

Tax Expenditures on the Rise

Tax expenditures are a form of government spending. Instead of writing a cheque or providing a service, the government spends by choosing not to collect certain tax income. Tax expenditures come in a variety of forms such as tax exemptions, deductions, rebates, referral or credits.

While many tax expenditures can be good as they free up money for those struggling to make ends meet, they can also deprive the government of essential funds when they subsidize non-essential activities such as allowing corporations to deduct expenses for purchasing expensive seats for professional sports events.

Like taxes, tax expenditures are programs that are used to achieve important public policy goals in Canada. Yet, these key programs do not tend to receive as much public attention and analysis as other income security programs or public services.³³ For public policy in Canada to be truly democratic and just, tax expenditures need to be made transparent and a matter of greater public debate.

Public justice requires society to consider and prioritize the needs of the most vulnerable. Some tax expenditures honour this priority, but many do not. If tax expenditures are to benefit the common good, new strategies are needed to ensure that the needs of low-income households are prioritized.

Tax expenditures: Canada's hidden welfare system

- There are over 200 income and GST-related tax expenditures at the federal level, a number that has steadily grown over the past decade. These tax measures vary widely in size from \$8 billion for Registered Retirement Savings Plans to \$3 million for the Adoption Expense Tax Credit.³⁴
- According to the Parliamentary Budget Office, federal tax expenditures represented over \$100 billion in foregone tax revenues in 2009.³⁵ To put this in perspective, this figure is greater than voted appropriations³⁶ and over one-quarter of total government spending.
- In Canada, the total value of federal tax expenditures is now equal to 7.5% of GDP, an increase of 29% between 2001 and 2009.³⁷ This is considerably higher than the OECD average at 4.8% of GDP in 2009.³⁸

There is no statutory requirement to regularly review and evaluate tax expenditures

Boutique tax credits: ineffective and expensive

- Many tax expenditures achieve important public policy objectives like helping people save for retirement, supporting charitable activities, and offsetting the cost of medical expenses. Yet others are narrowly targeted, designed to appeal to particular population groups, regions or industries to gain their support at the ballot box.
- The cost of so-called “boutique” tax credits is high. For example, in 2011, the Children’s Fitness Tax Credit and the Children’s Arts Tax Credit cost \$160 million and \$32 million, respectively. Others such as the Employee Stock Option Deduction, directed exclusively at high income individuals, represented \$740 million in foregone public revenues.³⁹
- There is no statutory requirement to regularly review and evaluate tax expenditures. As a result, we do not have an overall understanding of whether taxpayers are receiving good value for their money and if the tax expenditure is achieving its stated aim.⁴⁰

Many tax expenditures target the wealthy, reducing funding for needed public programs

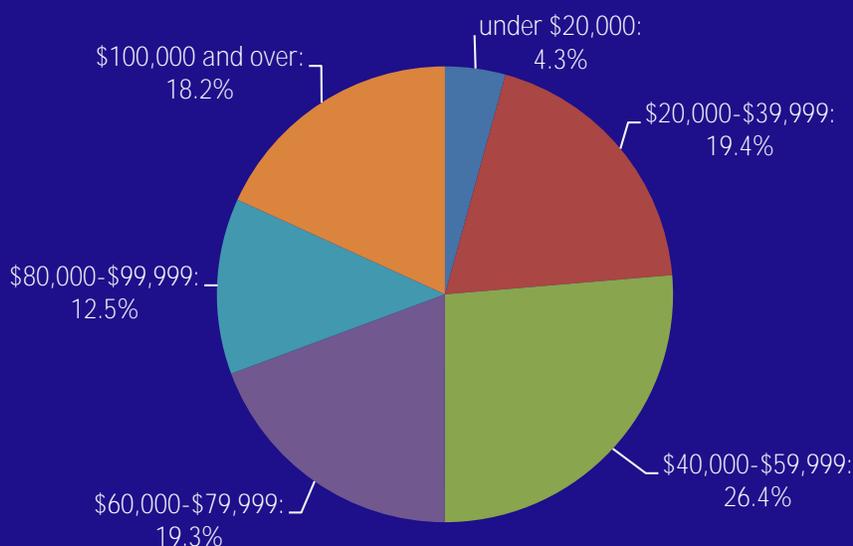
- Studies also show many tax expenditures disproportionately benefit middle- or upper-income brackets – a result of their non-refundable design. Tax filers receive the benefit of a deduction or credit only if its value is greater than taxes owed. If you pay no income tax – or only a small amount – you receive little or nothing by way of support.⁴¹
- Using the Fitness and Arts Credits as an example, 65% of those claiming the Children’s Fitness Tax Credit and 69% of those claiming the Children’s Arts Tax

