

# Canadian Tax System Simplification

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## 1. Existing tax system and tax reform:

Table 1 shows Canadian federal tax rates for 2018 and 2016 on yearly basis. There are 5 tax brackets. From 2016 to 2018, tax bracket rates at 15%, 20.5%, 26%, 29% and 33% are not changed. But taxable income (TI) ranges are changed, which affect tax rates. For income withholding taxes on bi-weekly, semi-monthly, monthly or quarterly, the yearly tax rates and taxable income ranges need to be divided with more withholding and tax tables and computations. Tax status such as Married Filing Jointly, Married Filing Separately, Single or Head of Household is another important issue. Existing tax system with formulas, withholding and tax tables is complex.

For taxable income (TI) at \$100,000 in 2018, its tax rate is 18.3%  $(16,544 + 0.26(100,000 - 93,208)) / 100,000$ . Tax rate is 23%  $(29,877 + 0.29(200,000 - 144,489)) / 200,000$  at TI=200,000. For taxable incomes from 0 to \$46,605, there is a flat tax rate at 15%. For 2016, the first flat tax rate is 15% with different range from 0 to \$45,282. For TI at \$100,000, its tax rate is 18.53%  $(0.15 * 45,282 + 0.205 * 45,281(9282.605) + 0.26 * 9,437) / 100,000$ , which is reformed and reduced from 18.53% (2016) to 18.31% (2018) by -0.22%. The top tax rate 33% is not reformed.

**Table 1 Canadian Federal Tax Rates for 2018 and 2016 (Taxable income = TI)**

Federal tax rates for 2018:	Federal tax rates for 2016:
15% <b>on the first</b> \$46,605 of taxable income $(0.15 * TI)$	15% <b>on the first</b> \$45,282 of taxable income
20.5% <b>on the</b> over 46,605 up to \$93,208 $(6,991 + 0.205(TI - 46,605))$	20.5% <b>on the</b> over \$45,282 up to \$90,563
26% <b>on the</b> over \$93,208 up to \$144,489 $(16,544 + 0.26(TI - 93,208))$	26% <b>on the</b> over \$90,563 up to \$140,388
29% <b>on the</b> over 144,489 up to \$205,842 $(29,877 + 0.29(TI - 144,489))$	29% <b>on the</b> over \$140,388 up to \$200,000
33% of taxable income <b>over</b> \$205,842 $(47,670 + 0.33(TI - 205,842))$	33% <b>on the</b> over \$200,000

## 2. Tax system simplifications and benefits:

The linear and gradual (LG) slope tax rate system with simple and fair tax rate formulas, 12 benefits, and 3 or 2 tax bracket ranges has been developed for Canadian tax calculation, analysis, reform and projection, which is supported by our research papers in the professional journals. [www.taxsimplecenter.net/publicationprogram](http://www.taxsimplecenter.net/publicationprogram)

A flat tax rate is too simple and not reasonable for different taxable incomes (TI). Tax systems with more than 4 tax brackets are more smooth and complex. More tax brackets need more costs and longer time to governments, companies and employees. Linear slope tax rates are the most reasonable, smooth and simple.

The LG tax system introduces tax status # (S is 1, 1.5 or 2) and filing period # (F is 52, 26, 24, 12, 4, 2 or 1) into smooth tax rate formulas, which is shown in Table 2 to simplify existing Canadian tax system without withholding and tax tables. F=1 is for tax returns. Figure 1 shows almost no difference between existing and LG tax systems. Then tax calculation, analysis, reform and projection simplifications can be done, which may **save millions of dollars/year on federal or provincial level**. The U.S. federal and state governments have similar situations such as Missouri has 10 tax brackets, which can be reduced to 2 with the LG tax system compatibly.

A tax reform with reforming its tax rate ranges to meet a tax goal with the LG tax system is much easy than the existing tax system with reforming taxable income ranges, tax rates, brackets, and tables to meet related tax goal. Then these "complex" political issues of taxable income ranges, tax brackets, rates, and tables are converted into simple technical issues. Taxable income (TI) ranges are often changed, which affect tax rates. For income withholding taxes on such as bi-weekly, semi-monthly, monthly or quarterly basis, the yearly tax rates and taxable income ranges are divided, which is a problem. The problem can be resolved with filing period # (F). Also tax status # (S) can be such as 2 for Married Filing Jointly, 1 for Married Filing Separately, 1 for Single or 1.5 for Head of Household.

