

## TAX INITIATIVES

Major changes to personal income tax policy across Canada became effective for the 2001 tax year. The most important change has been the replacement of the tax-on-tax system for calculating provincial and territorial income tax with a tax-on-income (TONI) system. Under the former, provincial and territorial income tax was calculated as a percentage of federal tax. Under the latter, provinces and territories can choose their own tax brackets and tax rates, restricted only by the federal definition of taxable income. All provinces and territories except Quebec, which already used a TONI system, have changed to TONI by the 2001 tax year.

Under TONI, provinces and territories are able to respond to changing priorities in a way that reflects their own values while maintaining a harmonized national tax base. The move to TONI coincided with several provinces instituting substantial personal income tax reductions; in particular, Ontario, Alberta and British Columbia.

The NWT moved to TONI effective for the 2001 tax year. Concurrent with the process of adopting TONI, the Minister of Finance established the Minister's Advisory Committee on Personal Income Taxation to provide recommendations on how a TONI system could best be tailored to address the needs of NWT residents. In October 2001, the Committee proposed the following three options: a graduated tax, a flat tax and a competitive tax.

### GRADUATED TAX OPTION

A graduated tax system requires those with higher incomes to pay proportionally more of their income in tax than those with lower incomes. With the exception of Alberta, all provinces and territories use graduated income tax systems. The Committee suggested a graduated tax option with existing rates and brackets and higher personal credits.

### FLAT TAX OPTION

Under a flat tax system there is no increase in the tax rate as income rises; a flat tax applies a single tax rate across all income brackets. Alberta, the only province using a flat tax system, has a tax rate of 10 per cent. The Committee suggested a flat tax rate of 9.5 per cent and increased personal credits for the NWT.

### COMPETITIVE TAX OPTION

The competitive tax option would use a graduated system and provide NWT residents with the lowest taxes in Canada. This would be accomplished by implementing a rate of 8 per cent for income below \$33,000, a rate of 9.24 per cent for income between \$33,000 and \$60,000 and a rate of 10 per cent for income above \$60,000. The Committee recommended an increase in personal credits with these rate changes.

## 2002-2003 TAX INITIATIVES

The GNWT must strive to balance the tax burden faced by NWT residents with the need to generate revenue, while ensuring that the NWT's taxation system is competitive with those of other provinces and territories. The Graduated Option is considered the most balanced of the three options proposed by the Advisory Committee. It ensures fairness to all taxpayers and is the most cost effective to implement of the three options.

The GNWT is responding also to the Committee's recommendations for the implementation of a minimum Cost of Living Tax Credit and for increases to four amounts which yield NWT non-refundable tax credits – the personal amount, the married amount, the age amount, and the disability amount. NWT non-refundable tax credits will rise by 7.2 per cent of the increase in these four amounts.

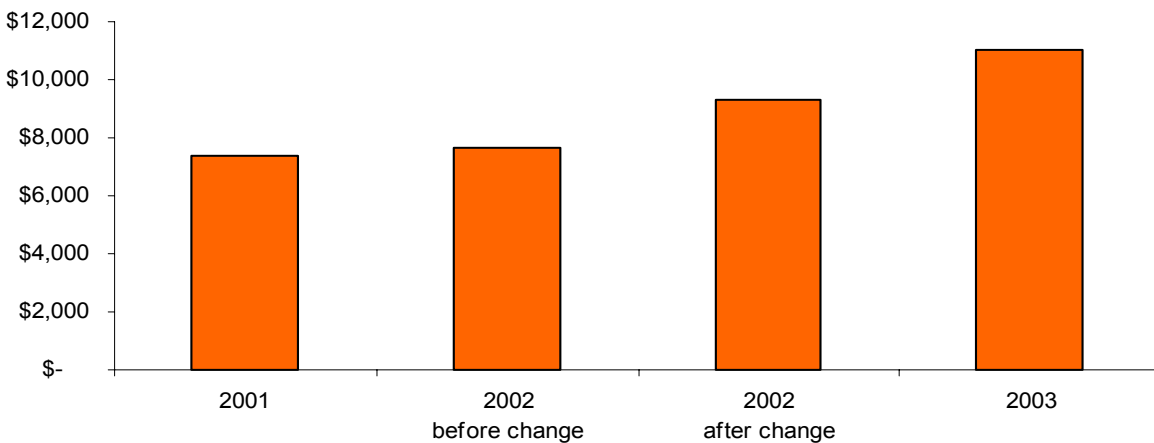
These changes will increase the income level at which a single taxpayer begins to pay NWT income tax from \$14,447 to \$20,650. For a single earner couple, the income level at which no NWT income tax is paid is increased from \$26,076 to \$37,071.

