STEP Canada
ADVISING FAMILIES ACROSS GENERATIONS

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Department of Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G5

Submission to the Department of Finance Canada

Re: Indexation of Tax Measures and Benefits Under the *Income Tax Act*

Executive Summary

Canada is currently experiencing inflationary pressures at levels not seen in more than four decades. While the most visible effects are rising prices for fuel, food, and housing, inflation has a less visible but equally significant impact: it erodes the value of tax-based benefits, credits, and deductions that are not indexed to inflation. This erosion reduces the effectiveness of government policy, increases the real tax burden on Canadians, and undermines Parliament's original intent when it enacted these measures.

For the reasons set out below, STEP Canada respectfully recommends that the Department of Finance add indexing, pursuant to the formula set out in section 117.1 of the *Income Tax Act* ("the Act"), to the determination of limits, rates, and other relevant parameters that are not currently indexed, starting with the specific items listed in the appendices hereto.

The Problem: Hidden Erosion of Tax Measures

Inflation impacts the tax system by diminishing the real value of fixed-dollar tax provisions. Many tax credits, deductions, and thresholds legislated in the Act are set at their implementation amounts and have not been adjusted for inflation. Our analysis identified approximately 200 provisions that do not provide Canadian taxpayers with the same monetary benefit as they did when they were last defined.[1]

Our Findings

The data collection process underlying this proposal was onerous. After the initial data scraping, followed by cleaning of the data to ensure accuracy and to remove redundancy, we identified roughly 200 legislated benefits, credits, and thresholds that are not currently indexed to inflation. These unindexed amounts generally fall into three broad categories: (1) business-related measures, (2) disability/medical expenses, and (3) child-related expenses.

In analyzing the data, we assessed the impact of inflation on a selection of unindexed amounts. Attached are two illustrations of this impact (prepared for a sampling of the provisions, but not the entire data set):

[1] A comprehensive list of unindexed provisions is available on request.

- **Appendix 1** illustrates the decline in the real value of unindexed benefits when compared with the projected value of indexed benefits. It shows for a selection of unindexed legislative measures what the legislated dollar amounts at the date of implementation or date of last increase would be if they had been indexed to inflation. The calculations also show in percentage terms the decline in the real value of benefits as a result of non-indexation. The declines in our sample range from a low of about 20% to a high of more than 67%. For example, the original, well-intentioned RDSP limit of $200,000 is now only 66.3% of what the limit would be if it had been indexed, representing a loss in the value of the benefit of 33.7%.

- **Appendix 2** demonstrates how rapidly these benefits will continue to decline if indexation is not implemented until 2030.[2] For example, the value of the benefit of the RDSP limit would be only 58.06% of what indexation would have yielded, or a further loss in value of 8.25%, representing a total decline in the value of the benefit of 41.94%.

These findings demonstrate that this issue is both substantial and ongoing.

Policy Reasons Supporting Comprehensive Indexation

1. Indexation Preserves Parliament's Original Policy Intent

When Parliament enacts a deduction, credit, exemption, contribution limit, or eligibility threshold that is expressed in dollars, it selects a specific dollar amount that is intended to achieve a specific policy objective. However, inflation gradually erodes the real value of these amounts, causing the provisions to yield outcomes that differ from Parliament's original intent.

In effect, the substance of the law changes over time without any legislative review or policy decision. A contribution limit designed to facilitate retirement savings, disability planning, or business growth no longer provides the level of support originally contemplated. Indexation ensures that tax measures continue to achieve their intended policy outcomes and prevents inflation from becoming a mechanism through which legislative changes occur indirectly.

2. Indexation Promotes Fairness and Transparency in the Tax System

When tax measures are not indexed to inflation, the effective tax burden on Canadians gradually increases. Taxpayers receive declining benefits even though Parliament has not expressly reduced those benefits. Similarly, eligibility thresholds and deduction limits become increasingly restrictive over time, not because of a deliberate policy choice, but because inflation has reduced their real value.

This phenomenon is effectively a form of "hidden taxation." Unlike an announced tax increase, it occurs without public debate, parliamentary scrutiny, or taxpayer awareness. Indexation promotes transparency by ensuring that any decision to increase taxes or reduce government support is made explicitly and accountably rather than indirectly through inflation.

