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Budget
2000

Five-Year
Tax Reduction Plan

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Budget 2000

Canada is now in an era of budget surpluses.

When the Government first took office in 1993, it set out a plan to restore the nation's finances, build a stronger, more innovative economy and improve the quality of life for all Canadians. The plan is working.

The deficit is eliminated, the debt burden is falling, our unemployment rate is at its lowest level in more than 20 years and disposable income is rising.

With a growing economy and our nation's finances in order, this budget charts a course to greater prosperity for all Canadians in the 21st century. Today's better finances will be used to help build better lives for all Canadians, now and for future generations.

Crucial to a higher quality of life is ensuring that we continue to increase resources for post-secondary education and improve our system of universal health care.

A key component of the Government's plan is to cut taxes. This will mean more money in the pockets of Canadians, stronger economic growth and enhanced job creation.

Canadians know that much of our future success hinges on building a stronger, more innovative economy. Developing the know-how, products, skills and services to keep the economy growing is essential to improving our quality of life.

That is why this budget:

- announces a $2.5-billion supplement in the Canada Health and Social Transfer (CHST) – the fourth consecutive federal enrichment of the CHST – to help provinces and territories meet what Canadians have clearly identified as their highest priorities: health and education;
- puts forward a five-year plan to reduce taxes by at least $58 billion, immediately restores full indexation of the personal income tax system to protect taxpayers against inflation and cuts tax rates for the first time in 12 years;
- proposes initiatives to promote leading-edge research and innovation in universities, research hospitals and the private sector; develop new environmental technologies and improve environmental practices; and strengthen provincial and municipal infrastructure; and
- increases significantly the income support available to parents by increasing the Canada Child Tax Benefit and enhancing parental benefits.

For further information on budget measures other than those explained in this booklet, please contact the Distribution Centre at the address provided on the last page, or visit the Department of Finance Canada Web site at http://www.fin.gc.ca/.

Better finances, better lives

Five-Year Tax Reduction Plan

Highlights

The 2000 budget proposes a five-year tax reduction plan that includes the most important structural changes to the federal tax system in more than a decade. The Plan will:

- immediately restore full indexation of the personal income tax system to protect taxpayers against automatic tax increases caused by inflation – this will benefit every Canadian; and
- reduce the middle income tax rate to 23 per cent from 26 per cent, starting with a 2-point reduction to 24 per cent in July 2000 – this will cut taxes for 9 million Canadians.

Additional key personal income tax measures of the Plan will:

- increase the amount that Canadians can earn tax-free to at least $8,000 and the amounts at which the middle and top tax rates apply to at least $35,000 and $70,000 respectively;

Highlights *(cont'd)*

- enrich the Canada Child Tax Benefit (CCTB) by $2.5 billion a year by 2004 to more than $9 billion annually – maximum benefits will reach $2,400 for a first child and $2,200 for a second child;
- eliminate, as of July 1, 2000, the 5-per-cent deficit-reduction surtax on middle-income Canadians with incomes up to about $85,000, and completely eliminate it by 2004; and
- raise to 25 per cent for 2000 and to 30 per cent for 2001 the permissible foreign content of investment in registered pension plans (RPPs) and registered retirement savings plans (RRSPs).

Additional measures will help Canadian businesses to become more competitive internationally by making the tax system more conducive to investment and innovation. To ensure continued growth and job creation in a global economy that is increasingly knowledge-based, the Plan will:

- reduce corporate tax rates to 21 per cent from 28 per cent within five years for the highest taxed business sectors, such as high-technology, beginning with a drop to 27 per cent effective January 1, 2001;
- reduce the corporate tax rate to 21 per cent from 28 per cent on small business income between $200,000 and $300,000 effective January 1, 2001;
- lower capital gains taxes by reducing the amount of capital gains included in income for tax purposes from three-quarters to two-thirds;
- postpone the taxation of gains on shares acquired under qualifying stock options to when shares are sold, rather than when the options are exercised; and
- allow a tax-free rollover of capital gains on qualified investments from one small business to another.

Highlights *(cont'd)*

The Plan, which places a special emphasis on the needs of families with children, will mean more money in the pockets of Canadians.

- Taxes will be reduced by a cumulative amount of at least $58 billion over five years.
- Personal income taxes will be reduced by an average of 15 per cent annually by 2004-05.
- Low- and middle-income Canadians will see their personal income taxes reduced by an average of 18 per cent.
- With substantially enriched benefits under the CCTB, families with children will see their personal income taxes reduced by an average of 21 per cent.

By 2004 a typical:

– one-earner family of four with about $35,000 of income will pay no net personal income tax;

– one-earner family of four earning $40,000 will see its net federal personal income taxes reduced by at least $1,623 a year, a reduction of 48 per cent; and

– two-earner family of four with income of $60,000 will see its net personal income taxes reduced by at least $1,546 a year – a reduction of 27 per cent.

Introduction

In the fall of 1999, the Government promised Canadians in the Speech from the Throne and *The Economic and Fiscal Update* that it would set out a multi-year plan for further tax reductions. With significant planning surpluses now available, this budget delivers on that commitment by making the most important structural changes to the Canadian federal tax system in more than a decade.

This Plan provides real and lasting tax reductions for Canadians and ensures that all taxpayers will see their taxes reduced in a manner consistent with the Government's main principles for cutting taxes, which are:

- first, the approach to tax reductions must be fair. Tax reduction must ultimately benefit all Canadians, but first it must benefit those who need it the most – middle- and low-income earners, especially families with children;
- second, broad-based tax reductions should focus initially on personal income taxes. That is where the burden is greatest – where Canadian taxes have been most out of line with other countries;
- third, the business tax system must be internationally competitive to enhance economic growth, increase productivity, raise wages and create jobs; and
- finally, broad-based tax reductions should not be financed with borrowed money.

