

Fact Sheet #1

The High Cost of Low Taxes

The debate about the role of taxes in Canada today is sorely lacking.

Cutting government spending without an open and honest debate about consequences does not meet the criteria of transparent and accountable decision-making. Tax cuts over the past decade have created considerable cause for concern about the fairness and sufficiency of Canada's tax policy.

Canadians deserve to be told what spending cuts will cost them, and how the loss of programs or investment will impact them both now and in the future. Canadians also deserve an honest conversation about taxes that is not characterized by hyperbole, fear-mongering or propaganda.

"We today reap the benefits of public services built by previous generations more willing to pay taxes. But what will we be passing on to future generations?"¹

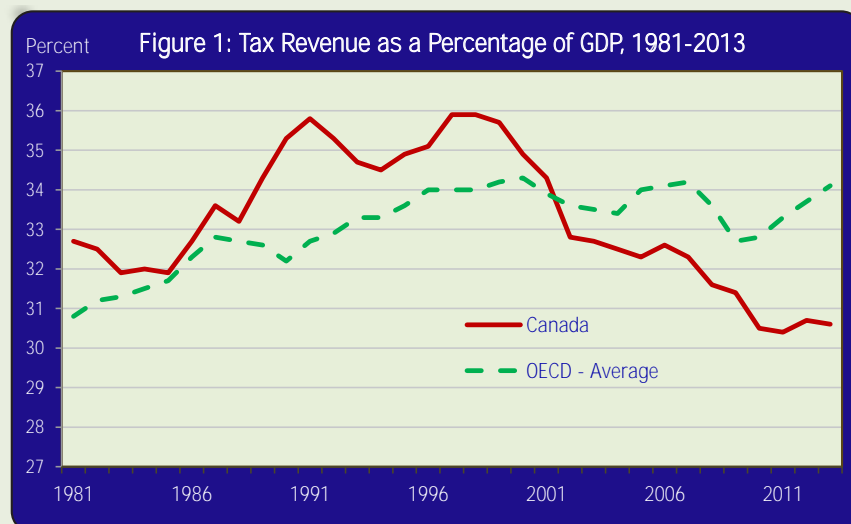
A downward spiral: falling revenues → austerity → falling revenues

- Provincial and federal governments have made significant changes to Canada's tax system over the past two decades, reducing the level of taxation on corporations and high income individuals.
- Deep tax cuts have reduced the amount of revenue available to governments. They also make the tax system itself less progressive, shifting the responsibility for financing public services onto lower and middle income families.
- According to the most recent Update of Economic and Fiscal Projections, federal government revenues as a share of Gross Domestic Product (GDP) have

fallen to 14.3%, with federal tax revenues down to 11.6%. These are the lowest rates in 70 years. ²

- The situation in Ottawa is not unique. Governments across Canada are on the same trajectory, as the following chart shows. Total taxes as a share of GDP have fallen steadily since the late 1990s, reaching 30.6% in 2013, which is less than the OECD average of 34.1%. ³
- When government tells citizens that it can't afford to invest in the programs and services that people in Canada need and rely on, we must remember that the tax policies of these same governments have put us in this predicament in the first place.

Among developed countries, Canada's relative tax revenue is declining



Source: OECD, Revenue Statistics, Comparative Tables, OECD.Stat

Building the Canada We Want

- Every year since 2006, a range of tax cuts have resulted in foregone revenues of \$45 billion.⁴ The most recent expenditure reduction plan, announced in 2012, cuts \$5.2 billion out of annual spending each year and eliminated almost 30,000 government jobs.⁵

- Cuts to government expenditures have been implemented while millions of people in Canada continue to live in poverty, climate change and growing greenhouse gas emissions take a toll on our environment, and refugees are being turned away and denied essential healthcare.

