CITIZENS FOR
PUBLIC JUSTICE

309 Cooper St., Suite 501
Ottawa, Ontario K2P 0G5

# Budgeting for the Common Good

## Submission to the Standing Committee on Finance Pre-Budget Consultations

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***Citizens for Public Justice*** seeks human flourishing and the integrity of creation as our faithful response to God's call for love and justice.

***We envision*** a world in which individuals, communities, societal institutions, and governments all contribute to and benefit from the common good.

***Our mission*** is to promote public justice in Canada by shaping key public policy debates through research and analysis, publishing, and public dialogue. CPJ encourages citizens, leaders in society, and governments to support policies and practices which reflect God's call for love, justice, and stewardship.

## Executive Summary

As a faith-based organization, Citizens for Public Justice (CPJ) sees Budget 2015 as an opportunity to foster and promote the common good. We believe that the moral measure of a budget is in how it treats the most vulnerable in society and how it respects the integrity of creation. Human well-being and care for the environment must be federal priorities, and these priorities must shape the way we distribute our budgets.

**CPJ makes the following recommendations for Budget 2015:**

1. **Enhance the Working Income Tax Benefit (WITB) so it extends to all households with earned income under the after-tax Low Income Cut-Off.**

2. **Implement promised regulations across the oil and gas sector to meet Canada's Copenhagen Accord commitments by 2020.**

3. **Reverse tax cuts that don't benefit all Canadians, such as boutique tax credits, corporate tax cuts and GST cuts.**

Recommendation #1 would remove some significant disincentives to paid work in the formal economy. The government's current allowable income level remains low enough that someone working full-time year-round at minimum wage would not qualify for the benefit, even though they would be living in poverty. The refundable amount of the WITB should be increased and extended higher up the income ladder to the after-tax Low Income Cut-Off so that it becomes a pathway out of poverty for Canadians who work but remain poor.

Recommendation #2 would help Canada reduce its greenhouse gas (GHG) emissions to 17 per cent below 2005 levels by 2020, as per its Copenhagen Accord commitments. Because the oil and gas sector was responsible for nearly a quarter of Canada's GHG emissions in 2011, strict emissions standards are needed across the entire oil and gas sector—without diluting regulations for subsectors such as the oil sands. A definitive schedule to end federal government subsidies to the fossil fuel and mining sectors should also be announced.

Recommendation #3 would end the trend of tax cuts that disproportionately benefit a select few individuals and corporations at a high cost to our nation's economic and social well-being. There are currently 190 tax exemptions at the federal level that cost the government over $100 billion in foregone revenue annually. For example, boutique tax credits mainly benefit the wealthy and represent hundreds of millions in federal tax expenditures. These credits should be reversed in favour of tax credits that more effectively address income inequality and the needs of low-income families.

**Recommendation 1: Enhance the Working Income Tax Benefit**

The Working Income Tax Benefit (WITB) was created in 2007 as a federal refundable tax credit to boost the earned incomes of eligible low-income working individuals and families. This benefit encourages workers to enter the paid workforce (for those stuck behind the "welfare wall") or to remain in it (for those already working in low-paying jobs). Enhancing the WITB would remove some significant disincentives to paid work in the formal economy, ease pressure on social assistance, and lift working adults out of poverty.

Despite previous boosts to the WITB, the maximum benefit amount for a single worker in 2014 is just $998 per year, reaching $0 at a net income of $17,986 ($27,736 for a family).[1] The current allowable income level remains low enough that someone working full-time year-round at minimum wage would not qualify, even though they would be living in poverty. The refundable amount of the WITB should be increased and extended higher up the income ladder to the after-tax Low Income Cut-Off so that it becomes a pathway out of poverty for Canadians who work but remain poor.

In 2013, the House of Commons Standing Committee on Finance recommended that "the federal government formally review the WITB to determine how it could be expanded or modified to further benefit Canadians and further incent workforce attachment."[2]

An increase in unemployment and precarious, low-paying work has been a defining feature of the Canadian labour market since the 2008 recession. Forty-four per cent of low-income households in Canada had at least one person working in 2011.[3] Unfortunately, the working poor find themselves in poverty due to inadequate pay and limited advancement opportunities, but continue to work a comparable number of hours to the rest of the working-age population.[4] Single adults and lone-parent families are most vulnerable because they depend on one income.

In addition to improving the WITB, CPJ and our partners at *Dignity for All: the campaign for a poverty-free Canada* recommend that the federal government—in consultation with Aboriginal, provincial, territorial, and municipal governments—develop a comprehensive, multilateral poverty reduction plan. By addressing key areas such as health, housing, food insecurity, income inequality and early childhood development, and the plan would go a long way toward improving the well-being and productivity of people living in poverty.

[1] WITB: Calculation and advance payments. In *Canada Revenue Agency*.

