THE GLOBE AND MAIL

CESTNICK

TAX MATTERS

A wealth tax will only end up disappointing Ottawa

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED AUGUST 19, 2021

With the federal election campaign under way, you can bet we'll be hearing arguments for a wealth tax in the days ahead.

NDP Leader Jagmeet Singh has already announced his party's intention to implement an annual 1-per-cent wealth tax on Canadians with wealth of $10-million or more.

Earlier this year, Liberal MP Nathaniel Erskine-Smith asked the Parliamentary Budget Officer to investigate the amount of revenue that could be raised by a one-time wealth tax. The report was released last month, and says Ottawa could raise between $44-billion and $61-billion over five years starting with a tax of 3 per cent on Canadians with wealth greater than $10-million.

While the Liberals have not officially announced that a wealth tax is on the horizon if they win the election, the party did announce in last September's Speech from the Throne that they intend to "identify additional ways to tax extreme wealth inequality."

Problem is, you can bet that a wealth tax so popular with some politicians would be avoided by many Canadians who are the targets of this type of tax. Don't get me wrong. Wealthy Canadians can respect a progressive tax system that sees them paying more in taxes than those with much less.

In fact, the idea that high-income Canadians aren't paying their "fair share" is, according to the Fraser Institute, long on rhetoric and short on facts. A study released by the institute on Aug. 5 shows the top 20 per cent of Canadian income earners pay almost two-thirds (63.2 per cent) of all federal and provincial income taxes while earning less than half (44.1 per cent) of the country's total income.

Back to the idea of a wealth tax. Such a tax would be an exercise in futility. And this isn't simply conjecture – wealth taxes have been tried. In 1990, 12 European countries had a wealth tax. By 2018, that number dropped to four (Spain, Switzerland, Norway and Belgium). The Fraser Institute has suggested a few problems with a wealth tax that are worth noting.

Lack of revenue. While a wealth tax may sound appealing, particularly when current government spending has resulted in a $354-billion deficit for 2020-21, such a tax would raise relatively little revenue.

France had a wealth tax, but abolished it in 2018. The experience was that it encouraged the wealthy to leave the country. French economist Éric Pichet estimated the outflow of wealth actually cost the government twice the revenue the tax generated.

In the United States, a paper published by the National Bureau of Economic Research found that wealthy people readily moved to other jurisdictions to avoid inheritance taxes. The result? Some states not only failed to collect inheritance taxes but lost the opportunity to tax the incomes of the wealthy.

High administrative costs. Collecting a wealth tax has its challenges and significant administrative costs. Germany scrapped a wealth tax when it was ruled unconstitutional, and Austria decided the cost of administration and the burden on small businesses wasn't worth it.

Why the high costs to administer? When you ask people to evaluate their own level of wealth, some will underreport the amount, which leads to the necessity of having outside valuators. This is costly and leads to disagreements over the value of assets – especially real estate and private businesses.

You could exclude those assets from the definition of "wealth," but exempting them, along with pension assets (which would be controversial to tax, since taxes are paid upon the mandatory withdrawals from pension plans, RRSPs and RRIFs), would remove most wealth held by Canadians from being taxed.

Contradictory policies. Wealth has increased meaningfully as central banks have cut interest rates and adopted quantitative easing, with the idea that this would result in higher asset prices and stimulate spending. But a wealth tax would put downward pressure on the very asset prices monetary policy has been inflating.

The Fraser Institute suggests that if wealth inequality is considered worse for society than slower growth, central banks should end policies that inflate asset prices, rather than governments penalizing the wealth central banks have intentionally helped to create.

Some proponents might argue a one-time wealth tax could eliminate some of these problems. But this would amount to an "unannounced confiscation of wealth," in the words of Queen's University professor Robin Boadway, and would create a permanent condition of mistrust and result in the same movement of assets a recurring tax would trigger.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc.
He can be reached at tim@ourfamilyoffice.ca