



Investment Industry Association of Canada Association canadienne du commerce des valeurs mobilières

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## PERSONAL INCOME TAX CUTS ARE NOW A MUST

March 18, 2025

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# INTRODUCTION

The Investment Industry Association of Canada (IIAC) advocates for smart public policies and regulatory reforms that:

- Stimulate entrepreneurship,
- Enable Canadian businesses to prosper and compete both here and internationally,
- Encourage foreign direct investment,
- Promote savings and investment,
- Enhance economic opportunities for Canadians and,

A pro-growth tax regime can be a catalyst for positive change.

In December 2024, the IIAC published a paper titled, *Get On With Pro-Growth Business Tax Reform*.

The focus of this paper is on personal income taxes, as they apply to labour income, with the emphasis on marginal tax rates – the rate that applies on the next dollar earned. These rates are too high, and discourage additional work, investment, and risk-taking, as the reward for earning more is diminished.

# EXECUTIVE SUMMARY

The U.S. imposition of hefty tariffs demands bold policy measures to strengthen the resilience and competitiveness of Canada's economy. A powerful move would be to cut personal and business tax rates to drive new consumer spending, spark business investment, fuel entrepreneurship, and make Canada a top destination for businesses and high-skilled workers.

In his March 4, 2025 [speech](#) to a joint session of Congress, President Donald Trump pronounced “the next phase of our plan to deliver the greatest economy in history is for this Congress to pass tax cuts for everybody. ...We're seeking permanent income tax cuts all across the board and to get urgently needed relief to Americans hit especially hard by inflation.”

Canadians need relief too:

- Combined federal-provincial top marginal personal income tax rates are over 50% in the majority of Canadian provinces.
- Combined top marginal tax rates in the provinces of Newfoundland and Labrador, Nova Scotia, Ontario, British Columbia, Quebec and New Brunswick are among the highest in the Organisation for Economic Co-operation and Development (OECD)-member countries, with only Austria, Denmark, France and Japan having slightly higher rates.<sup>1</sup>

- Canada's marginal income tax rates are generally uncompetitive compared to those in the U.S. across a variety of income levels and jurisdictions.
- Roughly 36% of Canada's tax revenue is raised from personal income taxes compared to an OECD average of 23.6%.<sup>2</sup>

According to the paper, [What Are the Economic Costs of Raising Revenue by the Canadian Federal Government?](#) published by the Fraser Institute, an additional dollar of tax revenue raised through the federal personal income tax costs Canadian society \$2.86 due to the negative behavioural responses<sup>3</sup> associated with tax increases. The cost to society of raising an additional dollar of tax revenue through provincial income taxes is much higher in Canada's largest provinces. Yet, Canada relies heavily on personal income taxes to generate revenue.

Canadian governments are choking the economy with high tax rates, an unpleasant situation to be in for an economy shaken by trade wars.

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<sup>1</sup> [OECD Data Explorer • Personal income tax - top statutory rate and marginal tax rate for employees at the earnings threshold where the top statutory personal income tax rate first applies](#). Federal and sub-national combined.

<sup>2</sup> [Brochure: Revenue Statistics 2024 | OECD](#). November 21, 2024.

<sup>3</sup> See, for example, [Costing personal income tax changes: the role of the elasticity of taxable income | Office of the Parliamentary Budget Officer, November 5, 2024](#). High tax rates may discourage individuals from working longer hours or seeking higher-paying jobs when a large portion of additional income is taxed away. Individuals may perceive that the effort or time spent on additional work is not worth. High marginal tax rates also discourage saving, investment and entrepreneurship. The ability to respond to taxation increases significantly at the very top of the distribution. See also [The Effects on Entrepreneurship of Increasing Provincial Top Personal Income Tax Rates in Canada | Fraser Institute](#).

Table 1

## Canada - Federal and Provincial/Territorial Income Tax Rates and Taxable Income Thresholds – 2025

Federal 		British Columbia 		Alberta <sup>4</sup> 	
< \$57,375	15.0%	< \$49,279	5.06%	< \$60,000	8.0%
\$57,375 - \$114,750	20.5%	\$49,279 - \$98,560	7.7%	\$60,000 - \$151,234	10.0%
\$114,750 - \$177,882	26.0%	\$98,560 - \$113,158	10.5%	\$151,234 - \$181,481	12.0%
\$177,882 - \$253,414	29.0%	\$113,158 - \$137,407	12.29%	\$181,481 - \$241,974	13.0%
> \$253,414	33.0%	\$137,407 - \$186,306	14.7%	\$241,974 - \$362,961	14.0%
		\$186,306 - \$259,829	16.8%	> \$362,961	15.0%
		> \$259,829	20.5%		
Saskatchewan 		Manitoba 		Ontario <sup>5</sup> 	
< \$53,463	10.5%	< \$47,564	10.8%	< \$52,886	5.05%
\$53,463 - \$152,750	12.5%	\$47,564 - \$101,200	12.75%	\$52,886 - \$105,775	9.15%
> \$152,750	14.5%	> \$101,200	17.4%	\$105,775 - \$150,000	11.16%
				\$150,000 - \$220,000	12.16%
				> \$220,000	13.16%
Quebec <sup>6</sup> 		New Brunswick 		Nova Scotia 	
< \$53,255	14.0%	< \$51,306	9.4%	< \$30,507	8.79%
\$53,255 - \$106,495	19.0%	\$51,306 - \$102,614	14.0%	\$30,507 - \$61,015	14.95%
\$106,495 - \$129,590	24.0%	\$102,614 - \$190,060	16.0%	\$61,015 - \$95,883	16.67%
> \$129,590	25.75%	> \$190,060	19.5%	\$95,883 - \$154,650	17.5%
				> \$154,650	21.0%
Prince Edward Island 		Newfoundland & Labrador 		Nunavut 	
< \$33,328	9.5%	< \$44,192	8.7%	< \$54,707	4.0%
\$33,328 - \$64,656	13.47%	\$44,192 - \$88,382	14.5%	\$54,707 - \$109,413	7.0%
\$64,656 - \$105,000	16.6%	\$88,382 - \$157,792	15.8%	\$109,413 - \$177,881	9.0%
\$105,000 - \$140,000	17.62%	\$157,792 - \$220,910	17.8%	> \$177,881	11.5%
> \$140,000	19.0%	\$220,910 - \$282,214	19.8%		
		\$282,214 - \$564,429	20.8%		
		\$564,429 - \$1,128,858	21.3%		
		> \$1,128,858	21.8%		
Northwest Territories 		Yukon 			
< \$51,964	5.9%	< \$57,375	6.4%		
\$51,964 - \$103,930	8.6%	\$57,375 - \$114,750	9.0%		
\$103,930 - \$168,967	12.2%	\$114,750 - \$177,882	10.9%		
> \$168,967	14.05%	\$177,882 - \$500,000	12.8%		
		> \$500,000	15.0%		