The Plan in this budget will improve living standards for Canadians. It means more money in the pockets of Canadians, stronger economic growth and enhanced job creation.

Five-Year Tax Reduction Plan

Table 1 summarizes the Five-Year Tax Reduction Plan and indicates the amount of tax relief associated with each element of the Plan. By 2004-05, the Government will deliver an annual reduction in taxes of $17.6 billion.

The Plan will reduce taxes by a cumulative amount of at least $58 billion over the next five years.

Table 1 – OVERVIEW
Five-Year Tax Reduction Plan

Areas for action	Actions proposed to be implemented over the next five years	Amount of annual tax relief in 2004-05 (millions of dollars)
Eliminate automatic increases in the tax burden due to inflation	• Immediately restore full indexation of the tax system effective January 1, 2000	See below
	• Increase the amount of income Canadians can earn tax-free to at least $8,000 for the basic personal amount and at least $6,800 for the spousal/equivalent-to-spouse amount	2,760[1]
Reduce the high tax burden at the middle-income level	• Reduce to 23 per cent the 26-per-cent middle tax rate	3,600
	• Increase the level of income at which the middle tax rate begins to apply from $29,590 to at least $35,000	2,940[1]
	• Increase the level of income at which the top tax rate begins to apply from $59,180 to at least $70,000	730[1]
	• Eliminate the 5-per-cent surtax	865
Increase support for children	• Increase support for children under the Canada Child Tax Benefit over the course of the next five years, with maximum benefits rising to $2,400 for the first child	2,525[1]
Make the Canadian economy more internationally competitive	• Reduce the corporate income tax rate by 7 percentage points to 21 per cent from 28 per cent on business income not currently eligible for special tax treatment	2,995
	• Reduce the capital gains inclusion rate from three-quarters to two-thirds	295
	• Postpone taxation of gains on shares acquired under qualifying stock options to when shares are sold rather than when options are exercised	75
	• Allow tax-free rollover of capital gains on qualified investments from one small business to another	75
Other	• Technical measures including other indexation	780[1]
Total		**17,640**
Of which indexation contributes		**6,215**

[1] Amounts include indexation, based on an assumed annual inflation rate of 1.8 per cent.

Minimum $58 Billion Cumulative Tax Reduction Under the Five-Year Tax Reduction Plan

Size of Tax Relief (billions of dollars)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	Cumulative
Personal income tax	3.3	5.6	7.2	8.7	14.7	39.5
Corporate income tax	-0.1	0.3	0.5	0.5	2.9	4.0
Employment insurance (EI)	1.4	2.2	3.0	3.8	4.4	14.8
Total tax and EI relief	4.6	8.1	10.6	13.0	22.1	58.3

The $58 billion in tax relief is an absolute minimum, given the way this estimate is constructed. While an estimate of cumulative tax relief over five years, it: only includes actions legislated in the 2000 budget for the next two years; and assumes all remaining personal and corporate tax cuts take place in the fifth year.

To the degree these remaining actions are taken sooner – or tax reductions exceed those set out in the Plan – the cumulative tax relief would exceed $58 billion.

As an example, the size of cumulative tax relief would increase by almost $2 billion if the final point reduction of the middle tax rate were to occur earlier on July 1, 2002, rather than in the final year of the Plan.

As another example, the size of cumulative tax relief would increase by almost $1.5 billion if corporate tax reductions (from the 27-per-cent rate proposed to be legislated in January 2001) to 21 per cent occurred in the last two years rather than in the final year of the Plan.

Data sources:

1) Years 2000-01 to 2002-03 for personal income tax (PIT), corporate income tax (CIT) and EI: *The Budget Plan 2000*, Chapter 1, Table 1.4.
2) Year 2003-04 calculated as follows: PIT – cost of measures legislated in 2000 budget including indexation; CIT – same as 2002-03; EI – further assumed reduction of 10 cents in employee contribution rate.
3) Year 2004-05: PIT and CIT – Table 1 of this booklet; EI – further assumed reduction of 10 cents in employee contribution rate.

Note: Numbers may not add due to rounding.

Restoring Full Protection Against Inflation in the Tax System

To fully protect taxpayers against inflation, the budget proposes to restore full indexation of the personal income tax system effective January 1, 2000 (Table 2). This eliminates the provision put in place in 1986, that applied indexation to the personal income tax system only for inflation above 3 per cent.

Non-indexation of the tax system has resulted in ongoing automatic increases to the net tax burden (taxes minus benefits). There are several ways in which this happened:

- bracket creep, through which income is subject to higher tax rates even when real income or purchasing power does not increase; and
- the decrease in the real value of benefits such as the Canada Child Tax Benefit and the goods and services tax credit. There are two sources for the decline in real benefits: first, the reduction in purchasing power because of higher prices; and second, the reduction in the dollar amount of benefits as incomes rise with inflation.

Automatic Reduction in the Tax Burden From Indexation – Example 1

Sharon earns $25,000. Beyond the tax-free personal amounts, her income is subject to the lowest tax rate of 17 per cent. She also receives the goods and services tax (GST) credit and the Canada Child Tax Benefit (CCTB) for her son.

