Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget

Paying for the Recovery We Want

Broadbent Institute

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Recommendation 1: That the government implement a **graduated wealth tax** to allow the richest Canadians to make a contribution, appropriate to their wealth, toward repairing the damage that COVID-19 has done to public finances.

Recommendation 2: That the government amend its **federal income tax system** by taxing a larger share of pre-tax income from the top 1% of income earners in order to make the federal income tax system more progressive.

Recommendation 3: That the government **end tax breaks** where only a portion of the income garnered is taxed, such as in the case of dividends, capital gains and stock options; and **crack down on tax avoidance**.

Recommendation 4: That the government implement **corporate tax reform**, by eliminating corporate tax cuts in order to end corporate welfare and ineffective investment incentives.

Recommendation 5: That the government implement a **sovereign wealth fund** as a contribution towards a green economic recovery.

Recommendation 6: That the government increases **consumption and sales taxes once the economic recession is over**, in relation to investing in a green economic recovery and responding to the global climate crisis.

Introduction

Pre-COVID, the world was just starting to come to terms with the extent of change that would be needed during the next decade to avoid widespread ecosystem collapse due to climate change. Indeed, the pandemic has provided a sobering appraisal of the deep cracks in our systems, from education and health to employment standards and income supports. We have been forced to face up to longstanding inequities and injustices that Indigenous people, women, Black people, and other racialized groups have borne for years. They have suffered some of the worst impacts of the virus.

A well-balanced, well-designed, and fair tax system can support a society that is also well balanced, smart, and fair. Most Canadians endorse such an arrangement, but our current tax system misses the mark. Many of the decisions that federal and provincial governments in Canada and the governments of other industrialized democracies have made about public revenue over the past 30 years have not delivered on their promised benefits, though they have come with great costs.

Above all, since the 1980s we have managed to engineer an unprecedented transfer of wealth to a small minority that needed help the least while imposing austerity on the majority of the population. The result has been growing inequality and insecurity.

The main driver of this dramatic increase in inequality is the expansion of profits for a concentrated group, based on increasingly insecure work and stagnated wages in the labour market.

Governments have exacerbated the problem by starving key income-support programs such as social assistance and Employment Insurance and by making the overall tax system more unfair. Since 1980, the tax rate on the top income bracket has dropped from 43%[1] to 33%,[2] and corporate taxes are down from 36%[3] to a staggeringly low 15%.[4] Tax breaks on income from investments have also become more generous over time.[5] All of these shifts in the system have overwhelmingly benefited the rich.

These reforms have done much more than give the wealthy an unfair break. The OECD calculates that tax revenue in Canada fell from 34.7% of GDP in 2000 to 33.0% in 2019 (well below the OECD average of 34.3%).[6] That translates into lost annual tax revenues of *almost $50 billion*.

The bulk of these savings from tax cuts have accumulated on private sector balance sheets as cash reserves[7], funded the transfer of jobs and operations out of the country, and bank-rolled share buybacks and dividend payments that corporations could otherwise not have afforded.

We have also squandered our resource wealth, a painful and fateful mistake for a resource economy. The example of Norway haunts Canada. That country created a fiscal regime modelled on our own policies—arrangements set up during the 1970s by the Lougheed and Blakeney governments in Alberta and Saskatchewan that astutely used public revenues gained from oil to invest in future economic health. And then the Norwegians stuck with them. As a result, Norway has converted three decades of natural resource development into over $1.18 trillion in public investment capital—ample to fund Norway's diversification away from fossil fuels and to a sustainable and prosperous full-employment economy. Canadians at both the federal and provincial levels instead listened to fiscal charlatans and decided, in effect, to throw our country's natural resources away.

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1 https://www.budget.gc.ca/pdfarch/1981-pap-eng.pdf.

2 https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html.

3 https://bdp.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201144.

4 https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html.

5 https://d3n8a8pro7vhmx.cloudfront.net/broadbent/pages/7718/attachments/original/1592495368/Filthy_Five_Report.pdf?1592495368.

6 https://www.oecd.org/tax/revenue-statistics-canada.pdf.

7 http://www.progressive-economics.ca/2014/03/14/corporate-cash-stash-surpasses-national-debt

After choosing to concentrate wealth in the hands of a tiny proportion of our citizens, finance the hollowing out of our economy, and squander the value of our natural resources, we then chose to try to make up for our inadequate tax revenues by imposing austerity on most of our citizens. Public services established under earlier, better policies have been squeezed for decades—notably, our public health care, income-support, and public education systems.

We do, however, have choices—affordable choices. Gross inequality, the hollowing out of the economy; and the gifting of our natural resources to wealthy corporations aren't immutable natural laws—and neither is austerity. These are simply the results of bad political decisions, made on the basis of arguments that have proven to be false.

The particular nature of the current COVID-19 crisis, a global pandemic with no end in sight, demands a vastly different response than solutions implemented during more recent recessions. Decision makers also need to take into account the way that policy choices leading up to and following the Great Recession of 2008–2009 created conditions that have made the costs of this crisis much higher than they would otherwise have been. Our strategy today must be based on understanding how vulnerable our world has become to crises like COVID-19 and the need to rebuild for resilience. The goal of the post-COVID recovery is not to return to the flawed "normal" of old but rather to transform Canada into a more socially equal, sustainable, and productive country that plays its part in a better world.