Data Source: Canada Revenue Agency, [Tax rates and income brackets for individuals - Canada.ca](https://www.cra.gc.ca/tax-rates-and-income-brackets-for-individuals); Revenu Québec, [Income Tax Rates](https://www.revenu.qc.ca/taux-et-brackets-revenus).

<sup>4</sup> In its February 28, 2025 provincial budget, the Alberta government introduced a new 8.0% income tax bracket on the first \$60,000 of income effective January 1, 2025.

<sup>5</sup> The Ontario surtax increases the 13.16% top marginal tax rate to 20.53%. If the basic provincial tax payable is less than or equal to \$5,710, the surtax is \$0. If basic provincial tax payable is in the \$5,710 to \$7,307, the surtax is 20% of the basic provincial tax payable over \$5,710. If the basic provincial tax payable is greater than \$7,307, the surtax is 20% of the basic provincial tax payable over \$5,710, plus 36% of the basic provincial tax payable over \$7,307.

<sup>6</sup> Because Quebec collects its own tax, federal income tax for Quebec residents is reduced by 16.5% of basic federal tax.

# TOP MARGINAL PERSONAL INCOME TAX RATES – CANADA-U.S. COMPARISONS

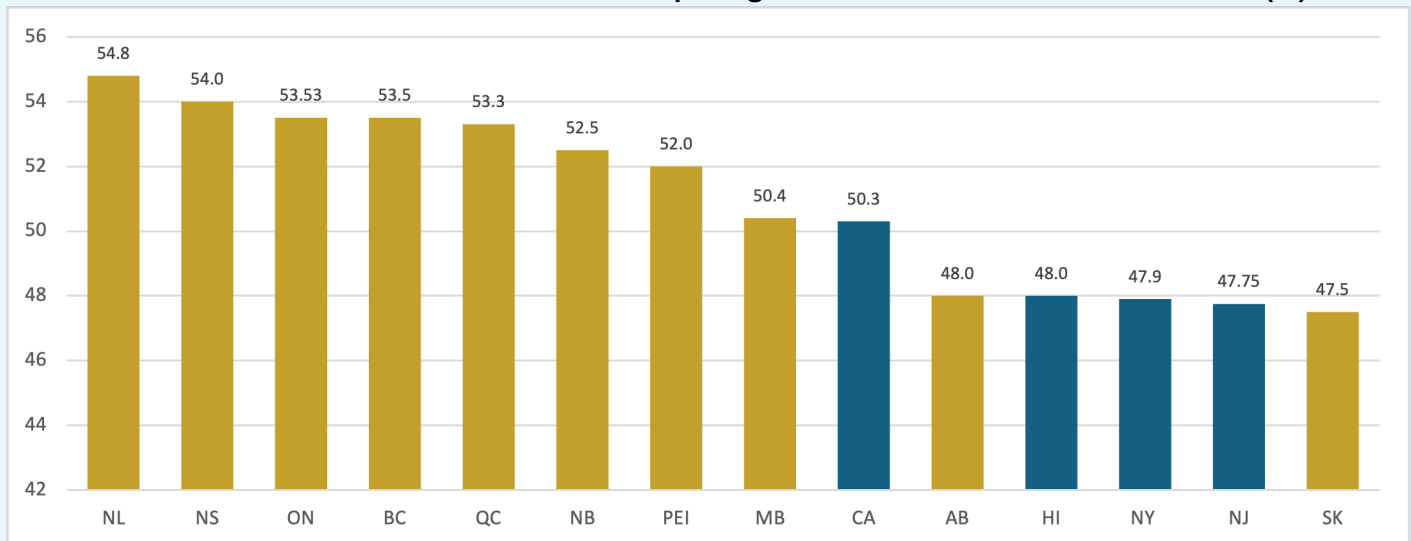
Among Canada’s provinces, top marginal personal income tax rates (federal-provincial combined) range from 47.5% (Saskatchewan) to 54.8% (Newfoundland and Labrador). See Chart 1.

