



Taxes for the Common Good

A Public Justice Primer on Taxation

Fact Sheet Series May 2015

CITIZENS FOR
PUBLIC JUSTICE



CITOYENS POUR
UNE POLITIQUE JUSTE

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“Taxes for the Common Good” is a series of fact sheets highlighting the positive role taxes play in a democratic society and summarizing up-to-date information on the costs and opportunities afforded by various federal tax policy options. CPJ believes it’s time for a serious public dialogue about taxation that takes into consideration the vital ways that public revenues help us build a healthy, more vibrant Canada.

Introduction

Taxes for the Common Good

Taxes are not simply about money or fees collected by governments. Taxes are equally about public programs and services, reducing poverty and the harmful effects of inequality, and protecting the environment. Taxes are about building the kind of Canada we want.

Different governments have promoted lower taxes as the solution to all ills. In the face of falling revenues, these same governments now say that our most basic programs are unsustainable, that further tax cuts are needed, and that there is public ‘fat’ to cut and greedy public servants to rein in.

As a result of a relentless assault on the value of public programs over the past 30 years, taxation has come to be viewed as a burden rather than a tool for promoting the common good. It seems that few are asking what is the real cost of tax cuts or who pays the price.

Taxes are about building the kind of Canada we want

Taxes and Public Justice

A public justice approach supports a progressive distribution of taxes, and transparent and accountable decisions from governments on taxation and spending.

Citizens have an obligation to participate in public life in a way that enables justice, including the promotion of social structures and associations that contribute to the common good. One of the primary ways in which we can do this is through the contribution of our income and wealth through taxes. Taxes pay for the democratic institutions of government, as well as funding the transfers, programs, and services governments provide.

Taxes therefore help to create a democratic, just, and equitable society. Taxes also foster a common good that benefits everyone. We recognize that we are not solely responsible for the wealth that we generate, nor does it belong to us alone. We share a portion of the income that we have received as an expression of our gratitude and a contribution towards the sustainability of our community and collective care for creation.

Recognizing the good that taxes can do is not to suggest that we be naive about their misuse. Taxes should not be used to line the pockets of any kind of political elite or merely benefit the wealthy. Taxes should not burden the poor. The use of our common purse must be transparent and there must be open and honest debate about its use. This requires accountability; active citizenship includes ensuring that government is doing the work it should be doing.

Taxes build our roads and bridges, pay for our police and firefighters, offer support for raising children, provide income security for the elderly, and help to ensure our environment is clean and safe. Taxes pay for the programs, services, and infrastructure that make up our common wealth as a society. Paying taxes is therefore a contribution to the common good.



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

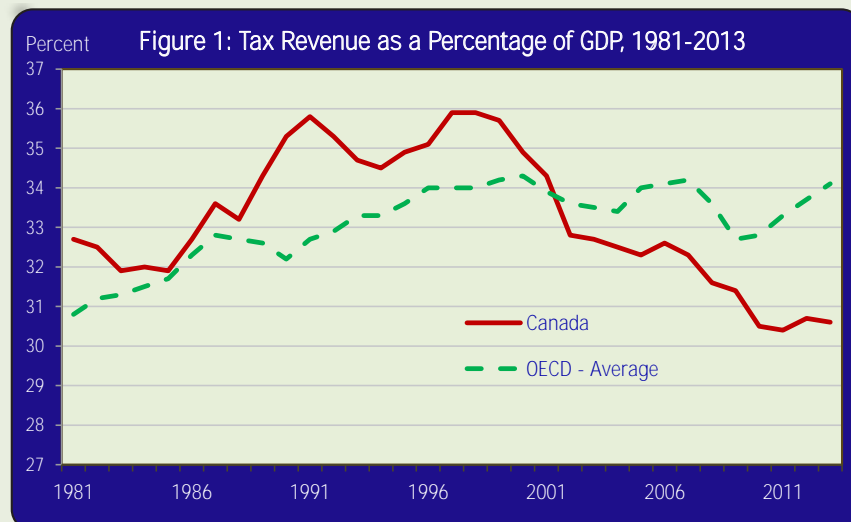
A downward spiral: falling revenues → austerity → falling revenues

