Brief to Federal Finance Committee
Re. 2017 Federal Budget
By Nova Scotians for Tax Fairness

Delta Barrington, Halifax - Oct 19, 2016

Nova Scotians for Tax Fairness recommend several ways to make the federal tax system more equitable and to raise additional revenue so that progressive public programs can be expanded. These recommendations support and extend the direction taken by the current government in its election promises and many of the actions taken in the 2016 budget.

We applaud the government`s sensible approach to budget balance, seeing deficits as a way to stimulate the economy while funding nation-building change. We believe the long-term sustainability of such change is only possible if there is a concerted effort to increase revenues for social and infrastructure investments and as part of the effort to reduce inequality and to reduce GHGs.

I - RECOMMENDATIONS TO INCREASE REVENUE AND FAIRNESS

1. **Change tax deductions to refundable tax credits.**

   Explanation:

   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.

   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.

   If the Government of Canada is unwilling to implement this recommendation, 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.

2. **Raise the corporate income tax rate to at least the level in the U.S.**

   Explanation:

   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. The increased Canadian taxes will not increase their taxes overall but will increase their contribution to Canada's roads, legal system, public education and health care that benefit foreign firms operating in Canada.

   Tax competition between Canada and the US leads to tax inversions from US corporate giants that are artificial constructs that produce no significant benefits for Canada while undermining general corporate responsibility for funding the public services and goods they rely on. Some tax inversions, such as Valeant's, artificially distort Canada's stock market while giving Canada a black eye for harbouring corporate scam artists.

3. **Provide the Canada Revenue Agency with sufficient resources to tackle tax haven use**

   Explanation:

   Give CRA the 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[i] - including country by country reporting.

4. **Exclude companies that use aggressive tax evasion and avoidance techniques from competition for contracts to supply publicly funded goods and services.**

   Explanation:

   The federal government spends billions of dollars in the private sector for the contracted provision of public goods and services ranging from IT services to ship building. Some of the firms that secure those contracts take a very aggressive approach to avoiding paying their fair share of taxes to fund those same contracts and other public goods and services that they rely on to conduct their business. This makes no sense. The federal government should coordinate public contract eligibility with efforts to reduce the use of tax havens and other avoidance mechanisms by certifying a firm`s eligibility for public contracts based in part on how they handle their fair-share tax paying responsibilities.

5. **Add a "refundable municipal tax" surcharge to the federal income tax**

   Explanation:

   Transfer the funds raised in their 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.

6. **Institute a "Tobin tax", a very small tax on foreign financial transfers**

   Explanation:

   Make the tax much lower than the commissions charged by banks and other financial institutions for currency transactions. It would dampen the flow of speculative funds and raise substantial revenues for governments.

7. **Consider an appropriate form of inheritance and wealth taxes.**

   Explanation:

   Help solve Canada's public revenue problem and reduce the extreme effects of inequality by joining countries around the world, including the U.S., by taxing such wealth when it transfers from one generation to another or by taxing extreme holdings of wealth.

8. **Implement the 3 recommendations presented by Canadians for Tax Fairness to raise about $20 billion/year more without touching the tax rate:**
   Explanations:
   1. **Close Tax Loopholes**
      i. Eliminate the stock option deduction
      ii. End abuse of small business corporations tax rate
      iii. Limit capital gains deduction
      iv. Lifetime limit for Tax Free Savings Accounts
      v. Reduce RRSP contribution limits
      vi. Review and replace ineffective boutique tax credits
      vii. Cancel the corporate meals and entertainment expense deduction
      viii. End fossil fuel subsidies
   2. **Stop Corporate Offshore Tax Dodging**
      i. require economic substance for an offshore subsidiary to be recognized as a separate corporate entity for tax purposes
      ii. Cap interest payments to offshore subsidiaries
      iii. Apply a 1% withholding tax on Canadian assets held in tax havens
   3. **Tax E-commerce Companies to Level the Playing Field**
      We must catch up to the European Union, New Zealand, Australia, Norway, South Korea, Japan, Switzerland, and South Africa to create fair competition and to support Canadian news, culture and other industries.
      i. Make all e-commerce companies with Canadian income above a threshold pay corporate income tax on profits from products or services sold or rented in Canada whether or not they have a physical presence in Canada
      ii. End the GST/HST tax exemption for electronic commerce services (above a determined sales threshold) that sell to Canadians

II - RECOMMENDATIONS TO IMPROVE FINANCING OF PUBLIC SERVICES AND PROGRAMS

9. **Reinforce the principle of equal citizenship by restoring Equalization funding to historic levels of 1.36% of GDP and by establishing an arms-length body to oversee the transfers in an objective way.**
   Explanation:
   Equalization is of fundamental importance to the concept of equal citizenship across Canada and must be respected and reinforced by the federal government.
   Section 36 of the 1982 Constitution Act reads: ``Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation``.

