

The Navigator



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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Liberals move forward with proposed income tax savings for the middle class

To help individuals cover their basic needs, the Canadian federal government offers non-refundable tax credits that reduce a person's federal tax liability. One such credit is the basic personal tax credit. This tax credit is calculated by multiplying the Basic Personal Amount (BPA) by 15%. The BPA increases annually with inflation. In 2020, the BPA will be \$12,298, which will result in a tax credit of \$1,845.

On December 9, 2019, Bill Morneau, the Finance Minister, tabled a Notice of Ways and Means Motion in the House of Commons that proposes to increase the BPA to \$15,000. This increase will be phased in over four years, starting in 2020 and fully implemented by 2023. The Liberal minority government will need to rely on support from another federal party in order to get the proposal passed into law.

The government also proposes to increase two related amounts – the Spouse or Common-Law Partner Amount (for those claiming a spouse or common-law partner as a dependant) and the Eligible Dependant Credit (for those claiming someone other than their spouse or common-law partner as a dependant

who was living with them) – to \$15,000 by 2023, in tandem with the proposed increases in the BPA. Once fully implemented, single individuals could save close to \$300 in taxes every year, and families could save close to \$600 every year.

The government plans to gradually phase out the benefits of the increased BPA, dollar-for-dollar, for those with net income above \$150,473 in 2020 (the bottom of the fourth federal tax bracket). The benefits of the increased BPA will be eliminated for those with net income over \$214,368 in 2020 (the threshold for the top federal tax bracket). As such, those in the top tax bracket will not benefit from this proposed change. They will continue to receive the existing BPA, which will continue to rise with inflation. The increase to the Spouse or Common-Partner Amount and Eligible Dependant Credit will also be gradually reduced for those with net income above \$150,473 in 2020.

Although high income individuals may not personally benefit from this proposed measure, the measure could help reduce a family's overall tax bill. If a high income earner has family members with little or no income, they may be able to take

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advantage of the increased BPA by utilizing income splitting strategies, such as a spousal loan or family trust. For more information regarding income splitting strategies, contact your RBC advisor.

The following table illustrates the existing and proposed tax savings for those earning less than \$150,473 in 2020. The government expects the proposed tax savings to affect close to 20 million individuals.

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Year	Current BPA ¹	Current tax savings (at 15%)	Proposed BPA	Proposed tax savings (at 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	\$242
2023	\$13,038	\$1,956	\$15,000	\$2,250	\$294

¹ Based on Department of Finance Canada projections for indexation for 2021-2023.

Source: Department of Finance, Canada

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