- 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,

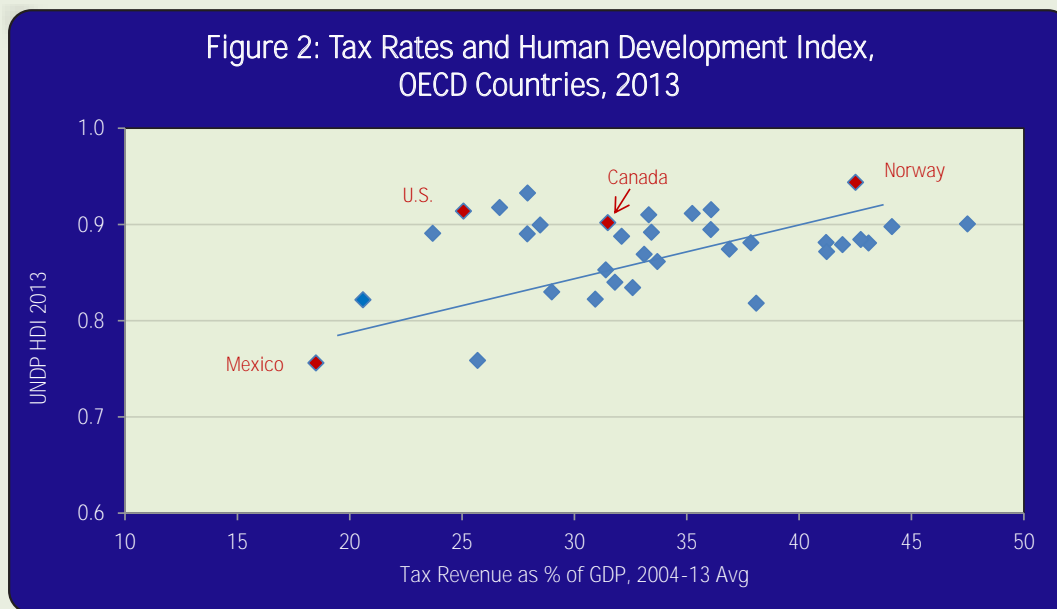
The majority of Canadians believe taxes are a good thing

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

Public Services Provide Good Value for Money

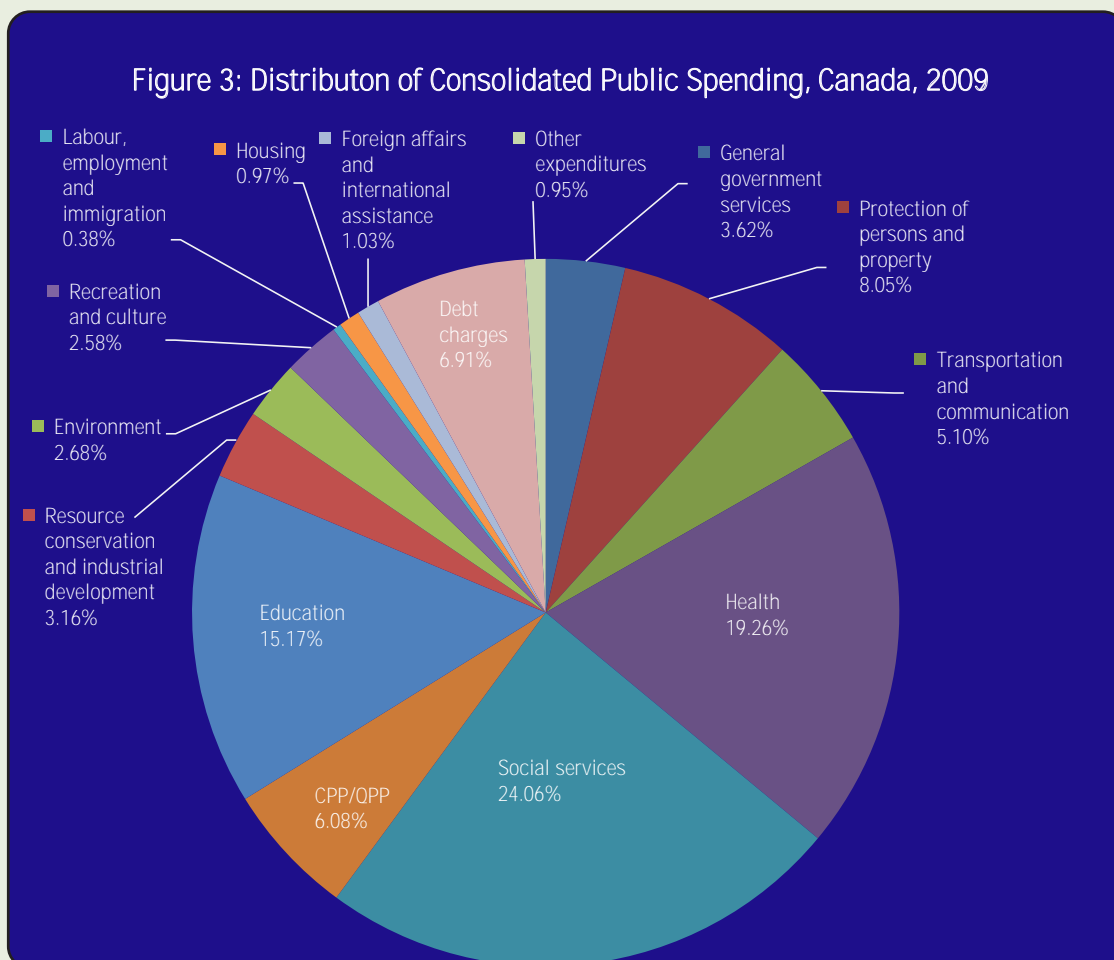
Taxes are an important way for all of us to contribute to the common good. They raise the revenues used to pay for democratic institutions and the programs, services, and infrastructure needed to foster and sustain an equitable and prosperous society.