The non-refundable tax credit increases will be phased in over the next two years; half of the increase will become effective in each of 2002 and 2003. The minimum Cost of Living Tax Credit will be effective for the 2002 tax year.

### 1. *Basic Personal Amount*

The personal amount will increase from its current 2002 level of \$7,634 to \$9,342 for 2002 and to \$11,050 for 2003, reducing the tax burden of all NWT taxpayers. With the NWT's 7.2 per cent non-refundable tax credit rate, the increased personal amount will result in tax savings of \$246 for each taxpayer over the current 2002 amount. All taxpayers are eligible to claim the personal amount.

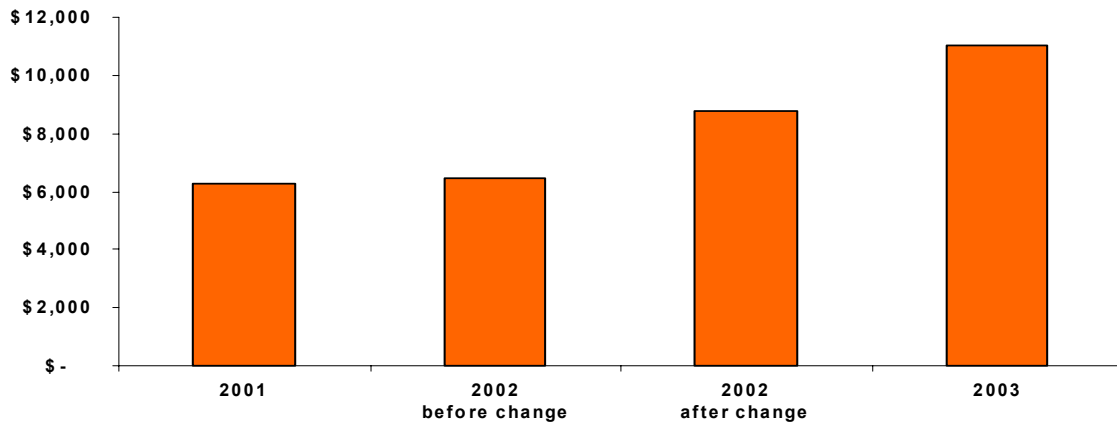
#### **Basic Personal Amount**



## 2. Married Amount

The married amount will be increased to the same level as the proposed personal amount. This eliminates the difference between a married couple and two individual tax filers living together. The married amount will rise from its current level of \$6,482 in 2002 to \$8,766 for 2002 and to \$11,050 for 2003, resulting in increased 2003 tax savings of \$329 for those claiming the maximum married amount. The married amount may be claimed by taxpayers claiming married or equivalent to married status on their tax returns.

**Married Amount**

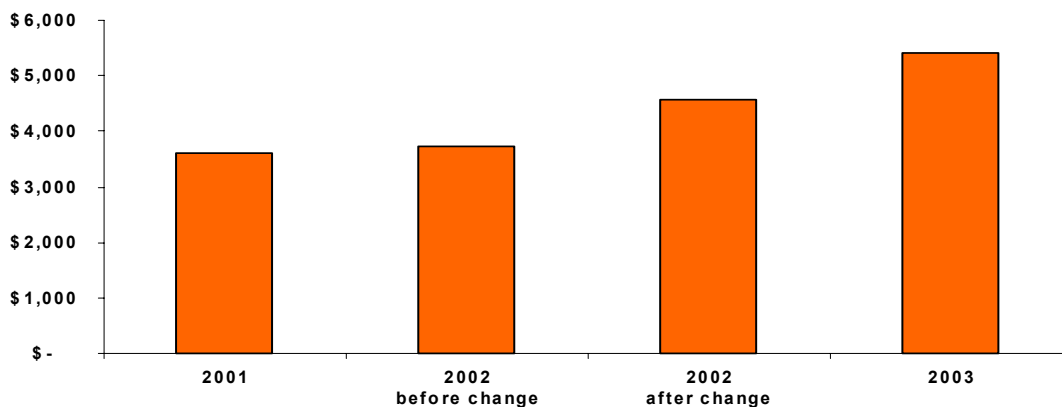


## 3. Age Amount

Increasing the age amount will provide tax relief to NWT seniors. The age amount will increase from the current 2002 level of \$3,728 to \$4,566 for 2002 and \$5,405 for 2003. Taxpayers 65 or older on December 31 of the tax year may be able to transfer all or part of the age amount to their spouse or common-law partner.

