*Who really benefits from the flat tax?*

# SHIFTING THE Burden

BY GREG FLANAGAN

A radical proposal was quietly presented by then finance minister Stockwell Day with the 1999 budget. Titled “A New Tax Plan for Albertans,” the document proposed three major changes to Alberta income tax: a major tax cut with a consequent substantial reduction in government revenues; a first step in decoupling Alberta from federal income tax administration; and, most controversial, a flattening of the income tax structure—the so-called “flat tax.” Under this scheme, everyone pays the same marginal tax rate (see glossary p. 22) whether they make $15,000 or $350,000.

Day gave many reasons for these tax changes: taxes reduce economic growth and thereby reduce government revenues necessary to fund public services; businesses and people like to relocate to low-tax jurisdictions; individuals should be able to make their own fiscal choices on their own priorities; people should be encouraged to work and invest; Alberta should have the lowest taxes in Canada (and the United States!); the taxation process should be simpler and fairer.

To implement the proposed tax changes, Bill 18—the “Alberta Personal Income Tax Act”—was introduced on March 16, 2000. Amazingly, this bill moved through the legislature with little public debate and virtually no protest. Compare this to the public outcry over Bill 11, the so-called “Health Care Protection Act.” Thousands of people protested at the legislature and at Calgary’s McDougall Centre during its passage. Yet arguably Bill 18/19 will have far greater ramifications for the political economy of Alberta—and Canada, now that Day is leader of the Alliance party—than Bill 11. Just before adjourning the spring session of the legislature, the Alberta government invoked closure and passed Bill 18 with amendments—Bill 19, a flat tax of 10.5 per cent.

*The changes to the tax burden have been camouflaged by a simultaneous reduction in taxes that leaves some money in everyone's pocket.*

## WHAT IS FAIR TAXATION?

A tax can be proportional, regressive or progressive. When the average tax rate* increases with income, a tax is termed "progressive"; when the average tax rate falls as income increases the tax is "regressive"; and if the average tax rate remains the same over all income levels, the tax is "proportional."

The 1999 federal tax rate applied on income depends on the amount of taxable income: 17 per cent on the first $29,500, 26 per cent on the amount of income between this and $59,180, and 29 per cent on any taxable income above. As well, a surcharge of 5 per cent is levied on any tax payable beyond $12,500.

This is clearly a "progressive" schedule. In the past, however, our tax system was even more progressive with many more tax brackets. Prior to 1988 the federal tax system had ten marginal tax rates. In 1988 the Conservative government of Brian Mulroney reduced the number of tax brackets, considerably flattening the marginal tax rate schedule currently in place. More recently, for the 2000 tax year, Liberal Finance Minister Paul Martin has reduced the middle-income tax rate from 26 to 23 per cent and raised the income levels at which the respective marginal rates kick in.

At least as far back as Adam Smith's landmark *Wealth of Nations* (1776), the economics discipline has emphasized progressive taxation with its implicit understanding that the tax burden should fall on those most able to pay. Income depends not only on individual effort but also on the individual's social circumstances, as well as outright luck at birth. Those with the greatest ability to pay—high-income earners—realize the largest benefits from the economic system, both economic and political. They should therefore be expected to contribute to the public revenue *more* than proportionally to their income. The more that free markets direct the economy, the larger the personal rewards that can be obtained by individuals exploiting their abilities, resources and good luck. For the most successful, who depend that much more on the society that nurtures their gains, progressive taxes are a reasonable price to pay.

Consider the owner of a highly profitable business. His or her success is a result not only of skill and effort but of communications systems, roads for trucks to carry products to market etc.—the infrastructure created by society. Employees contribute to the company's success not only because of good management but because society educated them. Employees have medical coverage—Medicare—publicly paid for. This is the largest cost of an American employer in finding and keeping employees—a huge advantage to Canadian employers.

