

# Budget 1998

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*Building Canada  
for the 21<sup>st</sup> Century*

**Tax Relief  
for Canadians**

February 1998

**Canada**



*“Let me now turn to the question of taxation and let me begin by reaffirming our goal. It is to reduce taxes. It is to leave more money in the pockets of hard-working Canadians.”*

*Finance Minister Paul Martin  
1998 budget speech*

## **General Income Tax Relief – The First Steps**

The efforts of all Canadians in the past four years have now ensured that the task of balancing the budget is at hand. Accordingly, the 1998 budget begins a process of general income tax relief.

In keeping with the nation’s priorities, this implies first reducing taxes on those who can least afford to pay them, that is low- and middle-income Canadians.

- The amount of income that low-income Canadians can receive on a tax-free basis will be increased by \$500, taking 400,000 Canadians off the tax rolls.
- The 3-per-cent general surtax will be eliminated for almost 13 million taxpayers with incomes up to about \$50,000, and reduced for an additional one million taxpayers.

## **Increase in Tax-Free Income for Low-Income Canadians**

Currently, the basic personal amount has a value of \$6,456, while the spousal and equivalent-to-spouse amounts have a maximum value of \$5,380.



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Effective July 1, 1998, the government proposes to increase these amounts by \$500 for low-income Canadians. This effectively increases the amount of tax-free income by a maximum of \$500 for single taxpayers with income under \$20,000, and by \$1,000 for a family with income under \$40,000. As a result:

- almost 400,000 low-income individuals will be removed from the tax rolls – another 4.6 million taxpayers will receive tax relief;
- federal income tax will be reduced by up to \$85 for a single individual; and
- federal income tax will be reduced by up to \$170 for a family.

## **General Surtax Eliminated for Most Taxpayers**

Effective July 1, 1998, the 3-per-cent general surtax – a tax on tax implemented in 1986 to help reduce the deficit – will be eliminated in its entirety for individuals with incomes up to about \$50,000 and reduced for those with incomes between \$50,000 and about \$65,000. By 1999:

- 13 million filers will no longer pay any federal surtax and another one million filers will pay significantly less surtax;
- one-income families making \$30,000 will pay \$145 less in taxes;
- one-income families making \$50,000 will pay \$238 less in taxes;
- single individuals making \$30,000 will pay \$112 less in taxes; and
- single individuals making \$50,000 will pay \$219 less in taxes.

## Progressive Tax Relief

Tables 1 and 2 show that this package provides a very progressive distribution of tax relief – tax reductions as a percentage of current tax are highest at lower incomes.

**Table 1**

*Typical One-Income Family of Four – 1999  
Full-Year Impact of Proposed Measures  
on the Low-Income Supplement to Personal  
Amounts and the General Surtax Elimination*

Total income	Current federal tax <sup>1</sup>	Total tax relief	Tax relief as a % of federal tax
\$	\$	\$	
10,000	-3,871	0	*
20,000	-2,637	-165	*
30,000	461	-145	-31.4
50,000	7,131	-238	-3.3
60,000	10,335	-116	-1.1
75,000	15,485	0	0.0

**Table 2**

*Typical Single – 1999  
Full-Year Impact of Proposed Measures  
on the Low-Income Supplement to Personal  
Amounts and the General Surtax Elimination*

Total income	Current federal tax <sup>1</sup>	Total tax relief	Tax relief as a % of federal tax
\$	\$	\$	
10,000	264	-80	-30.2
20,000	1,872	-63	-3.4
30,000	3,756	-112	-3.0
50,000	9,123	-219	-2.4
60,000	11,826	-61	-0.5
75,000	16,473	0	0.0

\* Increases net benefits received from the tax and transfer system.

<sup>1</sup> Includes federal income tax, refundable Child Tax Benefit (CTB), and the goods and services tax (GST) credit. Negative values indicate that refundable CTB and GST credits received are greater than income tax paid.



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Single people earning \$30,000 a year will see their tax burden reduced by 3.0 per cent, while singles earning \$50,000 a year will receive a 2.4-per-cent tax reduction.

For families, taxes will fall by 31 per cent at \$30,000, and by 3.3 per cent at \$50,000. A family with a \$30,000 income will find its total federal income taxes fall to about \$300, or about 1 per cent of income.

