

BACKGROUND

INDEXATION OF SASKATCHEWAN'S PERSONAL INCOME TAX SYSTEM

General Description

The Government of Saskatchewan has announced the indexation factor to be applied to the Saskatchewan personal income tax system for the 2007 taxation year. This paper provides additional information on this tax change announced by the Minister of Finance on November 9, 2006. As this paper only summarizes this tax initiative, the reader is advised to contact Saskatchewan Finance (at 1-866-862-6246) or consult the amending regulations for more precise information.

Indexation for the 2007 Taxation Year

The Minister of Finance announced today an indexation factor of 2.2 per cent to be applied to the Saskatchewan personal income tax system for the 2007 taxation year. This indexation factor fully indexes the 2007 Saskatchewan personal income tax system to inflation and matches the national CPI rate. Fully indexing the income tax system in 2007 demonstrates the Government's continuing commitment to tax reform.

The dollar amounts that are subject to indexation and the adjustments that will occur on January 1, 2007 are described in the following table:

Indexation Adjustments At 2.2%		
Effective January 1, 2007		
	2006	2007
Income Tax Brackets:		
Second bracket	\$37,759	\$38,405
Third bracket	\$107,367	\$109,729
Tax Credit Amounts:		
Basic personal	\$8,589	\$8,778
Spousal/Equivalent	\$8,589	\$8,778
Senior supplement	\$1,074	\$1,097
Dependent child	\$2,684	\$2,743
Age	\$4,066	\$4,156
Disability	\$6,741	\$6,890
Disability supplement	\$3,933	\$4,019
Infirm dependant	\$3,933	\$4,019
Caregiver	\$3,933	\$4,019
Medical expense threshold	\$1,884	\$1,926

Impact of Indexation

Indexation protects taxpayers from “bracket creep,” or automatic increases in tax caused by inflation. Indexation preserves the real value of the personal tax credits and the income tax brackets, since these also rise with inflation. Indexation therefore provides the most benefit to taxpayers who are on fixed incomes, such as pensioners.

The following table illustrates the reduction in provincial income tax payable for pensioners on fixed incomes, as a result of the 2.2 per cent indexation factor.

Impact of 2.2% Indexation Factor on Income Taxes Payable For a Single Pensioner on a Fixed Income			
Income	2006 Provincial Income Tax Payable	2007 Provincial Income Tax Payable	Indexation Savings
\$15,000	\$30	\$0	\$30
\$25,000	\$1,130	\$1,097	\$33
\$35,000	\$2,308	\$2,264	\$44
\$50,000	\$4,454	\$4,393	\$61

Previous Years

Since re-introducing indexation in 2004, the Government has fully indexed the provincial income tax system to the national rate of inflation.

Income Tax Reductions Resulting from Indexation	
Tax Year	Indexation Factor
2004	3.3%
2005	1.7%
2006	2.2%
2007	2.2%