Although a flat tax does not eliminate the opportunity to redistribute income, it does eliminate the *automatic* redistributive aspects of a more progressive income tax. Additionally, people earning no income receive no benefit from a reduction in tax rates. Canadian political economist and humourist Stephen Leacock in *The Unsolved Riddle of Social Justice* (1920) made the case for a highly progressive income tax in a largely free-market economy: "No modern state can hope to survive unless it meets the social claims of the unemployed, the destitute and the children…. And it cannot do this unless it continues to use the terrific engine of taxation already fashioned in the war. Undoubtedly the progressive income tax…must be maintained to an extent never dreamed of before."

Even Michael Walker, director of the business-backed Fraser Institute, stated in a pamphlet, *On the Flat-rate Tax*

### GLOSSARY OF TERMS

***average tax rate*** – the tax paid divided by income.

***compliance*** – the degree to which people pay the taxes they legally should.

***effective tax rate*** – the percentage of income paid in tax when all taxes are considered together.

***marginal tax rate*** – the tax rate imposed on the last dollar of income.

***progressive tax*** – the average tax rate increases with income.

***proportional tax*** – the average tax rate remains the same over all income.

***regressive tax*** – the average tax rate falls as income increases.

***single-rate tax*** – has a constant marginal tax rate (such as the new Alberta tax at 10.5%).

***tax avoidance*** – the effort to reduce taxes through legal exemptions.

***tax base*** – the income or expenditures to which tax applies.

***tax evasion*** – the illegal effort to not pay taxes through concealment or by non-reporting.

***tax rate*** – the percentage levied on the tax base.

**TABLE 1**

| | A<br>Income Class | B<br>Median Income | C<br>Number of tax filers | D<br>Percent of Tax Filers | E<br>1999 AB tax payable | F<br>1999 Average Tax Rate | G<br>2001 tax payable | H<br>2001 Average Tax Rate | I<br>Tax Saving |
|---|---|---|---|---|---|---|---|---|---|
| 1 | <$5K | $2500 | 245,590 | 12.34% | $0 | 0% | $0 | 0% | $0 |
| 2 | $5-10K | $7500 | 242,540 | 12.18% | $0 | 0% | $0 | 0% | $0 |
| 3 | $10-15K | $12,500 | 277,240 | 13.93% | $288 | 2.30% | $0 | 0% | $288 |
| 4 | $15-20K | $17,500 | 208,260 | 10.46% | $885 | 5.06% | $483 | 2.76% | $402 |
| 5 | $20-25K | $22,500 | 169,140 | 8.50% | $1,287 | 5.72% | $1,008 | 4.48% | $279 |
| 6 | $25-35K | $27,500 | 286,800 | 14.41% | $1,686 | 6.13% | $1,533 | 5.57% | $153 |
| 7 | $35-50K | $42,500 | 268,990 | 13.51% | $3,394 | 7.99% | $3,108 | 7.31% | $286 |
| 8 | $50-75K | $62,500 | 192,130 | 9.65% | $5,988 | 9.58% | $5,208 | 8.33% | $780 |
| 9 | $75-100K | $87,500 | 54,590 | 2.74% | $9,558 | 10.92% | $7,833 | 8.95% | $1,725 |
| 10 | $100-150K | $125,000 | 27,600 | 1.39% | $14,913 | 11.93% | $11,771 | 9.42% | $3,143 |
| 11 | $150-200K | $175,000 | 7,350 | 0.37% | $22,054 | 12.60% | $17,021 | 9.73% | $5,033 |
| 12 | $200-250K | $225,000 | 3,340 | 0.17% | $29,194 | 12.98% | $22,271 | 9.90% | $6,923 |
| 13 | $250K+ | $300,000 | 7,120 | 0.36% | $39,905 | 13.30% | $30,146 | 10.05% | $9,759 |

*Proposals* (1983), that the flat-rate tax system would produce a certain amount of perverse redistribution of the tax burden.

It is likely for these reasons that the movements for a flat tax in the United States have failed to make the political agenda. As *The Economist* has observed, "In short, the years of tax revolt seem to have achieved a remarkable (and unintended) outcome: in the country thought of as friendlier to the rich than almost any other, there has been a huge swing of the tax burden from the poor and towards the rich.… Fiscally speaking at least, America seems to be making the rich pay. And—except possibly on tax-filing day—almost everyone is satisfied with this new state of affairs."

