

Tax Provision Threshold Indexing

When introducing new measures to the Canadian taxation system, a great deal of study is generally conducted to ensure that the measure being introduced fits within the existing Canadian taxation framework. As a result of this process various thresholds and limits are introduced along with the tax measures, to ensure their fairness or that policy aims are achieved and to ensure that there is not an undue amount of administrative burden placed on the taxpayer as a result of the new measure. Unfortunately, following the introduction of a new measure, the thresholds and limits introduced are not re-examined to ensure their fairness and administrative relevance in the future.

Examples of these thresholds include:

- A rebate of goods and services tax (“GST”) under the Excise Tax Act (“ETA”) on the purchase of a new home reduces the rebate on “luxury homes” with a purchase price of over \$350,000 and under \$450,000. For homes over \$450,000 there is no rebate. The luxury home thresholds were introduced in 1991 with the introduction of the GST, and have not been changed since
- The Lifetime Capital Gains Exemption was increased in Budget 2007 to \$750,000 from \$500,000, the only increase since it was first introduced in 1988. It excludes from taxation the first \$750,000 of gains realized on the sale of qualified small business corporation shares or farm under the Income Tax Act (“the ITA”)
- The ITA restriction on capital cost allowance on “luxury automobiles” was first introduced in 1987 and limited the capital cost allowance which may be claimed on these vehicles to \$20,000 of the actual vehicle cost. The federal government reviews this limit annually. Over the years the limit has gradually increased to \$30,000 but has been unchanged since 2000
- The “small supplier threshold” for registering for the GST under the ETA was introduced at \$30,000 in 1991 with the introduction of the GST. This threshold has not changed since. While the federal government has recognized the importance of reviewing certain thresholds / limits, as evidenced by the recent indexing of personal tax credits and registered retirement savings plan limits, many measures have not been revisited in years and some since their introduction a generation ago

Recommendations

That the federal government:

1. Immediately revise existing tax provision thresholds to reflect increases in pricing and inflation, ensure the thresholds and limits adequately reflect economic conditions, and are updated to reflect the same benefits and gains as intended when originally introduced. These would include revisions to the:
 - Rebate of goods and services tax (“GST”) under the Excise Tax Act (“ETA”)
 - Income Tax Act restriction on capital cost allowance class 10.1, specifically luxury automobiles
 - “Small supplier threshold” for registering for the GST under the ETA
2. Ensure that new and existing tax provisions contain thresholds and limits and are introduced and / or updated with annual indexing as an integral part of the provision.