

How Much Did We Save on the 1% GST Reduction?

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On May 2, 2006, the Federal Government released its 2006 budget. In the budget, the government did fulfill one of its promises to reduce the goods and services tax (GST) by one percentage point, from 7 to 6 per cent. The effective date is July 1, 2006.

In the budget, the government also indicated that it would drop the lowest personal tax rate to 15.5 per cent from 16 per cent as of July 1, 2006. The budget also confirmed that the lowest tax rate will be 15 per cent from January 1, 2005 until June 30, 2006. In effect, the government has increased the lowest tax rate by 0.5 percent, from 15 percent that was promised by the previous Liberal government. In other words, the personal income tax rate is effectively 15.25 per cent for 2006.

What this means for us

Personal tax: We have less after tax money to spend when the personal tax rate increases. For 2006, the lowest personal tax rate is taxes on income below \$36,378. With the tax rate increased by 0.5 per cent, we actually have to pay \$181.89 more taxes (or \$90.95 if considering 15.25% effective rate). This means that we will have \$181.89 less after tax money to spend.

<u>Tax rates</u>	<u>taxes paid on \$36,378</u>
15%	\$5,456.70
15.5%	\$5,638.59
You pay more	\$ 181.89

GST: We know that for every dollar we spend on taxable purchases, we will save one percent GST. However, in order to “gain” back this \$181.89 out of pocket taxes paid to the government; do you know how much money we have to spend in order to save from the GST reduction? We have to spend \$18,189 to save the one percent GST reduction!

Are we better off or not?

Are we better off with the reduction of GST rate and increase in personal tax rate?

From the above illustration, if you have a major purchase every year or your annual GST taxable consumptions such as auto fuel, utilities and entertainment expenses are over \$18,189, you are better off from the tax savings.

For highlights of the budget, you can check into my website at www.florencehuicga.com.