[2] Income Inequality in Canada: An Overview, Report of the Standing Committee on Finance, December 2013. In *Parliament of Canada*.

[3] Poverty Trends Highlights (2013, October). In *Citizens for Public Justice.*

[4] Stapleton, J., Murphy, B., & Xing, Y. (2012, February). Working poor in the Toronto region. In *Metcalf Foundation*.

**Recommendation 2: Implement promised regulations across the oil and gas sector**

Canada signed onto the Copenhagen Accord in December 2009, committing to reduce its greenhouse gas (GHG) emissions to 17 per cent below 2005 levels by 2020. To make this target, Canada needs strict GHG emissions standards applicable across the entire oil and gas sector, without diluting regulations for subsectors such as the oil sands.

Currently, GHG emissions are being addressed through a sector-by-sector regulatory approach. By 2015, coal-fired electricity generation will fall under regulatory controls. By 2018, heavy duty vehicle emissions will be substantially reduced to meet North American standards, and by 2025, passenger vehicles and light trucks will emit about half as many GHGs as 2008 models.[5]

But the oil and gas sector was responsible for nearly a quarter of Canada's GHG emissions in 2011. Given the massive proposed expansions of the Athabasca oil sands activities, this percentage can only be expected to rise. This leaves Canada in need of urgent action if we hope to reach our stated GHG reduction targets.[6]

In June 2011, the federal government announced its intention to work on regulations for the oil and gas sector, to be presented by the end of 2012. By March 2013, then-Environment-Minister Peter Kent said the regulations would be ready by mid-year. Later, in the October 16, 2013 Speech from the Throne, the government promised to "enshrine the polluter-pay system into law."

Commitments to phase out subsidies provided by the federal government to the fossil fuel and mining sectors were announced in three of the last seven federal budgets. Firm follow-up and a definitive schedule to end these subsidies are now needed.

In July 2014, the World Bank wrote that "pricing carbon is inevitable if we are to produce a package of effective and cost-efficient policies to support scaled-up mitigation."[7] Environmental pricing reform is necessary to allow energy prices to better reflect true costs, drive innovation, and ensure a more efficient use of our resources. While CPJ understands that the government opposes economy-wide carbon pricing, we continue to believe that placing a price on GHG pollution is the most effective policy tool for cutting Canada's emissions.

In the constrained policy environment of the adoption of the regulatory approach, the least that Federal Budget 2015 should do is to announce regulations for the oil and gas sector, make them quickly applicable (by 2016), and ensure by publishing adequate reporting that they are stringent enough to make a significant contribution to Canada's GHGs reduction target.

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5 News Release: Harper Government Improves Fuel Efficiency of Canadian Vehicles (2012, November 27). In *Environment Canada*.

6 Progress Toward Canada's Greenhouse Gas Emissions Reduction Target. In *Environment Canada*.

7 Statement: Putting a Price on Carbon (2014, June 3). In *The World Bank*.

**Recommendation 3: Reverse tax cuts that don't benefit all Canadians**

The continuing trend of tax cuts for individuals and corporations has disproportionately benefited a select few at a high cost to our nation's economic and social well-being. Canada needs a fair tax system that ensures sufficient federal revenue and creates a vibrant economy that benefits all people.

Today, there are 190 tax exemptions at the federal level that cost the government over $100 billion in foregone revenue annually.[8] Between 2006 and 2011, the Canadian government provided $60 billion in tax savings to Canadian corporations.[9] This amounts to billions of dollars less each year for investments in jobs, education, and social and environmental programs. While the corporate tax rate has been consistently and dramatically cut over the last decade, Canadian companies have piled up more than $500 billion in cash reserves.[10]

Boutique tax credits like the Children's Fitness Tax Credit and the Public Transit Credit mainly benefit wealthy individuals and families. Combined, these boutique tax credits represent more than $164 million in federal tax expenditures.[11] They have little to no effect in the lives of low-income families who already struggle to pay for basic needs. The same is true of the proposed Income Splitting program. Such tax credits should be halted in favour of increasing tax credits like the Working Income Tax Benefit and the Canada Child Tax Benefit which more effectively address income inequality and the needs of low-income families.

CPJ further recommends that recent cuts to the GST and to corporate tax rates be repealed. The resulting increases in federal revenue should be used to invest in people (i.e. through job creation, education, and removing barriers to workplace entry) and in environmental protection (i.e. investing in green energy and combatting climate change). These are initiatives that would lead to economic recovery and growth, *and* enhance the common good.

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[8] Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform (2012, March). In *Conference Board of Canada*.

[9] The Stimulus Phase of Canada's Economic Action Plan: A Final Report to Canadians. In *Canada's Economic Action Plan*.

[10] Alternative Federal Budget 2014. In *Canadian Centre for Policy Alternatives*.

[11] Harper's Tax Boutique (2011, March). In *Frontier Centre for Public Policy*.