



**CANADIANS FOR TAX FAIRNESS**  
CANADIENS POUR UNE FISCALITÉ ÉQUITABLE



## **Canadians for Tax Fairness**

Submission to the House of Commons  
Standing Committee on Finance

**Pre-Budget Consultations  
for the 2020/21 Federal Budget**

*August 2019*



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## **Key Recommendations**

Canadians for Tax Fairness recommends the federal government:

1. Make Budget 2020 a climate action and tax fairness budget by funding the very significant public investments necessary to transition to a low carbon economy with the range of progressive tax measures we identified in our Platform for Tax Fairness.
2. Strengthen the federal government's carbon tax framework by eliminating preferences for large emitters, converting the cap and trade mechanism into a transparent and competitive carbon tax with border adjustments and rebates for importers and exporters, and provide increased direct and transparent incentive payments to Canadian households.
3. Take steps to immediately eliminate all remaining tax and non-tax fossil fuel subsidies.



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## Introduction

We are very glad the Finance Committee has chosen *Climate Emergency: The Required Transition to a Low-Carbon Economy* as the theme for its pre-budget consultations this year.

Canada's economy has performed well in recent years. We're in the tenth year of economic expansion since the financial crisis, employment has increased by over 400,000 during the past year, with the unemployment rate close to 43-year lows. Consumer price inflation remains low, real wages are finally showing signs of rising, and our public sector finances are in reasonable shape overall. While there are some rough patches and soft spots, largely in the resource and oil and gas sectors and related regions, these are improving and Canada's economic growth is expected to increase again in 2020.

In this context, there is absolutely no reason why federal and provincial governments shouldn't take serious action to address the fundamental problems of our time: climate change and economic and social inequality. As others, including the Canadian Labour Congress, have stated, Budget 2020 must be a Climate Action Budget, comprehensively setting out how Canada will reduce its greenhouse gas emissions and transition to a low carbon economy in a just and equitable way, reducing poverty and inequalities while also growing our economy.

Taxation measures can and must play an important role in facilitating the transition to a low-carbon economy, but they must be applied appropriately, and they are only one set of tools in the toolbox. We must use all the tools available to address the existential threat of climate change and global warming. While many economists are fond of stating that carbon taxes are more efficient than other measures, they often gloss over the shortcomings and failures of price and market mechanisms.

As the [Parliamentary Budget Office](#) and others have calculated, Canada would need a broad-based carbon price of at least \$100 per tonne to achieve its emission reduction targets under the Paris agreement—and those calculations are based on some idealized assumptions about the economy. Markets rarely work perfectly and carbon pricing can be more effective and kept at a lower rate if it is combined with direct regulation, public investments, programs and support, education, research and other tools.

## Fair Taxes to Fund Climate Action and Just Transition

Making the transition to a low carbon economy will require many billions in additional public investment over the next five years and beyond. The [Green Economy Network has proposed](#) that Canadian governments invest an additional \$81 billion over the next five years (averaging \$16 billion annually) in renewable energy, energy efficiencies, building retrofits, and retrofits, public transit and high-speed rail. This would create an estimated additional one million person-years of employment over five years and further reduce Canada's GHG emissions by 88 to 260 Mt annually. We need to reduce our emissions by 30%--or by about 200 Mt annually—to meet



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our 2030 commitments for reductions, and these measures could go a very substantial way to achieving them, while boosting the economy and helping to create an additional 200,000 jobs annually.

The Green Budget Coalition has [proposed dozens more specific measures](#) that would require billions more in public funding. Most of these are more modest in their costs, but they also include \$2.9 billion annually for international climate financing.

Federal political parties have all proposed a range of measures to address climate change, including building retrofit programs; substantial investments in renewable energy, clean energy projects, public transit, rail and technology; conversion to zero emission vehicles; support for job training and just transition; and numerous other measures.

These measures will all require substantial additional funding from the federal government, as will establishing a national universal pharmacare for all program, affordable childcare and other important priorities. That's why Canadians for Tax Fairness has proposed a [Platform for Tax Fairness](#). This plan shows how the federal government could generate an additional \$40 billion in revenues annually from a range of tax fairness measures, including:

- *Closing regressive tax loopholes* (total \$16 billion+ annually), including the stock option deduction, capital gains, corporate meals and entertainment deduction and the dividend tax credit.
- *Making our tax system more progressive* (\$16.7 billion annually) by increasing the corporate tax rate, top income tax rate, levelling the digital playing field, and re-introducing an inheritance tax on high-wealth estates.
- *Tackling international tax evasion, avoidance and tax havens* (\$6 billion+ annually)
- *Environmental tax measures* (\$3.3 billion+ annually)

Revenues from these tax fairness measures should be sufficient to fund the additional public investments required to transition to a low carbon economy that would actually reach our greenhouse gas reduction commitments, and also provide funding for additional social programs.

It is important to recognize that these additional revenues would bring the federal government's revenues back to its long-term average as a share of the economy. They would also predominantly come from restoring taxes on higher incomes, the wealthy and corporations, who have benefited the most from tax cuts over the past two decades. The combination of these progressive tax measures and increased public investments in climate change measures and priority public services would make the vast majority of Canadian households better off, reduce poverty, substantially reduce inequalities, and provide a strong boost to the economy and employment.



## **Strengthen the federal carbon tax framework**

Canadians for Tax Fairness has been generally supportive of the federal government's carbon pricing backstop framework. A consistent national price on GHGs is preferable to ten different systems across Canada and a consistent, predictable and transparent carbon tax is preferable to cap and trade schemes which are opaque, subject to preferential treatments, and have led to highly variable prices and other problems. We're also supportive of the fact that the program compensates 80% of all households and a large majority of lower and middle-income households for their increased costs, making the program progressive overall, similar to what we've proposed for many years through the Alternative Federal Budget. However, the federal government's program needs to be strengthened to maximize its effectiveness in a number of ways:

- The cap and trade system for large emitters should be converted from a cap and trade system with numerous exemptions to a transparent and consistent carbon tax so that large emitters also pay their fair share.
- To address competitiveness concerns and increase the international effectiveness of these measures, the framework should include border adjustments, with appropriate carbon taxes applied to imports from countries without sufficient carbon pricing programs and rebates for Canadian exports to those countries, based on the estimated greenhouse gas emissions involved in their production and transportation.
- The effectiveness of the federal carbon tax program should be strengthened by ensuring that the public is more aware of the actual costs and the benefits they receive through the program. Public awareness of the actual costs of the carbon tax (and the amounts of incentive payments) is low and so is the effectiveness of the price signals. The program should include a comprehensive educational component with the federal government sending out material to each household annually outlining the costs of climate change, estimates of how much the carbon tax is expected to cost their family and other households, along with their incentive payment cheque. These compensating incentive payments should also be increased proportional to the increased coverage and revenues of the program.

## **Finally eliminate all remaining tax and non-tax subsidies to the fossil fuel industry**

The federal government has committed many times to eliminate fossil fuel subsidies, which are completely contrary to its climate change strategy. It has started to phase out some, but [many remain](#) and it has also introduced additional subsidies. Canadian oil and gas royalty and taxation rates are already low compared to other major producers: the industry shouldn't be provided with additional subsidies.

The federal government should immediately provide all the information necessary to determine how much it provides in tax and non-tax subsidies, commit to a stringent timeline to eliminate all existing and remaining subsidies, commit to not introduce any further fossil fuel subsidies, and to increase royalty and tax rates that apply to the fossil fuel industry.