It's 2024: Do you know what your tax rate is?

June 2024

Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

Tax rates can vary with differences in government legislation and your level and type of income. Do you know what your tax rate will be in 2024? This report will help you to understand how your income is taxed and why the “advertised” tax rate isn’t always what you end up paying.

Different tax rates

Canadian individuals pay taxes at graduated rates, meaning that your rate of tax gets progressively higher as your taxable income increases. Different tax rates apply based on federal and provincial and territorial rules.

Graduated federal tax rates

Figure 1 shows the federal tax rates that apply at various levels of taxable income for 2024.

Figure 1: Federal tax rates at varying levels of taxable income in 2024

Taxable income	2024
Up to $55,867	15.0%
Above $55,867 and up to $111,733	20.5%
Above $111,733 and up to $173,205	26.0%
Above $173,205 and up to $246,752	29.0%
Above $246,752	33.0%

For example, on the first $55,867 of taxable income, you would pay federal tax at a rate of 15%. In contrast, taxable income exceeding $246,752 is taxed at 33%.

Income inclusions, deductions and credits

While graduated tax rates are applied to "taxable income," not all income is included and certain amounts may be deducted in determining taxable income, thereby reducing the base to which marginal tax rates are applied.

Capital gains are an example of income that is only partially taxed. Unlike ordinary income (such as interest) that is fully included in taxable income, only a portion of total capital gains (after subtracting capital losses) are included, so the tax rate is lower than for ordinary income. For capital gains realized before June 25, 2024, the tax rate is 50% of the ordinary tax rate.[1] For capital gains realized starting on June 25, 2024 the tax rate is still 50% of the ordinary tax rate for the first $250,000 of total capital gains realized in a year but increases to 67% of the ordinary tax rate for total capital gains over $250,000 in a year.[2]

For example, let's say you realized capital gains of $10,000 from the sale of shares and had no other capital gains in the year. Only 50% of this amount ($5,000) would be taxed. If instead you earned interest income of $10,000, you would pay tax on the entire amount.

Common deductions that you may subtract from your total income, thereby decreasing your taxable income, include investment management fees for non-registered accounts, contributions to a Registered Retirement Savings Plan (RRSP) or First Home Savings Account (FHSA), and qualifying child care expenses.

In contrast to deductions, tax credits directly reduce the tax you pay after marginal tax rates have been applied to your taxable income. With tax credits, a fixed rate is applied to eligible amounts and the resultant credit amount offsets taxes payable. Figure 2 shows that when the federal tax credit rate of 15% is applied to a $1,000 amount, $150 of tax savings results.

Common federal non-refundable tax credits include the basic personal amount, the amount for a spouse or common-law partner, medical expenses and charitable donations.

A non-refundable tax credit is also available to investors who receive dividends from Canadian corporations, to recognize the fact that tax was already paid on the income by the corporation. "Eligible dividends" typically come from corporate income that was taxed at relatively high rates (such as general income) while non-eligible dividends generally come from corporate income that was taxed at lower rates (such as income that's eligible for the small business deduction).

1 For capital gains realized before June 25, 2024, one-half (50%) of capital gains are included in income, so the tax rate is 50% of the tax rate on ordinary income (the ordinary tax rate).

2 Under 2024 Federal Budget proposals, starting on June 25, 2024, two-thirds (67%) of total capital gains are included in income; however, for individuals, only one-half (50%) of the first $250,000 of total capital gains in a year (and the period from June 25 to December 31, 2024) are included in income.

Eligible dividends are most commonly received from Canadian publicly-traded companies or mutual funds that hold Canadian dividend-paying equities. An enhanced dividend tax credit is available to an individual who receives eligible dividends to compensate for the higher rate of tax that was paid in the corporation.

Non-eligible dividends would typically be received from a private Canadian corporation that paid tax on its corporate income at the lower, small business rate. Because tax is paid at a lower rate in the corporation, a lower dividend tax credit is available to an individual for non-eligible dividends.

