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Tax Provision Threshold Indexing

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Background

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 reexamined to ensure their fairness and administrative relevance in the future.

Examples of these thresholds are:

- The capital gains exemption, which excludes from taxation the first \$500,000 of gains on the sale of a small business or farm under the *Income Tax Act* "ITA" was first introduced in 1988. Although the capital gains inclusion rate has been changed since 1988, the \$500,000 threshold has been unchanged since its introduction.
- 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. Over the years the limit has gradually increased to \$30,000 but has been unchanged since 2000.
- 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 1990 with the introduction of the GST, and have not been changed since.

- The “small supplier threshold” for registering for the GST under the ETA was introduced at \$30,000 in 1990 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 indexation of personal tax credits and registered retirement savings plan limits, many measures have not been revisited in years and some since their introduction decades ago.

Recommendation

The federal government:

1. Introduce formalized procedures to ensure that all past tax measures with thresholds/limits are reviewed to ensure their continued applicability. New provisions and those reexamined as part of this process should be subject to indexation whenever possible.