Delivering a middle-class tax cut

From: Department of Finance Canada

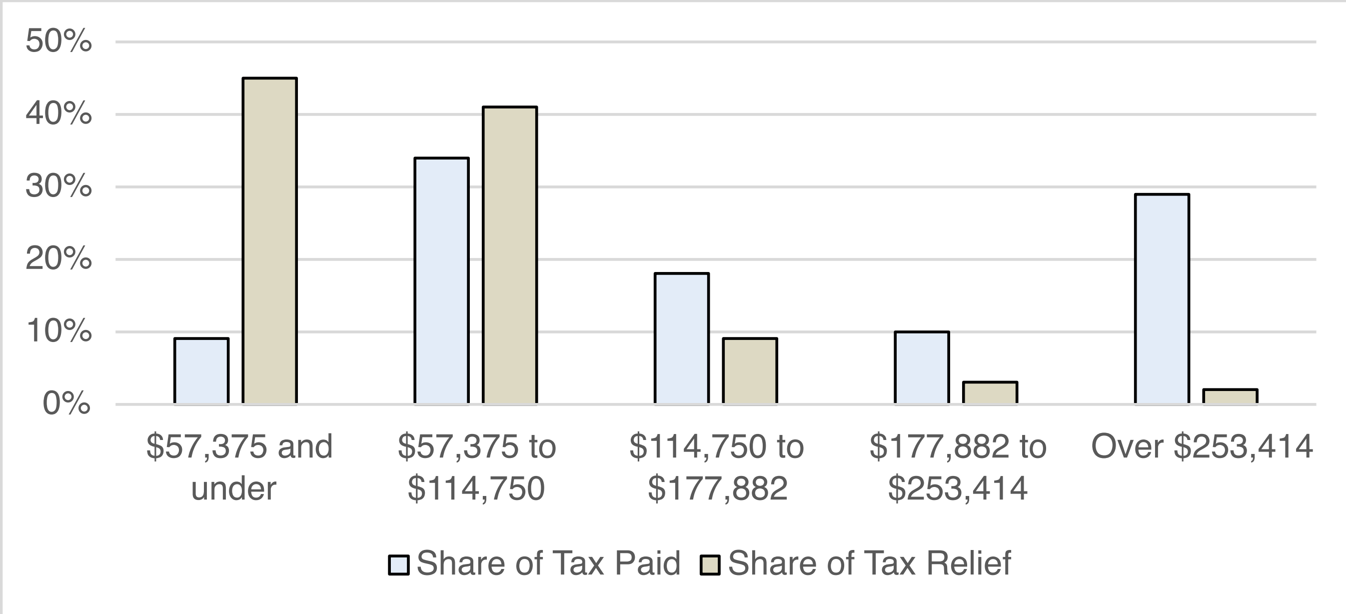
Backgrounder

The government is moving forward with the proposal to deliver tax relief for Canadians by reducing the lowest marginal personal income tax rate from 15 per cent to 14 per cent, effective July 1, 2025.

Nearly 22 million Canadians are expected to benefit from this measure. The middle-class tax cut would reduce the tax rate that is applied to the first $57,375 (in 2025) of an individual's taxable income, regardless of their income level. As shown below, the bulk of total tax relief will go to those with incomes in the two lowest tax brackets, including nearly half to those in the first bracket. This measure is expected to deliver over $27 billion in tax savings to Canadians over five years, starting in 2025-26.

Chart 1

Shares of Tax Paid and Tax Relief by Taxable Income in 2025



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The maximum tax savings will be $420 per person and $840 per couple in 2026. As a result of this measure, hardworking Canadians will save over $27 billion over five years, starting in 2025-26.

Income is reported and tax is calculated on an annual basis. To reflect a one-percentage-point cut in the lowest tax rate coming into effect halfway through the year, the full-year tax rate for 2025 will be 14.5 per cent and the full-year rate for 2026 and future tax years will be 14 per cent. The rate applied to most non-refundable tax credits will continue to be the same as the lowest personal income tax rate.

The Canada Revenue Agency will update its source deduction tables for the July to December 2025 period so that pay administrators are able to reduce tax withholdings as of July 1. This means that, effective July 1, individuals with employment income and other income subject to source deductions could have tax withheld at 14 per cent. Otherwise, individuals will realize this tax relief when they file their 2025 tax returns in spring 2026.

Gender-Based Analysis Plus Summary

Gender-based Analysis Plus (GBA Plus) is an analytical tool used to support the development of responsive and inclusive policies, with consideration given to intersectional factors such as gender, age, and economic status.

Reducing the lowest marginal personal income tax rate from 15 per cent to 14 per cent would reduce taxes for nearly 22 million individual taxpayers, with nearly half of the total tax relief going to those in the first income tax bracket. The remaining third of tax filers would already not owe federal personal income tax, although some of these filers may benefit from the rate reduction in future years if their taxable income increases and they start owing federal tax.

It is estimated that the measure would be gender balanced; 52 per cent of beneficiaries would be men, and 48 per cent would be women.

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