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# A TALE OF TWO TAX SEASONS

Tax season in a K-shaped  
Canadian economy



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# KO'D BY THE ECONOMY



Canada's economy has become what economists call "K-shaped" — those at the top grow wealth at record levels while those in the middle and below fall further behind

It's tax season again. For most Canadians, that means sitting at the kitchen table with T4s and a pile of slips and receipts, hoping to receive a modest refund that'll help make a dent in ever-increasing costs. Of course, for a small group at the very top of the economy, it means something remarkably different.

This year, millions of Canadians are filing their taxes while navigating an affordability crisis that has been decades in the making, and has profoundly reshaped their daily lives. Since the early 1980s, the share of a typical household budget consumed by shelter has climbed from 23% to over 31%. What's more, renters are more than twice as likely to spend over 30% of their income on shelter. Basic costs like food and the cost of getting around via car or transit have all spiked for working and middle-class families, even as they are told time and again that the economy as a whole is growing. However, the lion's share of that growth has gone somewhere quite specific.

Last year, Statistics Canada reported that income inequality once again hit record highs. When we go beyond annual income and look at accumulated wealth, the picture becomes even more stark. The wealthiest 1% of Canadians have increased their wealth by \$3 trillion since 1999. The 1,685 families that make up the wealthiest 0.01% now have an average of \$448.5 million in wealth (up from "only" \$100 million on average in 1999). That's over 4,000 times the average wealth of the 8.4 million Canadian families that make up the bottom 50%. Canada's economy has become what economists call "K-shaped"—while those at the top continue to grow their wealth at record levels, those in the middle and below have stalled or fall further and further behind.

At C4TF, we talk a lot about Canada's two parallel wealth realities — millions struggling with an affordability crisis, while those at the very top keep raking in record amounts of wealth. But what does that mean in (more or less) simple dollars and cents, when tax time rolls around?

For the vast majority of Canadians who are wage and salaried workers, tax time is largely automatic and unavoidable. Their employment income is reported directly to the CRA by their employers. There are relatively few ways to defer, shelter, or restructure what they owe. Ordinary Canadians basically pay their income tax rate, claim their basic credits, and call it a day.

But for a tiny segment of ultra-rich Canadians on the other side of the K-shaped economy, the picture looks strikingly different. Take highly compensated executives, for example. Executive compensation packages are typically structured to take maximum advantage of a tax system that treats income from wealth—like stocks, options, and investment properties—far more generously than income from work. This gives them access to preferential tax rates and the ability to defer taxation—at times nearly indefinitely—through corporate structures.

In 2022, when all taxes were considered, the top 1% of earners paid 23.6% of their income in tax, while the average earner paid 36.7% of their income in tax. This short report makes that personal, breaking down that difference in the lives of two potential tax filers. We compare a typical top-100 CEO compensation package to a typical tax return from a middle-class salaried worker, accounting for the basic credits both are eligible for, in order to calculate the total income and payroll taxes each person in these situations might actually pay.



Image Credit: JulieAlexK/iStock [2023].

The results make clear something that most Canadians know but rarely see broken down: our tax system asks more proportionally from those who are stretched and struggling, while lavishing its greatest rewards on those who need them least. The federal government is currently making some of the deepest cuts to key public services since the 1990s. At the same time, they are doubling down on doling out more tax giveaways for the ultra-wealthy, their yachts, and Canada's largest corporations—which are already raking in record profits. In this context, understanding who actually pays what has never been more important.

## So what does tax season look like for our salaried worker and our top-100 CEO?

First, let's talk about what each of them earned this year (for simplicity, we assume they are single). We've assumed that the salaried worker has a well-paying job that provides them \$90,000 in 2025. They don't earn any other income. While people who look like this may be an increasingly small share of Canada's workforce, this remains an ideal for a lot of Canadians.

**Table 1. Tax time for a salaried worker and a wealthy CEO.**

	Salaried worker	Wealthy CEO
Total compensation	\$ 90,000	\$ 16,248,345
Income and payroll taxes if all compensation was taxed as employment income	\$ 21,991	\$ 8,657,289
Deduction due to deferral of share compensation	\$ --	\$ 4,150,692
Deduction due to preferential taxation of pension contributions	\$ --	\$ 205,999
Deduction due to preferential taxation of stock options	\$ --	\$ 53,540
Income taxes as a share of compensation	18.8%	26.1%
Payroll taxes as a share of compensation	5.7%	0.0%
Effective tax rate at tax time	24.4%	26.1%

On the other hand, our executive has a typical executive compensation package for one of the 100 highest-paid CEOs in Canada. According to the CCPA, the top 100 CEOs collected, on average, \$16.2 million in executive compensation in the last year with available data. Unlike our worker, however, not all of this is taxable income. Only about 8% of their compensation is in the form of a salary. At 48%, the largest component of their compensation came in the form of shares in the corporation. Another 20% came in the form of options, which allow executives to purchase shares of their company at a discounted price after a certain amount of time. The typical top-100 CEO also receives a significant bonus and pension contributions.

So what would each of these people pay in taxes? Both individuals live in Ontario. After accounting for the basic tax credits they're eligible for, the worker would pay about 18.8% of their salary in income taxes. An additional 5.6% of their income would be paid in payroll taxes (CPP and EI premiums) for a combined effective tax rate of 24.4%.