   In Canada, unlike many other federations, control and revenue derived from resources is under provincial jurisdiction. This was confirmed in the 1982 Constitution Act. The need for

equalization arises from vastly disproportionate natural resources as well as disproportionate numbers of high income residents between provinces.
Since 1992-3, the % of GDP spent on equalization has declined by about 23% from 1.35% of GDP to 1.04%.

The Institute for Research on Public Policy compared Canada`s equalization system to other federal countries and suggests an independent commission to recommend annual levels and distribution, similar to Australia`s Commonwealth Grants Commission. This change could help de-politicize and re-vitalize equalization as the vital nation-building institution it was designed to be.

10. **Reinstate the 6% annual increase in the federal contribution to medicare in 2017 and later years; recognize increased costs due to an aging population as part of the formula; and introduce universal pharmacare, national standards for homecare and the use of social determinants of health as conditions for expanded federal funding.**
    Explanation:
    When medicare was first introduced in the 1960s and 1970s the intent was for federal government to pay 50% of the costs. This has declined to about 22% now. The 6% annual increase in federal health care instituted by the Martin government in 2004 was gradually redressing this imbalance. The decision of the Harper government to cut increases to medicare spending to the inflation rate or 3% whichever is greater, beginning in 2017-18, will create unsustainable pressure on provincial budgets that already face high health care costs. Nova Scotia already spends over 40% of its budget on health.

    The next budget must reverse the decision to increase medicare funds only by 3% or by cost of living increases.

    Pharmacare, homecare and social determinants of health are all ways to improve Canadians` health while reducing overall system costs.

III - RECOMMENDATIONS ON CARBON TAXES:

Generally we applaud the government's determination to establish a nationally coordinated carbon pricing system starting with the equivalent of $10/tonne CO2 equivalent in 2018 and rising by $10/tonne/year to $50/tonne by 2022.

Following are the principles we support in carbon pricing:

11. **Raise carbon prices steadily and quickly over time to change industry and consumer behaviour.**
    Explanation:
    Commit to continued carbon price increases beyond 2022. Over 38% of the world's carbon equivalent emissions are taxed but most at less than $20/tonne, which is not considered effective. BC's carbon price rose from $10/tonne of carbon equivalent emissions in 2008 to $30/tonne. BC's Carbon Pricing Commission recommends

additional increases at $10/tonne/year until the price reaches $150/tonne in 2030. $30/tonne raises a litre of gasoline by 8c, which has limited effect. The price/tonne is over $50/tonne in Norway and Finland and up to $130/tonne in Sweden.

12. Require provinces to include the following elements in their carbon pricing strategy:

1. **Increase energy security for low income households as carbon pricing increases.**

   Explanation:

   Many low income households cannot afford the energy they use now. Increasing the price of energy through a carbon price will increase this problem. There must be compensation that will cover the increased costs as well as reducing the existing "energy burden" for low income households. Low income households must be better off than they are now –i.e. more energy secure. Part of the revenue generated from carbon pricing must be used for this purpose. Compensation for low income households' energy costs must increase as a carbon price increases in a way that covers the rising costs they will experience. Compensation for low income households must be paid throughout the year so that they can afford to pay for higher heating bills and other energy costs as they occur. **A Carbon Tax Benefit** would be a good model, paid monthly as is the Child Tax Benefit is.

2. **Compensate modest and middle income households to help with energy costs that rise due to carbon pricing.**

   Explanation:

   Almost half of Nova Scotia taxpayers have $30,000 or less of taxable income. Most are in working families, many of whom have trouble making ends meet. While low income households already experience energy poverty, many more Nova Scotians could suffer from energy poverty as carbon prices increase over time. Some financial help to modest and middle income households is important for public support and to ensure a just transition to a low carbon economy. **A Carbon Tax Benefit** would be a good model, as discussed above. It would be the best way to make the impact of a carbon tax fair and progressive, enacted in a way similar to the Child Tax Benefit. A Dividend would be another progressive alternative, especially if it were taxable.

3. **Invest some of the revenue from carbon pricing to assist in the transition to a low carbon economy.**

   Explanation:

   Some of the revenue generated from carbon pricing must be invested in greening the economy. A minimum portion of these investments should be used to benefit low income communities who generally experience greater impacts from carbon intensive industries in the past and from climate change in the future. Examples of such benefits include free efficiency retrofits in low income homes, public transit and affordable inter-city transportation. Some of the revenue should be used to spur green innovation. Innovation can be fostered through our universities and through well-structured industrial innovation support such as Nova Scotia's Innovacorp. This is an important aspect of prospering from the transition to a zero carbon economy.

4. **Give climate change impacts precedence over possible job or profit impacts.**
   Explanation:
   This view is backed by a large majority of Nova Scotians. The 2014 report "Now or Never – An Urgent Call for Action for Nova Scotians" known as the Ivany report. A survey noted that a majority of Nova Scotians agreed with the statement "The environment should take priority over jobs", receiving a score of 8.0 out of 10. (p. 226)

Thank you for your attention. We look forward to a progressive, forward looking 2017 budget.

Respectfully submitted,

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Nova Scotians for Tax Fairness
Tax Fairly Spend Wisely

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[i] 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/