Each year, Sharon receives wage increases consistent with inflation from her employer, bringing her income to $27,250 by the fifth year.[1]

She has received no increase in real income. However, her real tax burden goes up automatically:

Net Federal Tax Payable in the Fifth Year (dollars)

	Non-indexed	Fully indexed	Difference
Tax	2,122	1,920	202
CCTB	1,278	1,663	385
GST credit	437	548	111
Total net tax (tax minus benefits)	**407**	**-291**	**–**
Net gain from indexation			**698**

Under the non-indexed tax system, Sharon would have paid $407 in net federal tax. Under a fully indexed tax system, she would be a net beneficiary receiving $291, effectively increasing her income by $698.

[1] An average annual rate of inflation of 1.8 per cent is used over the five-year period.

Automatic Reduction in the Tax Burden From Indexation – Example 2

Dale earns $35,000. Beyond the tax-free personal amounts, part of his income is subject to the lowest tax rate of 17 per cent, and the rest to the middle rate of 26 per cent. He also receives the GST credit and the CCTB for his two children.

Each year, Dale receives wage increases consistent with inflation from his employer, bringing his income to $38,150 by the fifth year.[1]

He has received no increase in real income. However, his real tax burden goes up automatically:

Net Federal Tax Payable in the Fifth Year (dollars)

	Non-indexed	Fully indexed	Difference
Tax	4,631	4,190	441
CCTB	1,612	1,929	168
GST credit	0	168	317
Total net tax (tax minus benefits)	**3,019**	**2,093**	**–**
Net gain from indexation			**926**

Under the non-indexed tax system, Dale would have paid $3,019 in net federal tax. Under a fully indexed tax system, he will pay $2,093, a tax saving of $926.

[1] An average annual rate of inflation of 1.8 per cent is used over the five-year period.

Although indexation will help all Canadians, it will benefit lower-income individuals the most. For example, Canadians with incomes under $30,000, who pay about 1 per cent of all net personal income taxes, will receive almost 40 per cent of the benefit from full indexation. Canadians with incomes up to $60,000, who pay about 40 per cent of all net personal income taxes, will receive 80 per cent of the benefits of indexation.

Indexation will particularly benefit middle- and low-income Canadians because:

- the effect of bracket creep stops building once a taxpayer has reached the income level at which the top tax rate begins to apply; and
- low- and middle-income taxpayers generally receive the benefits under the CCTB and the GST credit.

Reducing the Tax Burden for Middle-Income Canadians

Substantial Tax Cuts for Middle-Income Canadians

While tax burdens will fall for all Canadians, the decline will be substantially larger for middle-income Canadians as:

- the middle tax rate will drop;
- some incomes now subject to the middle tax rate will become subject to the lowest tax rate;
- some other incomes now subject to the top tax rate will face the middle tax rate;
- the 5-per-cent surtax will be eliminated July 1, 2000 for taxpayers with incomes up to about $85,000; and
- benefits under the Canada Child Tax Benefit will increase substantially.

Compared to other Western nations, Canada's personal income tax rate structure imposes higher taxes at middle-income levels. The increase in the personal income tax rate from low- to middle-income in Canada is the steepest among Group of Seven (G-7) countries.

The current federal tax rate structure was implemented in 1988. There are three federal tax rates applied to different income ranges:

- a 17-per-cent tax rate is applied to taxable income up to $29,590;
- a 26-per-cent tax rate is applied to taxable income between $29,590 and $59,180; and
- a 29-per-cent tax rate is applied to taxable income above $59,180.

Tax Rate Reduction

For the first time in 12 years, the Government will lower an income tax rate, specifically the middle tax rate, to 23 per cent from 26 per cent. As a first step, it is proposed that the rate drop 2 points – to 24 per cent – on July 1, 2000 (Table 2). The middle tax rate will drop further to 23 per cent within the next five years.

Because of the 2-point reduction in the middle tax rate, an average family of four will pay $600 a year less in personal income tax next year. When the cut is fully in place, it will pay $900 a year less.

Almost 9 million taxpayers will benefit from this measure.

Increase in Income Levels at Which Different Tax Rates Begin to Apply

The budget proposes to raise the amount that Canadians can earn tax-free, as well as the amounts that can be earned before the middle and top tax rates begin to apply, even more than would automatically result from indexation.

- Instead of $7,131, within five years Canadians will be able to earn up to at least $8,000 and pay no tax (Table 2).

Increasing tax-free amounts has been the first priority area for general tax relief for the Government since the elimination of the deficit because it delivers proportionally more tax relief to low-income taxpayers. By 2004, tax-free amounts will have increased by $1,544, or 24 per cent, since 1997. This will remain a priority area for further action should more resources become available.

- Instead of $29,590, within five years Canadians will be able to earn up to at least $35,000 and remain at the lowest tax rate of 17 per cent.
- Instead of $59,180, within five years Canadians will be able to earn up to at least $70,000 and remain at the new middle tax rate of 23 per cent.

Five-Per-Cent Deficit Reduction Surtax

Two surtaxes were introduced in the mid-1980s to reduce the deficit: after some changes in the early 1990s, all taxpayers were subject to the 3-per-cent general surtax, and taxpayers with incomes of over $65,000 were subject to an additional 5-per-cent surtax.

The 3-per-cent surtax was eliminated in the 1999 budget.

Effective July 2000, the budget proposes to eliminate the remaining deficit reduction surtax on Canadians with incomes up to about $85,000 (Table 2). As the surtax applies to tax otherwise payable and not on income, its elimination will lower the effective tax on income by 1.45 percentage points (5 per cent of 29 per cent).

The surtax will be eliminated for all Canadians over five years, benefiting 2 million Canadians. It is proposed that, effective January 2001, the rate be reduced to 4 per cent of tax payable on income above $85,000.

Foreign Content of Investment in Registered Pension Plans and Registered Retirement Savings Plans

Registered retirement savings plans (RRSPs) and registered pension plans (RPPs) provide the primary source of retirement income for middle-income Canadians.