Nor in Canada have flat tax proposals gone very far in the past. Allan MacEachen, Liberal Finance Minister in 1981, brought in a budget containing the seeds of a flat tax; it had to be withdrawn by the government of the day. Peter Pocklington and other Progressive Conservative leadership contestants who proposed flat tax schemes did not win election. The single rate income tax was considered just too unfair by governments of all stripes in Canada, particularly when the *effective tax rate*, all forms of taxes considered together (Employment Insurance, Canada Pension Plan, GST, PST, excise taxes, import duties, property taxes and income taxes), is already flat.

## THE NEW ALBERTA TAX

With its constant marginal tax rate (10.5 per cent), the new Alberta tax is termed a *single-rate tax*. A single-rate tax would be *proportional* if it applied to all levels of income. However, if there is a significant income exemption level, the average tax rate increases with income. The Alberta tax is actually a two-rate tax: zero per cent on the first $12,900 and 10.5 per cent on higher income. Although the exemption level makes this tax technically progressive, it is a much "flatter" tax than the 1999 system, in which provincial income tax was calculated at 44 per cent of the federal tax levied.

The government of Ralph Klein is the first to enact a flat income tax in a Canadian jurisdiction. The new Income Tax Act for Alberta has accomplished its radical restructure of tax in Alberta by combining it with a tax reduction—every taxpayer obtains at least some tax relief. It relieves the working poor of paying tax but shifts the tax burden away from the wealthy to the middle-income earners. Although not a proportional tax, it flattens the tax structure and reduces the progressivity of the tax system. In initiating the decoupling of Alberta from the federal tax structure, it moves the province closer to defining taxable income such that taxes on investment could be eliminated—another tax project of the political right.

## THE NUMBERS

**Table 1** shows the changes to Alberta's income tax system legislated in Bills 18 and 19 and proposed for implementation for the tax year 2001. Data on the distribution of income classes is from 1997 Statistics Canada tax-filer information for Alberta. Keep in mind that the higher income groups are more likely to obtain income from capital gains, included in taxable income at only 75 cents for each dollar earned (now reduced to 67 cents).

Column E shows 1999 tax payable on the median income for each income class, and column F, the 1999 average tax rate. Column G shows tax payable with a 10.5 per cent single tax rate; column H, its average tax rate; and column I, the estimated individual tax saving obtained by

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moving from the 1999 "tax-on-tax" process to the new single tax system of 2001.

A few points are of note. The average tax rate of the 2001 "flat tax" is lower at all income classes compared with 1999, but, because average tax increases at a lesser rate, the 2001 tax is a "flatter" tax. Tax savings grow significantly with increasing income (column I). And every income earner in Alberta gets a tax break.

**Table 2** illustrates the shifted distribution of the tax burden. Columns A and D are repeated from Table 1. Column J shows the tax revenue from each income class using the 1999 tax schedule, and Column K, the percentage each class contributes to Alberta's overall tax revenue. Column L is a calculation of tax revenue from each income class using the 10.5 per cent single tax rate. Column O shows the percentage each class saves out of the total tax savings.

The income group between $20,000 and $50,000, constituting 35.5 per cent of tax-filers, receives only 21 per cent of the tax savings. The lower income classes and the higher income classes benefit most from the tax change. However, the 25 per cent of low income tax filers (D3+D4) receive only 21 per cent (O3+O4) of the tax savings. The top income classes ($50,000 and higher) constitute only 15 per cent of tax filers (D8 to D13) but receive 58 per cent of the tax savings (O8 to O13). The high-income earners are clearly the major beneficiaries of the tax change.

## SHIFTING THE BURDEN

The *tax burden* measures how much a given individual or income class contributes to the total amount of the tax revenue obtained. The distribution of the tax burden changes significantly between the 1999 calculations (column K) and the 2001 (column M). The tax burden of the lower and higher income classes is reduced, while that of the middle-income classes ($25,000 to $75,000) is increased.