Let’s look at an example that shows how a tax deduction yields tax savings at the marginal tax rate that varies with your income level, while a tax credit yields tax savings at a fixed rate. Suppose you have total income of $60,000 and claim either a $1,000 deduction (for example, an RRSP contribution) or claim a federal non-refundable credit for $1,000 (for example, CPP contributions). Figure 2 shows how deductions and credits reduce the tax that you pay.

The amount of the deduction is subtracted from income, so that this amount of income is not taxed. In Figure 2, a $1,000 tax deduction yields $205 of federal tax savings, calculated as the $1,000 deduction multiplied by the marginal tax rate that would have applied to the income (20.5%). Consequently, a deduction yields federal tax savings at your marginal tax rate.

Figure 2: Value of a $1,000 federal tax deduction and tax credit, in dollars

Description	No deduction or credit	Tax deduction	Tax credit
Total income	60,000	60,000	60,000
Deduction	0	(1,000)	0
Taxable income	60,000	59,000	60,000
Tax on $55,867 of income @ 15.0%	8,380	8,380	8,380
Tax on remaining income @ 20.5%	847	642	847
Total tax	9,227	9,022	9,227
Tax credit: $1,000 @ 15.0%	0	0	(150)
Tax payable	9,227	9,022	9,077
Value of deduction or credit		**205**	**150**

On the other hand the $1,000 of CPP contributions generates a federal non-refundable credit of 15%, yielding a federal tax savings of only $150. When you add provincial or territorial tax savings to the federal savings above, the total tax savings can range from about 20% for the combined credits to more than 50% for a deduction, depending on the province or territory of residence.

Marginal tax rate

Your marginal tax rate is the amount of tax you would pay on an extra dollar of income. In addition to graduated federal tax rates shown in Figure 1, provincial and territorial taxes are also graduated and applied to your taxable income before allowing for credits.

Figure 3 shows the combined federal and provincial and territorial marginal tax rates that apply to various types of income in 2024 for an individual with $50,000, $100,000 or $250,000 of taxable income, allowing for a 50% inclusion of capital gains and the dividend tax credit on eligible dividends.

Figure 3: Combined federal and provincial or territorial marginal tax rates with $50,000, $100,000 or $250,000 of ordinary income, capital gains with 50% inclusion or eligible dividends in 2024.

Region	$50,000 ordinary income	$50,000 capital gains (50% inclusion)	$50,000 eligible dividends	$100,000 ordinary income	$100,000 capital gains (50% inclusion)	$100,000 eligible dividends	$250,000 ordinary income	$250,000 capital gains	$250,000 eligible dividends
AB	25.00%	12.50%	2.57%	30.50%	15.25%	10.16%	47.00%	23.50%	32.93%
BC	22.70%	11.35%	(5.96%)	31.00%	15.50%	5.49%	49.80%	24.90%	31.44%
MB	27.75%	13.88%	6.53%	37.90%	18.95%	20.53%	50.40%	25.20%	37.78%
NB	29.00%	14.50%	(0.03%)	36.50%	18.25%	10.32%	52.50%	26.25%	32.40%
NL	29.50%	14.75%	11.29%	36.30%	18.15%	20.67%	52.80%	26.40%	43.44%
NS	30.48%	15.24%	9.12%	38.00%	19.00%	19.50%	54.00%	27.00%	41.58%
NT	20.90%	10.45%	(7.76%)	29.10%	14.55%	3.56%	47.05%	23.53%	28.33%
NU	19.00%	9.50%	(2.11%)	27.50%	13.75%	9.62%	44.50%	22.25%	33.08%
ON	20.05%	10.03%	(6.86%)	31.48%	15.74%	8.92%	53.53%	26.76%	39.34%
PE	28.63%	14.32%	4.29%	37.15%	18.58%	16.05%	51.75%	25.88%	36.20%
QU	26.53%	13.26%	3.15%	37.12%	18.56%	17.39%	53.31%	26.65%	40.11%
SK	25.50%	12.75%	(0.72%)	33.00%	16.50%	9.63%	47.50%	23.75%	29.64%
YT	21.40%	10.70%	(7.78%)	29.50%	14.75%	3.40%	45.80%	22.90%	25.89%

Source: Tax Templates Inc., June 2024[3]

For example, Figure 3 shows that in Alberta in 2024, the marginal tax rate for an individual who earns $50,000 of ordinary income is 25.00% (15.00% federal rate plus a 10.00% Alberta provincial tax rate). When 50% of capital gains are included in taxable income, the marginal tax rate for capital gains is 12.50%, or 50% of the marginal tax rate for ordinary income. And, due to the dividend tax credit, the marginal tax rate for eligible dividends is just 2.57%.