In the U.S., nine states (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming) levy no individual tax on wages and salaries – taxpayers in these states face a federal top personal income tax rate of 37%. In states that levy income taxes, combined top federal-state income tax rates range from a low of 39.5% in Arizona and North Dakota to a high of 50.3% in California.<sup>7</sup> A minority of cities and counties also impose local income taxes.<sup>8</sup> State and local income taxes (SALT)<sup>9</sup> are generally a deductible expense for federal income tax purposes, with the deduction capped at U\$10,000. In Canada, provincial and territorial taxes are not deductible when computing federal, provincial, or territorial taxable income.

Chart 1 shows the jurisdictions (provinces and states) with the highest top marginal tax rates on labour income (federal-provincial or federal-state combined).<sup>10</sup> The other forty-six U.S. states (not shown) have lower rates than those shown in the chart suggesting that Canada’s top personal income tax rates are overwhelmingly not competitive with the U.S.

Chart 1

**Combined Federal-Provincial and Federal-State Top Marginal Personal Income Tax Rates - 2025 (%)**



Canadian data: IIAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Ontario surtax included in the calculations. Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IIAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets | Tax Foundation](#), February 18, 2025; Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filer). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

<sup>7</sup> [2025 State Income Tax Rates and Brackets | Tax Foundation](#), February 18, 2025. Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filer).

<sup>8</sup> [Local Income Taxes: A Primer | Tax Foundation](#), February 23 2023.

<sup>9</sup> The SALT deduction includes property, income and sales taxes. Anyone that itemizes can deduct property taxes, but most choose between deducting their state and local income taxes or sales taxes.

<sup>10</sup> California (CA) has a top combined (federal-state) marginal personal income tax rate of 50.3%, Hawaii (HI) 48.0%, New York (NY) 47.9%, and New Jersey (NJ) 47.75%.

# COMPETITION FOR SKILLED LABOUR

Marginal tax rates, especially as they apply to higher incomes, are a contributing factor to the migration of high-skilled workers from Canada to the U.S.<sup>11</sup> Canada's social amenities (universal health care and education programs, for example) have a higher potential to impact the decisions of those on the lower end of the income spectrum – they are more likely to stay in Canada as the cost of accessing these programs in the U.S. is substantially higher.

In recent years, there has been a notable trend of Canadians relocating to the U.S. According to the U.S. Census Bureau, American Community Survey, in 2023 (most recent data available) there were 823,584 Canadian-born individuals living in the U.S.<sup>12</sup> Figure 1 shows the top metropolitan destinations for Canadian-born immigrants in the U.S.

Characteristics of the Canadian-born immigrant population in the U.S.:<sup>13</sup>

- 24.1% have a graduate or professional degree; 28.0% have a bachelor's degree, while 26.0% have a college or associate degree. Canadian immigrants are more likely to be highly educated compared to the U.S. and other foreign-born population.
- 56.4% were employed in 2023.
- 67.1% were employed in management, business, science, and arts occupations; 16.0% in sales and office positions; 7.9% in the service sector; 5.3% in production, transportation, and material moving occupations; and 3.7% in natural resources, construction, and maintenance occupations.

In recent years, Canadians received the third-largest number of U.S. employer-sponsored H-1B temporary (non-immigrant) visas. The [H-1B program](#) allows U.S. employers to temporarily employ foreign workers in fields that require highly specialized knowledge (theoretical and practical application) and a bachelor's degree or higher – for example, in engineering, technology, mathematics, physical sciences, social sciences, medicine and health, education, business specialties, and the arts. Typically, the initial duration of an H-1B visa classification is three years, which may be extended to a maximum of six years. According to the [American Immigration Council](#), the median wage of a H-1B worker was US\$108,000 (approximately C\$154,000), compared to US\$45,760 for U.S. workers in general.

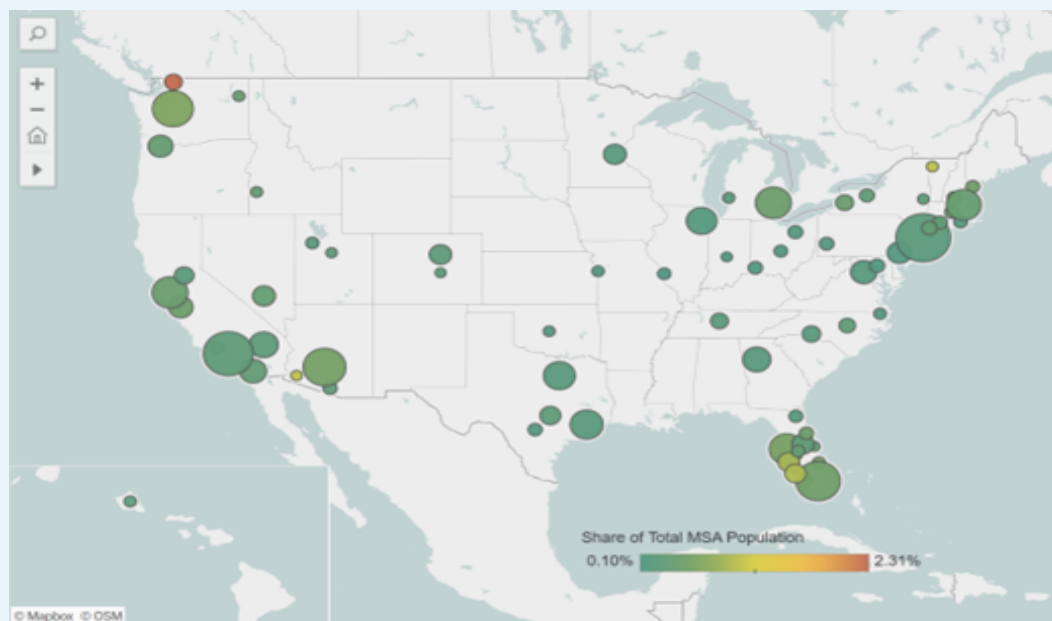
<sup>11</sup> See A. Kristina Zvinys. [Evidence Suggests that Tax Rates Influence Migration Decisions](#). Tax Foundation. 2020. See also Don J. DeVoretz and Chona Iturralde. Why Do Highly Skilled Canadians Stay In Canada. Policy Options. 2001.