Recently, a significant number of Canadians and organizations, including the House of Commons Finance and Senate Banking Committees and the Investment Funds Institute of Canada, have asked the Government to reconsider the current level for the limit on foreign property investments in RPPs and RRSPs. Appropriate limits in this area strike a balance between providing adequate opportunities for Canadians to diversify their retirement savings investments and ensuring that a substantial portion of these tax-assisted savings remains invested in Canada.

As a result, it is proposed that the permissible foreign content of investments in RPPs and RRSPs be raised to 25 per cent for 2000 and to 30 per cent for 2001. These increases will also apply with respect to the Canada Pension Plan.

Increasing Support for Middle- and Low-Income Families With Children

The 2000 budget proposes a further increase in the Canada Child Tax Benefit (CCTB) to help families with the added expense of raising children. Benefits will rise both because the CCTB will be fully indexed and because of proposed increases beyond indexation. These increases will build up to $2.5 billion annually by the fifth year to bring the CCTB to more than $9 billion annually.

Benefits for low-income families will rise by $1.3 billion. Of the total investment of more than $9 billion annually, about $6 billion will go to low-income families and about $3 billion to modest- and middle-income families.

The goal by the fifth year will be to raise the maximum CCTB benefit to $2,400 for the first child (with corresponding increases for subsequent children). The maximum benefit for the first child will increase in July 2000 to $2,056 from $1,805, reflecting the impact of actions in the 1999 and 2000 budgets. The maximum benefit will increase to $2,265 in July 2001 (Table 2).

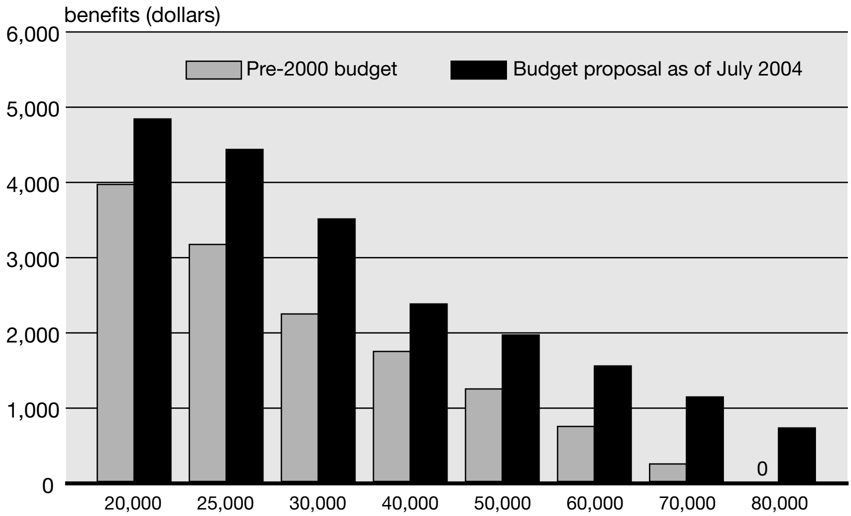
The budget proposes a number of steps, in addition to indexation of the CCTB, that will also benefit middle-income Canadian families. The base component of the CCTB will rise. The income level at which the base benefit begins to be reduced will go up with increases in the threshold at which the middle tax rate begins to apply (Table 2). Finally, the rate at which benefits decline with increases in income will be lowered.

As Chart 1 shows, the changes proposed in this budget will substantially increase benefits to middle-income families. For example, a two-child family with an income of $60,000 will see its CCTB benefit more than double from its pre-2000 budget level of $733 to $1,541 by 2004.

Chart 1

CCTB Benefits[1] by Income Level

(Two-child family with one child under the age of 7)



[1] Includes additional benefit available for children under 7 years of age for whom no child care expense is claimed.

Overall Size of Personal Income Tax Relief

On an annual basis, the Five-Year Tax Reduction Plan will reduce federal personal income taxes by an average of at least 15 per cent by 2004-05 relative to the taxes otherwise payable. Combined with the actions in the 1997, 1998 and 1999 budgets, annual personal income tax reductions will total 22 per cent by 2004-05. For families with children and for low- and middle-income Canadians (Chart 2), the Plan will reduce personal income taxes significantly more.

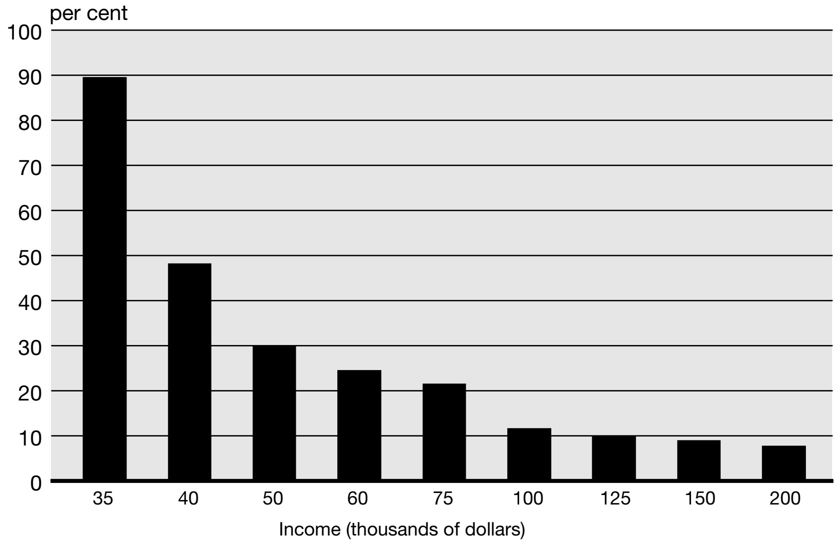
Percentage Tax Reduction by 2004-05

Annual tax reduction	Five-Year Tax Reduction Plan	Five-Year Tax Reduction Plan and 1997, 1998 and 1999 budgets
Average all Canadians	15	22
Families with children	21	30
Low- and middle-income Canadians	18	26

Note: Further details can be found in Annex 7 of *The Budget Plan 2000*.

