**Presentation to Senate National Finance Committee**

**Hearings on Bill C-15**

By Dennis Howlett, Canadians for Tax Fairness

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Thank you for the opportunity to provide input to your consideration of the Budget Implementation Bill C-15.

Canadians for Tax Fairness has been campaigning for tax fairness since its inception in 2011. Specifically we have called for tackling tax havens, closing unfair and ineffective tax loopholes and for corporations to pay their fair share.

We are very pleased that the Federal Budget 2016 has taken some positive steps in these areas.

## 1. Closing unfair and ineffective tax loopholes

The Budget Implementation Act C-15 includes measures to eliminate the education tax credit, the text book tax credit, the children's arts tax credit, the family tax cut credit and the child fitness tax credit.

While the stated objective of some of these so-called boutique tax credits sound noble enough, they have been found to not to be very effective in achieving their goals. Because they were structured as non-refundable tax credits, rather than refundable tax credits, they were unfair to those with little or no taxable income. It would be fairer and more effective if these types of programs were delivered as refundable tax credits or as direct funding for recreation or arts programs.

Data in a PBO study published in 2014 of $30 billion in tax cuts ($43 billion if you include corporate tax cuts) since 2005 showed that in absolute dollar amounts, the richest got the most benefit. The top 20 per cent of income earners got $10.9 billion, or 36 per cent of the total, while the bottom 20 per cent got $1.9 billion, or only six per cent. On a pocketbook level, the lowest 20 per cent of income earners have gained less than $500 in tax reductions, while the top 20 per cent have seen their taxes go down by almost $2,000 a year.

The family tax cut credit was particularly unfair as single parent families or families where both parents were working with a similar income would get nothing. According to an analysis done by Queen's University Law School Professor Kathleen Lahey, the top 20% of families with incomes over $140,000 would get 43% of the estimated $2.4 billion a year, even with a $2000 cap on benefits. Men would get 87% of the additional income.[i]

While the government has closed some tax loopholes there are many more, in our opinion, that are unfair and ineffective and should also be closed. We were particularly disappointed that the government did not carry through on their election promise to close the Stock Option Deduction.

The Federal Budget promised a full review of all tax expenditures prior to the next federal budget. We think there is over $10 billion that could be saved by ending unfair and ineffective tax expenditures, or "loopholes" as we like to call them.

## 2. Child Benefit

Bill C-15 would replace the Canada child tax benefit and universal child care benefit with the new Canada child benefit. This is a very welcome improvement to what was in place before.  It will go a long way towards ending child poverty, something that I have personally be campaigning for over 25 years.

Child poverty still plagues nearly 1 in 5 children overall and over 50% of Indigenous children and 60% of children living on reserves. This budget measure is expected to lift 300,000 Canadian children out of poverty.

But this will still leave one million Canadian children living in poverty, though it will help to reduce how far below the poverty line many of these children fall.

Unfortunately, the budget delays indexation of the Child Benefit to Inflation until 2020, and much needed funding for childcare is delayed until 2017-18, even though part of the funds that were rolled into the Canada child benefit was supposedly for for assisting families with child care costs.

Child poverty advocates, including Campaign 2000 are concerned that this benefit might be clawed back from parents on social assistance by some provincial governments. They are urging the Federal Government to initiate agreements with the provinces and territories to ensure no portion of the CCB is deducted or clawed back from families on social assistance, who live on some of the lowest incomes in the country. This can be achieved through adding a condition to the Canada Social Transfer that prohibits claw backs.

Budget 2016 is a very good start in addressing child poverty but there is still more that needs to be done to end child poverty in Canada.

Government should also plan for long term increases in the CCB to such a level that it reduces child poverty by 50% in 5 years as part of a strong Canadian Poverty Reduction Strategy.

Child poverty does long term damage to individuals and to our society and economy. Did you know that the experience of child poverty is more of a predictor of cancer, heart disease and diabetes than whether you smoked or not. It has a huge social cost in terms of health care costs and an economic cost in creating huge barriers to individuals achieving their potential and being able to contribute to our society and our economy. It should be one of the very top priorities for government spending.

3. **Corporate tax**

The Budget Implementation Bill maintains the small business tax rate at 10.5% for the 2016 and subsequent taxation years and makes consequential adjustments to the dividend gross-up factor and dividend tax credit. The small business tax rate was 11% last year and the previous government had planned to reduce it in .5% steps each year till it reached 9% in 2019.