In order to implement the shift in tax burden, the government wanted to combine it with a tax cut, making sure that everyone received some tax reduction. That this proved difficult is emphasized by the amendment of Bill 18 by Bill 19, in which the single rate was reduced from 11 per cent to 10.5 per cent and the income exemption

**TABLE 2**

| | A | D | J | K | L | M | N | O |
|---|---|---|---|---|---|---|---|---|
| | **Income Class** | **Percent of Tax filers** | **1999 Tax Revenue** | **1999 Tax Burden** | **10.5% Tax Revenue 2001** | **2001Tax Burden** | **Income Class Tax Savings** | **Income Class Percent savings** |
| 1 | <$5K | 12.34% | $0 | 0% | $0 | 0% | $0 | 0% |
| 2 | $5-10K | 12.18% | $0 | 0% | $0 | 0% | $0 | 0% |
| 3 | $10-15K | 13.93% | $79,734,224 | 1.77% | $0 | 0% | $79,734,224 | 10.07% |
| 4 | $15-20K | 10.46% | $184,285,109 | 4.09% | $100,589,580 | 2.71% | $83,695,529 | 10.57% |
| 5 | $20-25K | 8.50% | $217,745,762 | 4.83% | $170,493,120 | 4.59% | $47,252,642 | 5.97% |
| 6 | $25-35K | 14.41% | $483,633,708 | 10.73% | $439,664,400 | 11.84% | $43,969,308 | 5.55% |
| 7 | $35-50K | 13.51% | $913,062,346 | 20.26% | $836,020,920 | 22.51% | $77,041,426 | 9.73% |
| 8 | $50-75K | 9.65% | $1,150,401,431 | 25.53% | $1,000,613,040 | 26.94% | $149,788,391 | 18.91% |
| 9 | $75-100K | 2.74% | $521,761,394 | 11.58% | $427,603,470 | 11.51% | $94,157,924 | 11.89% |
| 10 | $100-150K | 1.39% | $411,602,112 | 9.13% | $324,865,800 | 8.75% | $86,736,312 | 10.95% |
| 11 | $150-200K | 0.37% | $162,093,372 | 3.60% | $125,100,675 | 3.37% | $36,992,697 | 4.67% |
| 12 | $200-250K | 0.17% | $97,507,693 | 2.16% | $74,383,470 | 2.00% | $23,124,223 | 2.92% |
| 13 | $250K+ | 0.36% | $284,120,182 | 6.31% | $214,635,960 | 5.78% | $69,484,222 | 8.77% |
| | | 100% | $4,505,947,332 | 100 % | $3,713,970,435 | 100% | $791,976,897 | 100% |

**TABLE 3**

| | A | J | K | I | M | P | Q | R | S | T |
|---|---|---|---|---|---|---|---|---|---|---|
| | Income Class | 1999 Tax Revenue | 99 Tax Burden | 2001Tax (10.5%) Saving | 2001 Tax Burden | Bill 18 (11%) Savings | 12.75% Tax Revenue | 12.75% Tax Burden | 12.75% Tax Savings | Savings-37% "tax on tax" |
| 1 | <$5K | $0 | 0% | $0 | 0% | | | 0% | | |
| 2 | $5-10K | $0 | 0% | $0 | 0% | | | 0% | | |
| 3 | $10-15K | $79,734,224 | 1.77% | $288 | 0% | $287.60 | $0 | 0% | | $50.55 |
| 4 | $15-20K | $184,285,109 | 4.09% | $402 | 2.71% | $238.08 | $122,144,490 | 2.71% | $298.38 | $155.53 |
| 5 | $20-25K | $217,745,762 | 4.83% | $279 | 4.59% | $90.57 | $207,027,360 | 4.59% | $63.37 | $226.27 |
| 6 | $25-35K | $483,633,708 | 10.73% | $153 | 11.84% | -$60.49 | $533,878,200 | 11.84% | -$175.19 | $296.39 |
| 7 | $35-50K | $913,062,346 | 20.26% | $286 | 22.51% | -$2.39 | $1,015,168,260 | 22.51% | -$379.59 | $596.61 |
| 8 | $50-75K | $1,150,401,431 | 25.53% | $780 | 26.94% | $390.82 | $1,215,030,120 | 26.94% | -$336.38 | $1,052.40 |
| 9 | $75-100K | $521,761,394 | 11.58% | $1,725 | 11.51% | $1,211.02 | $519,232,785 | 11.51% | $46.32 | $1,679.91 |
| 10 | $100-150K | $411,602,112 | 9.13% | $3,143 | 8.75% | $2,441.32 | $394,479,900 | 8.75% | $620.37 | $2,621.17 |
| 11 | $150-200K | $162,093,372 | 3.60% | $5,033 | 3.37% | $4,081.72 | $151,907,963 | 3.37% | $1,385.77 | $3,876.18 |
| 12 | $200-250K | $97,507,693 | 2.16% | $6,923 | 2.00% | $5,722.12 | $90,322,785 | 2.00% | $2,151.17 | $5,131.20 |
| 13 | $250K+ | $284,120,182 | 6.31% | $9,759 | 5.78% | $8,182.72 | $260,629,380 | 5.78% | $3,299.27 | $7,013.72 |
| 14 | | $4,505,947,332 | 100 % | | | | $4,509,821,243 | | | |