[3] This table assumes that all income up to the bracket calculation is other income, capital gains with 50% inclusion, or eligible dividends, and that marginal rates include federal and provincial or territorial taxes, and surtaxes. The amounts also include the basic personal amounts, dividend tax credits, and provincial tax rate reductions (where applicable).

Average tax rate

The average tax rate is simply calculated as the amount of tax you pay, divided by your total income. So, for the same individual in Alberta who earns $50,000 of ordinary income, the combined federal and provincial tax liability in 2024 would be $7,956, allowing for only the basic personal credit. This results in an average tax rate of 15.91% ($7,956 divided by $50,000), which is significantly below the 25.00% marginal rate.

Figure 4 compares the marginal and average tax rates for various levels of ordinary income across the provinces and territories in 2024.

Figure 4: Marginal and average tax rates[4] with $50,000, $100,000 or $250,000 of ordinary income in 2024

Region	$50,000 marginal tax rate	$50,000 average tax rate	$100,000 marginal tax rate	$100,000 average tax rate	$250,000 marginal tax rate	$250,000 average tax rate
AB	25.00%	15.91%	30.50%	22.88%	47.00%	32.71%
BC	22.70%	14.19%	31.00%	20.99%	49.80%	33.80%
MB	27.75%	17.80%	37.90%	25.20%	50.40%	36.93%
NB	29.00%	17.24%	36.50%	25.55%	52.50%	37.14%
NL	29.50%	17.89%	36.30%	26.30%	52.80%	37.45%
NS	30.48%	19.84%	38.00%	28.21%	54.00%	39.59%
NT	20.90%	14.14%	29.10%	21.28%	47.05%	32.86%
NU	19.00%	12.79%	27.50%	19.72%	44.50%	30.41%
ON	20.05%	15.29%	31.48%	22.41%	53.53%	36.55%
PE	28.63%	18.71%	37.15%	27.18%	51.75%	38.38%
QC	26.53%	17.84%	37.12%	27.01%	53.31%	39.89%
SK	25.50%	16.91%	33.00%	24.59%	47.50%	34.55%
YT	21.40%	14.68%	29.50%	21.61%	45.80%	32.13%

Source: Tax Templates Inc., June 2024

Let’s take a look at three examples and review how the type of income you earn can have a significant impact on your marginal and average tax rates.

Example 1

Angelica lives in B.C. and earns $50,000 of ordinary income in 2024. She will pay $7,093 in tax, yielding an average tax rate of 14.19% ($7,093 divided by $50,000). Her marginal tax rate would be 22.70% on each additional dollar of ordinary income. On capital gains up with a one-half inclusion rate, her marginal tax rate would 11.35% while on Canadian eligible dividend income, her marginal tax rate would be (5.96%).

[4] Assuming that all income up to the bracket calculation is other income, capital gains with 50% inclusion, or eligible dividends, and that marginal rates include federal and provincial or territorial taxes, and surtaxes. The amounts also include the basic personal amounts, dividend tax credits, and provincial tax rate reductions (where applicable).

Example 2

Eliza lives in Ontario and earns $50,000 of investment income in 2024, comprised of $10,000 of interest income, $20,000 of realized (gross) capital gains and $20,000 of Canadian eligible dividends. Her total tax bill would be $639[5] and her average tax rate only 1.28% ($639 divided by $50,000). The reason for such a low effective rate stems primarily from the dividend tax credit, which can be applied not only against the tax generated on the dividend, but also against some of the tax generated on the capital gains and interest.

