Canadians *for* **Tax Fairness**

Canadiens pour une fiscalité équitable

Platform for Tax Fairness 2021

The unprecedented financial support by the federal government through the COVID-19 pandemic was critical in saving lives and preventing the crisis from becoming a catastrophe. But it has come at a cost. The federal government's net debt is expected to double to $1.5 trillion by 2025/26.[1]

This doesn't mean we should spend or invest less; instead, we should invest more. Borrowing rates are at historic lows—well-below inflation—and government support is essential for the recovery to take hold, for us to "build back better." And there's no shortage of money out there. Despite the pandemic, billionaires are wealthier than ever, and many corporations are making record profits.

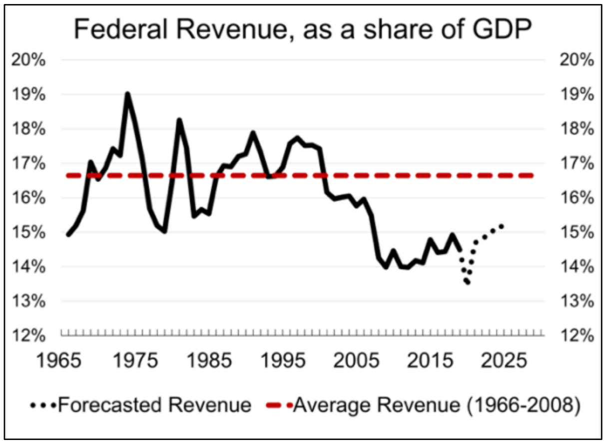
We not only need to create hundreds of thousands of decent jobs for those who have lost work, we also need to reduce the inequalities that have worsened through the crisis. The pandemic exposed massive deficiencies in our health care, long-term care, social safety nets and support systems. We need permanent reforms so we can rebuild a more equitable and resilient society.

The summer of 2021, with its record high temperatures and devastating forest fires, has again underlined how urgently we need to address the climate crisis. As the head of the UN said, this is "code red for humanity": we must "sound a death knell for coal and fossil fuels before they destroy the planet". Some of the largest investors in the world are pulling out of fossil fuels. A clean energy revolution is sweeping the globe. Canada needs to do much more to take responsibility for the climate crisis and lead in the transition to a lower-carbon economy.

We can create millions of good green jobs building more sustainable, equitable, healthy and resilient communities.

But these changes will require significant investments. For instance:

- Energy retrofitting of 40% of Canada's homes and other buildings would cost an estimated $6 billion annually over five years, but create 80,000 jobs per year, and reduce energy use and bills by up to 50%.[2]
- A national universal pharmacare for all plan would cost an additional $10-$15 billion, but provide average savings of $600 per household, and reduce costs for businesses, making them more competitive.[3]
- An investment of $10 billion in high-speed rail would create over 100,000 jobs and reduce emissions by up to 5 megatonnes (Mt) while an additional investment of $17.6 billion in public transit would create 223,000 jobs and reduce GHG emissions by up to 20 Mt.[4]
- Addressing the crisis in long term care, with additional beds to eliminate wait lists, increase hours of support, increase wages and provide more home care, would cost an estimated $13 billion.[5]
- An affordable child care for all plan, with a $1 billion investment in 2021, and an additional $1 billion each year for ten years until 2031, could generate tens of thousands of new jobs, save families thousands in childcare expenses annually, liberate parents to work, and pay for itself in fiscal terms, just as Quebec's program has.[6]



Many will say we can't afford these investments and that they will take years to plan. However, the COVID-19 crisis showed that our governments can afford it and can act rapidly to introduce and fund major new programs. Prior to the pandemic, the federal government's revenues were about $50 billion lower than if they had been at their long-term average as a share of the economy.[7]

Tax cuts in recent decades have primarily benefited large corporations and the wealthy, worsening inequality and increasing corporate concentration and power, while doing little to grow the economy or create jobs.[8]

A fairer tax system would significantly reduce inequalities, grow the economy and create hundreds of thousands of jobs.

Dollar for dollar investments in public services create far more jobs and provide a stronger boost for the economy than tax cuts.

