Canadians *for* Tax Fairness

TAX FACTS
Fact Sheet #1 - March 2011

More Corporate Tax Cuts?

Bad for Canada, Bad for Canadians

In the 1960s, the federal corporate tax rate was 40%. By 2007 it was down 22% and further cuts lowered it to 18% in 2010. Even more cuts are planned, dropping the rate to just 15% in 2012.

The reduced corporate tax rate in 2012 will cost the public treasury $13.7 billion annually in lost revenue compared to the 2007 rate when the latest round of cuts began.

How can these continuing tax cuts and the immense costs to the public treasury be justified?

They can't.

A multi-billion dollar race to the bottom

The primary rationale for corporate tax cuts is competitive economic positioning with other countries. Prior to 2000, Canada's corporate tax rate was high among OECD countries.

At 29.5% (the combined federal and provincial corporate tax rate in 2010), Canada is already comfortably below the OECD weighted average of 33%. Among the G7, only two have slightly lower rates than Canada.

If tax cuts ever helped us become more competitive they no longer have that impact – they just rob us of revenue in a self-defeating race to the bottom.

Poor strategy for job creation

Another standard claim is that across-the-board corporate tax cuts are needed to create jobs. If radically cutting corporate tax rates actually guaranteed the creation of a substantial number of new jobs, higher productivity, stable long-term growth and more overall tax revenue to fund the public services – who would object? But as with most ideologically driven "solutions", the facts don't support the claims.

According to the Government of Canada's own Department of Finance, direct government spending on infrastructure creates five times more benefit ($1.50 growth for every dollar spent) than corporate tax cuts ($.20 for every dollar).

In fact, every other use of funds they studied – from investment in housing, employment insurance, support for low income households, hiring more nurses and teachers – had far more immediate economic benefit than corporate tax cuts.

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Former Bank of Canada Governor sees no need in the current environment

"In addition the final scheduled cut in the corporate tax rate might be foregone (or postponed well past 2013) without losing tax competitiveness as it now seems unlikely that major cuts in the U.S. or European corporate tax rates will take place. These additional revenues later in the decade would help to maintain the federal balance."

David Dodge

former Governor of the Bank of Canada (2001-2008),
Inaugural Matthews Lecture, Queen's University, March 4, 2010

Poor strategy for boosting investment

Federal corporate tax rates have been reduced from 28% in 2000 to just 18% in 2010. Did these cuts trigger a significant expansion in business investment?

In 2000, business investment (excluding housing) was 12.4% of GDP. In 2009, it stood in the same place: 12.4%.

While tax rates are a consideration for business investment, many other factors drive investment decisions - access to markets, energy costs, availability of skilled workers, reliable infrastructure and demand for the product.

Do tax cuts make Canada more competitive?

Not according to the World Economic Forum.

In 1999, the year before Paul Martin introduced his huge corporate tax cuts, Canada was 5th in competitiveness. After eleven years of tax cuts we are in 10th place. Who beats us? The Nordic countries, which collect half their GDP in taxes each year.

Lost dollars mean more government borrowing

Not only are politicians, urged on by the tax-cut lobby, putting us in a senseless race to the bottom on corporate tax rates, they're doing it while Parliament wrestles with the deficit. That means the tax cuts are being financed by government borrowing.

Meanwhile public services are jeopardized

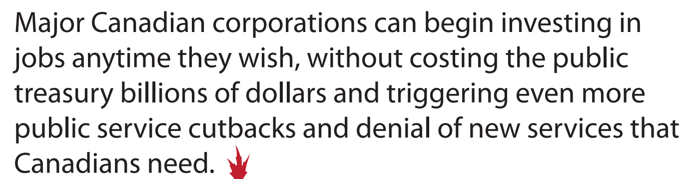
While large and very profitable corporations are being given billions in tax benefits, Canadians are being told that existing public services must be cut. We are also told that important new services, such as pharmacare, are unaffordable.

If Canada had a bulging public treasury with little need for further public investment (e.g., let's pretend our health care system was adequately funded, higher education was affordable, and roads and transit were in top-notch shape, and so on), then maybe one could argue for a further round of tax cuts for corporations. But we're a long way from such a fantasy scenario and should not be sacrificing important public services in order to fund expensive and unnecessary corporate tax cuts.

Corporations already have a treasure trove of cash

In 2010, Canadian corporations were sitting on more than $500 billion in currency and deposits.

Major Canadian corporations can begin investing in jobs anytime they wish, without costing the public treasury billions of dollars and triggering even more public service cutbacks and denial of new services that Canadians need.



Senior economic analyst at StatsCan provides perspective

"A couple of billion dollars (of savings from tax cuts) is a drop in the bucket of corporate income here," [Philip] Cross said in an interview. "It's trivial."

Canada's natural resources, the price of oil, currency fluctuations and the state of the country's financial markets have been far more influential on corporate investment decisions than recent tax cuts, he says.

"These huge forces were going on — globalization of supply chains, commodity price booms and so on. And somewhere in there you're going to be able to separate out the impact of small changes in the tax rate? You're kidding," Cross said.

Generally, the impact of more tax cuts "is going to be relatively small, given the huge flow of money driven by other forces."

Canadian Press, January 31, 2011