<sup>12</sup> U.S. Department of Commerce, U.S. Census Bureau, 2019-2023 American Community Survey 5-year Estimates, [B05006 - Census Bureau Table](#). The UK is home to the second largest population of Canadians – roughly 108,000.

<sup>13</sup> Selected characteristics of the foreign-born population are available here [S0504 - Census Bureau Table](#).

Figure 1

### Top Metropolitan Destinations for Canadian-Born Immigrants in the United States, 2019-2023



Map created by the [Migration Policy Institute](#). The Migration Policy Institute tabulated the data from the U.S. Census Bureau's pooled 2019-2023 American Community Survey. [U.S. Immigrant Population by Metropolitan](#)

The U.S. locations (see Figure 1) with the largest concentration of Canadian-born immigrants that offer attractive job opportunities for workers with specialized skills are as follows:

- Silicon Valley, Seattle, Austin, Phoenix/Tucson are attractive locations for individuals with specialized skills in technology and IT, including software engineering, cybersecurity, data science, AI, consulting, and aerospace. These locations may be a draw for high-skilled workers from several Canadian provinces that have thriving tech ecosystems, e.g., in British Columbia, Ontario, Quebec, and Saskatchewan.
- New York City, Chicago and San Francisco have been destinations for finance, banking, business and management professionals. Ontario has a high concentration of such professionals.
- Houston and Denver attract professionals specializing in oil and gas, clean tech, and engineering. They offer competition for mobile, high-skilled labour from Alberta, Saskatchewan, Newfoundland & Labrador, and Nova Scotia, for example.
- New York City, Los Angeles, Boston and Chicago have high demand for healthcare professionals. Manitoba, Ontario, Quebec and New Brunswick, for example, have expertise in health and life sciences and may be competing for this labour pool.
- Illinois' and Michigan's manufacturing and technology sectors employ skilled workers in engineering, production, logistics, robotics, automation, and manufacturing technologies. Several Canadian provinces specialize in these areas, including Manitoba, Saskatchewan, Ontario, and Quebec, for example.



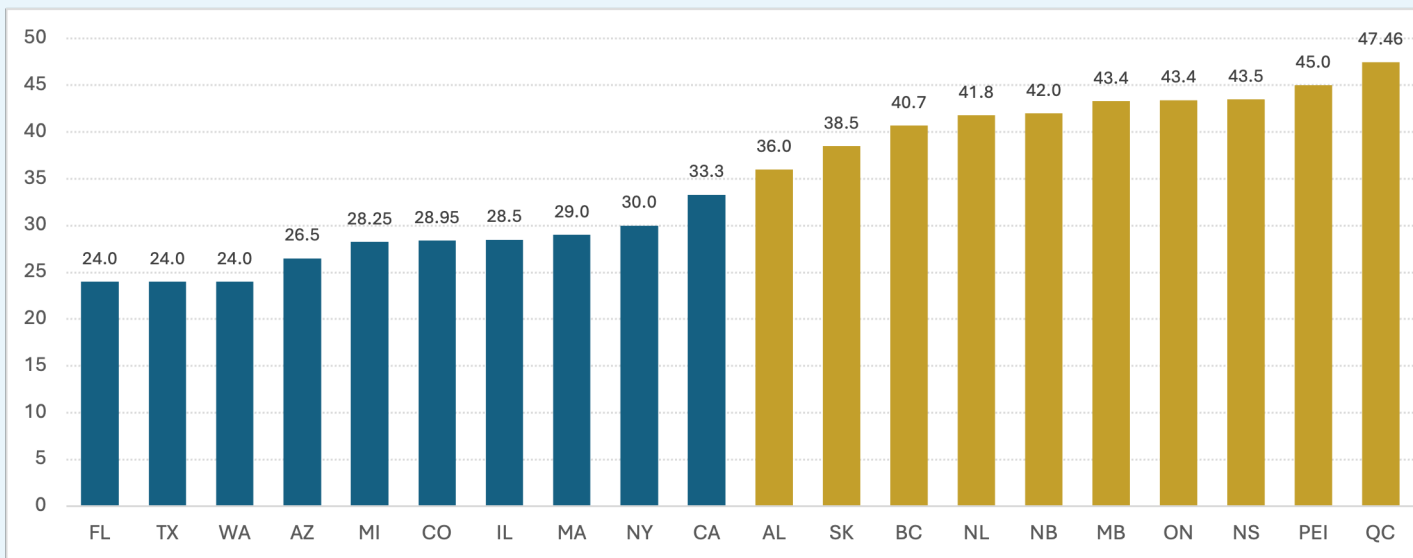
# IS CANADA AT A COMPETITIVE DISADVANTAGE TO THE U.S. WHEN IT COMES TO ATTRACTING AND RETAINING HIGH-SKILLED, MOBILE WORKERS?