The federal government has promised to implement a number of fair tax reforms we have advocated as priorities for many years.[9] The Fall 2020 Speech from the Throne[10] and Fall Economic Statement[11] committed to explore new ways of taxing extreme inequality, address corporate tax avoidance by digital giants, tighten anti-avoidance rules, and introduce automatic tax filing system for vulnerable Canadians.[12] But we haven't seen a lot of progress so far—and much more must be done.

As we show below, the federal government could generate over $90 billion annually and reduce inequalities by:

- Closing tax loopholes: $26 billion+
- Tax the rich fairly: $24 billion
- Making corporations pay their fair share: $25 billion
- Tackling tax havens: $14 billion+
- Making polluters pay: $3 billion+

There is also very strong public support for progressive tax reform. A recent poll by Abacus found that:[13]

- 92% of Canadians polled support closing tax loopholes used primarily by the wealthy to lower their overall income tax rate.
- 89% support an annual wealth tax paid on the richest Canadians, including 91% of Liberal supporters, 83% of Conservative supporters, 93% of NDP supporters, 96% of Bloc supporters and 95% of Green party supporters.
- 92% support making it harder for corporations to artificially shift profits to tax havens.
- 89% support increasing the income tax rate to 37% for those with income of $750,000+.
- 87% support an excess corporate profit tax paid by businesses whose profits were extraordinarily high during the pandemic.

Almost 90% of Canadians say they would consider voting for a party that promised to "take real and concrete action in making sure everyone pays their fair share and increasing taxes paid by the wealthiest Canadians and large, profitable corporation," including 97% of NDP supporters, 92% of Liberal supporters, and 84% of Conservative supporters.

Tax fairness is not only critical to building a more resilient, stronger, equitable and sustainable future, it is also a compelling and powerful political issue.

Our platform for tax fairness shows what all political parties should commit to in the coming election to ensure a better future is achieved.

Close tax loopholes

Most of Canada's tax preferences and loopholes primarily benefit higher income and wealthy individuals, and larger corporations. They have contributed to persistent social inequalities, and they reflect and perpetuate the influence of the wealthy and powerful on government policies.[14]

The federal government could generate an additional $26 billion annually by eliminating or tightening a few regressive loopholes. Closing these loopholes could also generate significant revenues for provinces that use the federal base for their tax system.

MEASURES	Estimated Revenues
Eliminate the lower tax rate on personal and corporate capital gains. While ordinary Canadians pay the full tax rate on their income from working, wealthy individuals, corporations and trusts with capital gains income from investments are able to pay tax at only half this rate, or even less. Over 90% of the value of this tax break goes to the top 10%. It massively widens the wealth gap, and costs the federal government over $22 billion annually, while costing provinces many billions more.[15]	$22 billion
Reduce the dividend tax credit. The dividend tax credit is supposed to compensate shareholders for the income tax that corporations pay, but corporations pay very little income tax, and half the benefits of this tax credit go to the top 1%. Limiting the amount of this credit to the tax actually paid by corporations would save the federal government over $1 billion annually, and eliminating this credit entirely would save over $5 billion.[16]	$1 billion+
Completely eliminate the stock option deduction. The stock option deduction is one of the most regressive loopholes of all. Over 90% of the benefits of this loophole go to the top 1%. The Liberal government's plan to limit the deduction to $200,000 annually for those working for corporations with revenues of over $500 million, would only have a limited impact. The loophole should be eliminated entirely.[17]	$500 million
Cap TFSA contributions at a lifetime level of $75,000. The fiscal cost of Tax-Free Savings Accounts to the federal government is escalating steeply, doubling in the past three years and now up to $1.8 billion annually. If the cap keeps on growing, it will cost federal and provincial governments many billions more. Capping it at the current lifetime max of $75,000 in contributions will ensure it doesn't grow into a massive loophole benefiting the wealthy.	$500 million+
Clamp down on widely-used corporate tax-dodging schemes. For many years, the OECD has called for countries to restrict widely-used corporate tax-dodging schemes, but Canada has been a laggard. The federal government should finally clamp down, including by restricting interest deductibility to no more than 20% of corporate earnings and placing strict limits on use of intellectual property to shift profits to low-tax jurisdictions.[18]	$2.5 billion+
Business entertainment expenses. Businesses are able to deduct half the cost of private boxes and tickets to sports events, concerts, and the cost of entertaining business partners and clients at night clubs, country clubs, on cruises, vacations, and much more. This costs the federal government over $500 million annually and contributes to some unsavoury forms of lobbying and entertaining. Even American President Donald Trump eliminated a similar deduction for entertainment expenses. This tax break should be phased out after businesses recover following the pandemic.	$200 million