Chart 2

Proportionate Tax Reductions Are Larger at Lower Incomes
(One-earner family of four)
Per cent tax reduction (2004)



Families of four earning under about $35,000 are net beneficiaries as they get more in benefits than the taxes that they owe.

Making the Economy More Internationally Competitive

Reduction in the Tax Rate for Highest Taxed Sectors

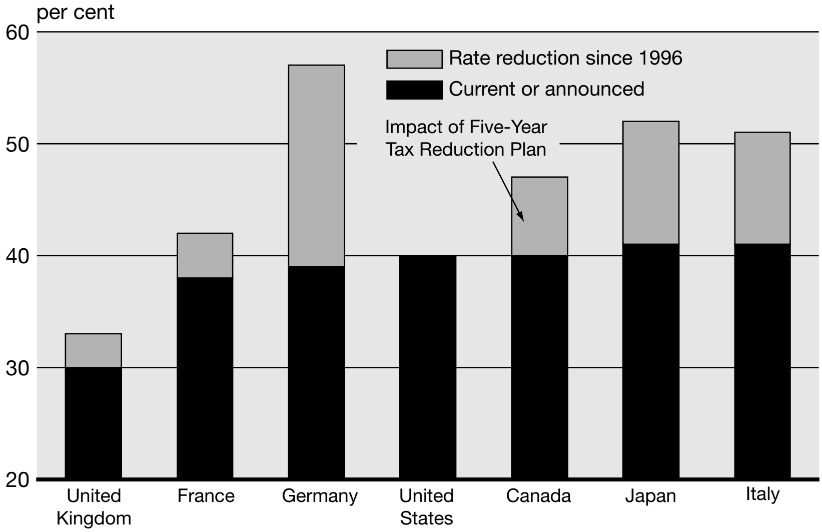
To prosper in the global economy, Canada needs a business tax system that is internationally competitive. This is important because business tax rates have a significant impact on the level of business investment, employment, productivity, wages and incomes.

Canadian effective tax rates for small businesses, the manufacturing and processing (M&P) sector and the resource sector are by and large internationally competitive. As a result of special tax preferences, small businesses effectively have a federal tax rate of about 12 per cent while the M&P and resource sectors have a federal tax rate of about 21 per cent. However, other sectors of the economy are subject to the high general corporate tax rate without any special provisions. These highest taxed sectors include fast-growing service and high-technology firms that will influence the pace of Canada's future economic and social development. In recent years, many industrialized countries have either reduced their corporate tax rates or announced their intention to lower them. If no action were taken, Canada's general corporate tax rate would not be competitive with those of our trading partners.

The Government's objective is to reduce, within five years, the federal corporate income tax rate to 21 per cent from 28 per cent on business income not currently eligible for special tax treatment. As a first step, the budget proposes to reduce this rate to 27 per cent effective January 1, 2001 (Table 2). Once fully implemented by 2004, the combined federal-provincial tax rate, including both income and capital taxes, would be reduced from the current average of 47 per cent to 40 per cent, a more competitive level vis-à-vis other G-7 countries (Chart 3).

Chart 3

Impact of Recently Announced General Corporate Tax Rate Reductions in G-7 Countries, Including Actions in the 2000 Budget[1]
(Total Government)



[1] Rates effective by 2004, based on changes announced to February 2000. Rates include the income tax rate equivalent of capital taxes, where this information is available. The 2004 Canadian tax rate includes the reduced federal tax rate of 22.12 per cent (21 per cent plus the surtax) plus the average provincial tax rate of 14.3 per cent, plus a capital tax equivalent rate of 3.6 per cent.

Sources: *KPMG Corporate Tax Rate Survey* (January 2000); Ernst & Young International Tax Services; OECD Tax Database; Department of Finance calculations.

Faster Corporate Rate Reduction for Smaller Businesses

Given the important role of small businesses in Canada, the Government believes that, in addition to the personal income tax rate reductions, they should benefit from lower corporate tax rates more rapidly. Therefore, the budget proposes that, beginning January 1, 2001, small businesses would benefit from a 21-per-cent corporate tax rate on business income between $200,000 and $300,000 (Table 2).

This faster access to the reduced rate reflects the seriousness of this government's commitment to the small business sector.

Capital Gains

The high-technology sector and other fast-growing industries are particularly important to Canada's future economic growth. Our tax system must be conducive to innovation, and must ensure that businesses have access to the capital they need in an economy that is becoming increasingly competitive and knowledge-based. An examination of the taxation of capital gains in Canada suggests that this objective would be better achieved with a reduction in the inclusion rate of capital gains from the current three-quarters to two-thirds (Table 2). The budget proposes this change be effective after February 27, 2000.

Stock Options and Share Ownership

Many employers use share ownership plans and stock options to encourage employees to become participating owners of their businesses, most notably in the fast-growing high-technology industries. Tax rules that apply to stock options and employee share ownership plans have been under review to ensure that they remain appropriate as the economy evolves. As part of the review to date, it has been determined that, in the case of employee stock options granted by publicly traded companies, the current practice of taxing benefits when employees exercise their options may force some employees to sell the shares immediately to pay the tax. The budget proposes that employee stock options granted by publicly traded companies be subject to tax only when the employee sells the shares.