Example 3

Peggy lives in Manitoba and earns $50,000 of ordinary income, contributes $5,000 to an RRSP and has $5,000 of tuition credit amount carryforward from when she was a student. She makes $1,200 in charitable donations annually. Her 2024 tax bill would be $6,284, resulting in an average tax rate of 12.57%.

Conclusion

We can see from the examples above that, while all three taxpayers had $50,000 of income, their average tax rates ranged from 1.28% (Eliza) to 14.19% (Angelica). We can see that both the type of income (for example, employment, dividends and capital gains) and the opportunity to claim various deductions (for example, RRSP contribution) and credits (for example, tuition, donation) all can have a significant impact on your average tax rate and the tax you ultimately pay.

Marginal effective tax rate

There is a third type of rate that must also be kept in mind for some taxpayers: the Marginal Effective Tax Rate (METR). Similar to the marginal tax rate, the METR looks at the amount of tax paid on an additional dollar of income, taking into account the statutory federal and provincial income tax bracket thresholds and rates; however, the METR goes a step further by also considering the potential loss of income-tested tax deductions, credits and government benefits. That is, many government benefits, credits and programs are based on net income and are substantially or even totally reduced as your income gets higher.

For instance, both the “age credit” and the Goods and Services Tax / Harmonized Sales Tax (GST / HST) credit are income-tested, as is the Guaranteed Income Supplement (GIS), and Old Age Security (OAS) benefit payments (see Figure 5). As income increases, these credits and benefits may be reduced or even eliminated altogether.

Figure 5: A sample of various 2024 federal income tested benefits and credits, in dollars[6]

Benefit	Maximum value	Income at which recovery or reduction begins	Income at which benefits or credits are eliminated
Old Age Security pension, up to age 75	8,590	90,997	148,264
Old Age Security pension, over age 75	9,449	90,997	153,991
Guaranteed Income Supplement – Single	12,830	0	21,768[7]
Age credit (federal)	1,319	44,325	102,925
GST / HST credit – Single	519	44,324	54,704

5 Excludes the Ontario Health Premium.

6 Figure 5 shows Old Age Security (OAS) and Guaranteed Income Supplement (GIS) amounts for the third quarter of 2024, and GST / HST Credit amounts for the period from July 2024 to June 2025.

7 Does not include the OAS pension, the first $5,000 of employment or self employment income and 50% of employment or self employment income between $5,000 and $15,000.

For example, in 2024, the OAS recovery tax (sometimes referred to as "clawback") begins when income is over $90,997 and results in the OAS being fully recovered once income reaches $148,264 for recipients up to age 75 ($153,991 for recipients over age 75). The recovery tax of OAS alone can produce METRs of well over 50%, depending on your income and province of residence.

Withdrawals from a TFSA (unlike RRSP or RRIF withdrawals) are not considered "income" and do not impact federal income-tested benefits, such as the OAS. The potential for a future OAS recovery tax can sometimes influence the decision on whether to currently contribute to a TFSA or an RRSP. Similarly, future eligibility for the GIS and age credit may also impact such a decision.

It's not just top income earners who face high METRs with loss of government benefits, since many benefit programs target lower-income individuals and families. For example, the Canada Child Benefit provides up to $7,787 for each child under age six and up to $6,570 for each child between ages 6 and 17; however, it is phased out based on the number of children and adjusted family net income.

One C.D. Howe Institute report[8] found that, "In some cases, the lower-earning parent in a dual-earner family with three children might lose more than 80 cents of an extra dollar of earnings, and an unemployed parent could lose more than 60 percent of a prospective salary from taking on a job."

Failing to consider your METR, along with your marginal and average tax rates, in your financial planning discussions may lead to unintended consequences down the road.

Jamie Golombek, FCPA, FCA, CPA (IL), CFP, CLU, TEP is the Managing Director, Tax and Estate Planning with CIBC Private Wealth, Toronto.

jamie.golombek@cibc.com

---

8 "Softening the Bite: The Impact of Benefit Clawbacks on Low-Income Families and How to Reduce It ", Alexandre Laurin and Nicholas Dahir, C.D. Howe Institute, November 2022, which is available online at cdhowe.org/sites/default/files/2022-11/Final%20Commentary_632.pdf.