Tax the rich fairly

Federal and provincial governments have cut taxes on the wealthy and corporations so much over the past few decades that, *when all taxes are considered*, the top 1% has paid a lower overall rate of tax than any other income group, including the poorest 10%.[19]

We need to restore progressivity to our tax system by increasing tax rates on the wealthy and high incomes. The progressive tax measures identified below could generate an additional $24 billion annually.

MEASURES	Estimated Revenues
Annual wealth tax. Canada's top billionaires have increased their wealth by almost $100 billion since the pandemic began. The Trudeau government promised in their Throne Speech a year ago to "explore additional ways to tax extreme wealth inequality" but we haven't seen any action on this yet. As the ProPublica tax leak in the U.S. showed, a number of the wealthiest billionaires in the world haven't paid any income tax in some years because they are able to minimize their taxable income while accumulating more and more wealth. This demonstrates why we need an annual wealth tax in addition to income taxes. Figures from the Parliamentary Budget Office (PBO) show that a modestly progressive wealth tax, at 1% for wealth over $10 million, 2% for wealth over $100 million and 3% for wealth over a billion would generate close to $20 billion annually.[20]	$20 billion
Raise the top income tax rate. The pandemic is having diverse impacts on different income groups. Those with higher incomes have generally done well, while lower income households have suffered. Increasing the top rate by 4% from 33% to 37% for the top 0.1%--those with annual income of over $750,000-- would generate over $1 billion annually.[21]	$1 billion+
Reintroduce inheritance tax on high-wealth estates. Canada is the only G7 country without a federal inheritance or estate tax. The United States applies a 40% tax on the value of inherited estates in excess of $11.7 million, a threshold that was doubled under President Trump. President Biden is now proposing to strengthen estate tax rules. We estimate that a 45% tax on the inheritance/ estates of over $5 million (similar to the longstanding U.S. tax) would generate at least $2 billion annually.	$2 billion+
$1 million cap on business deduction for executive pay. Not only has executive and other high-level compensation continued to escalate through the pandemic[22], but Canadian corporations can deduct these growing amounts from their income for tax purposes, unlike in the U.S., where there's a $1 million limit per executive. Limiting this tax-deductible expense to $1 million per employee would send a signal to corporations and save the federal government hundreds of millions annually.	$500 million+
Luxury tax. In the 2019 election, the Liberals promised to introduce a 10% tax on private cars, boats and planes valued at over $100,000 each. The PBO estimates this would generate $600 million annually; however, the scaled-back tax included in the 2021 budget would raise less than $150 million annually.[23]	$450 million

Make corporations pay their fair share

Decades of corporate tax cuts have cost federal and provincial governments hundreds of billions yet failed to boost jobs and economic growth—and increased individual and business inequalities as well. The Conservative government in the U.K., U.S. President Joe Biden and many other governments are now taking firm action to reverse the global race to the bottom on corporate taxes that has gone on for many decades. It's time for Canada to join them. The measures below would increase revenues by at least $25 billion.