Consistent with the treatment of the age amount for the calculation of federal income tax, the age amount begins to be phased out at a rate of 15 per cent of income over a particular income threshold. The income at which the credit is reduced to zero will rise from \$52,602 in 2002 to \$64,337 in 2003, providing an additional \$121 in tax relief for seniors with incomes below \$52,602 and a declining additional benefit for those with incomes between \$52,602 and \$64,337.

**Maximum Age Amount**



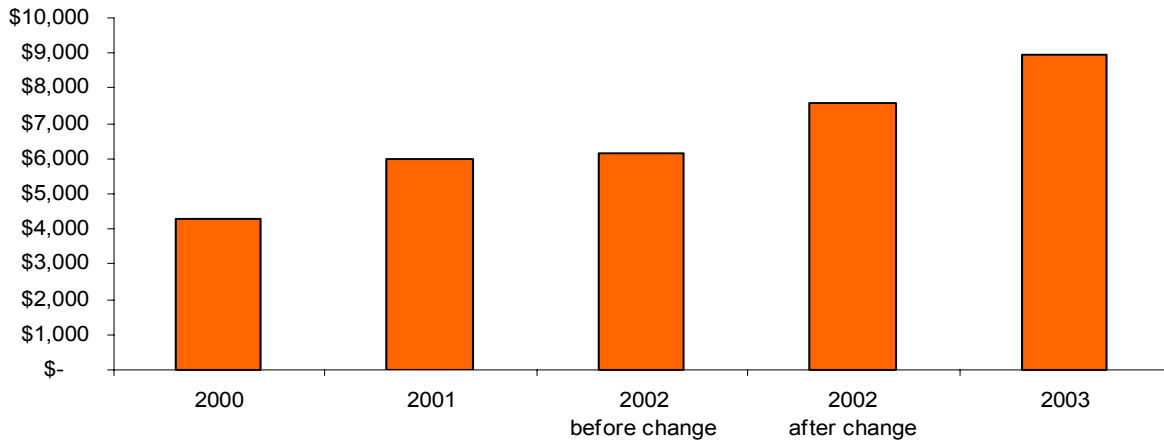
**Age Credit Value**

Net Income	Current 2002 Amount of \$3,728	Proposed 2002 Amount of \$4,566	Proposed 2003 Amount of \$5,405	Increase from 2002 to 2003
\$0	\$268	\$329	\$389	\$121
\$5,000	\$268	\$329	\$389	\$121
\$10,000	\$268	\$329	\$389	\$121
\$15,000	\$268	\$329	\$389	\$121
\$20,000	\$268	\$329	\$389	\$121
\$25,000	\$268	\$329	\$389	\$121
\$27,749	\$268	\$329	\$389	\$127
\$28,303	\$262	\$323	\$389	\$127
\$30,000	\$244	\$304	\$371	\$127
\$35,000	\$190	\$250	\$317	\$127
\$40,000	\$136	\$196	\$263	\$127
\$45,000	\$82	\$142	\$209	\$127
\$50,000	\$28	\$88	\$155	\$127
\$52,602	\$0	\$60	\$127	\$127
\$55,000	\$0	\$34	\$101	\$101
\$58,189	\$0	\$0	\$66	\$66
\$60,000	\$0	\$0	\$47	\$47
\$64,337	\$0	\$0	\$0	\$0
\$65,000	\$0	\$0	\$0	\$0
\$75,000	\$0	\$0	\$0	\$0

**4. Disability Amount**

The disability tax credit provides tax assistance to people with severe and prolonged disabilities. In October 2000, the federal government announced an increase in the amount on which the credit was based from \$4,293 to \$6,000 effective 2001. The disability amount will increase from its current 2002 level of \$6,180 to \$7,570 for 2002 and to \$8,961 for 2003, resulting in increased 2003 tax savings of \$200 for those claiming the maximum disability amount. A person claiming the disability amount may be able to transfer all or part of the amount to a spouse or common-law partner or to another supporting person.

**Disability Amount**



**5. Minimum Cost of Living Tax Credit**

In 2001, the maximum NWT Cost of Living Tax Credit (COLC) was increased from \$645 to \$822. While this increase benefited taxpayers at all income levels, it was structured to provide a proportionately higher benefit for low-income taxpayers.

The Advisory Committee recommended that low-income families should receive a minimum COLC amount of \$250 per tax filer over 18. The minimum amount would be based on the basic credit paid to both spouses and paid to one spouse only.

