Canadians *for* Tax Fairness
Canadiens pour une fiscalité équitable

Report

February 2021

A Fair Tax Recovery Plan

Introduction

The 2021 federal budget will be the most important in many decades.

- Over 800,000 Canadians have contracted COVID, more than 20,000 have died, and tens of thousands more will suffer longer-term illnesses from it.
- Thousands of businesses will collapse and many others have depleted their savings.
- Millions lost their jobs as Canada's unemployment rate doubled in the early months of the pandemic. While some have returned to work, there are still a million fewer Canadians employed than there would have been without the pandemic.

Lower-income workers, communities of color, seniors, and women have been especially harmed by the virus and its economic impacts. Meanwhile, the most fortunate individuals and powerful corporations have fared well, with many increasing their wealth and profits.[1]

Federal support through the pandemic has prevented what could have been a much worse disaster, but it has come at a cost. The federal government's net debt is expected to almost double to $1.5 trillion by 2025/26.[2] This doesn't mean the federal government should spend or invest less. In fact, it should invest more. Borrowing rates are at historic lows, well-below inflation, and government support is essential for the recovery to take hold, and for Canada to "build back better".

We not only need to create hundreds of thousands of decent jobs for those who have lost work, we also need to reduce the inequalities that have worsened through the crisis. The pandemic exposed massive deficiencies in our health care, long-term care, social safety nets and support systems: we need to fix these with permanent reforms so we rebuild a more equitable and resilient society.

Our workplaces, communities and the world are changing and the pandemic has accelerated many of those changes. A clean energy revolution is sweeping the globe as the largest investors in the world pull out of fossil fuels. Canada needs to do much more to take responsibility for the climate crisis and to lead in the transition to a lower-carbon economy. We can create millions of good green jobs building more sustainable, equitable, healthy and resilient communities.

But these will require significant investments. For instance:

- Energy retrofitting of 40% of Canada's homes and other buildings would cost an estimated $6 billion annually but create 80,000 jobs every year and provide significant long-term savings by reducing energy use and bills by 30-50%.[3]
- A national universal pharmacare for all plan would cost $10-$15 billion more than what governments now pay, but provide average savings of $600 per household, and reduce costs for businesses, making them more competitive.[4]

- An affordable child care for all plan, with a $1 billion investment in 2021 and an additional $1 billion each year for ten years to 2031 could generate tens of thousands of new jobs, save families thousands in childcare expenses annually, liberate parents to work, and pay for itself in fiscal terms, just as Quebec's program has.[5]

Many will say we can't afford these investments and improvements to our standard of living and that they will take years to plan, but the COVID-19 crisis showed that our governments can afford it and can act very rapidly to introduce major new programs.

Funds borrowed will need to be paid off, but prior to the pandemic, the federal government's revenues were about $50 billion lower than if they had been at their long-term average as a share of the economy.[6] Tax cuts in recent decades have primarily benefited large corporations and the wealthy, contributing to growing inequality and increased corporate concentration and power, while doing little to grow the economy or create jobs.[7] Making our tax system fairer and using the revenues to invest in public services would not only significantly reduce inequalities, but also grow the economy and create hundreds of thousands of jobs.

The Trudeau government has promised to implement a number of fair tax reforms we've advocated as priorities for many years.[8] The Fall 2020 Speech from the Throne[9] and Fall Economic Statement[10] committed to explore new ways of taxing extreme inequality, address corporate tax avoidance by digital giants, tighten anti-avoidance rules, and introduce automatic tax filing system for vulnerable Canadians.

These are positive measures, but much more can and should be done. As we show below, the federal government could generate an additional $75 billion+ annually and reduce inequalities by making our tax system fairer by increasing taxes on the wealthy and profitable corporations, closing tax loopholes, tackling tax dodging, and pricing pollution more effectively.

We're not suggesting that the federal government implement all these tax reforms in this budget as the focus needs to be on recovery, but they demonstrate that a lack of revenues shouldn't be used as an excuse not to improve important social programs and additional public investments.

Still, the federal government should move forward with a number of tax reforms immediately, including: ensuring e-commerce giants pay their fair share of taxes; introducing pandemic surtaxes and super-profits taxes; introducing an annual net wealth tax on extreme wealth; closing the most regressive tax loopholes; supporting international corporate tax reforms; increasing transparency; and strengthening Canada's carbon pricing framework.

Implementing these priority tax fairness measures in Budget 2021/22 would help the Liberals fulfill their commitment to tackle extreme wealth inequality while raising revenues to invest in the supports needed to help Canadians and the economy recover.

Make the tax system more progressive

Federal and provincial governments have cut taxes on the wealthy and corporations so much over the past few decades that, when all taxes are considered, the top 1% pays a lower overall rate of tax than all other income groups, including the poorest 10%.[11] We need to restore progressivity to our tax system by increasing tax rates on the wealthy, high incomes, and large profitable corporations while ensuring that lower incomes and vulnerable Canadians receive the benefits they're entitled to. Progressive tax measures identified below could generate an additional $30 billion annually.