## **Targeted Tax Relief**

Continuing the process from previous budgets, the 1998 budget also provides targeted tax relief where the need is greatest and the payoff is largest.

## **Canadian Opportunities Strategy**

### **Tax Relief for Interest on Student Loans**

For the first time, all students will get tax relief for interest payments on their student loans. For a student with a typical debt load, this will mean a reduction in federal and provincial tax of almost \$530 in the first year and up to \$3,200 over a 10-year period during which the loan is paid off. This measure will be of assistance to more than one million individuals.



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## **Helping Canadians Upgrade Their Skills**

### **Education Credit For Part-Time Students**

The education credit will be extended to part-time students. For example, a part-time student taking two eligible courses could save \$120 in taxes. This will lessen the expense of education and facilitate lifelong learning for over 250,000 part-time students.

### **Child Care Expense Deduction for Part-Time Students**

To further recognize expenses related to education and facilitate lifelong learning, eligibility for the child care expense deduction will be extended to part-time students. For example, a part-time student taking two courses and with two children could save about \$550 in taxes. This measure will benefit about 50,000 part-time students.

As a result of these two measures, the tax savings for a typical part-time student with two children could more than triple – from about \$300 to about \$1,000 per year.

### **Tax-Free RRSP Withdrawals for Lifelong Learning**

Canadians will be eligible to make tax-free withdrawals from their RRSPs to support lifelong learning. Individuals will be able to withdraw tax free up to \$10,000 per year from their RRSPs, with a maximum of \$20,000 over a four-year period. To preserve retirement incomes, these withdrawals will be repayable over 10 years.



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## **Support for Families**

### **Increased Child Care Expense Deduction**

To further recognize the child care costs of parents working full time, the 1998 budget increases the limit on the child care expense deduction – from \$5,000 to \$7,000 for children under age 7, and from \$3,000 to \$4,000 for children age 7 to 16. For example, a parent with two pre-school children could save \$1,600 in taxes. This measure will benefit 65,000 families with children.

### **Enriching the Canada Child Tax Benefit**

To further support families with children across Canada, the 1998 budget, as part of the National Child Benefit System, proposes to build on the \$850 million increase announced in the 1997 budget, to take effect in July 1998, by further increasing the Canada Child Tax Benefit by an additional \$850 million.

This enrichment will be made in two steps: an increase of \$425 million annually beginning in July 1999, and a second increase of \$425 million annually commencing in July 2000.

### **Helping Individuals Caring for Family Members**

With the 1998 budget, the government is proposing a new caregiver credit that will reduce combined federal-provincial tax by up to \$600 for those Canadians caring for an elderly parent or a disabled family member. This will provide assistance to about 450,000 caregivers who normally would not qualify for the infirm dependant credit.



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In addition, a GST/HST tax exemption will be provided for expenses incurred from the service of providing temporary care to a person who, by reason of infirmity or disability, has limited means of self-care.

## **Supporting Canada's Youth to Find Jobs**

### **Eliminating Employers' Employment Insurance (EI) Premiums on New Jobs for Youth**

To encourage the hiring of young people between the ages of 18 and 24, employers will be given an employment insurance (EI) premium holiday for additional youth hired in 1999 and 2000.

Combined with the EI premium cut to \$2.70 per \$100 of earnings starting January 1, 1998, this represents an important step to help create jobs for young Canadians.

## **Support for Health**

### **Deductibility of Health and Dental Premiums for Self-Employed Canadians**

To improve equity in the treatment of self-employed and incorporated businesses, starting this year, self-employed Canadians will be able to deduct health and dental insurance premiums from their business income.



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## **Support for Communities**

### **Increased Tax Relief for Voluntary Emergency Service Workers**

To support the thousands of Canadian volunteers who provide essential emergency services, the tax-free allowance for volunteer firefighters will be doubled from \$500 to \$1,000. It will also be extended to other emergency service volunteers.

### **Cumulative Tax Relief - Next Three Years**

With the measures announced in the 1998 budget, over the next three years, \$7 billion of cumulative tax relief will be provided to Canadians, primarily to those with low- and middle-incomes.



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