



HOW HAS INFLATION AFFECTED YOUR TAXES?

Given the high inflation we experienced in 2022, many of the important tax figures have been substantially increased for 2023. Here are the new numbers, along with a few other changes that launch on Jan. 1.

Inflation adjustment factor: Most (but not all) income tax and benefit amounts are indexed to inflation. In November 2022, the Canada Revenue Agency announced the inflation rate to be used to index the 2023 tax brackets and amounts would be 6.3 per cent.

Increases to the tax-bracket thresholds and various amounts relating to non-refundable credits take effect on Jan. 1, 2023. But increases for certain benefits, such as the GST/HST credit and Canada Child Benefit, only take effect on July 1, 2023. This coincides with the beginning of the program year for these benefit payments, which are income tested and based on your prior year's net income, to be reported on your 2022 tax return due this spring.

Tax brackets for 2023: All five federal income tax brackets for 2023 have been indexed to inflation using the 6.3-per-cent rate. The new federal brackets are: zero to \$53,359 (15 per cent); more than \$53,359 to \$106,717 (20.5 per cent); more than \$106,717 to \$165,430 (26 per cent); more than \$165,430 to \$235,675 (29 per cent); and anything above that is taxed at 33 per cent.

Each province also has its own set of provincial tax brackets, most of which have also been indexed to inflation, but using their respective provincial indexation factors.

Basic personal amount (BPA): The BPA is the amount of income an individual can earn without paying any federal tax. The government in December 2019 announced an increase in the BPA annually until it reaches \$15,000 in 2023, after which it will be indexed to inflation. As a result, the increased BPA for 2023 has been set by legislation at \$15,000, meaning an individual can earn up to this amount in 2023, before paying any federal income tax.

For taxpayers earning above this amount, the value of the federal credit is calculated by applying the lowest federal personal income tax rate (15 per cent) to the BPA, making it worth \$2,250. Because the credit is "non-refundable," it's only worth the maximum amount if you would have otherwise paid that much tax in the year.

But higher income earners may not get the full, increased BPA since there is an income test. The enhanced BPA is gradually reduced, on a straight-line basis, for taxpayers with net incomes of more than \$165,430 (the bottom of the fourth tax bracket for 2023) until it gets fully phased out when a taxpayer's income tops \$235,675 (the threshold for the top tax bracket in 2023).

Taxpayers in that top bracket who lose the enhanced amount will still get the "old" BPA, indexed to inflation, which is \$13,521 for 2023.

CPP (QPP) contributions: The Canada Pension Plan contribution rate for 2023 is 5.95 per cent (6.4 per cent for the Quebec Pension Plan) with maximum contributions by employees and employers set at \$3,754.45 (\$4,038.40 for QPP) in 2023, based on the new yearly maximum pensionable earnings of \$66,600 (with a \$3,500 basic exemption.)

For self-employed Canadians who must contribute twice the amount, the maximum CPP contribution for 2023 will be \$7,508.90 (\$8,076.80 for QPP), up from the 2022 amount of \$6,999.60 (\$7,552.20 for QPP).

The CPP hike is part of a multi-year plan approved six years ago by the provinces and the federal government to increase contributions and benefits over time.

El premiums: Employment insurance premiums are also rising, with a contribution rate for employees of 1.63 per cent (1.27 per cent for Quebec) up to a maximum contribution of \$1,002.45 (\$781.05 for Quebec) on 2023 maximum insurable earnings of \$61,500.

Tax-free savings account (TFSA) limit: The 2023 TFSA contribution limit will increase for the first time since 2019 to \$6,500 (from \$6,000). The cumulative TFSA limit is now \$88,000 for someone who has never contributed to a TFSA and has been a resident of Canada and at least 18 years of age since 2009.

RRSP dollar limit: The registered retirement savings plan dollar limit for 2023 is \$30,780, up from \$29,210 in 2022. Of course, the amount you can contribute to your RRSP is limited to 18 per cent of your 2022 earned income, which includes (self)employment and rental income, less any pension adjustments, up to the current annual dollar limit.

Old Age Security (OAS): If you receive OAS, the repayment threshold for 2023 is set at \$86,912, meaning your OAS will be reduced in 2023 if your taxable income is above this amount.

First Home Savings Accounts (FHSA): Legislation to create the new tax-free FHSA was recently passed, paving the way for it to be launched as early as April 1, 2023. This new registered plan gives prospective first-time homebuyers the ability to save \$40,000 on a tax-free basis towards the purchase of a first home in Canada.

Like a RRSP, contributions to an FHSA will be tax deductible, but withdrawals to purchase a first home, including from any investment income or growth earned in the account, will, like a TFSA, be non-taxable. The new legislation confirms that a first-time homebuyer can use both the FHSA and the existing Home Buyers' Plan to purchase their first home.

Multigenerational Home Renovation Tax Credit: Jan. 1 also marks the beginning of this new credit, which is equal to 15 per cent of eligible expenses (up to \$50,000) incurred for a qualifying renovation that creates a secondary dwelling to permit an eligible person (such as a senior or a person with a disability) to live with a relative.

Anti-flipping rules: Finally, new anti-flipping rules for residential real estate are scheduled to come into force on Jan. 1 and are designed to "reduce speculative demand in the marketplace and help to cool excessive price growth." The principal residence exemption will not be available on the sale of your home if you've owned it for less than 12 months (with certain exceptions). Instead, the gain will be 100-per-cent taxable as business income



14 Peachwood Avenue, Kitchener ON. N2B 1S9