

Explanatory Notes
Legislative Proposals – Income Tax

These notes are intended for information purposes only and should not be construed as an official interpretation of the provisions they describe.

Clause 1

CPP/QPP contributions on self-employed earnings and additional CPP contributions

ITA
60(e) and (e.1)

Section 60 of the *Income Tax Act* (ITA) provides for various deductions in computing income.

Paragraph 60(e) is amended to ensure, under subparagraph (i), the continuation of the deduction of one-half of a taxpayer's base contributions to the Canada Pension Plan (CPP) payable on the taxpayer's self-employed earnings for the year and to provide, under subparagraph (ii), a deduction for the first additional contributions and second additional contributions to the CPP payable on the taxpayer's self-employed earnings for the year. Both the subparagraph 60(e)(i) and (ii) deductions are subject to applicable constraints based on the maximum of such contributions payable by the taxpayer for the year under the plan. A tax credit continues to be available under section 118.7 for the other one-half of a taxpayer's base contributions to the CPP payable on the taxpayer's self-employed earnings for the year.

New paragraph 60(e.1) provides a deduction for the first additional contributions and second additional contributions to the CPP made in respect of a taxpayer's employment income other than self-employed earnings. This deduction is subject to applicable constraints based on the maximum of such contributions payable by the taxpayer for the year under the plan.

These amendments come into force on January 1, 2019.

Clause 2

Annual adjustment

ITA
117.1(1)

Subsection 117.1(1) of the ITA provides for the indexing of various amounts in the ITA, based on annual increases to the Consumer Price Index. Subsection 117.1(1) is amended to ensure that the amended amounts referred to in subsections 122.7(2) and (3) – which respectively relate to the “basic” Working Income Tax Benefit (WITB) and the WITB “disability supplement” – are indexed. For more information, see the notes relating to section 122.7.

These amendments come into force on January 1, 2019.

Clause 3

Credit for EI and QPIP premiums and CPP contributions

ITA
118.7

Section 118.7 of the ITA provides the formula for calculating an individual's tax credit in respect of CPP/QPP contributions and employment insurance premiums.

Paragraph (b) of the description of B in section 118.7 is amended to maintain the existing tax credit for base contributions to the CPP in respect of employment income other than self-employed earnings.

These amendments come into force on January 1, 2019.

Clause 4

Working Income Tax Benefit

ITA
122.7(2) and (3)

Section 122.7 of the ITA provides the Working Income Tax Benefit ("WITB"), a refundable credit for low-income individuals and families, who have earnings from employment or self-employment ("working income"). Subsection 122.7(2) provides for the "basic" WITB, which generally is a refund of 25% of all working income over \$3,000 up to a maximum benefit level. Subsection 122.7(3) provides for the WITB "disability supplement", which generally is a refund of 25% of all working income over \$1,150, up to a maximum supplement level. To ensure that the WITB remains targeted to low-income individuals and families, the basic WITB and the WITB disability supplement are reduced by 15% of each dollar of income (combined with income of a spouse or common-law partner) exceeding certain thresholds.

Certain amounts in the descriptions of A and B in subsection 122.7(2) are amended to increase the basic WITB refundable tax credit rate to 26% (up from 25%) of each dollar earned in excess of \$3,000 (unchanged) up to a maximum amount. The maximum credit amount is increased to an amount of \$1,192 for single individuals and of \$2,165 for families for 2019. The basic WITB is reduced by 14% (down from 15%) of net income above certain thresholds.

Certain amounts in the descriptions of C and D in subsection 122.7(3) are amended to increase the WITB disability supplement refundable tax credit rate to 26% (up from 25%). The disability supplement is reduced, if the individual had a spouse or common-law partner who was not eligible to claim a disability tax credit, by 14% (down from 15%), or, if the individual had a spouse or common-law partner who was eligible to claim a disability tax credit, by 7% (down from 7.5%), of net income in excess of certain thresholds. These thresholds are increased to an amount of \$20,844 for single individuals and of \$32,491 for families for 2019.

These amendments come into force on January 1, 2019.