MEASURES	Estimated Revenues
Restore corporate tax rates. Decades of corporate tax cuts have cost federal and provincial governments hundreds of billions yet failed to boost jobs and economic growth.[24] Overall corporate profits held up pretty well in 2020 and are expected to increase by about 50% in 2021. The PBO estimates that every percentage increase in the general (larger) corporate tax rate increases revenues by $1.6 billion, so restoring Canada's federal rate from 15% to 20% would generate about $8 billion annually.[25]	$8 billion
Pandemic super profits tax. While thousands of smaller businesses have closed or will close, a number of larger corporations made massive profits through the pandemic, with some of those receiving public subsidies.[26] Canada and other nations had excess profits taxes of up to 80% for profits above "normal profits" during and after WWI and World War II. The PBO estimates that an extra 15% tax on the profits of corporations with revenues over $10 million that made higher than average profits in 2020 would generate $7.9 billion.[27]	$8 billion
Financial activities tax: The finance and insurance industry has benefited from decades of corporate tax cuts and preferential tax rates, as most financial services are not subject to the GST. Canada's biggest banks and insurance companies remained profitable through the financial crisis and topped the list of large corporations making higher profits than usual during the pandemic. A Financial Activities Tax on the compensation and profits of the financial sector, as proposed by the IMF, would generate about $7 billion annually. [28]	$7 billion
End deductibility of advertising on foreign internet platforms. Foreign e-commerce giants have benefited from an unfair tax advantage over Canadian companies. The COVID-19 crisis has made it even worse, by bolstering e-commerce and shuttering local businesses. The application of GST/HST on imported digital services, and the upcoming digital services tax are good steps. However, the federal government also needs to eliminate the business deduction for advertising sold by foreign internet platforms. This particularly benefits e-commerce giants like Google and Facebook. The PBO estimates that restricting the deductibility of internet advertising expenses to Canadian-owned sites would generate over $1 billion annually.[29]	$1 billion+
Minimum tax on corporate book profits. Many large corporations are able to pay no tax or receive tax refunds even when they report profits to their shareholders. Just as US President Biden is planning, Canada should introduce a minimum corporate tax of 15% on book income for large corporations with income of over $1 billion.[30]	$1 billion+

Tackle tax havens

Canada loses at least $10 billion annually to international corporate tax dodging, and the actual amount could be at least twice as much, according to the Parliamentary Budget Office.[31] International tax dodging not only costs billions in lower revenues, it also worsens inequalities and create an unfair business environment, providing large multinational corporations with a significant tax advantage over smaller firms. Instead of lagging behind other countries, we should be leading on domestic and international reforms.

Measures	Estimated Revenues
International corporate tax reform. The federal government should support and implement fundamental reforms of international corporate tax rules, including: a minimum tax of at least 21% on the foreign profits of multinationals; treating multinational enterprises as single entities for tax purposes so they can't use subsidiaries and affiliated companies to avoid taxes; and allocation of the profits of multinational corporations between jurisdictions based on real economic factors such as sales and employment, as we do between provinces in Canada.[32]	$11 billion+
Confront tax evasion and aggressive tax avoidance by high income individuals and corporations, through higher penalties, stronger enforcement and increased investment in the CRA. Canada levies relatively low penalties for those guilty of international tax evasion and against companies and professionals who promote tax evasion schemes, so there's little deterrent. Together with increased penalties, the federal government also needs to invest more in the CRA for investigation, audits, enforcement and prosecution of offshore, corporate and high-income tax evasion. Investments in compliance and enforcement by the CRA are estimated to yield a return of five to ten dollars for every dollar invested.[33]	$3 billion
End double non-taxation agreements with tax havens. Canada has signed tax agreements and conventions with a number of different tax havens, which enable individuals and corporations to bring their income back into the country without paying tax, either in the tax haven or back in Canada. Canadian corporations have assets of over $300 billion in tax havens with which Canada has signed tax treaties, and wealthy individuals have stashed billions more. The Department of Finance estimates that exempting non-residents from withholding taxes costs the federal government over $7 billion annually.	---

Make polluters pay

The federal government's carbon tax framework can play an important role in helping us build back better, by sending the right economic signals, making polluters pay, and raising the funds to finance a more sustainable green recovery.

But the carbon tax is undermined by the federal government's fossil fuel subsidies, and when large emitters pay far less in effective carbon price on their emissions than individual Canadians do.