3. Indexation Enhances Consistency, Certainty, and Confidence in the Tax System

The Act already contains a well-established indexation regime for many provisions, including personal income tax brackets and numerous benefit amounts. However, the decision to index some

[2] In Appendix 2, the Government of Canada average rate of inflation of 2.69 percent was used as a proxy indexation rate for 2025-2030.

provisions and not others has created inconsistencies that are difficult to justify from a policy perspective.

For example, RRSP contribution limits are indexed while RDSP contribution limits are not. Certain thresholds affecting individuals are indexed while many business, disability, and child-related measures are not. These inconsistencies create arbitrary differences in treatment and undermine confidence in the coherence of the tax system.

A comprehensive approach to indexation would promote greater consistency across the Act, reduce the need for periodic ad hoc legislative adjustments, and provide taxpayers with greater certainty that tax incentives and benefits will retain their intended value over time.

Conclusion

Inflation silently erodes the effectiveness of many tax provisions in the Act. In doing so, it invisibly undermines intended policy outcomes and increases the tax burden without explicit legislative intent. Extending indexation comprehensively across the Act would improve fairness, uphold Parliament's intent, and ensure that government programs delivered through the tax system remain relevant over time.

STEP Canada recommends that the Department of Finance prioritize the review and indexation of non-indexed tax measures, starting with those measures identified in Appendix 1, with a particular focus on provisions where inflation has materially reduced the intended benefit or where vulnerable taxpayers, small business owners, caregivers, and persons with disabilities are disproportionately affected. For greater certainty, while the items noted in Appendix 1 have initially been identified as priority items, it is our recommendation that all of the provisions should be adjusted to ensure accuracy, completeness, and continuity.

As a first step, the Department should update these provisions to their reasonable current-day amounts, and their inflation-adjusted equivalents, and provide for ongoing annual indexation using the formula set out in section 117.1 of the Act.[3]

Respectfully submitted,

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[3] The inflation-adjusted amounts may not reflect current market prices. For example, the cost of modifying a vehicle for wheelchair access now far exceeds the indexed limit of just $7,276.84.

APPENDIX 1 - Decline in Value of Benefit to 2025

Description	ITA References	Effective Year	Amount Last Legislated	Amount in 2025 if Indexed at Introduction (using 117.1 rates)	Shortfall Compared to Indexation	Percentage of Value Compared to Indexing	Decline in Value of Benefit
RDSP Contribution limit	146.4(4)(g)(iii)	2008	$ 200,000.00	$ 301,643.53	$ 101,643.53	66.30%	33.70%
Small business deduction	125(2)–(4), 125(7)	2009	$ 500,000.00	$ 739,322.37	$ 239,322.37	67.63%	32.37%
Amount of investment income where SBD grind starts	125(5.1)(b)	2019	$ 50,000.00	$ 63,031.15	$ 13,031.15	79.33%	20.67%
Amount of investment income where SBD is eliminated	125(5.1)(b)	2019	$ 150,000.00	$ 189,093.44	$ 39,093.44	79.33%	20.67%
Taxable capital employed in Canada to be large corporation	225.1(8)	1989	$ 10,000,000.00	$ 15,757,096.85	$ 5,757,096.85	63.46%	36.54%
Dividend allowance for Part VI.1 tax (preferred share dividends)	191.1(2)(a), 191.1(4)(a)	1988	$ 500,000.00	$ 962,997.28	$ 462,997.28	51.92%	48.08%
Minimum ACB and proceeds of personal-use property	46	1972	$ 1,000.00	$ 3,071.69	$ 2,071.69	32.56%	67.44%
Foreign assets, reporting requirement (T1135)	233.3(1) “reporting entity”	1998	$ 100,000.00	$ 177,217.78	$ 77,217.78	56.43%	43.57%
Limit for attendant care credit for disabled person using DTC	118.2(2)(b.1)	1997	$ 10,000.00	$ 17,704.07	$ 7,704.07	56.48%	43.52%
Limit for attendant care credit for disabled person using DTC - Year of Death	118.2(2)(b.1)	1997	$ 20,000.00	$ 35,408.15	$ 15,408.15	56.48%	43.52%
Maximum cost of wheelchair-access van for medical expense credit	118.2(2)(l.7)	1997	$ 5,000.00	$ 8,852.04	$ 3,852.04	56.48%	43.52%
Moving expenses for person with mobility impairment, medical expense credit	118.2(2)(l.5)	1997	$ 2,000.00	$ 3,540.81	$ 1,540.81	56.48%	43.52%
Maximum allowable for medical expense credit air conditioner for chronic ailment	Reg. 5700(c.3)	2000	$ 1,000.00	$ 1,770.41	$ 770.41	56.48%	43.52%
Child care expenses for children under age 7	63(3)(b)(i)	2015	$ 8,000.00	$ 12,602.47	$ 4,602.47	63.48%	36.52%
Child care expenses for children aged 7 - 16	63(3)(b)(ii)	2015	$ 5,000.00	$ 7,276.84	$ 2,276.84	68.71%	31.29%
Child care expenses for children of any age eligible for the DTC	63(3)(a)	2015	$ 11,000.00	$ 16,024.67	$ 5,024.67	68.64%	31.36%
Exempt reimbursement for housing loss on relocation	6(20)(a)	1999	$ 15,000.00	$ 26,556.11	$ 11,556.11	56.48%	43.52%
Instalment interest threshold below which no penalty applies	163.1(b)	1988	$ 1,000.00	$ 1,770.41	$ 770.41	56.48%	43.52%