Because CEO compensation in shares is typically deferred, no income taxes would be paid on the largest portion of the executive's compensation. To be conservative, we assume that the CEO exercises an equivalent amount of options as they were awarded in 2025. This is unlikely, since the options are generally worth more the longer they're held, but they do have to be exercised eventually. Thanks to a 2021 law, stock options are not as tax-friendly as they once were — but the first \$200,000 in stock options are taxed at half the rate of employment income. Employer contributions to pensions are also typically tax-deferred. These friendly rules mean that the CEO only pays income taxes on about half of their total executive compensation package. Since their income is so large, they do pay a lot of income tax, but the overall rate is only 26.1%. Since payroll taxes have maximums, the CEO pays the same amount in payroll taxes as the worker, despite receiving over 180 times their compensation. The CEO's effective tax rate is unchanged after including payroll taxes.

## How much property and sales taxes would these two pay?

So far, we have only looked at taxes that are reconciled at tax time. Most Canadians also pay sales and property taxes every year. Because lower-income people tend to spend a greater portion of their income on consumption, they tend to pay a greater portion of their income in sales tax. With some reasonable assumptions about spending on consumption, we estimate that the worker spent nearly \$4,000 in HST in 2025—about 4.4% of their salary. Because the CEO has so much more income, they pay more sales tax, but it only accounts for about 0.3% of their compensation. For property tax purposes, we assume the worker is fortunate enough to own a Toronto property worth \$700,000 while the executive owns a Toronto property worth \$3 million. Once we include sales and property taxes, the overall effective tax rate of the worker (34.7%) is much higher than that of the CEO (26.6%).

**Table 2. Overall effective tax rate for a salaried worker and a wealthy CEO.**

	<b>Salaried worker</b>	<b>Wealthy CEO</b>
Sales taxes as a share of compensation	4.4%	0.3%
Property taxes as a share of compensation	5.9%	0.1%
Total effective tax rate (for the year)	34.7%	26.6%

This short report only compares taxes on compensation from employment—we didn't even consider the tax breaks that a CEO might get on their income from wealth. If they've been a CEO for years, or (as is likely) have inherited some wealth, the CEO probably already owns tens of millions of dollars worth of shares. Any increases in the value of those shares are not taxed at all unless they are sold—in which case those capital gains are taxed at half the rate as employment income. Once we take this into account and include all forms of income, it's very likely that the CEO's effective tax rate could be even lower. This is why the data shows that the top 1% of earners pay a smaller share of their income in tax than the typical worker.

# CONCLUSION AND POLICY RECOMMENDATIONS



As both Finance Minister and Prime Minister, Paul Martin's tax reforms shifted the tax bill from higher income to middle and modest income families, a continuation of a trend begun by Pierre Trudeau, which was also continued by Brian Mulroney and Stephen Harper. Image Credit: Remy Steinegger/Flickr [2004].

The gap between what a middle-class worker pays at tax time and what a top executive pays isn't an accident. It's the product of decades of governments making deliberate policy choices to steadily shift the tax burden away from those with the most onto the rest of us. Here are some key policy changes that would make a meaningful difference in bridging the gap between working Canadians and the ultra-wealthy:

## **A new tax bracket on incomes over \$1 million**

A new bracket with a marginal rate of 37% on income above \$1 million would affect just 43,000 Canadians and raise \$1.5 billion this year alone. In the mid-20th century, the top marginal income tax rates in Canada were far higher than this. It would also begin to deter the kind of outsized executive compensation packages that have become standard in corporate Canada

## **Close the capital gains loophole: Tax all income the same, regardless of how it's earned**

Money in your pocket is money in your pocket, regardless of how you earned it. But right now, the vast majority of Canadians who earn their income by working pay tax on all of it, while the tiny fraction that earn income from wealth like stocks, investment properties, or shares in a business currently pay tax on only half. This 50% capital gains discount isn't available to people living paycheque to paycheque. Instead, it disproportionately—and almost exclusively—benefits those wealthy enough to make their money from money.

This tax break for the rich means forgoing a projected \$30 billion in federal government revenue in 2025 and more in provincial and territorial revenue. It's time to change that by finally closing the capital gains loophole to bring investment income in line with employment income.

### **A progressive wealth tax targeted at the ultra-wealthy**

Even a progressive income tax system only captures what people record as income in a given year. Income tax doesn't touch the vast amounts of wealth accumulated by those in the top one percent—wealth that continues to grow untaxed if it isn't sold, and is passed between generations largely intact, entrenching extreme wealth and harming social and economic mobility.

A progressive annual wealth tax — 1% on net wealth above \$10 million, 2% above \$50 million, and 3% above \$100 million — would raise over \$39 billion in its first year alone and could raise \$495 billion over a decade. 99.4% of Canadians would never pay it. This is even after accounting for behavioural responses like tax avoidance and evasion. Under the same modelling assumptions, a 3% tax on billionaires alone (specifically, the portion of their wealth above \$1 billion) would raise \$5.8 billion in its first year.

**In order to re-orient our economy to better reflect and support working people**, tax policy is a crucial lever for change. In addition to making the tax system more fair for millions of everyday Canadians by helping shift the burden from those who are stretched and struggling to those who have benefited most handsomely from this economy, these types of tax reforms can also raise considerable amounts of desperately needed revenue to invest in the public good.

A wealth tax alone, for example, could fund a generational investment in transformative national projects, including enabling 100,000 new non-market homes per year, building a national clean electricity grid, delivering more reliable and affordable public transit across Canada, vastly expanding affordable public child care spaces, and broadening public dental and pharmacare plans.

To rein in runaway inequality and tackle the cost-of-living crisis facing millions of Canadians, we can't rely on the same toolbox that got us into this mess. Strong, democratic nations are built by investing in people and communities—not funnelling more money and influence to a few ultra-wealthy people and corporations. This tax season, let's push for a new approach that works for everyone.