Measures	**Estimated Revenues**
Annual wealth tax. Canada's top billionaires increased their wealth by more than $50 billion during the first six months of the pandemic. The Trudeau government has promised to explore ways to tax extreme wealth inequality. The best way to do this is also the most straightforward: by applying an annual tax to those with extreme wealth. The Parliamentary Budget Office (PBO) estimates a 1% tax on net wealth over $20 million would generate an average of $7 billion a year.[12] C4TF has used the PBO figures to show that a modestly progressive wealth tax, at 1% for wealth over $10 million, 2% for wealth over $100 million and 3% for wealth over a billion would generate close to $20 billion annually.[13]	$7 billion to $20 billion
Pandemic surtax on top incomes. The pandemic has had very diverse impacts on different income groups. Those with higher incomes have generally done well, while lower income households have suffered. In times of crisis, those who are doing very well should contribute a little more. Introducing a 5% federal income surtax on income of over $500,000 and 10% on income over $1 million for millionaires would generate at least $2 billion annually.[14]	$2 billion+
Pandemic super profits tax. While many are suffering and thousands of smaller businesses will close, a number of larger corporations are making massive profits as a result of the pandemic, with some of those receiving public subsidies. Of 111 large Canadian corporations analysed in a recent study, one-third were enjoying record profits during the pandemic.[15] During the world wars, Canada and other nations had excess profits taxes of up to 80% for profits above what were considered "normal profits". It's time to bring these back.	$500 million+
Luxury tax. In the 2019 election, the Liberals promised to introduce a 10% tax on private cars, boats and planes valued at over $100,000 each. The PBO estimates this would generate $600 million annually.[16]	$600 million
Restore corporate tax rates. Decades of corporate tax cuts have cost federal and provincial governments hundreds of billions yet failed to boost jobs and economic growth.[17] Over the next few years, corporate profits will be lower for most businesses, but once the economy recovers, corporate tax rates should be restored to the levels they were before the great recession. The PBO estimates that every percentage increase in the general (larger) corporate tax rate increases revenues by $1.6 billion, so restoring Canada's federal rate from 15% to 20% would generate about $8 billion annually.[18]	up to $8 billion
Improve the tax system for lower-income Canadians. Too many low income and vulnerable Canadians don't receive the benefits they are entitled to. The Liberals committed to provide automatic tax filing for low-income Canadians. This is critical and should be combined with additional support for education and	

outreach, community volunteer tax programs, and access to timely information and assistance.	

Close tax loopholes

Most of Canada's tax preferences and loopholes primarily benefit higher incomes and larger corporations, contributing to persistent wealth, racial and gender inequality.[19] The federal government could generate an additional $30 billion annually by eliminating or tightening a few regressive loopholes. Closing these loopholes could also generate significant revenues for provinces where their tax systems use the federal base.

Measures	**Estimated Revenues**
Ensure e-commerce giants pay their fair share & level the digital playing field. For far too long, foreign e-commerce giants have benefited from an unfair tax advantage over Canadian companies, both from their sales and their profits. The COVID-19 crisis has made it even worse, by bolstering e-commerce and shuttering local businesses. The federal Liberals have committed to applying GST to goods and services sold by foreign e-commerce companies and to ensure they pay their fair share of taxes on their business in Canada—but could delay the latter until next year. They should move immediately to introduce a digital services tax on e-commerce giants, as France has, and eliminate the business deduction for advertising sold by foreign internet platforms like Google and Facebook.[20]	$2.7 billion
Eliminate the stock option deduction. Over 90% of the benefits of this loophole go to the top 1%. The Liberals' proposal to limit it to $200,000 annually, but only for those working for corporations with revenues of over $500 million, would have little impact. The loophole should be eliminated entirely.[21]	$840 million
Increase the inclusion rate on personal and corporate capital gains. While ordinary Canadians pay the full tax rate on their income from working, those with income from investments or business can pay tax at only half the rate. This widens the wealth gap and costs the federal government $17 billion annually.[22]	Up to $17 billion
Rein in the REITs. Real Estate Investment Trusts (REITs) don't have to pay much, if any, tax on their profits when they flow most of them through to their unitholders. This tax preference for REITs has helped them expand aggressively, significantly reducing the supply of affordable housing through big rent hikes.[23] ACORN Canada is calling for the federal government to eliminate this exemption or at least tie it to supplying affordable housing.	$120 million
Introduce a financial activities tax: The finance and insurance industry has benefited from decades of corporate tax cuts and preferential tax rates. The sector has remained profitable even during financial crises. Canada's biggest banks and insurance companies topped the list of large corporations that made higher profits during the pandemic. A Financial Activities Tax on the compensation and profits of the financial sector, as proposed by the IMF, would generate about $7 billion annually. [24]	$7 billion
$1 million cap on corporate pay business deductions. Not only is executive and other high-level compensation continuing to escalate[25], but Canadian corporations can deduct these growing amounts from their income for tax purposes, unlike in the U.S., where there's a $1 million limit per executive. Limiting this tax-deductible expense to $1 million per employee would send a	$500 million+

