



CESTNICK

TAX MATTERS

Overtaxing the rich can lead to problems

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There's no shortage of government rhetoric claiming the rich aren't paying their fair share of taxes. According to the 2024 federal budget: "The wealthy are currently able to benefit from tax advantages that middle-class Canadians and, especially, younger Canadians are rarely able to benefit from."

The types of "tax advantages" the government is referring to includes, most recently and notably, capital-gains tax rates. Taxes on capital gains have been lower than on regular income since income taxes were introduced in Canada in 1917. Our current government would have you believe this is ludicrous.

The government doesn't mention the risks one assumes, or the jobs one creates, when investing in businesses, equities, real estate and other assets that have the opportunity for capital growth – and also the potential for loss.

Our government believes Canadians who put their livelihoods and capital at risk to create jobs and expand our economy should receive no tax incentives that are not also available to everyone – including those who take no risks.

The problem is, if you overtax the rich, they may simply stop hanging around. I shared a parable several years ago which I'd like to revisit today.

The parable

Each day, 10 people go to a restaurant for dinner together. The bill for all 10 comes to \$100 every day. If the bill were paid the way we pay our taxes, the first four would pay nothing; the fifth would pay \$1; the sixth would pay \$3; the seventh \$7; the eighth \$12; the ninth \$18. The 10th man – the richest – would pay \$59. Although the 10 people didn't share the bill equally, they all seemed content enough with the arrangement – until the restaurant owner threw them a curve.

"You're all very good customers," the owner said, "so I'm going to reduce the cost of your daily meal by \$20. I'm going to charge you just \$80 in total." The 10 people seemed genuinely surprised, but quite happy about the news.

The first four people, of course, are unaffected because they weren't paying anything for their meals anyway. They'll still eat for free. The big question is how to divvy up the \$20 in savings among the

remaining six in a way that's fair for each of them. They realized that \$20 divided by six is \$3.33, but if they subtract that amount from each person's share, then the fifth and sixth people would end up being paid to eat their meals. The restaurant owner suggested it would be fair to reduce each person's bill by roughly the same percentage, and he proceeded to work out the amounts each should pay.

The results? The fifth person paid nothing, the sixth pitched in \$2, the seventh paid \$5, the eighth paid \$9, the ninth paid \$14, leaving the 10th person with a bill of \$50 instead of \$59. Outside the restaurant, the people began to compare their savings.

"I only got \$1 out of the \$20," said the sixth person, pointing to the 10th man, "and he got \$9!"

"Yeah, that's right," exclaimed the fifth person. "I only saved a dollar, too! It's not fair that he got nine times more than me!"

"That's true," shouted the seventh person. "Why should he get back \$9 when I only got \$2? The rich get all the breaks!"

"Wait a minute," yelled the first four people in unison. "We didn't get anything at all. The system exploits the poor!"

The nine outraged people surrounded the 10th and cursed at him. The next day, he didn't show up for dinner, so the nine sat down and ate without him. But when it came time to pay the bill, they faced a problem they hadn't faced before. They were \$50 short.

The moral

It's easy to think the rich get all the tax breaks. Our government continues to claim the rich don't pay their fair share. But this government has been in power for almost a decade, so if the rich aren't paying their fair share yet, what has the government been doing all that time?

As for paying their fair share, the Fraser Institute released updated statistics last week which show that the top 20 per cent of income-earning families in Canada pay 62.7 per cent of all personal income taxes, while the bottom 20 per cent pay 0.8 per cent of personal income taxes in this country.

If you continually increase taxes on the top income-earners, making Canada a less attractive place to live, work, and create businesses – don't be surprised if they stop coming to dinner. They have plenty of places they can go.

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