increased from $11,620 to $12,900. Single-rate taxation is extremely sensitive to these two parameters.

The tax savings that would have obtained if Bill 18 alone were implemented is shown in **Table 3**, column P. Before the amendments by Bill 19, Bill 18 would have seen the middle-income group pay a small increase in tax, while the very high income groups received a large tax break. With Bill 19, the changes to the distribution of the tax burden have been camouflaged by the simultaneous reduction in taxes that leaves some money in everyone's pocket.

To show this more clearly we can separate the tax cut and the changes in the tax structure that affect the tax burden. Table 3 illustrates this in two ways. The change in the distribution of the tax burden is more dramatically illustrated when we look at the consequences of a flat tax without a tax cut. In order to achieve the same government revenue (J14 and Q14) the single tax rate would need to be set at 12.75%. Column S shows the resultant tax "savings." Note that the members of the lowest income group still have modest savings in tax payable. However, the members of the income group above $75,000 receive a massive tax break, borne by the middle income group ($25,000 to $75,000), whose taxes increase (S6 to S8) significantly.

Alternatively, if the government had initiated a tax cut only, the tax-on-tax rate could have been reduced to about 37 per cent from the current rate of 44 per cent and obtained the revenue target of Bills 18/19. The tax savings to each individual in each income class relative to 1999 is shown in column T. Note that the tax savings are lower for the over $75,000 and under $25,000 income groups, but higher for the income group between $25,000 and $75,000.

## WHY DO IT?

So why implement a single-rate or flat tax? Most of the impetus for a flat or proportional tax has come from the political right in the United States. In Canada, proposals were floated by the Reform party and its successor, the Alliance. The most often cited reasons for the need for a flat tax are: simplicity, increased tax base, reduced tax rate, ease of administration, greater compliance and fairness. Other arguments include those given in Day's proposal "A New Tax Plan for Albertans": to encourage people to work and invest, increase economic growth, and attract new people and businesses to Alberta.

Arguments for tax simplicity and ease of administration are attractive. The current federal Income Tax Act is a huge, complex and often indecipherable piece of work. The popular feeling is that the calculation of taxes is far too complicated and too encumbered with a multitude of exemptions and special conditions. Many people agree that the tax code needs simplifying. However, simplicity is not inherent in a flat tax. A single rate does nothing to simplify the calculation of the tax base, where the complications really rest.

