Brief to the Federal Consultation on the 2016-2017 Budget

by

Nova Scotians for Tax Fairness

With the majority of Canadians, we are relieved to have a federal government that recognizes the need to incur deficits to repair and expand government programmes and to stimulate a sluggish economy. The federal government is in the strongest position to raise the additional funds needed for national expenditures but also for increased transfers to the provinces and municipalities to improve their capacities to fulfill their respective responsibilities.

It is clear that deficits must be larger than the $10 billion proposed during the election campaign, but it is also clear that there are many possibilities for generating additional revenues to repair the damage of years of neglect to Canada's social and physical infrastructures. See also the brief presented Feb 5 by Canadians for Tax Fairness, a national organization we cooperate with.

The focus of this brief is measures to make our tax system more progressive, to raise more funds to meet more needs, and to stimulate the economy.

What can we afford?

For at least a generation, Canadians were told we cannot "afford" the social programmes developed after the Second World War. These programmes were introduced in a time of rapid growth and rising incomes. The "can't afford" argument was based on the slowing down of the economy but, by 1991, real per capita incomes were 50 percent higher than in 1971 when the last major improvements to social programmes were made - and roughly three times higher than when the improvements to the social safety net were started.

As we are so much richer, collectively, how is it we can afford less? The answer is that the damage to tax revenues was a self-inflicted injury. The real cause of the deficits of the 1980s and 1990s was government policy: 1) tax cuts to high income Canadians and to corporations and 2) extremely high real interest rates which both slowed the economy and drove up the servicing costs of debt[i]. The latter effect was particularly severe on the federal government as less government debt was held by the Bank of Canada, and more held by international lenders attracted by the high interest rates.

Now that both interest rates and the debt/GDP ratio are low, the "can't afford" argument has switched to "Canadians cannot afford higher taxes". This argument is easy to see through. For decades, polls have shown that Canadians are willing to pay higher taxes to improve specific programmes such as health care, education, and social assistance.

Moreover, Canadians are well aware of two phenomena which exacerbate inequality[ii] in Canada – the beneficiaries of both economic growth and of tax "reforms" for the last three decades have been high income Canadians. These changes and the concomitant increased reliance on regressive taxes, such as the sales and property taxes, mean that the top 1% of Canadians now pay a lower tax rate than the bottom 20 %. The bottom 10% saw their tax rate rise by almost 6 percentage points, 25 to 31 % - even as the tax rate at the top 1% fell from 34 to 30 %, over the 1990-2005 period. Tax changes lowered the tax rate of middle income Canadians, to about 36 %.[iii] Changes since 2005, such as Tax Free Savings Accounts, further aggravate the market's impetus to inequality.

How can it be argued that we cannot tax high incomes to generate the funds for much needed expenditures? Can the rich not afford to pay higher tax rates than everyone else? Can the rich not afford to pay the tax rates they paid **in the high growth period, 1940-1980** when the share of National Income going to the top 1 % was at its lowest in over a century[iv]? If politicians feel that high income Canadians cannot afford an increase in taxes, why did they impose an increase of 6 percentage points on Canadians living in poverty? Or were politicians willingly blind to the effects of their tax changes on the lives of these Canadians?

The economics literature indicates the optimal rate of taxation on the upper incomes could be significantly higher and could make substantial increases in tax revenues. Osberg estimates that raising the marginal tax rate closer to historical norms on just the top one percent of Canadians would increase revenues by at least $15. 8 billion.[v]

The budget recommendations that follow are based on belief that the social contract of Canadians must be honoured and that means programmes must be financed by progressive taxation – more reliance on income taxes and more progressivity within the income tax system, both in terms of upper bracket rates and changes to tax deductions and credits to recognize that many of them currently benefit primarily upper income Canadians.

Recommendations

1. Follow the recommendations in the Canadians for Tax Fairness submission. We support them all and have re-iterated some of them below and added some of our own.
2. Restore the top income tax brackets removed to "simplify" the tax system, as if the tax accountants for the upper brackets did not know what column to use to calculate their taxes.
3. Respect the integrity of the Carter Royal Commission on Taxation and treat capital gains like any other form of income – have 100 % inclusion of capital gains as taxable income.
4. Define "taxable" income as the "total income" calculated before deductions. Deductions provide a greater tax benefit to the upper bracket than to the lower- bracket taxpayers. If a deduction is considered useful for a social purpose, provide it as a tax credit, at the lowest bracket rate.
5. If the Government of Canada is unwilling to implement recommendation 3, allow all provinces the freedom enjoyed by the province of Quebec – the right to define taxable income on the provincial tax form as a province sees fit.
6. Reconsider the many boutique tax credits which are primarily accessible to higher income Canadians who enjoy discretionary funds, e.g., to put their children in sports or cultural

programmes. Cancel these credits and use the extra tax revenue generated thereby to support similar programmes for all children.

7. Set all tax credits at the first bracket rate and make them refundable so that a person with an income so low that their taxes are less than the tax credit can still benefit to the same extent as people with higher incomes.
8. Add a “refundable municipal tax” surcharge to the federal income tax, to be transferred in its entirety to municipal governments on a per capita basis, allowing municipalities to reduce their reliance on the regressive property tax, as is done in Scandinavian countries. This would also reduce tax ”competition” between municipalities.
9. Do not permit incorporated professionals to receive the small business tax rate to avoid personal income tax payments.[vi]
10. Raise the corporate income tax rate to at least the level in the U.S. Half of foreign investment in Canada is from the U.S., and American firms can use their Canadian taxes as a credit against their U.S. taxes – thus an increase in their Canadian taxes increases the credit they can use.
11. Provide the Canada Revenue Agency with sufficient resources to effectively pursue individuals and corporations who avoid and evade taxes by transfers to, and transactions through, tax havens. Co-operate with other countries to combat tax havens following recommendations by the Global Alliance for Tax Justice[vii] - including country by country reporting.
12. Institute a “Tobin tax”, a very small tax on foreign financial transfers (much lower than the commissions charged by banks and other financial institutions for currency transactions). The financial transfer tax would dampen the flow of speculative funds and raise substantial revenues for governments.
13. Consider an appropriate form of inheritance and wealth taxes. This will both help solve Canada’s public revenue problem and reduce the extreme effects of inequality. Many countries around the world, including the US, have such taxes.
14. Introduce a national carbon price in cooperation with the provinces, following the principles outlined in the paper accompanying this presentation. It is one part of the comprehensive approach needed to tackle climate change effectively. At long last.

Respectfully submitted,

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Tax Fairly Spend Wisely

References

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[iv] Osberg, op. cit., p. 13.

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[vii] Canadians for Tax Fairness: http://www.taxfairness.ca/en/news/how-7-fair-tax-options-could-make-50-billion-difference ; Tax Justice Network: http://www.taxjustice.net/ ; Global Alliance for tax Justice: http://www.globaltaxjustice.org/