Keeping the rate at 10.5% is a very smart move, in our view for several reasons:

- There is some justification for having a slightly lower small business tax rate than the general corporate tax rate (which is now 15%) as small businesses do not have the same options available to them to make use of tax havens to shift profits or use other tax loopholes that are available to large or multinational corporations. But if the difference between the general and small business rate becomes too large, this creates a disincentive for businesses to grow. This in turn means job growth is affected negatively, according to some estimates, by more than any positive job impact of lowering the small business tax rate.
- Offering a lower rate for small businesses is costly in terms of revenue lost. The revenue loss when the rate was 11% was estimated at $3 billion a year. Lowering it to 9% would have cost another $5 billion. Government revenue is not a loss to the economy if it is spent wisely. If the government has more revenue it could spend on investments in social and physical infrastructure, it could create far more jobs and have a stronger economic stimulative effect than tax cuts. Canadian Finance Department studies and studies by Joseph Stiglitz have found that every dollar in government spending on physical or social infrastructure had a 1.50 stimulative effect, while every dollar in tax cuts had only a 50cent stimiulative impact.
- Lindsay Tedds, associate professor at University of Victoria's school of public administration argued that small businesses kill as many jobs as they create. Tax cuts are a very blunt instrument. The savings for a small business would not amount to more than about $10,000 a year, not enough to justify hiring even one more employee full time. And the tax cut would have been given to any small business, whether they invested the savings in the business and hired more workers or not. While small businesses are a significant part of the economy and employ a lot of workers, they are not the prime source of job growth in the economy.
- If the gap between the top marginal income tax rate and the small business tax rate becomes too great, this also creates a strong incentive for professionals to set their practices up as small businesses. This is becoming a bigger problem as a result of the introduction of a new top income tax rate of 33% on income over

$200,000. The Liberals promised to fix this problem but it would appear that this budget implementation bill does not fix this problem.

We believe the small business tax rate should be raised so that there is less of a gap between it and the general corporate tax rate and the top marginal income tax rate, but we recognize that this may be difficult to do politically for the government, given the mistaken public belief that small businesses are key to job creation. So leaving it where it is, at least, does not make the situation worse than it is.

## 4. Mineral Exploration Tax Credit

Bill C-15 proposes that the mineral exploration tax credit for flow-through shares be extended by one year.

This, in my view, is a bad idea. It seems the government knows there is a problem with this tax break but just can't seem to make up its mind what to do about it. It was introduced in 2000 as a temporary measure to expire in 3 years, but has been extended for one to three years in Federal Budgets since then. It is time to end this tax break once and for all.

80% of the beneficiaries of this tax credit are in the top tax bracket, according to Finance Canada. This tax credit costs between $40-$150 Million a year, depending on the year. But it only raises 10% of mining companies' exploration capital.

University of Victoria economist, Lindsay Tedds concludes that,

"There is no evidence that the METC induces increased exploration activity over that stimulated by commodity prices. On the investor side, the METC subsidizes high-risk investments and appears to be predominately used for tax-planning purposes by high-income taxpayers rather than for calculated investment purposes. The consequence is that the tax credit channels investment money away from other more lucrative, but unsubsidized investments. In fact, the rate of return of investments that qualify for the METC have been very poor, suggesting that the tax regime is the sole impetus for the investment. On the administration side, the METC regime is associated with high administrative and compliance costs, benefiting only tax lawyers and accountants.

At a time when taxpayers are concerned about government spending, deficits, and value for money, the METC (in both its old and new form) represents wasteful use of tax revenues and taxpayers should demand better from its government."ii

## 5. Sharing of Taxpayer Information within the Canada Revenue Agency

I was also asked by the clerk of this committee to comment on the measures in Bill C-15 that would permit sharing of taxpayer information within the Canada Revenue Agency to facilitate the collection of certain non-tax debts; and permit the sharing of taxpayer information with the Office of the Chief Actuary and permit the sharing of taxpayer information in respect of non-tax debts within the Canada Revenue Agency under certain federal and provincial government programs and in respect of certain programs where information sharing is currently permitted under the Income Tax Act.

While I am not an expert on this topic, I noted that testimony provided to the House of Commons Finance Committee by Trevor McGowan, Senior Legislative Chief, Tax Legislation Division, Tax Policy Branch, Department of Finance on that the privacy commissioner was consulted on this provision, but we were told that they do not provide advance opinions on whether a particular amendment would contravene the privacy rules. Instead, they agreed to continue to work with the Canada Revenue Agency to ensure that all of the privacy guidelines are followed and that taxpayers' personal information is adequately protected.

Tax information will not be made public and will be kept within the CRA so I don't think there should be a problem with this measure. It will just help to make the work of the CRA more efficient.

It may be worth noting that in several Scandinavian countries, the tax authority posts the income tax returns of all taxpayers on its website. They also fill out tax returns for taxpayers.

## 6. Measures to Combat Tax Haven abuse in 2016 Federal Budget

While not included in the Budget Implementation legislation I would like to end with a few comments on measures to combat tax haven related tax evasion and avoidance that were included in the 2016 Federal Budget. The budget allocated $444 million over 5 years to increasing the capacity of the Canada Revenue Agency to go after tax haven related tax evasion. This is welcome as CRA had more cuts to its staff and budget than any other government department and lacked the capacity necessary to fight tax havens. This will enable the CRA to hire more auditors and investigators and pursue the more difficult and complicated cases that they tended to ignore. The result has been that they went after the low hanging fruit of ordinary taxpayers and threw the book at them, while letting big-time tax cheats off lightly with out of court settlements with no penalties.

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[i] http://www.theglobeandmail.com/opinion/income-splitting-wont-help-parents-who-really-need-a-tax-break/article21382476/

[ii] http://www.macleans.ca/economy/economicanalysis/why-the-mineral-exploration-tax-credit-is-such-a-bad-idea/