MEASURES	Estimated Revenues
Strengthen the carbon tax framework by eliminating preferences for large emitters, and introducing a carbon border tax. Large emitters are responsible for over 40% of our total emissions but pay less than 6% of carbon price revenues.[34] A consistent carbon tax/price should be applied to all emissions from large emitters. Canada should also introduce carbon tariffs to imports from countries not taking adequate climate action, and provide rebates to Canadian companies that export to those countries. These measures would both make Canadian industry more competitive, and increase the federal government's revenues by approximately $3 billion annually.	$3 billion
End fossil fuel subsidies. Continuing to subsidize fossil fuels during a climate crisis is both fiscally and ecologically irresponsible. The federal government has committed many times to eliminate the tax subsidies it provides to fossil fuel production. Some are being phased out, while others have been introduced and many still remain.[35] The value of these subsidies fluctuates considerably from year to year, due to both the state of the industry and the tax system. They had been as high as an estimated $1.6 billion five years ago, but are considerably lower in value now because of the decline in the industry and changes to the tax system.[36]	$300 million+

Rein in real estate speculation

Owning a home has become increasingly out of reach for millions of Canadians. Soaring real estate prices have attracted both foreign and big corporate money to buy up apartment buildings and thousands of individual homes. This has further pushed up prices and rental costs.

While some have argued that the capital gains exemption for principal residences should be eliminated, the family home is usually the most important asset for middle-income Canadians, and eliminating this exemption probably wouldn't have much impact on prices.

Instead, governments should focus on individual and corporate real estate speculators, eliminating the tax breaks they receive and applying taxes to vacant homes.

MEASURES	Estimated Revenues
Eliminate lower capital gains tax rate on secondary homes and real estate held by corporations. By eliminating the lower rate of tax paid on capital gains (as outlined above under *Close tax loopholes*), a disincentive to invest in real-estate would ease market pressure, and save the federal government billions annually.	
Rein in the REITs. Real Estate Investment Trusts (REITs) don't have to pay much, if any, tax on their profits when they flow most of them through to their unitholders. This tax preference for REITs has helped them expand aggressively, significantly reducing the supply of affordable housing through big rent hikes.[37] ACORN Canada is calling for the federal government to eliminate this exemption, or tie it the supply of affordable housing.	$120 million
Introduce an additional annual 1% tax on the value of residential properties owned by investors that have been vacant for more than half a year. The federal government has promised to introduce a 1% tax on vacant and underused homes owned by non-resident investors. This should have some impact, as has a similar tax introduced by British Columbia.	
Introduce a public registry of the beneficial owners of corporations and real estate. This will also help to prevent use of Canadian real estate for money laundering (see section below).	

Increase transparency and fight financial crime

Canada ranks as one of the two worst countries in the G20 on corporate transparency, which has made us into a destination for money laundering and other illicit activity.[38] We also have insufficient quantity and quality of public information available on the financial conditions and taxes paid by individuals, corporations and trusts. The federal government should also do much more to improve the quality, detail and timeliness of financial and tax information that is publicly available.

This dearth of quality information severely impedes our understanding of our real financial and economic conditions, and our ability to improve them. Increasing transparency and accountability is also a powerful tool against corruption and criminal activity: As U.S. Supreme Court Justice Louis Brandeis said, “sunlight is the best disinfectant.”

Measures

Require full public country-by-country reporting. Currently, large multinationals don’t have to publish their financial statements and taxes paid by jurisdiction, on a country-by-country basis. The government should oblige them to do so, consistent with the standard agreed upon by the Global Reporting Initiative.[39]

Publish basic financial and tax information on all corporations with revenues of $100 million and above, as Australia has done since 2013.[40]

Improve the degree, detail, quality and timeliness of taxation statistics, both aggregated and disaggregated, for individuals, corporations and trusts, as other countries do.

Require the CRA to publish estimates of the “tax gap” every three years, and regularly publish details of their convictions and settlements.

Introduce a public registry of beneficial owners of corporations and real estate. This will help reduce use of Canadian real estate and companies for “snow-washing” and money laundering. The Liberal government’s 2021 Budget commitment to introduce a public registry of the beneficial owners of corporations is a measure all parties should support – and that the government can’t be allowed to forget or put on the backburner once the election is over.

Conclusion

As a result of the pandemic, the federal government’s net debt will have almost doubled in a few years. We will need more revenue to both pay for the costs of the crisis and to build a more equitable and sustainable future.

Fortunately, there’s a lot of money out there. After years of ill-advised tax cuts, and failure to close loopholes, that money is increasingly concentrated in the hands of a few wealthy individuals, families and large corporations.