APPENDIX 2 - Estimated Decline in Value of Benefit to End of 2030

Description	ITA References	Effective Year	Amount Last Legislated	Amount in 2025 if Indexed at Introduction	Projected 2030 using 117.1 to 2025 and 2.69% CPI from 2026 to 2030	Percentage of Value Compared to Indexing	Decline in Value of Benefit
RDSP Contribution limit	146.4(4)(g)(iii)	2008	$ 200,000.00	$ 301,643.53	$ 344,456.81	58.06%	41.94%
Small business deduction	125(2)–(4), 125(7)	2009	$ 500,000.00	$ 739,322.37	$ 844,256.90	59.22%	40.78%
Amount of investment income where SBD grind starts	125(5.1)(b)	2019	$ 50,000.00	$ 63,031.15	$ 71,977.37	69.47%	30.53%
Amount of investment income where SBD is eliminated	125(5.1)(b)	2019	$ 150,000.00	$ 189,093.44	$ 215,932.11	69.47%	30.53%
Taxable capital employed in Canada to be large corporation	225.1(8)	1989	$ 10,000,000.00	$ 15,757,096.85	$ 17,993,554.92	55.58%	44.42%
Dividend allowance for Part VI.1 tax (preferred share dividends)	191.1(2)(a), 191.1(4)(a)	1988	$ 500,000.00	$ 962,997.28	$ 1,099,678.75	45.47%	54.53%
Minimum ACB and proceeds of personal-use property	46	1972	$ 1,000.00	$ 3,071.69	$ 3,507.67	28.51%	71.49%
Foreign assets, reporting requirement (T1135)	233.3(1) “reporting entity”	1998	$ 100,000.00	$ 177,217.78	$ 202,370.90	49.41%	50.59%
Limit for attendant care credit for disabled person using DTC	118.2(2)(b.1)	1997	$ 10,000.00	$ 17,704.07	$ 20,216.87	49.46%	50.54%
Limit for attendant care credit for disabled person using DTC - Year of Death	118.2(2)(b.1)	1997	$ 20,000.00	$ 35,408.15	$ 40,433.75	49.46%	50.54%
Maximum cost of wheelchair-access van for medical expense credit	118.2(2)(l.7)	1997	$ 5,000.00	$ 8,852.04	$ 10,108.44	49.46%	50.54%
Moving expenses for person with mobility impairment, medical expense credit	118.2(2)(l.5)	1997	$ 2,000.00	$ 3,540.81	$ 4,043.37	49.46%	50.54%
Maximum allowable for medical expense credit air conditioner for chronic ailment	Reg. 5700(c.3)	2000	$ 1,000.00	$ 1,770.41	$ 2,021.69	49.46%	50.54%
Child care expenses per child under 7	63(3)(b)(i)	2015	$ 8,000.00	$ 12,602.47	$ 14,391.19	55.59%	44.41%
Child care expenses for children aged 7 - 16	63(3)(b)(ii)	2015	$ 5,000.00	$ 7,276.84	$ 8,309.66	60.17%	39.83%
Child care expenses for children of any age eligible for the DTC	63(3)(a)	2015	$ 11,000.00	$ 16,024.67	$ 18,299.11	60.11%	39.89%
Exempt reimbursement for housing loss on relocation	6(20)(a)	1999	$ 15,000.00	$ 26,556.11	$ 30,325.31	49.46%	50.54%
Instalment interest threshold below which no penalty applies	163.1(b)	1988	$ 1,000.00	$ 1,770.41	$ 2,021.69	49.46%	50.54%