**Table 2 LG Tax System for Matching the Existing Canadian Federal Tax Rates (2018)**

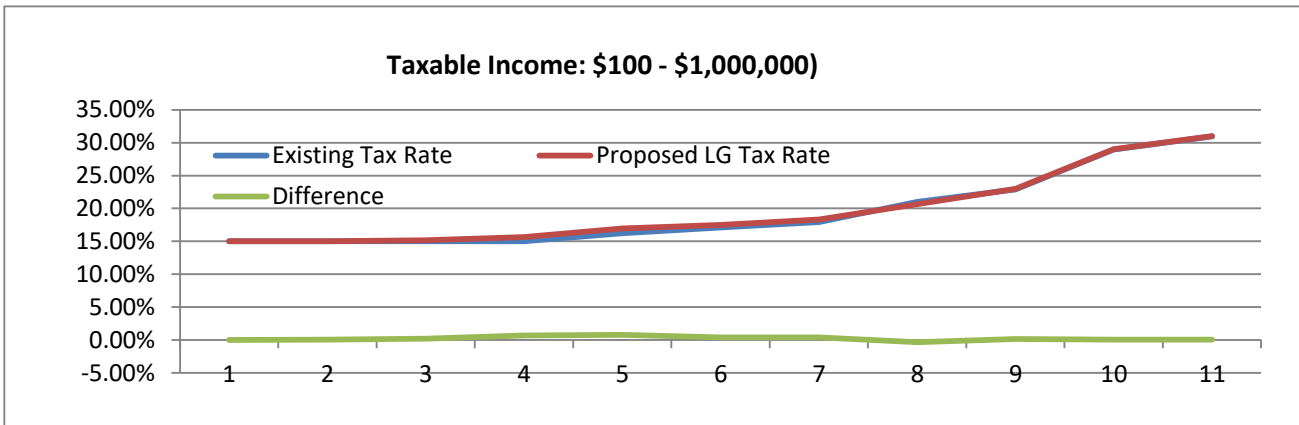
(1)TI is Taxable Income; (2) Tax status (S) is for Married Filing Jointly, Married Filing Separately, Single or Head of Household and (3) Filing period (F) is 52, 26, 24, 12, 4, 2 or 1 on weekly, bi-weekly,... or yearly basis.

TI*F/S	Yearly TI / S	Your TI	LG tax rate formula	Tax rate Check	Tax Rate	Tax TI*rate
	0-100,000		$0.15+TI*F/1,204,819/S$	0.15-0.183		
	100,000-200,000		$0.136+TI*F/2,127,660/S$	0.183-0.23		
	200,000		$0.33-20,000*S/TI/F$	0.23-0.33		

Table 2 can be also further simplified to two tax brackets/ranges from 0-\$200,000 and over \$200,000. The first tax rate formula between 0-\$200,000 is modified to  $0.15+TI*F/2,500,000/S$  at 0.15-0.23. Tax data can be used for tax calculation, analysis, projection, modification, reform, and budget balancing simply.

$$\text{Total tax (S=1)} = 0.15\sum TIa + \sum (TI^2)a/1,204,819 + 0.136\sum TIb + \sum (TI^2)b/2,127,660 + 0.33\sum TIc - 20,000*C$$

**Figure 1 Existing Federal Individual Tax Rates and LG Tax Rate System**



With the slope LG tax system, tax rate ranges can be reformed according to total tax difference (a tax goal) simply. For reforming such as from 15-23-33% to 13-21%-31% at TI 0-\$200,000 and over -\$200,000, its total tax is decreased by  $-0.02\sum TI$ . For another tax reform such as to 16-24-35%, its total tax (S=1) is increased by  $0.01\sum TI_m + 0.02\sum TI_n - 2,000*N$ . It is simple and visible to change tax rates with simple taxable income ranges.

**Summary:** The LG tax system can simplify tax calculation, analysis, and reform, reduce tax bracket numbers, eliminate tax withholding tables and tax tables, and **save millions of dollars/year. For the State of California, \$900 million/year or more may be saved.**

**Publications:**

- [1] Journal of Business and Economics, 2017, 8 (7) 551-561
- [2] Academy of Economics and Finance Journal, 2014(5)59-67
- [3] <http://themissouritimes.com/42982/pursuing-tax-simplicity-state-federal-level/>
- [4] Academy of Economics and Finance Journal, 2015, 6, 79-86.
- [5] Journal of Business and Economics, 2014, 5(9)1473-1483
- [6] Academy of Economics and Finance Journal, 2013(4)47-55
- [7] [www.columbiatribune.com/news/20171002/tax-cuts-should-be-paired-with-simplicity](http://www.columbiatribune.com/news/20171002/tax-cuts-should-be-paired-with-simplicity)
- [8] [www.taxesimplecenter.net/publicationprogram](http://www.taxesimplecenter.net/publicationprogram)

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