Over the past decade, significant changes have been made to Canada's tax system, including deep cuts to tax rates. The impact of these changes is a cause for concern, as taxes are an essential way that we as citizens fulfill our obligation to promote justice and to respect the right of all people to live in dignity.

Canadians get a good deal for their tax dollars

- Taxes allow us to procure services in a cost-effective and efficient way. Many Canadians could not afford public services if we had to pay for each of these services individually. Pooling our resources allows us to purchase better, more efficient services than we could on our own.
- Overall, the average Canadian's benefit from all public services in Canada was \$16,592 in 2009. Over half of this (56%) comes from expenditures on health care, education, and income transfers. Indeed, more than two-thirds of Canadians receive a benefit from public services that is greater than 50% of their average incomes.⁹

Where your tax dollars go



Source: Statistics Canada, Table 385-0001 - Consolidated federal, provincial, territorial and local government revenue and expenditures, annual

Public services deliver significant benefits across the income spectrum

- In 2006, median income households¹⁰ received \$41,000 worth of public services, an amount equivalent to about 63% of their total income.¹¹
- For low- and modest-income households, the delivery of public education, health care, and transfer payments is essential and is only possible through taxation. The value of these services for those earning less than \$20,000 per year is more than two times higher than their average incomes.
- Even those living in households in the \$80,000 to \$90,000 range — just below the richest 20% — received benefits from public services equivalent to about half of their total household income.¹²
- A recent study of OECD countries found that the value of public programs — such as education, health care, and, early childhood education and

care — represented 76% of the disposable incomes of low income households compared to 34% among middle households and 14% among high income households.¹³ Together, these programs play an important role in reducing income inequality.¹⁴



Where has all the money gone?

While the rich benefit the most from tax cuts, the poor pay the price in lost services. Hugh Mackenzie and Richard Shillington¹⁵ estimate that:

- 80% of Canadians would have been better off if the 2% GST cut had been passed on to local governments;
- 88% of Canadians would have been better off had the federal government invested in improved public services instead of cutting capital gains taxation by one-third in the early 2000s — a

measure that overwhelmingly benefits the wealthy;

- 75% of Canadians would have been better off if provincial governments had invested in health care and education, rather than in broad-based income tax cuts.

⁹ Hugh Mackenzie and Richard Shillington (2009), *Canada's Quiet Bargain: The Benefits of Public Spending*. Ottawa: Canadian Centre for Policy Alternatives.

¹⁰ Median household income was approximately \$66,000 in 2006. Half of Canadians lived in households with incomes below \$66,000, while half live in households with incomes above.

¹¹ Mackenzie and Shillington (2009).

¹² Ibid.

¹³ G. Verbist, M. F. Förster and M. Vaalavuo (2012), "The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods," OECD Social, Employment and Migration Working Papers, No. 130, OECD Publishing, p. 15. <http://dx.doi.org/10.1787/5k9h363c5szq-en>

¹⁴ Ibid., p. 62.