From a tax perspective, the answer appears to be yes. And this is the case across jurisdictions and a variety of income levels.

An individual with taxable income of C\$150,000 or US\$105,000 (roughly the median wage of a H-1B worker in the U.S.) faces higher combined marginal personal income tax rates in every Canadian province compared to a worker in Florida (FL), Texas (TX), Washington (WA), Arizona (AZ), Michigan (MI), Colorado (CO), Illinois (IL), Massachusetts (MA), New York (NY), and California (CA) – top destinations for Canadian immigrants and temporary workers. See Chart 2.

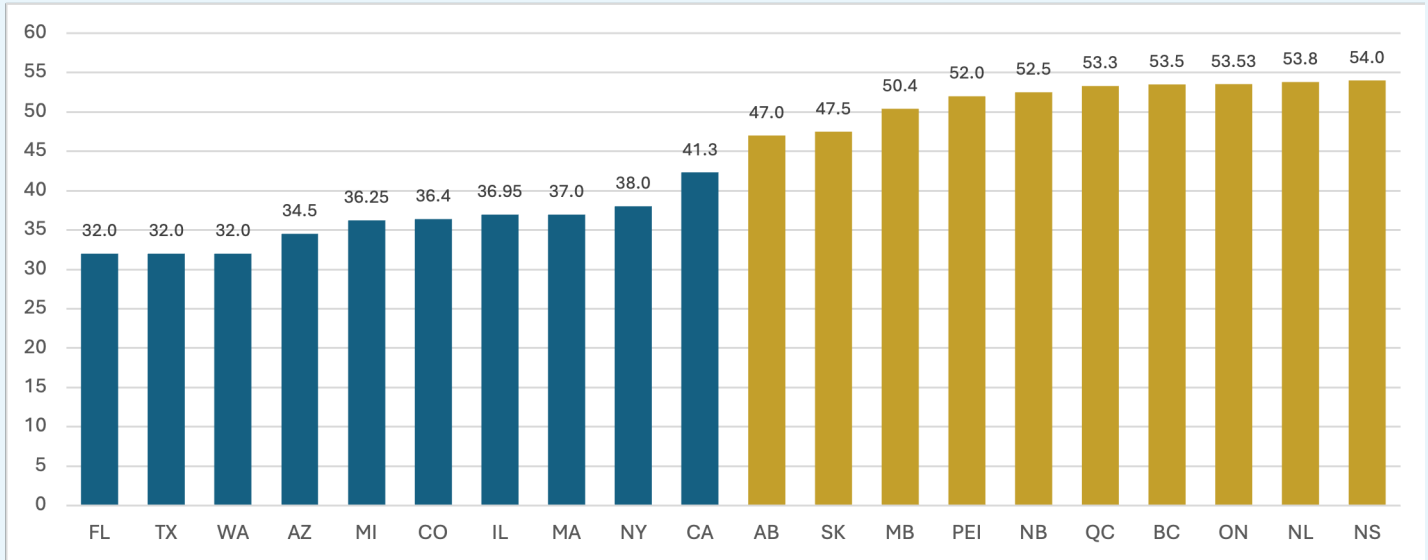
Canada’s marginal income tax rates are also uncompetitive at other levels of income – C\$300,000 (US\$210,000); C\$200,000 (US\$140,000); C\$100,000 (US\$70,000); C\$75,000 (US\$52,000); and C\$50,000 (US\$35,000). See Charts 3 through 7.

Chart 2  
**Combined Marginal Tax Rates at C\$150,000 (US\$105,000)**



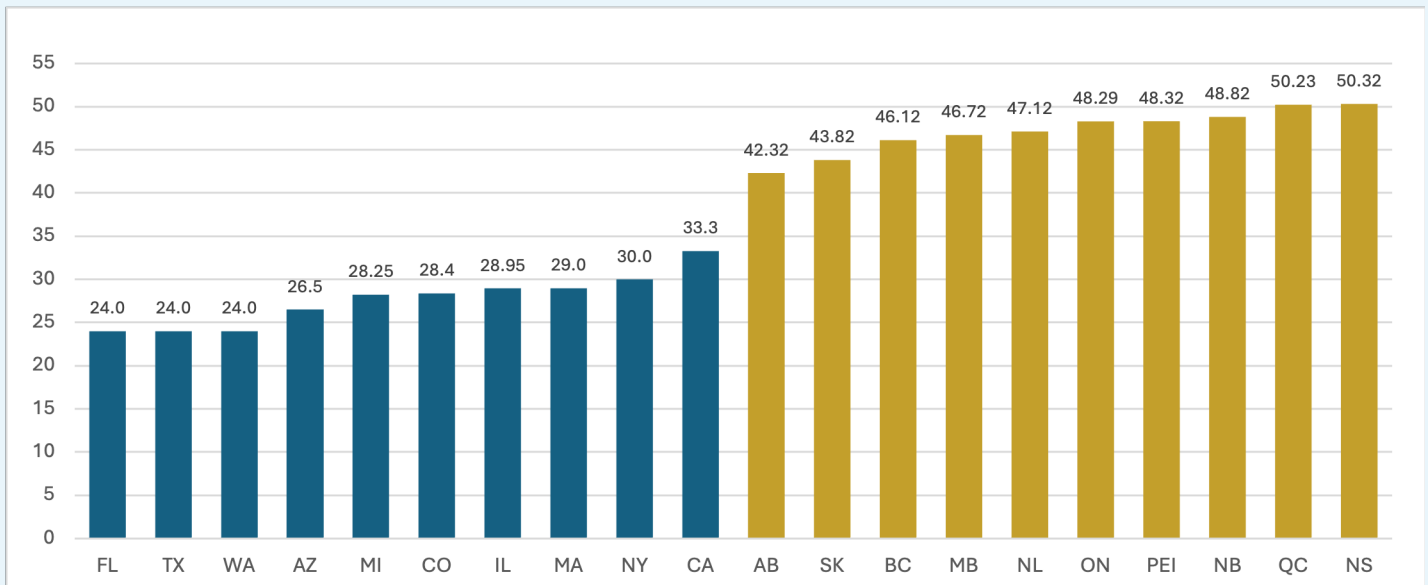
Canadian data: IAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Ontario surtax included in the calculations. Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

