January 10, 2020

The Honourable Diane Lebouthillier P.C, M.P.
Minister of National Revenue
Government of Canada
House of Commons
Ottawa, Ontario
K1A 0A6

Via email: CRA.minister-ministre.ARC@cra-arc.gc.ca

Re: Consequences of Dynamic Basic Exemption Amount

Dear Minister Lebouthillier,

As you are aware, the Canada Revenue Agency (CRA) is currently implementing the motion tabled late last year which is aimed at increasing the Basic Personal Amount on the T1 form to put more tax money back into the hands of the middle class. While the Canadian Payroll Association takes no issue with a raised Basic Personal Amount or the motion as it was tabled, the manner and timing by which this change is being administered has created significant operational uncertainty and confusion for employers, which could require over 18 million working Canadians to complete new and confusing TD1 tax forms.

The reasons why the administrative approach decided upon by the CRA is problematic are:

1. There is a risk that most employees will not understand how to complete the newly designed TD1 with precision, resulting in a failed approach to put tax money back into the hands of those who are eligible.
2. This approach causes the unintended consequence of not providing the full exemption to certain employees with variable pay.
3. The administrative approach of using a dynamic exemption amount affects all tax payers, when it is truly only applicable to 2 to 5% of tax payers that should be impacted with a scaled back tax benefit.
4. The complexity of this change may undermine the positive steps that the Government has taken (and continues to take) to simplify individuals’ and businesses’ interactions with the CRA. (The new basic exemption’s dynamic formula has never before been used within Canadian payroll systems to calculate federal personal income tax, and has added an additional layer of complexity to the TD1.)
5. Undue pressure is being placed on the payroll industry, including Payroll Service and Software Providers (PSSPs), to implement a complex formula during the payroll year-end season while there are numerous unanswered questions yet to be addressed by the CRA.
6. The cost of compliance for employers and PSSPs to implement these changes, that have not yet received Royal Assent, which also adds to the uncertainty, is now estimated in the millions of dollars.
Fortunately, since the strain and operational uncertainty associated with this change is a result of the manner in which this policy is being implemented rather than the policy itself, actions can be taken that will remedy the current situation:

1. Introduce the higher basic exemption of $13,229 for all employees in lieu of the complex and flawed dynamic formula on the TD1, as this would provide accurate tax relief to the 95% of tax payers who are entitled to it.
2. For the 2 to 5% of higher income earners, this would result in an averaged maximum of $5 per pay period in underpaid taxes, which would be reconciled on their personal income tax return at the end of the year. (It should also be noted that the majority of higher income earners have a variety of deductions available to them, such as maximizing on their RRSP contributions that would simply result in a $139 lower refund from the CRA.) In the end middle class Canadians will end up receiving and keeping the tax benefit, while higher income earners who do not qualify will be paying it back during tax filing season. This is the simplest approach while preserving the intent of the tax policy.

We are seeking your support to implement a solution aimed at the 95% of working Canadians who are eligible for the additional basic exemption, which is the more viable and prudent approach, rather than going ahead with a riskier option that was created with only the 2-5% of higher income earners in mind. This will not only achieve your tax policy objectives but mitigate the administrative cost and complexity faced by employers and their payroll service providers.

The Canadian Payroll Association has been representing Canadian employers’ payroll interests since 1978. CPA’s advocacy and education programs provide the legislative compliance content used in the payroll processing and remitting systems of over 500,000 small, medium and large employers. CPA members include 90 of Canada’s top 100 companies and the majority of Canada’s payroll service and software providers.

Please do not hesitate to contact me or our Director of Government and Legislative Affairs, Rachel Dobrin-De Grâce at 416.487.3380 x 126 or rachel.degrace@payroll.ca.

Peter Tzanetakis  
President  
The Canadian Payroll Association  
Tel: (416) 487-3380 ext. 101  
Toll Free: 1-800-387-4693 ext. 101  
Fax: (416) 487-3384  
Peter.Tzanetakis@payroll.ca  
http://www.payroll.ca

cc : The Honourable Bill Morneau, P.C., M.P. - Minister of Finance  
Bob Hamilton - Commissioner of the Canada Revenue Agency