¹⁵ Mackenzie and Shillington (2009).

How Progressive is Canada's Tax System?

A fair tax system is a progressive tax system, where people with higher incomes pay a greater share of their income in taxes. Growing evidence demonstrates that “fair is smart, that progressive taxes, where those who benefit most pay the greatest share, make good economic sense.”¹⁶

Fairness and equity in the distribution of federal and provincial taxes are pressing issues today given the recent growth of income inequality in Canada, and the associated increase in the concentration of income and wealth.¹⁷

The continuing trend of tax cuts for high-income 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.

Canada's Tax System¹⁸

- Canada's tax system is comprised of a variety of measures and programs ranging from personal income tax and local property taxes to payroll premiums to commodity taxes such as the GST/HST. And each has a distinct impact on individuals and families at the top, middle, and bottom of the income ladder.
- Personal income taxes can be relatively progressive if higher tax rates are applied as individuals earn higher amounts of income. At the same time, many sources of income for high earners such as investment income from stock options or capital gains are taxed

more lightly than income from wages and salaries, undermining the progressivity of the system.

- Higher income Canadians are also able to access generous tax deductions like RRSP contributions and other tax expenditures that greatly lower their effective tax rates – that is the amount of total income paid in taxes.¹⁹

And “other taxes in the Canadian tax mix, such as sales taxes, are actually regressive, which is to say that lower income families pay a higher effective tax rate than those with higher incomes.”²⁰



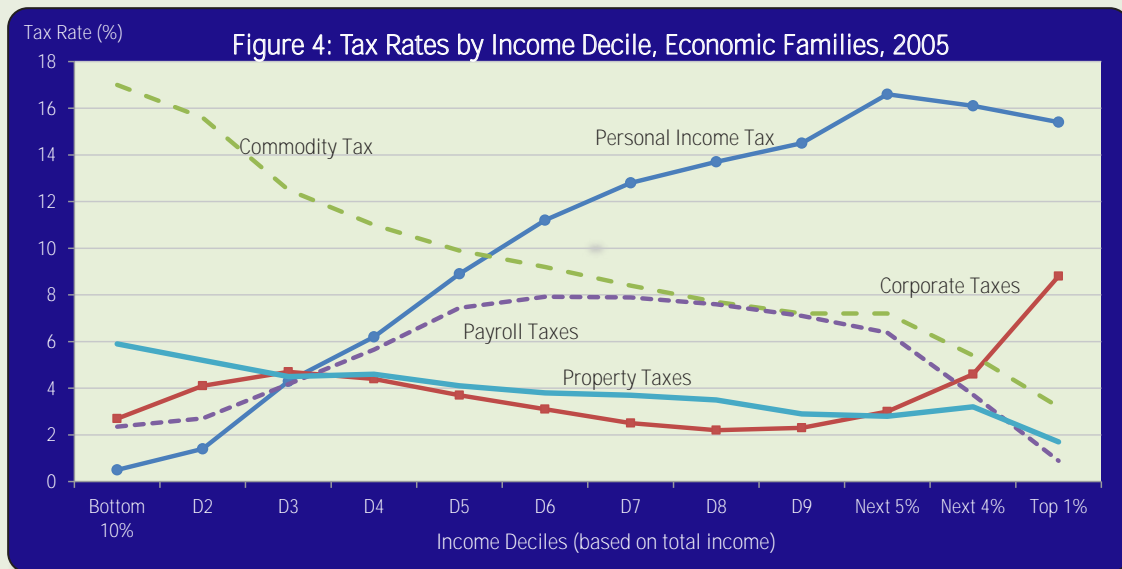
Tax Terms

- A **progressive tax system** is where people with higher incomes pay a greater share of their income in taxes.
- The opposite of a progressive tax is a **regressive tax**, where the share of income paid in tax decreases as income rises. Sales taxes, for example, are largely understood as regressive since low income households end up spending a larger share of their income on taxes because

most of their income is spent on goods and services, while higher income households have the funds to save and invest.

- A **proportional tax** is one where everyone is required to pay an equal proportion of their income in tax such as a flat tax. This type of tax is also highly regressive as a 10% tax, for example, represents a much heavier burden for low as compared to high income households.