**Chart 3**  
**Combined Marginal Tax Rates at C\$300,000 (US\$210,000)**



Canadian data: IAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Ontario surtax included in the calculations. Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

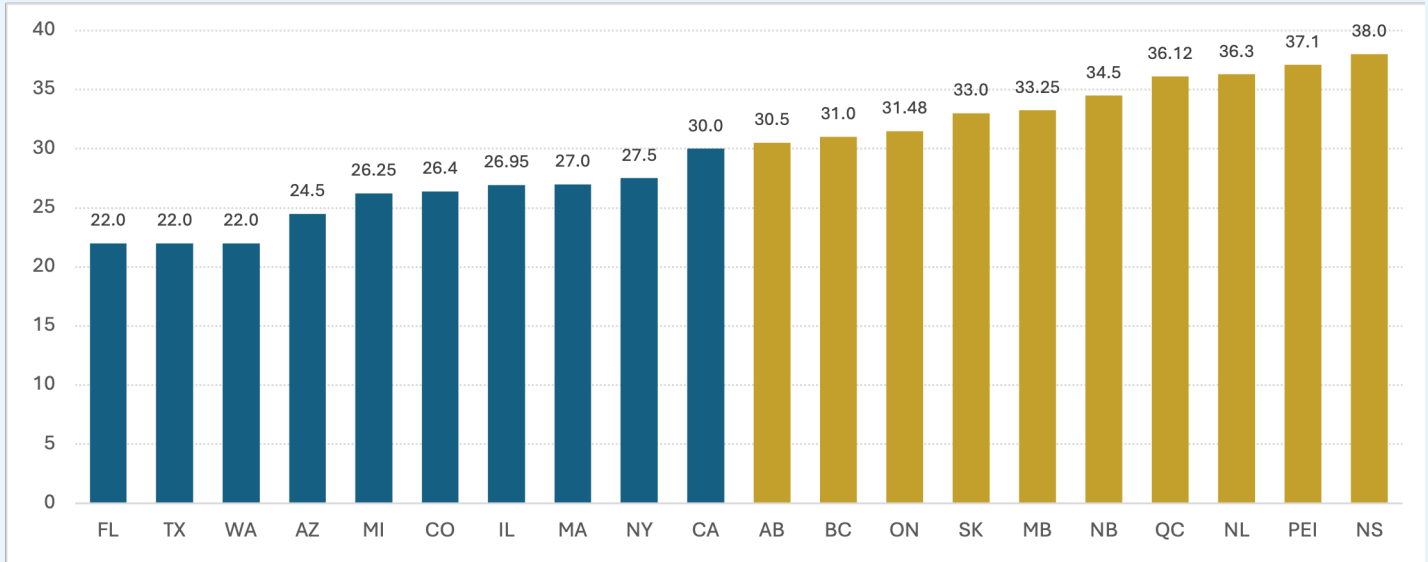
**Chart 4**  
**Combined Marginal Tax Rates at C\$200,000 (US\$140,000)**



Canadian data: IAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Ontario surtax included in the calculations. Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

