold for second-highest tax bracket (\$150,473 in 2020)					
	A	B	C	D	D - B
Year	Current BPA	Tax savings (A x 15%)	New BPA	Tax savings (C x 15%)	Increase in federal tax savings
2020	\$12,298	\$1,845	\$13,229	\$1,984	\$140
2021	\$12,554	\$1,883	\$13,808	\$2,071	\$188
2022	\$12,783	\$1,917	\$14,398	\$2,160	\$243
2023	\$13,038	\$1,956	\$15,000	\$2,250	\$294

For taxpayers with income above \$150,473 but below \$214,368 in 2020 (i.e., the income threshold for the highest tax bracket in 2020), the amount of the BPA will decrease as the income level increases above \$150,473. Taxpayers with income equal to or greater than \$214,368 in 2020 will not receive any increase to the BPA since the entire increase will have been phased out. The following table shows the federal tax savings at various income levels for 2020:

BPA at various income levels over \$150,473				
Income	BPA in 2020 (before changes)	New BPA in 2020 (after changes)	Increase in BPA	Additional federal tax savings
\$150,473	\$12,298	\$13,229	\$931	\$140
\$160,000	\$12,298	\$13,090	\$792	\$119
\$175,000	\$12,298	\$12,872	\$574	\$86
\$200,000	\$12,298	\$12,507	\$209	\$31
\$214,368	\$12,298	\$12,298	\$0	\$0

Since this tax cut was included in a Notice of Ways and Means Motion, it will need to get support in the House of Commons for it to pass into law for January 1, 2020, the date it is proposed to come into effect.

This likely means it will come up for a vote in the House before the holidays, likely sometime this week. Both the Conservatives and the NDP provided their points of view on the government's tax cut during Question Period in the House of Commons, although neither party appeared to oppose the cut. Although there is no guarantee that any legislation proposed by a minority government would receive the necessary support in the House, there does not appear to be much opposition to this specific measure.

If you have any questions about this proposed measure, please contact your Grant Thornton advisor.



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