signal to corporations and save the federal government hundreds of millions annually.	
Cap TFSAs at a lifetime level of $70,000. Budget 2021-22 must look beyond the next several years and consider the significant long-term costs of not limiting TFSAs. Capping this loophole, which primarily benefits higher-income Canadians, may not generate significant revenues now but within a decade will save the federal government billions annually.	$500 million+
Limit the dividend tax credit. The dividend tax credit is supposed to compensate shareholders for the income tax that corporations pay, but many pay very little in corporate tax, and half the benefits go to the top 1%. Limiting this to the tax actually paid would save the federal government $1 billion annually, and eliminating it entirely would save over $5 billion.[26]	$1 billion+

Tackle tax dodging and increase transparency

Canada loses at least $10 billion annually to international corporate tax dodging, and the actual amount could be at least twice as much, according to the Parliamentary Budget Office.[27] International tax dodging not only costs billions in lower revenues, they also worsen inequalities and create an unfair business environment, providing large multinational corporations with a significant tax advantage over smaller firms. Instead of lagging other countries on reforms, we should be leading on domestic and international reforms.

Measures	Estimated Revenues
International corporate tax reform. The federal government should support and implement fundamental reforms of international corporate tax rules, including: a global minimum international corporate tax rate of at least 25%; treating multinational enterprises as single entities for tax purposes so they can't use subsidiaries and affiliated companies to avoid taxes; and allocation of the profits of multinational corporations between jurisdictions based on real economic factors such as sales and employment, as we do between provinces in Canada.	$8 billion+
Clamp down on widely-used tax-dodging schemes. The OECD has called for many years for countries to restrict widely-used tax corporate dodging schemes, but Canada has been a laggard. The federal government should finally clamp down on these, including by restricting interest deductibility to no more than 20% of corporate earnings and placing strict limits on use of intellectual property to shift profits to low-tax jurisdictions.[28] The federal government should also terminate the numerous agreements signed in recent years that allow tax-free repatriation of income from tax havens that hasn't been taxed in either country.	$2.5 billion+
Invest in the Canada Revenue Agency. Invest in additional resources in the CRA for the investigation, enforcement and prosecution of corporate and offshore tax dodging, and increase penalties against corporations and wealthy individuals that evade taxes and professional accounting and legal firms that promote them. The PBO estimates a payback of over $4 for every extra dollar invested in the CRA.[29]	$3.4 billion
Increased transparency and accountability. Canada ranks as one of the worst in the G20 on corporate transparency, which has made us into a destination for money laundering and other illicit activity.[30] We should adopt the recommendations of financial crime experts and establish a publicly accessible	

centralized pan-Canadian registry of the beneficial owners of private corporations to combat money laundering, tax evasion, and other illegal activity. Jurisdictions such as the UK have already reaped the rewards of a public registry.[31] The federal government should also require large multinationals to publicly report their financial reports and taxes paid on a country-by-country basis and do as other countries like Australia do: publish the income and taxes paid by companies with annual revenues over $100 million.	

Strengthen climate action with more effective pricing of pollution

COVID-19 isn't the only threat to Canada's health and economic well-being. Bolder action is needed to combat the climate emergency and transition to a Just Recovery with good clean jobs.

Measures	Estimated Revenues
End fossil fuel subsidies. It is hypocritical to champion climate action while continuing to provide tax and other subsidies for industries that pollute. The federal government should finally eliminate all public subsidies for fossil fuels.[32]	At least $300 million
Strengthen the carbon tax framework by eliminating preferences for large emitters and introducing a carbon border tax. Large emitters are responsible for over 40% of our total emissions but pay less than 6% of carbon price revenues.[33] A consistent carbon tax/ price should be applied to all emissions from large emitters. Canada should also introduce carbon tariffs to imports from countries not taking adequate climate action, and rebates to Canadian exports to those countries. These measures would both make Canadian industry more competitive and increase the federal government's revenues by approximately $3 billion annually.	$3 billion

Conclusion

The COVID-19 pandemic presented countries around the world with extraordinary challenges. In just one year, history has shown that leaders who responded swiftly to protect citizens did a better job of protecting their livelihoods and the economy. The same will be true in the recovery phase. Governments that seek to return to normal without addressing stark inequalities that left the most vulnerable at risk will not experience inclusive economic growth.

For all the devastation COVID-19 has brought, it has created an opportunity to rebuild a more equitable, sustainable and resilient economy. This will require significant investments, which despite large deficits, we can afford over the short and long term with lower lending rates, public support for spending on the recovery, and progressive tax reforms.[34] This report shows how the federal government can make our tax system fairer, reduce inequalities, and raise the revenues needed to pay for the ambitious recovery Canadians want to see.

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Available at: www.taxfairness.ca
18 February 2021

Endnotes

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