- Taxes support the quality of life that we enjoy in Canada. Countries that dedicate a larger share of GDP to public programs enjoy higher average incomes,

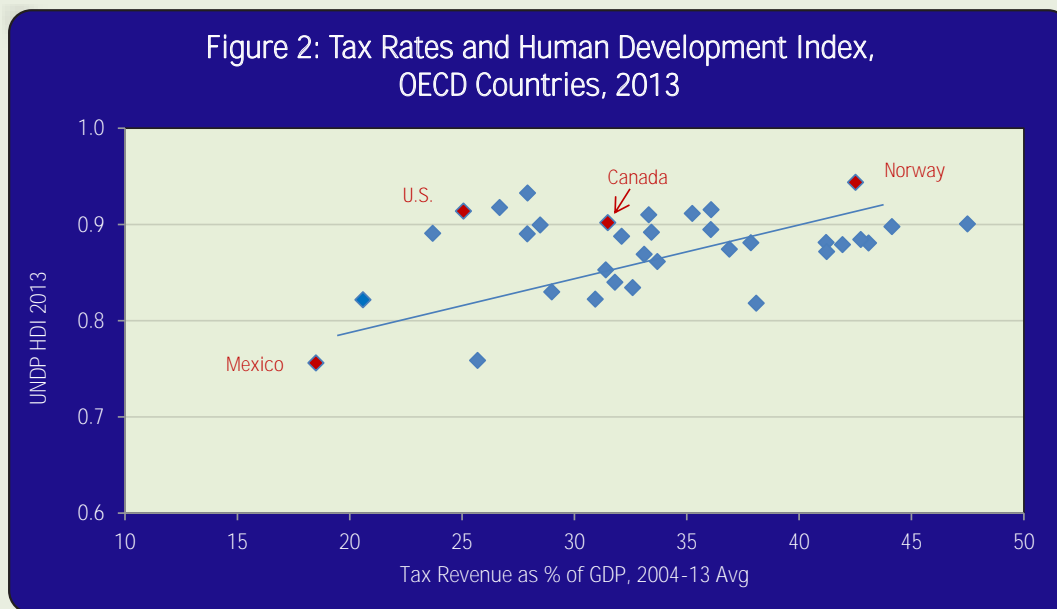
The majority of Canadians believe taxes are a good thing

levels of employment and income equality. These countries also enjoy – as the chart below shows – higher levels of well-being as measured by the UNDP’s Human Development Index.⁶ This index is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living.

- The majority (75%) of Canadians believe taxes are good because they pay for important things that contribute to a positive quality of life.⁷

- A poll conducted by the Broadbent Institute in April 2012 found that 73% of Canadians support increasing the corporate tax rate.⁸

Countries that invest in public programs enjoy higher levels of well-being



Author’s calculations from OECD and UNDP Data. Based on original chart in Stanford (2013), p. 35.

¹ Alex Himelfarb (2013), “Canada’s Dangerously Distorted Tax Conversation,” Alex’s Blog. <https://afhimefarb.wordpress.com/2013/10/08/canadas-dangerously-distorted-tax-conversation/>

² Finance Canada (2014), Update of Economic and Fiscal Projections, Table 3.4. <http://www.budget.gc.ca/efp-peb/2014/pub/toc-tdm-eng.html>

³ OECD, Revenue Statistics, Comparative Tables, OECD.Stat

⁴ C. Scott Clark, “We need to Simplify and Re-focus the Tax System,” (2013) in Alex Himelfarb and Jordan Himelfarb (eds.), Tax is not a four letter word: A different take on taxes in Canada. Waterloo: Wilfrid Laurier University Press.

⁵ Ibid., p. 220.

⁶ Jim Stanford (2013), “The Economic Consequences of Taxing and (Spending), Tax is not a Four Letter Word. Alex Himelfarb and Jordan Himelfarb, eds. Wilfrid Laurier University Press, p. 35.

⁷ <http://www.environmentalinstitute.org/uploads/institute-projects/pdf-focuscanada-2011-final.pdf>

⁸ Broadbent Institute (nd), Equality Project.

http://www.broadbentinstitute.ca/sites/default/files/documents/equality-project_0.pdf