A sales tax (or “commodity tax”) is regressive because lower income families pay a higher effective tax rate than those with higher incomes



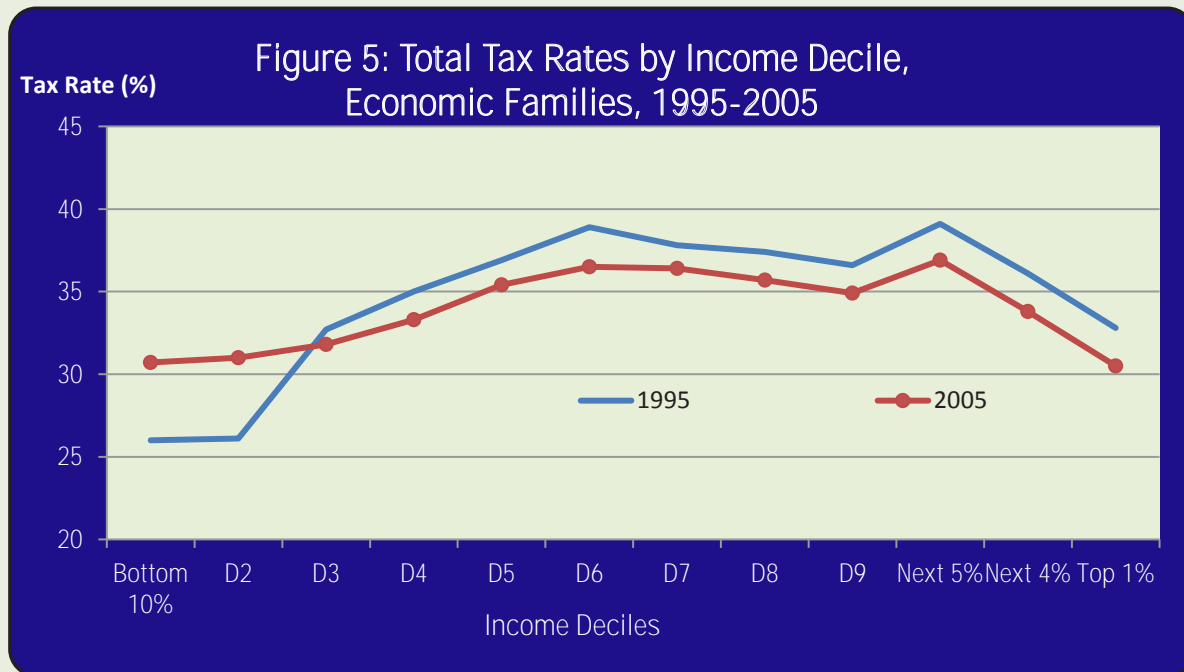
Source: Marc Lee (2007), *Eroding Tax Fairness*. Canadian Centre for Policy Alternatives.

The wealthy have benefited the most from two decades of tax cuts

- Changes introduced through the 1990-2005 period reduced rates for top income earners considerably, while rates for bottom income earners actually increased as a result of changes in consumption, payroll and property taxes and other provincial taxes and fees.²¹
- In 2005, total rates of tax paid ranged from 30.7% for individuals in the bottom 10%, to 36.5% for those in the middle, to 30.5% for the top 1% of families. The richest 1% of Canadians actually paid a lower rate than the poorest 10% of Canadians.²²

- The OECD corroborates these findings, concluding that tax cuts in Canada between 2000 and 2006 mainly benefited high income groups at the expense of low and modest income earners.²³
- Tax changes since 2006 have continued to disproportionately benefit the wealthy, particularly single earner families with children and senior couples with substantial pension incomes.²⁴

Canada's overall tax rate is now an inverted u-shape, progressive from the bottom to the middle of the income distribution but regressive thereafter



Source: Marc Lee (2007), *Eroding Tax Fairness*. Canadian Centre for Policy Alternatives

¹⁶ Alex Himelfarb (2015), "Why We Hate Taxes – And Why We Shouldn't," Alex's Blog, January 3, 2015. <https://afhimelfarb.wordpress.com/2015/01/03/why-we-hate-taxes-and-why-we-shouldnt/>

¹⁷ OECD (2011), "Country Note: Canada." *Divided We Stand: Why Inequality Keeps Rising*. <http://www.oecd.org/canada/49177689.pdf>. Income inequality among working-age persons has been rising in Canada, particularly since the mid-1990s. The rise in inequality has been largely due to widening disparities in labour earnings between high and low-paid workers, but also to less redistribution. The tax-benefit system now offsets less than 40% of market inequality, compared to more than 70% prior to the mid-1990s.

