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CESTNICK

TAX MATTERS

High income earners in Canada are already paying their fair share of tax

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I was working on a project this weekend and went to Home Depot for wire. The guy who helped me was a wealth of information about all things electrical.

"Do you know how copper wire was invented?" he asked.

"I have no idea," I replied.

"It was an accident when two Canada Revenue Agency auditors were fighting over a penny," he answered.

Not to be outdone, I told him, "I always try to pay my taxes with a smile, but it turns out the CRA prefers money."

Sometimes I need a laugh – even if it's about paying taxes. But when I hear our Finance Minister comment on the issue of taxpayers, I often want to cry – or at least cringe.

"We're making sure the very wealthy ... pay their fair share of taxes," Chrystia Freeland announced in her 2023 federal budget speech. The problem with statements like this is that they perpetuate the misperception that the highest income earners in Canada are not already paying their fair share.

The federal budget also went on to claim that "through the significant use of deductions, credits and other tax preferences, some of the wealthiest Canadians pay little to no personal income tax in a given year." This comment is a real head-scratcher.

These "deductions, credits and other tax preferences" that the government talks about include charitable donations, medical expenses, child-care expenses, investment losses, RRSP contributions and other legitimate amounts that every Canadian has a right to claim. We're not talking about loopholes here – and if pressed the government would readily acknowledge this.

Still, the government wants the average Canadian to believe that the wealthy are somehow not paying all they should. But is this really true?

The facts

Last week, the Fraser Institute released a report titled "Measuring Progressivity in

Canada's Tax System, 2023," which highlights the fact that high-income families already pay a disproportionately large share of all Canadian taxes.

The report focuses on taxes paid by families at five different income levels: $0 to $59,270; $59,271 to $104,048; $104,049 to $159,040; $159,041 to $243,799, and more than $243,799.

The families in the highest quintile (the top 20 per cent) earn 45.7 per cent of total income but pay 61.9 per cent of total personal income taxes, according to the report. On the flip side, the lowest-income families (the bottom 20 per cent) earn 5.1 per cent of total income but pay just 0.7 per cent of personal income taxes.

This is because we have a progressive tax system in Canada, which means that the higher your income, the higher the proportion of your income that goes to taxes. Over the past few years, in an effort to generate more tax revenue, there have been changes that have increased the level of tax paid by higher-income Canadians.

In 2016, the federal government added a new top federal income-tax bracket, which increased the top federal tax rate to 33 per cent from 29 per cent. Some provinces have followed suit.

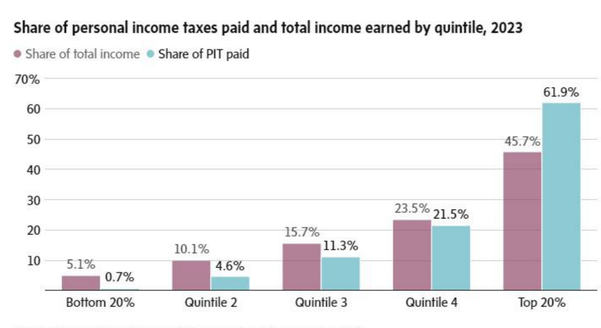
Then, in 2017, the government introduced changes that affect small-business owners and their ability to build retirement savings in their corporations and pay family members (the passive income and tax-on-split-income, or TOSI, rules). Most recently, there has been an overhaul to the "alternative minimum tax" system, which can deny higher-income Canadians the ability to claim the same deductions, credits and tax preferences as those with lower incomes.

The results

Although the government may think that taxing higher-income folks more will generate a significant amount of tax revenue, it can also lead to other economic consequences. Higher tax rates make Canada a less attractive place to live and work for highly skilled people, such as doctors, scientists, managers and software engineers. The report notes that the emigration of skilled workers to the U.S. is a major source of forgone tax revenue.

Further, tax increases often encourage higher income earners to reduce their taxable income, resulting in less tax revenue than expected. In Britain, for example, a new top personal tax bracket was added in 2010, increasing the top rate to 50 per cent from 40 per cent. This was supposed to generate £2.5-billion ($4.2-billion) in new tax revenue, but actually yielded £1-billion or less. The rate has since been reduced to 45 per cent.

The bottom line? With the top 20 per cent of income earners in Canada already contributing 61.9 per cent of all personal tax revenue, it's time to stop pretending that they're not paying their fair share.



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