FACE OF POVERTY CONSULTATION
A Multifaith Coalition Working to Eliminate Poverty

Brief to the House of Common Finance Committee
Hearing on Bill M-315
Prepared by Dr. Michael Bradfield
Recording Secretary

The members of the Face of Poverty Consultation view poverty as a systemic issue – our institutions create and perpetuate inequality.

We know there is no free lunch - we "have to live within our means". But what does this mean as a society?

Why is it that as a society we produce **more than twice as much, per person** as we did 40 years ago yet inequality is increasing and we are told we now cannot "afford" the level of social programmes we could then?

The answer is two-fold:

1. The growth in real purchasing power has gone primarily to the upper 20 %; in particular, to the top 5 %. While there was a brief drop in inequality after the 2008 financial recession, inequality has again accelerated.

2. Taxes in Canada fell from 1990 to 2005, by two percentage points for people in the middle but by three percentage points for the top 5 percent. And taxes rose for the poorest 20 percent of Canadians by five percentage points so that they are paying roughly the same proportion of their income for taxes of all kinds as the wealthiest one percent.[i]

Those who claim we cannot afford higher taxes are saying that the wealthy cannot afford a tax increase of the magnitude of that imposed on the poorest Canadians since 1990, or that the wealthy cannot afford to pay the same level of taxes as people in the middle tax brackets. They are saying we cannot afford justice for the majority.

It is claimed that it is necessary to cut taxes to the wealthy and their corporations to stimulate the economy and create jobs and higher incomes. This has not worked[ii] for most of us even though income tax rates in the upper brackets are lower than they have been in decades!

We believe that our governments can afford to provide better services for all if the tax system truly reflects a just sharing of taxes. However, the only part of our tax system which is progressive is the income tax and there are loopholes in it through which the wealthy can drive a Brinks truck. Because of the preponderance of regressive taxes, such as sales and property taxes, the entire tax system tends to be almost a flat tax system and is regressive at the highest income levels. This is exacerbated by the ease which the rich can avoid taxes by the use of tax havens.

This brief concentrates on changes that can be made in the tax system to make it more progressive while also raising more funds for crucial public services for us all. We also comment on support programmes for those living in poverty.

A More Progressive Income Tax Structure

Some forms of income receive special treatment. For instance **Tax Free Savings Accounts** are a tax shelter which can be afforded only by those with a lot of discretionary income, i.e., those at the top. Thus they allow tax avoidance in the highest tax brackets. This benefit to the wealthy **should cease**.

Another untaxed form of income is inheritance – again this is a tax concession that generates the greatest benefit to the wealthiest. There is no evidence that 40 years without inheritance or estate taxation has helped the economy, only the rich.

Another concession to the wealthy is capital gains taxation, including profits from exercising stock options, which have a 50 percent "inclusion rate" - only half has to be reported as taxable income.

Capital gains and inheritance should be treated as any other form of income.

In addition, even the structure of the income tax system has limited progressivity with upper brackets getting larger and the jump in the tax rate smaller. Thus, there should be **more tax brackets and the marginal tax rate should be increased in the top brackets.** Both justice and public opinion support this move.

Other ways to increase tax fairness.

The income tax can be made more progressive by changing from a system of deductions from total income to a system of tax credits at the lowest tax rates applied against the taxes due on total income. Deductions reduce the amount a taxpayer pays at their highest marginal rate. Someone in the highest bracket gets a higher benefit from a deduction than is available to people in lower brackets. If available as a credit, everyone would get the same tax benefit, except those whose income is so low they cannot make use of the tax credit.

Consider this anomaly – private pension plans and RRSPs contributions generate tax deductions but CPP contributions generate only a tax credit. Everyone in the paid economy contributes to the CPP but less than half of Canadians have a company pension plan or can afford significant contributions to RRSPs. Deductions favour the wealthiest Canadians.

All deductions should be converted to tax credits.

The above reforms would make the income tax more progressive, but most of them do not benefit the poorest of Canadians. While tax credits remove the differential benefits of deductions, there remains the fact that many low income Canadians, while paying a substantial portion of their incomes for regressive property and sales taxes, do not make enough to owe as much in income taxes as they are entitled to as tax credits. Thus, even a tax credit has little or no value to many Canadians living in poverty. Fortunately, this is easily remedied if **tax credits** were **refundable**.

Refundable tax credits would mean that the most marginalised would benefit as much as anyone else – they could use their tax credits against taxes owed and receive any unused credits as a tax refund.

These proposals make the income tax more progressive, shifting taxes away from the majority to high income recipients. In addition, decreasing our reliance on regressive taxes makes the entire system, not just income tax, more progressive and raises more funds for services.

A More Progressive Tax System

An important source of regressivity in the tax system is the property tax, the primary tax base for municipalities in Canada. The tax system would be improved, and municipalities would have more revenue to meet their increasing responsibilities, with an income tax for municipalities.

In many European countries, the property tax is a minor part of the revenues of municipalities, less than 3 per cent in Sweden.

The best municipal income tax would be at the federal level, to get consistency and administrative efficiencies while avoiding tax competition between municipalities.

There should be a surcharge on the federal tax payable, to be refunded directly to municipalities by the postal code of the tax filer. It would simply require an additional line on tax Schedule 1, after the calculation of the federal income tax payable (line 406) – "Add x % of line 406 to calculate your municipal income tax" and the "Net Federal Tax", line 420, would be changed to "Net Federal and Municipal Taxes".