The budget proposes to defer the income inclusion from exercising employee stock options for publicly listed shares until the disposition of the shares, subject to a $100,000 annual vesting limit, effective for options exercised after February 27, 2000 (Table 2). The same dollar limit applies in the United States.

Consistent with the reduction in the inclusion rate for capital gains from three-quarters to two-thirds, it is further proposed that the deduction currently available for employee stock options be increased to one-third. The stock option deduction reduces the tax rate on benefits from employee stock options to the same level as the tax rate on capital gains.

These measures will provide employees with an added incentive to participate with their employers in the growth and success of their business.

Capital Gains Rollovers for Small Business Investors

Promoting innovation and growth also means ensuring that businesses have access to the risk capital they need to expand and prosper. This is particularly true for high-technology businesses, which are becoming increasingly important for innovation and economic growth. While the venture capital market has expanded considerably in recent years, start-up firms continue to have difficulty accessing risk capital because venture capitalists often focus more on established businesses. One factor that limits access to capital for small businesses is the fact that investors disposing of existing business investments to reinvest in other businesses must pay tax on the capital gains realized on the previous investment. This reduces the amount of money available for investment in new ventures.

The budget proposes that individuals be able to defer the tax on capital gains from eligible small business investments, to the extent that proceeds are reinvested in another eligible small business investment by the earlier of 120 days after disposition or 60 days after the end of the calendar year. Each new investment eligible for the rollover cannot exceed $500,000. Eligible small business investments are newly issued shares in a small business corporation with assets not exceeding $2.5 million before the investment is made and not exceeding $10 million after the investment. This tax deferral will be available for dispositions after February 27, 2000.

This measure, in combination with the reduction in the capital gains inclusion rate, improves access to capital for small businesses with high growth potential. This will be of particular benefit to the fast-growing high-technology industries.

Table 2
Summary of Budget 2000 Tax Measures

Areas for action	Actions proposed to be legislated through the 2000 budget	Amount of annual tax relief in 2004-05 (millions of dollars)
Eliminate automatic increases in the tax burden due to inflation	• Restore full indexation to the tax system effective January 1, 2000	See below
	• Indexation is expected to result in increases to the amount of income Canadians can earn tax-free to about \$8,000 for the basic personal amount and \$6,800 for the spousal/equivalent-to-spouse amount	2,015[1]
Reduce the high tax burden at the middle-income level	• Reduce to 24 per cent the 26-per-cent tax rate effective July 1, 2000	2,410
	• Increase the level of income at which the middle tax rate begins to apply from \$29,590 to \$32,000	1,885[1]
	• Increase the level of income at which the top tax rate begins to apply from \$59,180 to \$64,000	300[1]
	• Eliminate the 5-per-cent deficit reduction surtax for incomes up to about \$85,000 effective July 1, 2000, and reduce the 5-per-cent surtax rate to 4 per cent on the tax payable on incomes above that level effective January 1, 2001	365
Increase support for children	• Increase the maximum Canada Child Tax Benefit: – to \$2,056 by July 1, 2000 from \$1,805 – to \$2,265 by July 1, 2001 • Increase benefits to middle-income taxpayers through: – increases to the base benefit; and – increases to the level of income at which benefits begin to be reduced	2,175[1]

Table 2 *(cont'd)*
Summary of Budget 2000 Tax Measures

Areas for action	Actions proposed to be legislated through the 2000 budget	Amount of annual tax relief in 2004-05 (millions of dollars)
Make the Canadian economy more internationally competitive	• Reduce the corporate income tax rate to 27 per cent from 28 per cent on business income not currently eligible for special tax treatment effective January 1, 2001	455
	• Reduce the corporate income tax rate to 21 per cent effective January 1, 2001 on active business income between $200,000 and $300,000 earned by a small business	100
	• Reduce the capital gains inclusion rate from three-quarters to two-thirds	295
	• Postpone taxation of gains on shares acquired under qualifying stock options to when shares are sold rather than when options are exercised	75
	• Allow tax-free rollover of capital gains on qualified investments from one small business to another	75
Other	• Technical measures including other indexation	780[1]
Total		**10,930**
Of which indexation contributes		**6,215**

[1] Amounts include indexation, based on an assumed annual inflation rate of 1.8 per cent.

Examples of Tax Reductions for Typical Individuals and Families by 2004

Single Parent With One Child and an Income of $30,000: Tax Reduction by 2004

	Tax reduction/ benefits increase	Federal tax/benefits
	(dollars)	
Pre-2000 budget		
Tax		1,882
Canada Child Tax Benefit (CCTB)		1,415
Goods and services tax (GST) credit		499
Total net federal tax (tax minus CCTB and GST credit)		**-32**
Five-Year Tax Reduction Plan		
Reduction in tax	274	
Increase in CCTB	663	
Increase in GST credit	49	
Total net federal tax reduction	986	
Post-Plan net federal tax (tax minus CCTB and GST credit)		**-1,018**
First full-year impact (2001)		
Reduction in tax	72	
Increase in CCTB	281	
Increase in GST credit	20	
Total net federal tax reduction	373	

- The information provided above compares the benefits that would be received by a single parent, with one child, earning $30,000 in 2004 with and without the tax reductions provided by the Plan.
- Without taking into account the tax reductions proposed, this individual would have received $32 in total net benefits in 2004.
- By 2004, this single parent will receive $1,018 in total benefits, an increase of $986 in benefits.
- In 2001 alone, this single parent's net benefits will increase by $373.

