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INCOME TAX ACT

Point of Order

Statement by:

The Honourable Diane Bellemare

Thursday, November 24, 2016

THE SENATE

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[Translation]

INCOME TAX ACT

POINT OF ORDER

Hon. Diane Bellemare (Legislative Deputy to the Government Representative in the Senate): Honourable senators, I am rising to speak to the point of order, not the amendment. We discussed this amendment at the most recent committee meeting on Tuesday morning.

With regard to the point of order, I would ask you, Mr. Speaker, to take into account the fact that Senator Smith's amendment is not a direct amendment to the Income Tax Act. Senator Smith is claiming that it amends the Income Tax Act, but it actually amends a government bill, Bill C-2, which was passed in the other place in December 2015 as a ways and means motion and has been in effect since January 2016.

Effective January 2016, all Canadians who earn between \$45,000 and \$90,000 a year are no longer taxed at 22 per cent but at 21.5 per cent. All Canadians with an income greater than \$45,000 a year have benefited from this tax cut since January 2016.

Senator Smith's amendment seeks to reduce the tax rate of individuals whose total annual income is less than \$90,000. During debate, when Senator Smith presented this amendment in committee, he clearly indicated that it was revenue neutral.

It therefore introduces two tax rates, one for people who earn \$45,000 to \$53,000 a year, who will now be taxed at a rate of 16.5 per cent rather than 20.5 per cent, and another for people who earn \$53,000 to \$90,563, who will be taxed at a rate of 20 per cent, the rate proposed in Bill C-2. Those who earn over \$94,000 will pay 22 per cent on their income in the \$45,000 to \$90,000 tax bracket. As a result, the amendment will reduce taxes for some and increase them for others.

That is why Senator Smith says the proposal is revenue neutral. However, for it to be neutral, if there is a decrease there has to be an increase. By passing this amendment we are effectively raising taxes on Canadians who earn more than \$95,000, whose tax rate will be 22 per cent.

Moreover, there is a second element to this amendment that seeks to reduce the negative impact of these two rates. From the outset, in committee, I noticed that there was a problem with this taxation because this amendment proposes two sets of tax rates based on an individual's total annual income. In the case of those who earn roughly \$90,000 a year, the goal seems to be to reduce the net income of some people who might earn more than

\$90,000, while those who earn a little less than \$90,000 would have a higher net income, just to show this inconsistency.

• (1500)

Senator Smith's amendment proposes the following, and I quote:

(c) if the amount taxable is greater than \$90,563, but is equal to or less than \$140,388, the lesser of

(i) the maximum amount determinable in respect of the taxation year under paragraph (b), plus one-half of the amount by which the amount taxable exceeds \$90,563 for the year, and

And there is a (ii).

However, this first subparagraph, Mr. Speaker, honourable senators, would result in a new tax rate of 50 per cent for individuals who earn more than \$90,000 and up to \$94,000 annually. This marginal rate of 50 per cent added to the provincial tax means that, in some cases, the tax rate could be as high as 75 per cent. This situation creates perhaps unintended distortions, precisely because this amendment was not carefully examined by the committee. Considering what this amendment actually does, I believe that it is out of order. It is well and truly out of order because it raises taxes, or at least one of the tax rates, and it imposes a considerable fiscal burden because people who earn over \$94,000 annually will have to pay 22 per cent in taxes on all income between \$45,000 and \$90,000.

This bill is very complicated, and administering it will definitely impose additional costs on the CRA, but I acknowledge that this is not part of the point of order.

Senator Smith is proposing these amendments because he claims that this will better meet the needs of the middle class. I would like to point out, honourable senators, that we heard from a number of experts in committee. None of those experts was able to define what the middle class is, and the only consensus among all the experts was this: please do not make our tax system any more complicated; rather, simplify it.

By creating double taxation for individuals, this amendment will certainly lower taxes for some, but also raise taxes for others and even create a 50 per cent tax rate, which will have a disastrous effect on the understanding and consistency of our tax system.

Thank you.

Some Hon. Senators: Hear, hear!