

Backgrounder: Raising Government Revenue Ethically

Prince Edward Island currently has three tax rates. They are:

	Taxable Income	Tax Rate
First Tax Bracket	first \$31,894	9.8%
Second Tax Bracket	over \$31,984 up to \$63,969	13.8%
Third Tax Bracket	over \$63,969	16.7%

PEI is an outlier when it comes to sharing and distributing the tax burden based upon an individual's available resources and ability. To paraphrase conventional wisdom: with great power comes great responsibility.

Our proposal suggests adopting the upper tax rates used in Nova Scotia. These include a 17.5% tax rate on income above \$93,000, and a tax rate of 21% on income of \$150,000 and more. Using conservative assumptions (detailed below), we estimate that the proposed tax measures would result in at least \$1.2M in new tax revenue for earners between \$93k and \$149,999, and at least \$2.5M in new tax revenue for earners with \$150,000 or more in income.

ASSUMPTIONS:

- Because CRA tax data¹ provides the *total* number of taxfilers with income between \$90,000 and \$99,999—therefore making it impossible to correctly estimate the number of taxfilers with income above \$93k who would be subject to the new tax rate—we have assumed that each earner in that range earned \$90k in the tax year and would not be subject to the new tax rate. **This assumption would have the effect of underestimating the total revenue collected.**
- Because CRA tax data provides the *total* number of taxfilers with income between \$150,000 and \$199,999—therefore making it impossible to correctly estimate the taxable income in that range—we have assumed that each earner in that range earned \$150k and effectively would not be subject to the new tax rate. **This assumption would have the effect of underestimating the total revenue collected.**
- The CRA tax data used to complete these calculations is from the 2017 tax year, which was the most complete and accurate tax data available at the time the calculations were conducted. With economic and population growth that has occurred in PEI since 2017, it

¹ Canada Revenue Agency. "Individual Tax Statistics by Area (ITSA) - 2019 Edition (2017 tax year)" <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/individual-tax-statistics-area-itsa/individual-tax-statistics-area-itsa-2019-edition-2017-tax-year.html#toc21>

is possible that tax data from subsequent years would show more taxfilers in the affected income ranges. **We believe that the 2017 tax data underestimates the total revenue that would be collected if these measures were adopted today.**