The minimum \$250 COLC for 2002 announced in the 2002-2003 Budget will provide additional relief from high northern living costs to low-income taxpayers. Similar to the GST rebate, the minimum amount will be based on household income and will be claimed by only one member of the household. The COLC for single taxpayers with incomes below \$16,640 will increase to the minimum COLC of \$250. Couples will be eligible for a minimum COLC of \$500.

**2002 Cost of Living Tax Credits  
Single Taxpayer**

Net income	Basic Credit	Supplement	Total Credit
\$0	\$0	\$250	\$250
\$10,000	\$160	\$90	\$250
\$12,000	\$192	\$58	\$250
\$15,000	\$230	\$20	\$250
\$16,640	\$250	\$0	\$250
\$20,000	\$292	\$0	\$292
\$30,000	\$417	\$0	\$417
\$36,000	\$492	\$0	\$492
\$48,000	\$642	\$0	\$642
\$66,000	\$822	\$0	\$822
\$100,000	\$822	\$0	\$822

**2002 Total Cost of Living Tax Credits for Two Adult Families**

<u>First spouse net income</u>	<u>Second spouse net income</u>	<u>First spouse credit</u>	<u>Second spouse credit</u>	<u>Supplement</u>	<u>Total credit</u>
\$0	\$0	\$0	\$0	\$500	\$500
\$5,000	\$5,000	\$80	\$80	\$340	\$500
\$6,000	\$6,000	\$96	\$96	\$308	\$500
\$8,000	\$7,000	\$128	\$112	\$260	\$500
\$10,000	\$10,000	\$160	\$160	\$180	\$500
\$10,000	\$15,000	\$160	\$230	\$110	\$500
\$20,000	\$0	\$292	\$0	\$208	\$500
\$20,000	\$20,000	\$292	\$292	\$0	\$584
\$48,000	\$0	\$642	\$0	\$0	\$642
\$48,000	\$48,000	\$642	\$642	\$0	\$1,284
\$66,000	\$66,000	\$822	\$822	\$0	\$1,644

The increased tax credit will be paid to eligible taxfilers in early 2003, when 2002 income tax returns are assessed.

### **SOURCE DEDUCTIONS**

Individuals are required to complete a TD1 form for their employer or pension administrators for the purpose of calculating the amount of tax to be deducted from their salary or pensions. An employee is entitled to claim credit amounts such as the basic personal amount, married amount, age amount, and disability amount on the TD1 form. For 2002, the NWT will have a separate TD1 source deductions form for the NWT portion of income taxes. Starting July 1, 2002, in order to have their source deductions reflect the higher credit amounts for the NWT, employees will be required to submit new TD1 forms. The 2003 credit amounts for NWT source deductions are shown in the following table.

**NWT Credit Amounts for 2002 and 2003**

	<u>Current 2002</u>	<u>Effective 2002 full year amount</u>	<u>2003</u>
Basic personal amount	\$7,634	\$9,342	\$11,050
Married amount	\$6,482	\$8,766	\$11,050
Age amount	\$3,728	\$4,566	\$5,405
Disability amount	\$6,180	\$7,570	\$8,961

Note: Effective amounts for the 2002 tax year when increases to the 2003 amounts take effect on July 1, 2002.

By having the 2003 source amounts shown in the table above begin on July 1, 2002, the effective 2002 amounts will be the average of the current 2002 amounts and the 2003 amounts.

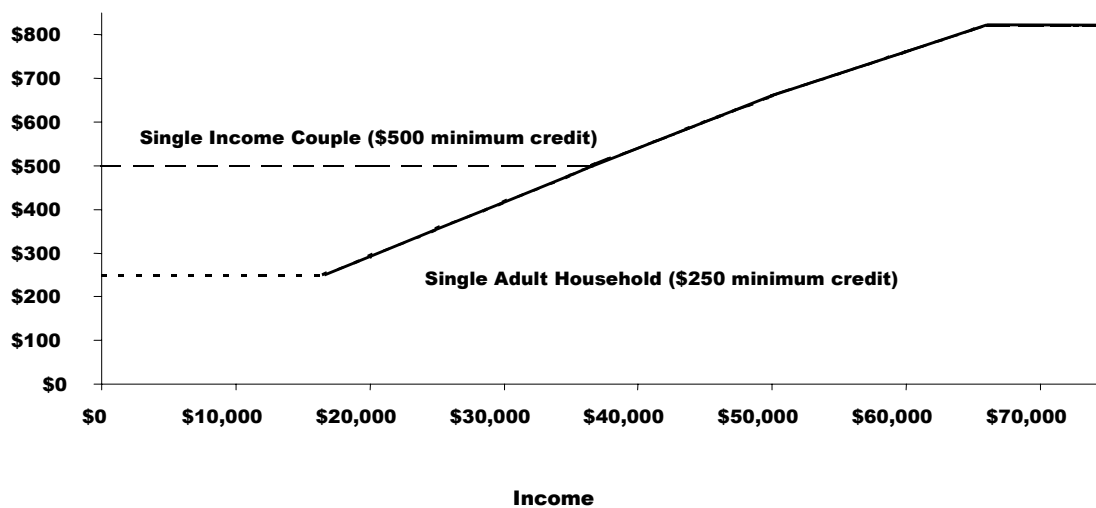
A summary of 2003 tax savings for taxpayers at various income levels resulting from the 2002-2003 Budget tax measures, but excluding the impact of age and disability amounts, is shown in the following table.

