

Payroll Tax, Cost of Living deduction to be increased on January 01, 2007

IQALUIT, Nunavut - Effective January 1, 2007, the Nunavut Payroll Tax will be increased for all employees working in the Territory.

The Minister announced the increase today in the Legislative Assembly as part of his Economic Update. The Payroll Tax increase is one of several measures designed to improve the Government's financial position in the coming fiscal year.

The Payroll Tax rate will increase from 1% to 2%. The tax is calculated on the gross earnings of employees working in the territory, and is paid by the employee, not the employer.

The Payroll Tax has not been changed or increased since it was introduced by the Government of the Northwest Territories in 1993. The Government of the Northwest Territories increased their Payroll Tax to 2% in 2004.

In addition to the Payroll Tax increase, the Minister also announced that the cost of living deduction would be increased from a maximum of \$750 to a maximum of \$1,200. This deduction helps offset the payroll tax imposed on all workers in the territory. This deduction is only available to workers who are resident in the territory. Transitory workers who are not resident in the territory do not qualify for the deduction.

The last time the cost of living deduction was increased was in 2002, when it was increased from \$645 to the current level of \$750.

This is a deduction that is allowed to be made from the income tax owing to the government by an individual and is determined partly on the income of the taxpayer.


The Payroll Tax targets transitory workers who come to the territory to work for a short time and then return to their own homes outside of the territory, taking their wages with them. This financial drain out of the territory is partly offset by the Payroll Tax. However, workers in Nunavut also pay the tax, and high wage earners pay more in tax than they get to deduct as a cost of living deduction.

In the past, an individual making \$75,000 would pay \$750.00 in payroll tax. They would also get to deduct \$750.00 from their income tax owing to the Government. The 2 amounts were equal. Under the proposed changes, the salary where the amount of tax paid and the amount able to be deductions are equal will drop to \$60,000.

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