Single Individual With an Income of $35,000: Tax Reduction by 2004

	Tax reduction/ benefits increase	Federal tax/benefits
	(dollars)	
Pre-2000 budget		
Total net federal tax		**4,875**
Five-Year Tax Reduction Plan		
Total net federal tax reduction	635	
Total net federal tax reduction (per cent)	13.0	
Post-Plan budget net federal tax		**4,240**
First full-year impact (2001)		
Total net federal tax reduction	214	
Total net federal tax reduction (per cent)	4.4	

■ The information provided above compares taxes that would be paid by a single individual earning $35,000 in 2004 with and without tax reductions provided by the Plan.

■ Without taking into account the tax reductions proposed, this individual would pay $4,875 in net federal personal income tax in 2004.

■ By 2004, this individual will pay $4,240 in net federal personal income tax, a reduction of $635 or 13.0 per cent.

■ In 2001 alone, this individual's federal taxes will be reduced by $214.

One-Earner Family of Four and an Income of $40,000: Tax Reduction by 2004

	Tax reduction/ benefits increase	Federal tax/benefits
	(dollars)	
Pre-2000 budget		
Tax		5,100
Canada Child Tax Benefit (CCTB)		1,733
Goods and services tax (GST) credit		0
Total net federal tax (tax minus CCTB)		**3,367**
Five-Year Tax Reduction Plan		
Reduction in tax	911	
Increase in CCTB	637	
Increase in GST credit	76	
Total net federal tax reduction	1,623	
Total net federal tax reduction (per cent)	48.2	
Post-Plan budget net federal tax (tax minus CCTB and GST credit)		**1,744**
First full-year impact (2001)		
Reduction in tax	347	
Increase in CCTB	235	
Increase in GST credit	0	
Total net federal tax reduction	582	
Total net federal tax reduction (per cent)	17.3	

- The information provided above compares taxes that would be paid by a one-earner family of four earning $40,000 in 2004 with and without tax reductions provided by the Plan.
- Without taking into account the tax reductions proposed, this family would pay $3,367 in net federal personal income tax in 2004.
- By 2004, this family will pay $1,744 in net federal personal income tax, a reduction of $1,623 or 48.2 per cent.
- In 2001 alone, this family's net federal taxes will be reduced by $582.

Two-Earner Family of Four and an Income of $60,000: Tax Reduction by 2004

	Tax reduction/ benefits increase	Federal tax/benefits
	(dollars)	
Pre-2000 budget		
Tax		6,656
Canada Child Tax Benefit (CCTB)		845
Goods and services tax (GST) credit		0
Total net federal tax (tax minus CCTB)		**5,811**
Five-Year Tax Reduction Plan		
Reduction in tax	812	
Increase in CCTB	734	
Increase in GST credit	0	
Total net federal tax reduction	1,546	
Total net federal tax reduction (per cent)	26.6	
Post-Plan budget net federal tax (tax minus CCTB and GST credit)		**4,265**
First full-year impact (2001)		
Reduction in tax	273	
Increase in CCTB	228	
Increase in GST credit	0	
Total net federal tax reduction	501	
Total net federal tax reduction (per cent)	8.6	

■ The information provided above compares taxes that would be paid by a two-earner family of four earning $60,000 in 2004 with and without tax reductions provided by the Plan.

■ Without taking into account the tax reduction proposed, this family would pay $5,811 in net federal personal income tax in 2004.

■ By 2004, this family will pay $4,265 in net federal personal income tax, a reduction of $1,546 or 26.6 per cent.

■ In 2001 alone, this family's net federal taxes will be reduced by $501.

Typical One-Earner Family of Four

Impacts of Proposed Five-Year Tax Reduction Plan by 2004

		Proposed tax reduction measures by 2004[1]								
Total income	Federal tax pre-2000 budget	Increase personal and spousal amounts	Increase 2nd and 3rd brackets	Reduce the middle rate	Eliminate surtax	Enhance Canada Child Tax Benefit	Other indexation	Total relief[2]	Total relief as a % of federal tax[3]	Federal tax post-Plan
$	$	$	$	$	$	$	$	$	$/%	$
15,000	-4,398	-173	0	0	0	-869	-55	**-1,097**	**-1,097**	-5,495
20,000	-3,601	-274	0	0	0	-869	-55	**-1,198**	**-1,198**	-4,799
25,000	-2,000	-274	0	0	0	-1,268	-55	**-1,597**	**-1,597**	-3,597
30,000	-37	-274	-37	0	0	-1,268	-172	**-1,751**	**-1,751**	-1,788
35,000	1,710	-274	-487	0	0	-594	-172	-1,526	-89.3	183
40,000	3,367	-274	-487	-150	0	-637	-76	-1,623	-48.2	1,744
50,000	6,467	-274	-487	-450	0	-723	0	-1,934	-29.9	4,534
60,000	9,592	-274	-512	-750	0	-809	0	-2,344	-24.4	7,248
75,000	14,783	-288	-852	-1,103	-2	-920	0	-3,165	-21.4	11,619
100,000	22,396	-288	-852	-1,103	-364	0	0	-2,607	-11.6	19,789
125,000	30,008	-288	-852	-1,103	-727	0	0	-2,970	-9.9	27,039

[1] In calculating the amount of the tax reduction by 2004, the following assumptions were made: annual inflation factor of 1.8 per cent on average is used over the five-year period; personal amount: $8,000; spousal/equivalent-to-spouse amount: $6,800; middle tax bracket threshold: $35,000; upper tax bracket threshold: $70,000; middle tax rate: 23 per cent; 5-per-cent surtax: eliminated; the Canada Child Tax Benefit base benefit increased by $70 in 2000 (including indexation) then indexed; the rate at which benefits decline with increases in income lowered to 2.07 per cent for a one-child family and 4.14 per cent for a family with two or more children; the threshold at which the base benefit starts to be reduced: $35,000; the National Child Benefit supplement increased by $200 per child by July 2001 (including indexation).