We know from polling that a large majority of Canadians want the federal government to reduce inequalities, take real action to address the climate emergency, improve public services, make life more affordable, improve opportunities for everyone, and build a more sustainable future.

Importantly, to finance these policies, most Canadians want our government to ensure that everyone pays their fair share in taxes—especially wealthy individuals and profitable corporations.

While this federal election may not be necessary, it will provide federal parties the opportunity to clearly lay out their vision and plans to Canadians for what we want our country and economy to look like and what direction we want to go after the pandemic is under control.

Our platform for tax fairness shows how the federal government can raise an additional $90 billion+ annually, by closing regressive tax loopholes, taxing the rich fairly, making corporations pay their fair share, tackling tax havens, and making polluters pay.

We don’t expect a political party or government to do all of these at once, but all Canadians should be aware that there is far more than the federal government can do to increase its revenues and to invest in our future. And all politicians should also know that there’s very strong support among Canadian voters of all parties to make our tax system fairer to establish a sustainable and equitable future—and they will vote accordingly.

Report prepared by Toby Sanger, Executive Director, Canadians for Tax Fairness

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Estimated Revenues

Measures	Impact	Sources / Notes
Closing tax loopholes	**$26 billion+**	
Eliminate lower rate on capital gains for PIT & CIT	$22 billion	Finance Canada, Report on Federal Tax Expenditures 2020 (TEE).
Reduce corporate dividend tax credit	$1 billion+	20% savings from $5 billion+ cost in TEE
Eliminate Stock option deduction	$500 million	Of $840 million cost in TEE
Cap Tax Free Savings Accounts at $75,000	$500 million	Estimate of average annual savings
Restrict interest deductibility and IP	$2.5 billion+	PBO election costing estimates
Eliminate entertainment expense deduction	$200 million	TEE, for CIT and GST cost
Taxing the rich fairly	**$24 billion**	
Annual wealth tax	$20 billion	PBO and C4TF
Increase top federal PIT rate on incomes over $750,000 to 37%	$1.0 billion+	Based on Statistics Canada high income figures, using latest 3 year averages.
Inheritance tax on high wealth estates	$2.0 billion+	Estimate based on U.S. revenues and Canadian figures, in CCPA AFB
$1 million cap on business deduction for executive pay	$500 million	Estimate based on executive pay totals.
Luxury tax	$450 million	PBO, difference between original and budget proposals
Corporations paying their fair share	**$25 billion+**	
Increase general corporate tax rate to 20%	$8 billion	PBO Ready Reckoner tool
Pandemic super profits tax	$8 billion+	PBO Study
Introduce a financial activities tax at 5% on profits and compensation of financial sector	$7 billion+	Estimate from CCPA Fair Shares report, updated
End deductibility of advertising on foreign internet platforms	$1 billion+	PBO election costing estimates
Minimum tax on corporate book profits	$1 billion+	Cautious estimate based on US figures.
Tackling tax havens	**$14 billion+**	
International corporate tax reform	$11 billion+	From study using OECD data.
Increased investment in enforcement	$3 billion	Finance and PBO estimates of returns
Making polluters pay	**$3 billion+**	
Strengthen carbon tax framework by eliminating preference for large emitters	$3.0 billion	Estimate based on reported emissions from large emitters in affected provinces. Doesn't include additional amounts for higher price or border adjustments
Eliminate remaining fossil fuel subsidies	$300 million	IISD estimates as high as $1.6 billion, but expected to be lower now.
Total:	**$92 billion+**	

Note: The revenue figures included are based on static estimates mostly from Finance Canada, the PBO and Statistics Canada, without behavioral impacts. Behavioral factors could tend to reduce these through both real responses and tax shifting, reflecting their "elasticities". However, with the closing of loopholes and increased enforcement, tax shifting would be reduced. Decreased revenues from behavioral factors would be offset by increased revenues from interactions of these measures. For instance, closing tax loopholes will lead to proportionately higher revenues from hiking top income tax rates and vice versa. Stronger stimulus impacts from public spending than from tax cuts would also lead to higher revenues.

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