Credit had incomes over \$50,000 per year. Similarly, over six in ten taxfilers (63%) contributing to an RRSP were in this income bracket.⁴² Yet this group made up only 28% of all taxfilers in 2011.

- Poor families who would benefit the most from fitness or arts programming simply cannot afford these “extras” when they struggle daily with the choice of paying the rent or feeding the kids.⁴³ The annual \$115 million federal cost of the Children’s Fitness Tax Credit is soon to rise to \$150 million.⁴⁴

RRSPs benefit middle- and upper-class Canadians

Figure 10: Distribution of Taxfilers claiming RRSP Contributions by Income Group 2011



Source: Canada Revenue Agency (2013), Income Statistics, T1 Data for 2011 Tax year. <http://www.cra-arc.gc.ca/gncy/stts/t1fnl-eng.html>

³³ Office of the Parliamentary Budget Officer (2011), Federal Tax Expenditures: Use, Reporting and Review. http://www.pbo-dpb.gc.ca/files/files/Publications/Tax_Expenditures_Note_EN.pdf

³⁴ Finance Canada (2014), Tax Expenditures and Evaluations, 2013. www.fin.gc.ca/taxexp-depfisc/2013/taxexp-depfisc13-eng.pdf.

³⁵ PBO (2011). The Finance Department provides an estimate of the value of each tax expenditure each year. But care must be taken in summing these items, given that the individual measures can be expected to interact and the progressive nature of the personal income tax system. As such, the figure of \$100 billion reported by the PBO should be considered an order of magnitude estimate.

³⁶ Voted appropriations are those for which parliamentary authority is sought through an Appropriation Bill. These bills, once approved, provide the necessary authority for the government to spend monies from the Consolidated Revenue Fund to deliver its programs and services.

³⁷ Ibid., p. 2.

³⁸ OECD (2010), Tax Expenditures in OECD Countries, cited in PBO (2011), p. 1.

³⁹ Department of Finance (2014).

⁴⁰ See: John Spence et.al, (2010), “Uptake and effectiveness of the Children’s Fitness Tax Credit in Canada: The rich get richer,” BMC Public Health, 10:356. <http://www.biomedcentral.com/content/pdf/1471-2458-10-356.pdf>

⁴¹ By contrast, refundable tax credits and income-tested transfers such as the Goods and Services Tax Credit and the Canada Child Tax Benefit (CCTB) have been shown to effectively deliver financial assistance to those in need.

⁴² Canada Revenue Agency (2013), Income Statistics, T1 Data for 2011 Tax year. <http://www.cra-arc.gc.ca/gncy/stts/t1fnl-eng.html>

⁴³ In November 2014, the government announced that it would convert the Children’s Fitness Tax Credit into a refundable credit to expand its reach to modest income families. Yet, most children from low-income families will continue to be excluded because the program requires families to make expenditures on fitness-related activities in the first place.

⁴⁴ Ken Battle and Sherri Torjman (2014), “If you don’t pay, you can’t play: The Children’s Fitness Tax Credit,” Caledon Institute, p. 6. <http://www.caledoninst.org/Publications/PDF/1054ENG.pdf>