The case for an increased *tax base* is more controversial. The tax code is used as a means to accomplish a number of economic policy directions that may be desirable. For example, child credits help support those with dependent children. We are becoming more aware of how those raising the next generation of Canadians, although making a personal choice to have children, are contributing to the well-being of all Canadians by providing the workers of the future. RRSP contribution deductions encourage individuals to provide for reasonable incomes in their retire-

## *The new Income Tax Act flattens the tax structure and shifts the tax burden away from the wealthy to middle-income earners.*

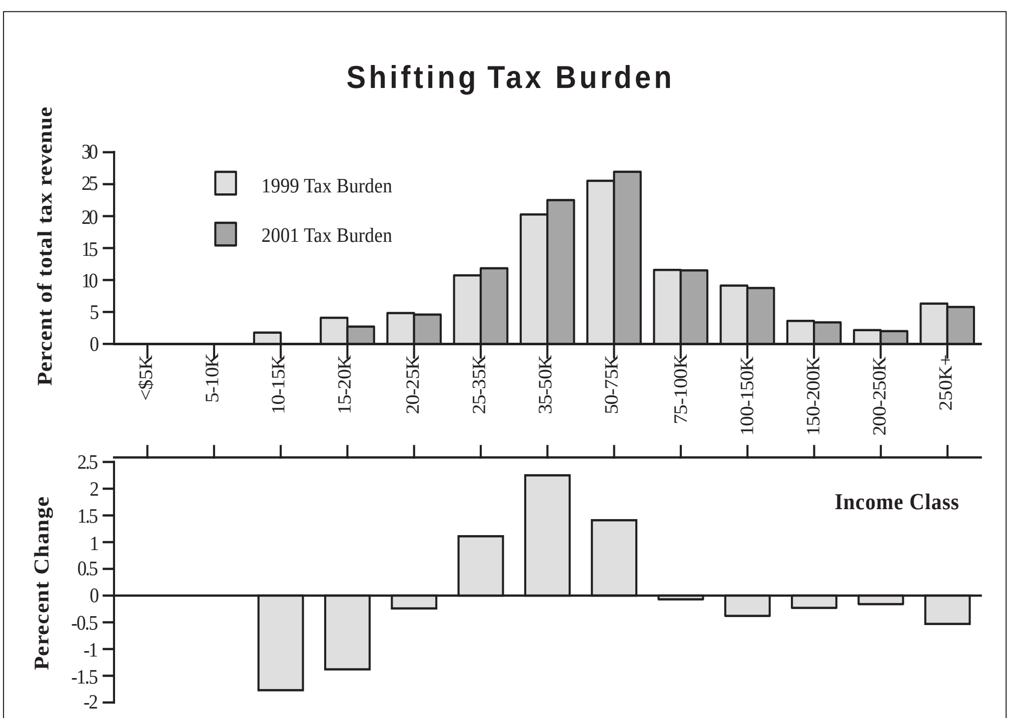
ment years, reducing or eliminating the burden of the aged on society. RESPs support the provision of savings for the higher education of our children. Tax incentives through exemptions from taxable income can assist Canadian investments. However, again, the tax base question is independent of the flat tax issue. If we wished to increase the tax base (reduce tax exemptions), it could be done within our current multiple-tax rate schedule.

Since Bill 18/19 accepts the federal definition and calculation of taxable income, it does not simplify the tax system, nor does it affect the tax base by limiting deductions. By decoupling from the federal system and moving from a straight percentage of federal tax, this legislation actually complicates tax. As well, by raising personal and spousal deductions and adding others, it reduces the tax base.

The government's expressed objective of increasing work effort, personal savings, investment, and stimulus to economic growth is pure political rhetoric. Economic theory is inconclusive on this issue. Simply put, some people may work *less*, or save and invest *less* if taxes go *down* because it is easier to attain a desired amount of wealth. But other people may work *more*, or save and invest *more* if taxes go *down* because they value more goods, now and in the future, over leisure. Different studies support both reactions and the net observed effect to decisions about work hours, saving and investment are neutral to changes in tax rates.

Do lower taxes really attract new businesses and people? It's conceptually difficult to analyze why people choose to relocate; many variables bear on the decision. Certainly, jobs, educational opportunities and good health care are important. Low population densities and relatively clear roadways may be more of an attraction for potential Albertans than lower tax rates. In any event, some people do not appreciate the current high migration to Alberta and the consequent pressures on infrastructure. And if tax rates reduce government revenues such that increased infrastructure is not affordable, then the consequent increased density and congestion resulting from migration to the province will itself curtail migration.