Chart 5

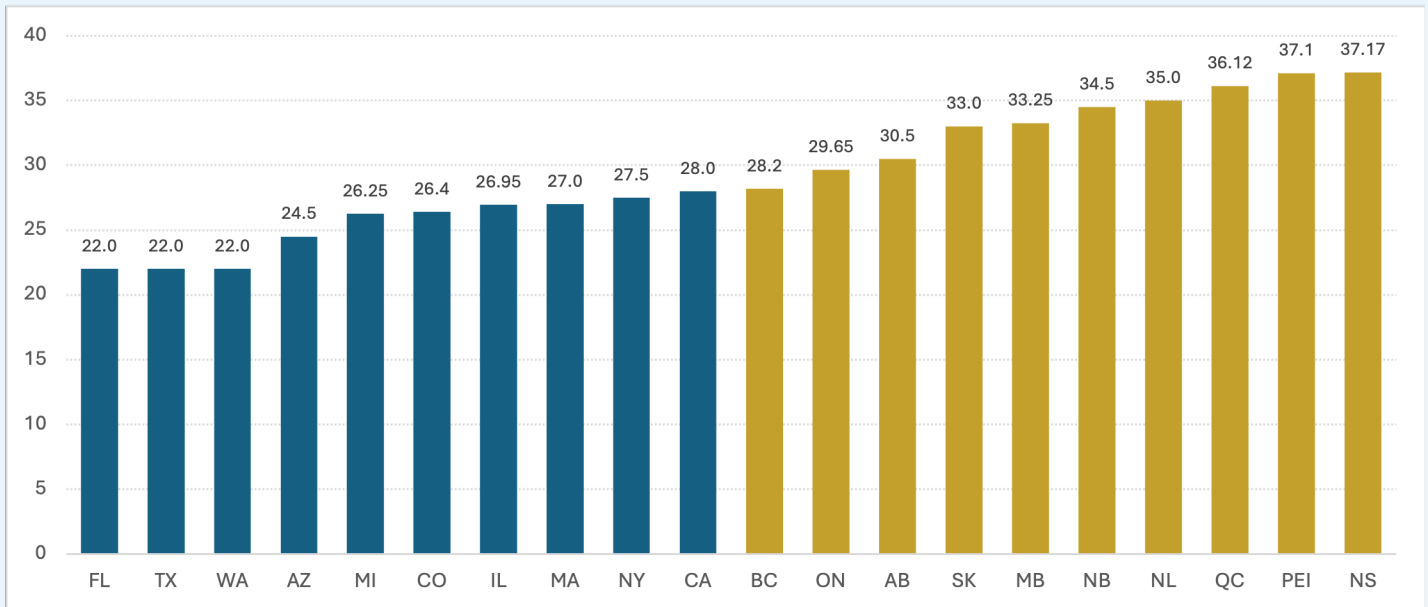
**Combined Marginal Tax Rates at C\$100,000 (US\$70,000)**



Canadian data: IAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

Chart 6

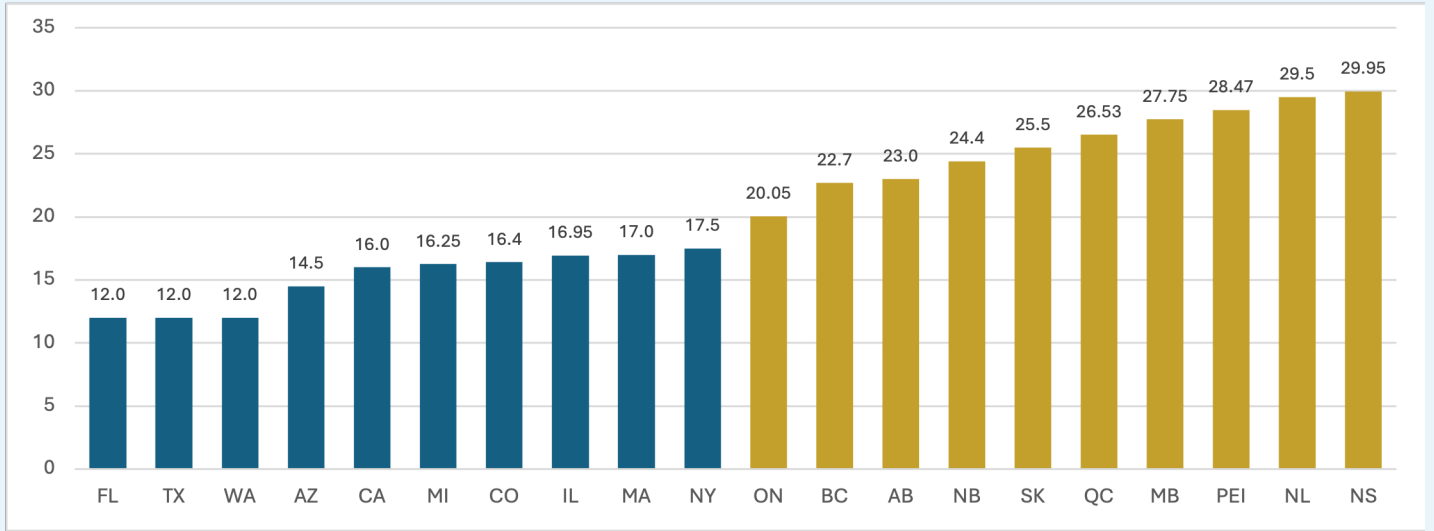
**Combined Marginal Tax Rates at C\$75,000 (US\$52,500)**



