



Earning High Incomes

When does the top tax rate kick in?

We often talk to our clients about the top marginal tax rate. But have you taken a recent look at where the top income bracket actually starts? For example, just 15 years ago, the top federal tax bracket of 29 per cent started when your annual income was \$60,000 or more. Today, while the top federal rate has remained the same, the annual income level at which you start paying 29 per cent federal tax is \$138,586.

The provinces (and territories), of course, all have their own tax brackets and the level at which the top combined federal/provincial marginal tax rate kicks in can vary substantially from province to the next. Even Alberta, which since 2001 has enjoyed a flat 10 per cent tax rate, has introduced a new, progressive personal tax regime for high-income earners, which means that Alberta will no longer have the lowest top marginal tax rate in Canada.

Higher-income Canadians living outside of Alberta have always envied that province's 10 per cent flat tax rate, which, when combined with the top federal tax rate of 29 per cent, produced a combined maximum personal tax rate of 39 per cent, which was, by far, the lowest in Canada. In fact, this rate was a full 11 per cent below the top marginal rate of 50 per cent currently in place in Ontario, Quebec and Nova Scotia and 16 per cent below New Brunswick's eye-popping new rate of 55 per cent for its highest income earners.

In June, Alberta's new NDP government passed Bill 2, *An Act to Restore Fairness to Public Revenue*, which received Royal Assent on June 29, 2015, merely 11 days after it was first introduced. As promised in its throne speech, the government has introduced progressive, graduated tax rates for Albertans whose taxable income exceeds \$125,000.

Specifically, those with income over \$125,000 but under \$150,000 will pay 12 per cent provincial tax, those making more than \$150,000 but less than \$200,000 will pay 13 per cent, those making over \$200,000 but less than \$300,000 will pay 14 per cent and those earning more than \$300,000 will

Highest Marginal Tax Rates for 2015

| | Threshold | Interest | Capital gains | ELIGIBLE DIVIDENDS | NON-ELIGIBLE DIVIDENDS 4 |
|-----------------|-----------|----------|---------------|--------------------|--------------------------|
| Federal | \$138,586 | 29.00% | 14.50% | 19.29% | 21.22% |
| MB | \$138,586 | 46.40% | 23.2% | 32.26% | 40.77% |
| NV | \$138,586 | 40.50% | 20.25% | 27.56% | 31.19% |
| NWT | \$138,586 | 43.05% | 21.53% | 22.81% | 30.72% |
| PE | \$138,586 | 47.37% | 23.69% | 28.70% | 38.74% |
| QU | \$138,586 | 49.97% | 24.98% | 35.22% | 39.78% |
| SK | \$138,586 | 44.00% | 22.00% | 24.81% | 34.91% |
| NS | \$150,000 | 50.00% | 25.00% | 36.06% | 41.87% |
| BC ¹ | \$151,050 | 45.80% | 22.90% | 28.68% | 37.99% |
| NL ² | \$175,000 | 43.30% | 21.65% | 31.57% | 33.26% |
| ON | \$220,000 | 49.53% | 24.76% | 33.82% | 40.13% |
| NB | \$250,000 | 54.75% | 27.38% | 38.27% | 46.89% |
| AB ³ | \$300,000 | 40.25% | 20.13% | 21.02% | 30.84% |
| YK | \$500,000 | 44.00% | 22.00% | 19.29% | 35.18% |

pay 15 per cent, resulting in a new, top combined federal Alberta marginal rate of 44 per cent. These brackets will be indexed starting 2017.

Alberta's increases apply as of Oct. 1, 2015, which effectively means that for 2015, the rates above are prorated by 25 per cent (representing three months), resulting in 2015 effective rates of 10.5 per cent, 10.75 per cent, 11 per cent, and 11.25 per cent. Starting in 2016, the full new rates will apply. That means that Alberta's top marginal rate for 2016 on ordinary income of 44 per cent will be the same as in Saskatchewan and the Yukon, higher than in British Columbia, the Northwest Territories and Nunavut but still lower than in the other provinces.

What's most interesting is at what income levels the top rate actually applies. In other words, whether your client is a "high-income earner" and subject to top marginal rate taxation, now depends, more than ever, on the province they live in.

As the previous page's chart shows, federally, the top rate of 29 per cent rate kicks in once taxable income is above \$138,586 (for 2015), but provincially, the top rate income threshold is all over the map. When

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it comes to earning investment income for high-income earners, capital gains, which are taxed at 50 per cent of the rate applicable to ordinary income, will now be preferred over Canadian eligible dividends, which typically come from shares of Canadian publicly traded companies or Canadian dividend funds. This is true for top income earners in all provinces and territories, other than the highest bracket earners in the Yukon.

The rates left will also be effective for 2016, subject to indexation, and the following footnotes:

1. In British Columbia in 2016, the top marginal tax rates will be 43.7 per cent for interest, 21.85 per cent for capital gains, 25.78 per cent for eligible dividends and 35.93 per cent for non-eligible dividends.

2. In Newfoundland and Labrador in 2016, the top marginal tax rates will be 44.3 per cent for interest, 22.15 per cent for capital gains, 32.95 per cent for eligible dividends and 34.72 per cent for non-eligible dividends.

3. In Alberta in 2016, the top marginal tax rates will be 44 per cent for interest, 22 per cent for capital gains, 26.19 per cent for eligible dividends and 35.72 per cent for non-eligible dividends.

4. Due to changes announced in the 2015 federal budget, the tax rate on non-eligible dividends will increase in 2016 federally and in all provinces. 

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