Ultimately, the test of this tax change is fairness. The new tax clearly moves the tax burden from the wealthier to the middle-income group. Advocates of flat, or proportional, tax suggest equality is achieved by having everyone subject to the same tax rate, bearing the tax burden proportionally. Yet a flat tax does not change before-tax income distribution. Some consider this fair because they believe markets distribute income based on how hard people work, save and invest. In contrast, the support for progressive taxation emphasizes different individual circumstances suggesting that ability to pay is what



is most important. Poor people should be exempt from tax, while the rest should contribute a greater percentage to taxes as income rises. After-tax income is more equal under a progressive tax system, helping restrict concentration of economic and political power.

That a conservative government has reduced taxes and introduced a right-wing perspective on fairness is not a surprise. What is a great surprise—it could not fly in the United States—is that a radical tax change has been accomplished with little or no debate. Is this combined tax cut and tax restructuring a clever and successful move? Have we been bought off with general tax relief, no matter how little?

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## TAX CONCEPTS

Canada has a wide array of taxes, including: income taxes, both federal and provincial; payroll taxes such as Employment Insurance and Canada Pension Plan; sales taxes such as the federal goods and services tax (GST), provincial sales tax (PST) (except in Alberta), blended GST and PST in the Maritimes—harmonized sales tax (HST); excise taxes on goods such as gasoline, cigarettes and liquor; import duties; and property taxes.

Three elements of taxation work together—the tax base, the tax rate(s), and tax compliance—to determine total tax revenues. The greater the "loopholes" or exemptions from taxable income, for example, RRSPs, the smaller the tax base. The more comprehensive the tax base, the greater the revenue that will be obtained from any given tax rate. Conversely, increasing the tax base would allow for a reduced tax rate in order to achieve a desired amount of tax revenue. For example, if food and rent expenditures had not been exempted from the GST (a greater tax base) the rate could have been as much as two percentage points lower. Similarly, the fewer the exemptions from taxable income, the greater the tax base and the greater the tax revenue obtained, all other things constant.

Net revenue will be lessened to the degree that enforcement expenses raise compliance costs. Although employers are required by law to withhold income and payroll tax at source (payroll deductions), where income is largely self-reported there is wide scope for misrepresentation of earnings. As well, many financial transactions invoke a withholding tax. These withheld sums are accounted as credits on an individual's tax form. For example, the implementation of the GST led to an increase in the underground economy where transactions are not recorded and the GST, payroll deductions and income tax are not paid. It is argued that the lower the tax rate, the greater the voluntary compliance.

Payroll taxes have a constant marginal rate, as there is an income cap after which the tax is zero. The average tax declines with increases in income, making these taxes regressive. As consumption spending declines proportionally as income increases, excise taxes, import duties and the GST (and PSTs) are also regressive. The average tax—tax paid divided by income—falls (although provision for refunds at low income levels offset this effect). As well, property taxes tend to be regressive, as income goes up more than proportionally with property values.

An important issue for tax policy is the overall effective tax rate. The few studies that have been done on effective tax rates suggest that under the current tax regime the effective tax rate is between 37 per cent and 42 per cent, and that the effective tax is proportional for most Canadians, somewhat regressive for low-income earners, with some progressivity on very high-income earners. It is also concluded from this research that the progressivity of the current income tax system just offsets the regressivity of the other taxes.

### HOW TO PAY TAXES IN CANADA

**Here are the steps Canadians currently take to calculate income tax:**

- Add income received from all sources. (Income from capital gains—the difference between the sale and purchase prices of an asset—is reduced to 75 per cent for 1999 and 67 per cent for 2000.)
- Subtract all allowable deductions, including registered pension contributions and registered retirement savings (RRSPs), to arrive at taxable income.
- Calculate tax payable at relevant tax rates.
- Calculate non-refundable tax credits (individual, spousal, old age exemption, Canada Pension Plan premiums and charitable donations) and determine total federal tax.
- Calculate provincial tax as a percentage of the federal tax (varies by province).
- Find the sum of federal and provincial income tax for total tax payable.
- Subtract deductions at the source of income from tax payable.
- Submit the remainder (or receive a refund if source deductions exceed tax payable).