RECOMMENDATIONS

We propose six areas of focus to increase federal revenues:

1. **A graduated wealth tax should be applied to extreme wealth.**

Wealth is actually a better way to assess ability to pay than income, which can vary greatly over time. Some argue that the wealthy already pay tax on their investment income, but this is often only a small proportion of the wealth that accumulates from year to year. A recent Broadbent Institute report on wealth taxes has shown that even a modest wealth tax on all financial and non-financial assets can raise significant revenues while countering growing inequality.[8]

In the immediate short term, a wealth tax would allow the richest Canadians to make a contribution appropriate to their wealth toward repairing the damage that COVID-19 has done to public finances and toward implementing the necessary economic recovery plan. In the longer term, this measure will help begin to unwind the gross social and economic inequality that exists in Canada and allow governments to build a more equitable society. Many options have been presented for a wealth tax in Canada and the United States. The Parliamentary Budget Office recently estimated that a mere 1% tax on wealth over $20 million would net approximately $70 billion over 10 years, even with a realistic level of tax avoidance factored into the calculations.[9]

2. **Federal income taxes should be more progressive**

While the Canadian tax-rate structure is moderately progressive over most of the income spectrum—taking a larger share of pre-tax income from the relatively well off—taxes on the top 1% or so are significantly lowered by the preferential treatment of certain types of income more prevalent among the wealthy. The top income tax rate in Canada is also lower than in many other jurisdictions. Income-tax reform should target increases at the top 1% (who have incomes above approximately $250,000) with those at top end of that range, the 0.1%, (with annual incomes over half a million), paying a much higher rate.

[8] https://d3n8a8pro7vhmx.cloudfront.net/broadbent/pages/7711/attachments/original/1592491105/The_Case_for_a_Wealth_Tax_in_Canada_-_Report.pdf?1592491105.

[9] https://nationalpost.com/news/politics/election-2019/federal-ndps-proposed-super-wealth-tax-could-raise-70b-over-10-years-budget-watchdog-finds.

3. End tax breaks for the rich and crack down on tax avoidance.

Only one-half of capital gains and stock options are liable to tax, while wages are 100% subject to tax. The dividend tax credit also lowers effective taxes for the very few Canadians who earn significant investment income outside pension plans and RRSPs.[10] These tax breaks should end. As well, tax avoidance by the very rich through the use of offshore tax shelters should also be countered—through much more intensive audits and stringent penalties and by ending tax agreements with countries used as tax havens.

4. End corporate welfare.

Since the 1980s, the corporate income tax rate has been steadily lowered, and corporate tax revenues have fallen as a share of all taxes in relation to GDP. While various federal governments and provincial governments have justified these lower tax rates as a means of boosting business investment, this investment rate has, in fact, fallen. Corporate tax cuts are actually irrelevant to most investment decisions, which are influenced largely by resource and intellectual endowments, public infrastructure, the skills of the available workforce and targeted tax credits and targeted subsidies such as those available for research and development. Corporate tax reform should eliminate broad tax cuts and shift the focus to more effective investment incentives.

5. As finances permit, revenues from resource development should be pooled in a sovereign wealth fund, to be invested in a green economic recovery.

The government of Canada and the fossil-fuel-producing provinces (British Columbia, Alberta, Saskatchewan, and Newfoundland) may have missed their once-in-history opportunity to turn the petrochemical boom of the past 40 years into transformative capital. This may well stand as the single worst fiscal mistake governments have made in Canadian history, one that all Canadians will pay for—especially as we begin to take stock of the heavy environmental deficits that the private beneficiaries of Canada's resource giveaways hope to socialize. These costs include the expense of dealing with orphan wells and of land remediation. They are so enormous that they could dwarf the costs associated with the federal government's present COVID-19 emergency program.

However, some revenues could be salvaged. The government of Canada, for example, could work to withdraw from its own fiscal addiction to one-time resource revenues and redirect them to a sovereign wealth fund that would invest only in sustainable economic diversification and decarbonization projects.

6. Increase consumption (sales) taxes and social-security premiums.

In Canada, governments are extremely dependent on income taxes, which have been attacked and eroded, and resource revenues, which have been fecklessly wasted as we've described above. For example, data from the Organisation for Economic Co-operation and Development (OECD) show that Canadians pay much less of their income on sales taxes used to contribute to social-security programs than do citizens of European countries.[11]

While these taxes are often seen as regressive, even flat taxes benefit lower- income groups the most as long as the proceeds are spent on robust progressive universal and needs- based programs. In fact, under what has been called Canada's quiet bargain, the great majority of the citizens of this country receive much more value from social-security programs and other public services than they pay for in the taxes that contribute to funding them.[12]

One clear example: carbon taxes and similar levies related to environmental damage should also form part of our governments' responses to the global climate crisis—to both incentivize behaviour and collectively invest in a future of proper care for the environment and for people affected by environmental pollution and the climate crisis.

[10] https://d3n8a8pro7vhmx.cloudfront.net/broadbent/pages/7718/attachments/original/1592495368/Filthy_Five_Report.pdf?1592495368.
[11] https://www.oecd.org/tax/revenue-statistics-canada.pdf.
[12] https://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/2009/Benefits_From_Public_Spending.pdf.

Despite the quiet bargain, however, it would be unwise to raise consumption taxes during this time of economic recession. Though they are a necessary part of our fiscal tool kit, these taxes should be increased only in the context of fundamental tax reform.