**Total 2003 Taxpayer Savings**

<u>Total income</u>	<u>Single person</u>	<u>Single earner couple</u>
\$0	\$250	\$500
\$10,000	\$90	\$340
\$20,000	\$246	\$265
\$30,000	\$246	\$658
\$40,000	\$246	\$575
\$50,000	\$246	\$575
\$60,000	\$246	\$575
\$70,000	\$246	\$575
\$80,000	\$246	\$575
\$90,000	\$246	\$575
\$100,000	\$246	\$575

Note: Amounts do not include age or disability credits.

**2002 Cost of Living Tax Credit**



## PROVINCIAL AND TERRITORIAL TAX RATES 2002

	Combined Top Marginal PIT <sup>(a)</sup> (%)	Fuel Tax <sup>(c)</sup>			Tobacco Tax <sup>(d)</sup> Cigarette (\$/carton)	Payroll Tax <sup>(e)</sup> (%)	Corporate Income Tax			Capital Tax <sup>(f)</sup> (%)
		Retail Sales Tax (%)	Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)		
Northwest Territories	42.05	-	10.7	9.1	27.20	1.00	5.0	14.0	-	
Nunavut	42.05	-	6.4	9.1	25.20	1.00	5.0	14.0	-	
Yukon	42.40	-	6.2	7.2	18.40	-	6.0	15.0	-	
British Columbia	43.70	7.0	11.0	11.5	22.00	-	4.5	13.5	0.15 <sup>(g)</sup> /3.0	
Alberta	39.00	-	9.0	9.0	14.00	-	5.0 <sup>(h)</sup>	13.5 <sup>(h)</sup>	-	
Saskatchewan	44.50	6.0	15.0	15.0	17.20	-	6.0	17.0	0.6/3.25	
Manitoba	46.40	7.0	11.5	10.9	19.20	2.15	5.0	16.5	0.5/3.0	
Ontario	46.41	8.0	14.7	14.3	8.90	1.95	6.0	12.5	0.3/0.90	
Quebec	48.22	7.5	15.2	16.2	13.10	4.26	8.9	8.9	0.64/1.28	
New Brunswick	46.84	8.0	10.7	13.7	12.00	-	4.0	16.0	0.3/3.0	
Nova Scotia	47.34	8.0	13.5	15.4	16.04	-	5.0	16.0	0.25/3.0	
Prince Edward Island	47.37	10.0	13.0	13.5	17.90	-	7.5	16.0	0/3.0	
Newfoundland	48.64	8.0	16.5	16.5	22.00	-	5.0	14.0	0/4.0	
Average <sup>(b)</sup>	45.76	6.8	13.5	13.8	13.39	1.88	6.3	12.4		

As of February 13, 2002

(a) Combined Federal-Provincial/Territorial highest marginal personal income tax rates in effect for the 2002 tax year.

(b) Average of all provincial and territorial rates, weighted by population.

(c) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. Most provinces have separate tax rates for on-highway and off-highway gasoline. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(d) Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, and Newfoundland apply sales tax to tobacco products.

(e) The NWT and Nunavut Payroll Taxes are levied on employees. For other provinces, which levy payroll tax, there are exemptions for small business and/or the rates vary depending on the payroll.

(f) Rates shown for capital tax are for large corporations and for financial institutions in the order shown. The bases are different for different types of companies.

(g) British Columbia plans to eliminate the 0.15% general capital tax as of September 1, 2002.

(h) Alberta plans to reduce small and large corporate income tax rates to 4.0 per cent and 11.5 per cent, respectively, effective April 1, 2002.