Tax Expenditures

Citizens for Public Justice

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INTRODUCTION

Tax expenditures are a form of government spending. However, instead of writing a cheque, the government spends by choosing not to collect certain tax income. Tax expenditures can come in the form of exemptions, deductions, rebates, referrals and credits. Like taxes, tax expenditures can be used to achieve economic and social policy goals. They can be equally influential in setting our nation's economic and social priorities. Despite this, tax expenditures tend not to receive as much public attention and analysis. 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.

TAX EXPENDITURES IN CANADA

At the federal level in Canada, there were 256 tax expenditure measures listed by the Department of Finance in *Tax Expenditures and Evaluations* in 2009. This included 134 personal income tax expenditures, 87 corporate income tax expenditures, and 35 Goods and Services Tax (GST) expenditures.[1] Ottawa foregoes more than $100-billion in revenue each year through tax expenditures.

THE TROUBLE WITH TAX EXPENDITURES

Tax expenditures as they are presently implemented in Canada raise a number of concerns:

Unless tax credits are refundable (giving tax filers money if the value of the credit is greater than taxes owed), tax expenditures tend to disproportionately benefit high income earners. As a result of tax expenditures, some high income earners and profitable corporations pay no income tax.

Consider the Public Transit Tax Credit and the Child Fitness Tax Credit. These credits are disproportionately claimed by Canadians with incomes of more than $50,000, who make up 25% of all tax filers.

In contrast, no benefit was received by nearly one-third of tax filers, despite the fact that they meet eligibility requirements. $432 million – or 71% of the total Children's Fitness Tax Credit claimed – was paid to Canadians earning $50,000 or more.[2]

In addition, there is no evidence that either tax credit has achieved its stated public policy goal. For instance, the children's fitness tax credit has had a negligible effect on children's participation in organized sports. The end result is an unfair subsidy or tax loophole that only applies to some families. As a result, these tax measures are viewed as "boutique tax credits": tax expenditures aimed at a narrow demographic slice calculated to achieve political advantage rather than sound public policy.[3]

Some income exemptions, such as the partial capital gains exemption, also disproportionately benefit those with higher incomes because they are more likely to have this type of income than lower income earners, who primarily depend on wages and salaries. Tax deductions, such as the RPP/RRSP deduction, can be equally inequitable because the deduction from income reduces taxes at

the highest marginal tax rate. Some tax credits, such as the Charitable Donations Credit, are slightly more equitable since every donation above the $200 mark receives the same percentage reduction. However, it remains a regressive credit as donors who give under $200 (usually lower income individuals) receive a lower reduction rate. It also remains regressive in that the greater the charitable donation, the better the credit value.

For all credits, people with incomes too low to pay income tax receive no benefit.

Tax expenditures have been criticized for being far more opaque than other government spending and programs. They do not tend to receive the same level of consultation and public debate when they are developed, as they are often hidden by the cloak of budget secrecy. They also do not receive the same level of analysis to ensure that they are meeting intended policy goals, nor are their outcomes compared to alternative government spending programs.

MORE EQUITABLE TAX EXPENDITURES

Refundable tax credits, such as the Working Income Tax Benefit, are more equitable because they ensure that those with incomes too low to pay income tax still receive the same amount of value from the credit as those with higher incomes. Income-tested refundable tax credits, such as the GST credit and the Canada Child Tax Credit, do the most to reduce income inequality because the benefit size increases as income decreases.

PUBLIC JUSTICE & TAX EXPENDITURES

A just and caring society is one that considers the needs of the neediest and most vulnerable. Some tax expenditures do honour this priority, but many do not. If tax expenditures are to benefit the common good, better evaluative and more equitable implementation strategies are needed. Further analysis is also required to ensure that expenditures are meeting their intended outcomes and that their outcomes are compared to alternative government spending programs.

Alongside analysis, public justice demands much greater accountability for tax expenditures. Despite the fact that expenditures are a form of government spending, they receive far less public scrutiny than other government programs. This is an affront to the democratic process in which citizens should have a clear understanding of how government dollars are allocated. Tax expenditures should be developed and evaluated using the criteria for transparency, accountability and fairness which good governance demands.

REFERENCES

[1] Statistics Canada, "Consolidated federal, provincial, territorial and local government revenue and expenditures," Summary Table, January 19, 2010, http://www40.statcan.gc.ca/101/cst01/govt01a-eng.htm

[2] Statistics Canada, "Income Tax…By the Numbers," 2009, http://www42.statcan.ca/smr08/2009/smr08_129_2009-eng.htm.

[3] Ibid.