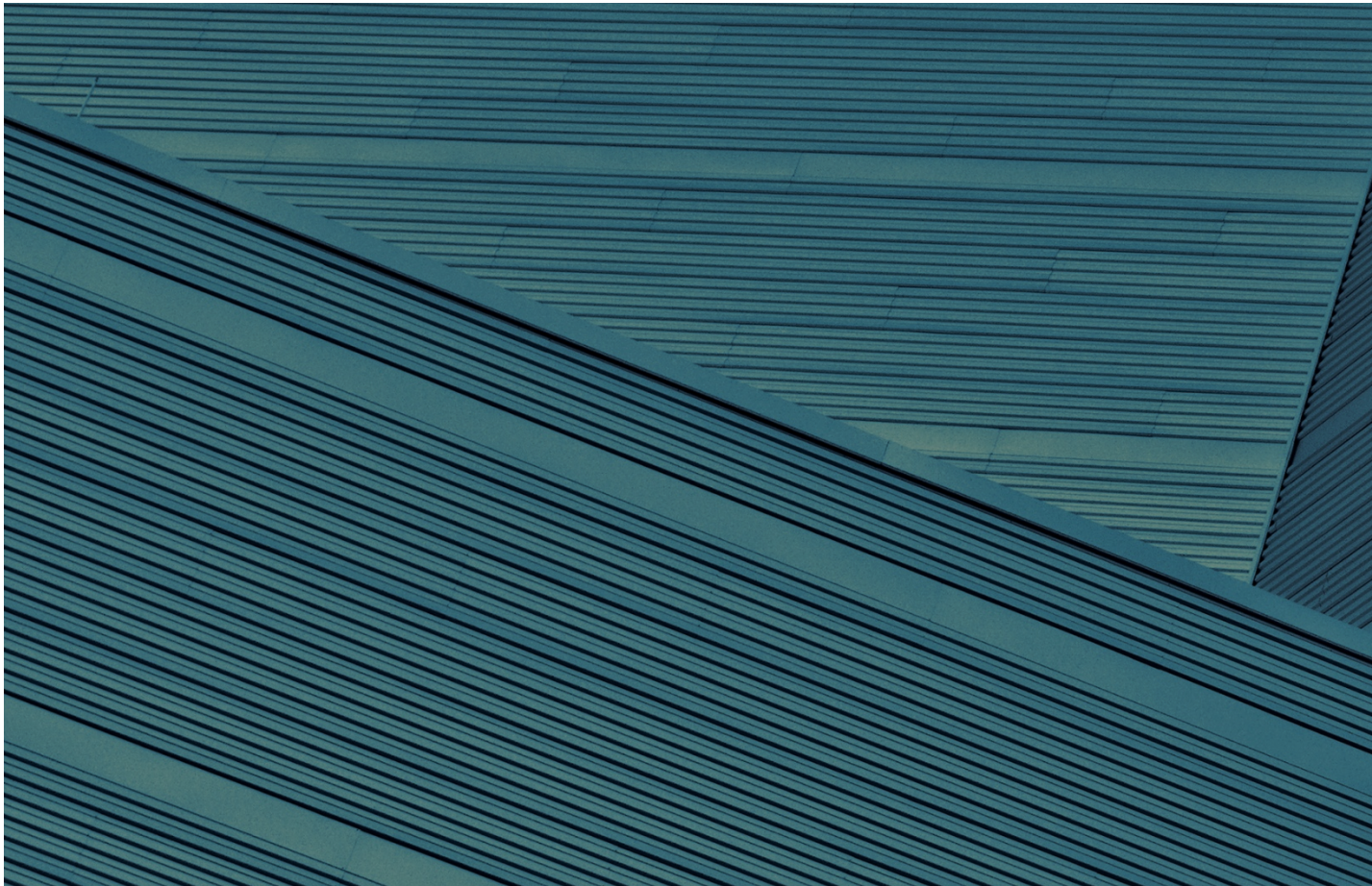
Canadian data: IAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.

Chart 7

**Combined Marginal Tax Rates at C\$50,000 (US\$35,000)**



Canadian data: IIAC calculations based on data from Canada Revenue Agency (CRA), [Tax rates and income brackets for individuals - Canada.ca](#); Revenu Québec, [Income Tax Rates](#). Quebec federal tax rate adjusted to account for federal abatement. U.S. data: IIAC calculations based on data from the Tax Foundation, [2025 State Income Tax Rates and Brackets](#); Internal Revenue Service (IRS) [Revenue Procedure 24](#) (for single filers). The combined federal-state rates exclude the deductibility of SALT from the federal personal income tax.



# CONCLUSION: THE TIME FOR ACTION IS NOW

Canada's combined marginal personal income tax rates are uncompetitive compared to those in the U.S. across a variety of income levels and jurisdictions.

Canada's competitive landscape will be further eroded – dangerously eroded – if President Trump's “big, big, plan” for tax reform comes to fruition.

In addition to extending the 2017 personal income tax cuts (part of the Tax Cuts and Jobs Act set to expire December 31, 2025), President Trump promised to increase or eliminate the cap on SALT; eliminate tax on tips, overtime pay, and social security benefits; and simplify the tax code. U.S. Commerce Secretary Howard Lutnick [said](#) the President aspires to eliminate federal taxes for anyone making under \$150,000, benefitting 93% of Americans. He floated various ways to help pay for the tax cuts, including tariffs on foreign nations, closing tax loopholes, and selling “gold cards” as a route to U.S. citizenship.

Canada urgently needs comprehensive tax reform to build a more resilient and competitive economy. Canada cannot be merely defensive. We need to stay one step ahead to keep and attract investment, production and jobs in Canada. This would include:

- Broad-based cuts to personal income tax rates to drive new consumer spending, fuel entrepreneurship, and make Canada a top destination for high-skilled workers.
- Reducing [business income tax rates](#), including the federal statutory corporate income tax rate by two percentage points (from 15% to 13%), to spur capital investment which has been anemic for years, and make Canada a more attractive location for business.
- A rebalancing of Canada's tax system so it relies less on taxes that are most harmful to economic growth (income and profit taxes);
- Eliminating [tax expenditures/preferences](#) that are not effective, efficient and/or needlessly complex and reallocating the savings to achieve a competitive tax system;
- Encouraging the remaining provinces (British Columbia, Saskatchewan and Manitoba) to [harmonize](#) their provincial sales tax (PST) with the GST – i.e. replace the PST with a harmonized sales tax (HST). Economic benefits will flow from the removal of tax on business inputs.



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