This is a "good" tax, as it is progressive, easy for the tax filer to prepare, imposes no great administrative burden on the federal government, and the additional revenues for municipalities would allow them to lower property taxes and provide more or better services.

More Just Income Supports

The federal and provincial governments provide many support programmes for those living in poverty. However, these supports still leave people with inadequate incomes and tend to focus on rules to prevent abuse. There are often claw-backs of support payments when the recipient finds alternative income, such as part-time work or another support programme.

For instance, in Nova Scotia, there is a 70 percent claw-back of Employment Support and Income Assistance (ESIA) payments on any earnings over $250 ($300 for people with disabilities) a month. This is effectively a tax rate 50 per cent higher than the marginal tax rate for the wealthiest Canadians. Such claw-backs generate a huge disincentive for someone with a chance to work part-time to get ahead. They incur extra expenses to work, yet lose most of the market income earned because of the claw-back. Similar issues arise with other supports such as Employment Insurance and Veterans Disability Pensions in Canada. The north European nations provide much more realistic (i.e., higher) levels of support without the disincentives so often emphasised in Canadian programmes for the marginalised, programmes which are structured around punishment and distrust.

A time of economic fragility is a good time to raise support levels – the people who receive it have immediate needs and spending the money will create jobs and income for others, which means income taxes for government. Thus, higher support gives an immediate boost to the economy and generates increased revenues to help pay for them.

Some government "support" programs more than pay for themselves. In Quebec, the introduction of subsidised day care freed up women to rejoin the work force. Thus, they had more income to spend and this stimulated other jobs. The increases in incomes also meant increased taxes. For each dollar spent subsidising day care, the Quebec government received an additional $1.05 in tax revenue – and the Federal government raised another $0.45.[iii]

Finally, while being told "we **all** have to tighten our belts", we see perverse policies which provide subsidies or tax cuts to some of the wealthiest families and corporations in Canada, and massive expenditures on weapons while cutting back on education, the environment, and health care. It is cynical for governments to say we have to live within our means when the government is reducing its own revenues by more tax concessions on high incomes.

Are Support Programmes Adequately Indexed?

It is claimed that some policies protect the marginalised because support is, at least partially, indexed to the cost of living, usually the consumer price index, the CPI. However, even complete indexation does not prevent the purchasing power of the marginalised from falling because the CPI is based on average levels of consumption for an average basket of goods. But low income Canadians do not, cannot, consume a basket of goods similar to the rest of us. Economists recognise this and advocate indexing social programmes to a Market Based Measure (MBM) of expenditures as a better measure than the CPI.

While the CPI is based on a group of goods purchased by the typical Canadian household, the MBM is based on a group of goods considered necessities (e.g., food, clothing, shelter, transportation). Because low income families spend a greater proportion of their incomes on necessities, the growth of the MBM is a truer reflection of the increase in costs facing the poor. From 2000 to 2009, for Nova Scotia, the CPI (excluding food and energy) grew by 16.5%, the CPI (all items) grew by 21.2%, but the MBM (for Halifax) grew by 32.5% or 50 percent faster than the higher of the CPI estimates.

While most support programmes are thus inadequately indexed against inflation, there is usually indexation within the income tax – the bracket thresholds are often increased to reflect inflation. The issue here is that raising the bracket thresholds helps only those close to the top of the bracket – and everyone else above it. The people a little below the ceiling of the first bracket do not benefit, nor are they likely to. They are often on low and fixed incomes and cannot expect to suffer from "bracket creep". They suffer from poverty and indexing everyone else is just another example of how our systems help everyone but the most marginalised. Similarly, indexing the basic personal deduction will provide no benefit to those whose tax credits already exceed their taxes.

Government budgets should be based on sustainability, both social and environmental. To the extent that we base them on financial sustainability, we must focus on a taxation system which is both fair and effective. Adequately funded support programmes should not be a residual item but a primary concern reflecting a priority in helping the marginalised first. It is the voice of the poor which must be heard.

We have touched on just a few of the issues around income inequality. With a longer lead time, we could provide estimates of the revenue implications of our proposals. However, we know from provincial estimates (e.g., the Nova Scotia Alternative Budget produced annually by the Canadian Centre for Policy Alternatives), that these proposals are manageable, if our politicians would make the tax system more progressive and expect the rich to pay their fair share of taxes.

To view our website, please go to **http://users.eastlink.ca/~lutheranchurch/Poverty.html**

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[i] Lee, Marc. 2005. *Eroding Tax Fairness: Tax Incidence in Canada, 1990 to 2005*. Ottawa: Canadian Centre for Policy Alternatives. retrieved at policyalternatives.ca/sites/default/files/uploads/publications/_Office_Pubs/2007/Eroding_Tax_Fairness_web.pdf

[ii] Shome, Parthasarathi, 1993. "The Taxation of High-Income Earners", International Monetary Fund, *Papers on Policy Analysis and Assessment*, No. 93/19.

[iii] Pierre Fortin, Luc Godbout, Suzie St-Cerny, “Economic Consequences of Quebec’s Educational Childcare Policy,” presentation to Early Years Economics Forum, June 22, 2011, Toronto, ON. http://www.oise.utoronto.ca/atkinson/UserFiles/File/EarlyLearningEconomicForum_Fortin.pdf