[2] Negative values indicate a reduction in net tax paid to the federal government.

[3] Where individuals and families receive more in federal refundable credits (CCTB, GST credit) than they pay in federal income tax, the federal income tax reductions are indicated in bold and represent the increase in the net benefits they receive from the tax and transfer system. Percentages are not meaningful so the dollar amounts are repeated.

Typical Two-Earner Family of Four

Impacts of Proposed Five-Year Tax Reduction Plan by 2004

		Proposed tax reduction measures by 2004[1]								
Total income	Federal tax pre-2000 budget	Increase personal and spousal amounts	Increase 2nd and 3rd brackets	Reduce the middle rate	Eliminate surtax	Enhance Canada Child Tax Benefit	Other indexation	Total relief[2]	Total relief as a % of federal tax[3]	Federal tax post-Plan
$	$	$	$	$	$	$	$	$	$/%	$
15,000	-4,571	0	0	0	0	-869	-55	**-924**	**-924**	-5,495
20,000	-4,503	-68	0	0	0	-869	-55	**-992**	**-992**	-5,495
25,000	-3,650	-287	0	0	0	-850	-55	**-1,192**	**-1,192**	-4,842
30,000	-2,366	-287	0	0	0	-1,230	-55	**-1,572**	**-1,572**	-3,938
35,000	-576	-148	0	0	0	-1,291	-172	**-1,611**	**-1,611**	-2,186
40,000	820	-295	0	0	0	-777	-172	**-1,244**	**-1,244**	-424
50,000	3,179	-295	-37	0	0	-648	0	-980	-30.8	2,199
60,000	5,811	-295	-487	-30	0	-734	0	-1,546	-26.6	4,265
75,000	9,822	-295	-487	-300	0	-863	0	-1,945	-19.8	7,877
100,000	15,794	-295	-863	-750	0	0	0	-1,909	-12.1	13,885
125,000	22,904	-303	-1,339	-1,358	-60	0	0	-3,059	-13.4	19,845

[1] In calculating the amount of the tax reduction by 2004, the following assumptions were made: annual inflation factor of 1.8 per cent on average is used over the five-year period; personal amount: $8,000; spousal/equivalent-to-spouse amount: $6,800; middle tax bracket threshold: $35,000; upper tax bracket threshold: $70,000; middle tax rate: 23 per cent; 5-per-cent surtax: eliminated; the Canada Child Tax Benefit base benefit increased by $70 in 2000 (including indexation) then indexed; the rate at which benefits decline with increases in income lowered to 2.07 per cent for a one-child family and 4.14 per cent for a family with two or more children; the threshold at which the base benefit starts to be reduced: $35,000; the National Child Benefit supplement increased by $200 per child by July 2001 (including indexation).

[2] Negative values indicate a reduction in net tax paid to the federal government.

[3] Where individuals and families receive more in federal refundable credits (CCTB, GST credit) than they pay in federal income tax, the federal income tax reductions are indicated in bold and represent the increase in the net benefits they receive from the tax and transfer system. Percentages are not meaningful so the dollar amounts are repeated.

Typical Single Individual

Impacts of Proposed Five-Year Tax Reduction Plan by 2004

		Proposed tax reduction measures by 2004[1]								
Total income	**Federal tax pre-2000 budget**	**Increase personal and spousal amounts**	**Increase 2^{nd} and 3^{rd} brackets**	**Reduce the middle rate**	**Eliminate surtax**	**Enhance Canada Child Tax Benefit**	**Other indexation**	**Total relief[2]**	**Total relief as a % of federal tax[3]**	**Federal tax post-Plan**
$	$	$	$	$	$	$	$	$	$/%	$
10,000	137	-148	0	0	0	0	-6	**-154**	**-154**	-18
15,000	899	-148	0	0	0	0	-27	-175	-19.5	724
20,000	1,695	-148	0	0	0	0	-27	-175	-10.3	1,520
25,000	2,492	-148	0	0	0	0	-27	-175	-7.0	2,317
30,000	3,529	-148	-37	0	0	0	-144	-329	-9.3	3,200
35,000	4,875	-148	-487	0	0	0	0	-635	-13.0	4,241
40,000	6,129	-148	-487	-150	0	0	0	-785	-12.8	5,345
50,000	8,729	-148	-487	-450	0	0	0	-1,085	-12.4	7,645
60,000	11,354	-148	-512	-750	0	0	0	-1,409	-12.4	9,945
75,000	15,864	-155	-852	-1,103	-60	0	0	-2,169	-13.7	13,695
100,000	23,477	-155	-852	-1,103	-422	0	0	-2,532	-10.8	20,945
125,000	31,089	-155	-852	-1,103	-785	0	0	-2,894	-9.3	28,195

[1] In calculating the amount of the tax reduction by 2004, the following assumptions were made: annual inflation factor of 1.8 per cent on average is used over the five-year period; personal amount: $8,000; spousal/equivalent-to-spouse amount: $6,800; middle tax bracket threshold: $35,000; upper tax bracket threshold: $70,000; middle tax rate: 23 per cent; 5-per-cent surtax: eliminated.

[2] Negative values indicate a reduction in net tax paid to the federal government.

[3] Where individuals and families receive more in federal refundable credits (GST credit) than they pay in federal income tax, the federal income tax reductions are indicated in bold and represent the increase in the net benefits they receive from the tax and transfer system. Percentages are not meaningful so the dollar amounts are repeated.

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