



It's 2025: Do you know what your tax rate is?

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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 2025? 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.

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

Taxable income	2025
Up to \$57,375	15.0%
Above \$57,375 and up to \$114,750	20.5%
Above \$114,750 and up to \$177,882	26.0%
Above \$177,882 and up to \$253,414	29.0%
Above \$253,414	33.0%

For example, on the first \$57,375 of taxable income, you would pay federal tax at a rate of 15%. In contrast, taxable income exceeding \$253,414 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 50% of capital gains are included, so the tax rate is lower than for ordinary income.

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).

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 \$70,000 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	70,000	70,000	70,000
Deduction	n/a	(1,000)	n/a
Taxable income	70,000	69,000	70,000
Tax on \$57,375 of income @ 15.0%	8,606	8,606	8,606
Tax on remaining income @ 20.5%	2,588	2,383	2,588
Total tax	11,194	10,989	11,194
Tax credit: \$1,000 @ 15.0%	n/a	n/a	(150)
Tax payable	11,194	10,989	11,044
Value of deduction or credit	n/a	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 for an individual with \$50,000, \$100,000 or \$250,000 of taxable income, allowing for 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 or eligible dividends¹

Region	\$50,000 ordinary income	\$50,000 capital gains	\$50,000 eligible dividends	\$100,000 ordinary income	\$100,000 capital gains	\$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%	43.32%	21.66%	27.84%
BC	22.70%	11.35%	(5.96%)	31.00%	15.50%	5.49%	46.12%	23.06%	26.35%
MB	27.75%	13.88%	6.53%	33.25%	16.63%	14.12%	47.58%	23.79%	33.89%
NB	24.40%	12.20%	(6.38%)	34.50%	17.25%	7.56%	48.82%	24.41%	27.32%
NL	29.50%	14.75%	11.29%	36.30%	18.15%	20.67%	49.12%	24.56%	38.36%
NS	30.48%	15.24%	9.12%	38.00%	19.00%	19.50%	50.32%	25.16%	36.50%
NT	20.90%	10.45%	(7.76%)	29.10%	14.55%	3.56%	43.37%	21.68%	23.25%
NU	19.00%	9.50%	(2.11%)	27.50%	13.75%	9.62%	40.82%	20.41%	27.99%
ON	20.05%	10.03%	(6.86%)	31.48%	15.74%	8.92%	49.85%	24.92%	34.26%
PE	28.47%	14.24%	4.07%	37.10%	18.55%	15.98%	48.32%	24.16%	31.46%
QU	26.53%	13.26%	3.15%	37.12%	18.56%	17.39%	50.23%	25.11%	35.86%
SK	25.50%	12.75%	(0.72%)	33.00%	16.50%	9.63%	43.82%	21.91%	24.56%
YT	21.40%	10.70%	(7.78%)	29.50%	14.75%	3.40%	42.25%	21.13%	20.99%

Source: [Tax Templates Inc.](#)

For example, Figure 3 shows that in Alberta, 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%.

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 would be \$7,848, allowing for only the basic personal credit. This results in an average tax rate of 15.7% (\$7,848 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.

¹ This table assumes 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).

Figure 4: Marginal and average tax rates² with \$50,000, \$100,000 or \$250,000 of ordinary income

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%	15.70%	30.50%	22.69%	43.32%	32.41%
BC	22.70%	13.95%	31.00%	20.71%	46.12%	33.42%
MB	27.75%	17.61%	33.25%	25.02%	47.58%	36.83%
NB	24.40%	17.04%	34.50%	25.31%	48.82%	36.77%
NL	29.50%	17.61%	36.30%	26.05%	49.12%	37.10%
NS	30.48%	19.55%	38.00%	27.95%	50.32%	39.25%
NT	20.90%	13.96%	29.10%	21.07%	43.37%	32.52%
NU	19.00%	12.62%	27.50%	19.51%	40.82%	30.08%
ON	20.05%	15.12%	31.48%	22.14%	49.85%	36.19%
PE	28.47%	18.28%	37.10%	26.82%	48.32%	38.12%
QC	26.53%	17.58%	37.12%	26.72%	50.23%	39.55%
SK	25.50%	16.67%	33.00%	24.36%	43.82%	34.25%
YT	21.40%	14.50%	29.50%	21.40%	42.25%	31.81%

Source: [Tax Templates Inc.](#)

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 \$60,000 of ordinary income. She will pay \$9,390 in tax, yielding an average tax rate of 11.21% (\$9,390 divided by \$60,000). Her marginal tax rate would be 28.20% on each additional dollar of ordinary income. On capital gains, her marginal tax rate would be 14.10% while on Canadian eligible dividend income, her marginal tax rate would be 1.63%.

Example 2

Eliza lives in Ontario and earns \$60,000 of investment income, comprised of \$20,000 of interest income, \$20,000 of realized (gross) capital gains and \$20,000 of Canadian eligible dividends. Her total tax bill would be \$2,687³ and her average tax rate only 3.48% (\$2,687 divided by \$60,000). 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 \$60,000 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 tax bill would be \$8,385, resulting in an average tax rate of 7.93%.

² Assuming 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).

³ Includes the Ontario Health Premium.

Conclusion

We can see from the examples above that, while all three taxpayers had \$60,000 of income, their average tax rates ranged from 3.48% (Eliza) to 14.10% (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 federal income tested benefits and credits, in dollars⁴

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	\$8,732	\$93,454	\$151,668
Old Age Security pension, over age 75	\$9,605	\$93,454	\$157,490
Guaranteed Income Supplement – Single	\$13,043	\$0	\$22,056
Age credit (federal)	\$1,354	\$45,522	\$105,709
GST / HST credit – Single (2024-2025)	\$519	\$44,324	\$54,704
GST / HST credit – Single (2025-2026)	\$533	\$45,521	\$56,181

For example, the OAS recovery tax (sometimes referred to as “clawback”) begins when income is over \$93,454 and results in the OAS being fully recovered once income reaches \$151,668 for recipients up to age 75 (\$157,490 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.

⁴ Figure 5 shows Old Age Security (OAS) and Guaranteed Income Supplement (GIS) amounts for the first quarter of 2025. The GST / HST Credit amounts are for the periods from July 2024 to June 2025 (2024-2025) and from July 2025 to June 2026 (2025-2026).

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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 2024-2025 (\$7,997 for 2025-2026) for each child under age six and up to \$6,570 for 2024-2025 (\$6,748 for 2025-2026) for each child between ages 6 and 17⁵; however, it is phased out based on the number of children and adjusted family net income.

One C.D. Howe Institute report⁶ 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.

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⁵ The Canada Child Benefit amounts are for the periods from July 2024 to June 2025 (2024-2025) and from July 2025 to June 2026 (2025-2026).

⁶ "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 <https://www.cdhowe.org/publication/softening-bite-impact-benefit-clawbacks-low-income-families-and-how-reduce/>.

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