¹⁸ This section is based on Marc Lee's report: Marc Lee (2007), *Eroding Tax Fairness: Tax Incidence in Canada, 1990-2005*. Canadian Centre for Policy Alternatives. https://www.policyalternatives.ca/sites/default/files/uploads/publications/National_Office_Pubs/2007/Eroding_Tax_Fairness_web.pdf

¹⁹ An individual's effective tax rate is calculated by dividing total tax paid by taxable income.

²⁰ Marc Lee and Iglia Ivanova (2013), *Fairness by Design: A Framework for Tax Reform in Canada*. Canadian Centre for Policy Alternatives, p. 19. https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/02/Fairness_By_Design_A_Framework_For_Tax_Reform_In_Canada_0.pdf

²¹ Marc Lee (2007).

²² *Ibid.*, p. 17.

²³ OECD (2008), *Taxing Wages 2007*. Cited in Eric Beauchene (2008), "Canada's wealthy benefit most from tax cuts, OECD finds." *Canwest News Service*, March 24, 2008. <http://www.vivelecanada.ca/article/235929770-canadas-wealthy-benefit-most-from-tax-cuts-oecd-finds>

²⁴ Kevin Milligan (2009), "What have four Conservative budgets done to personal income taxes?" Prepared for the John Deutsch Institute conference on the 2009 Federal Budget, Kingston, May 7-8, 2009. <http://faculty.arts.ubc.ca/kmilligan/research/papers/Milligan-Budget-2009.pdf>

Fact Sheet # 4

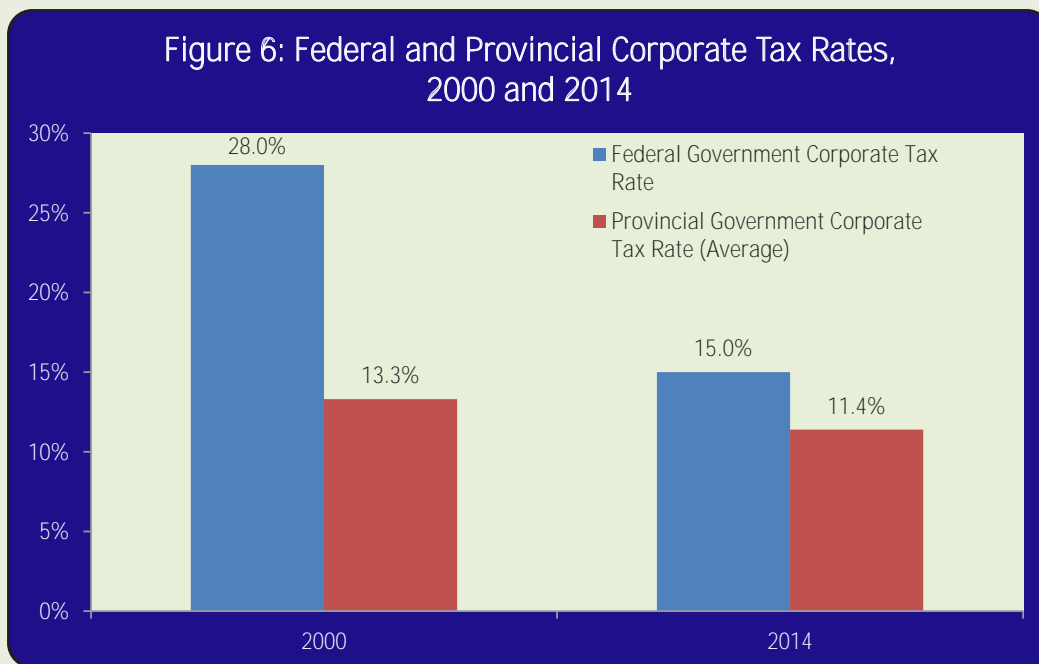
Lower Corporate Taxes: Who Benefits?

The recent trend of cutting corporate taxes should be reversed. There is a much greater cost to citizens due to lost programs and opportunities than the marginal benefits reaped through corporate tax cuts. Corporations have an obligation to help sustain the public services and physical infrastructure that contribute to their productivity and enable them to generate wealth.

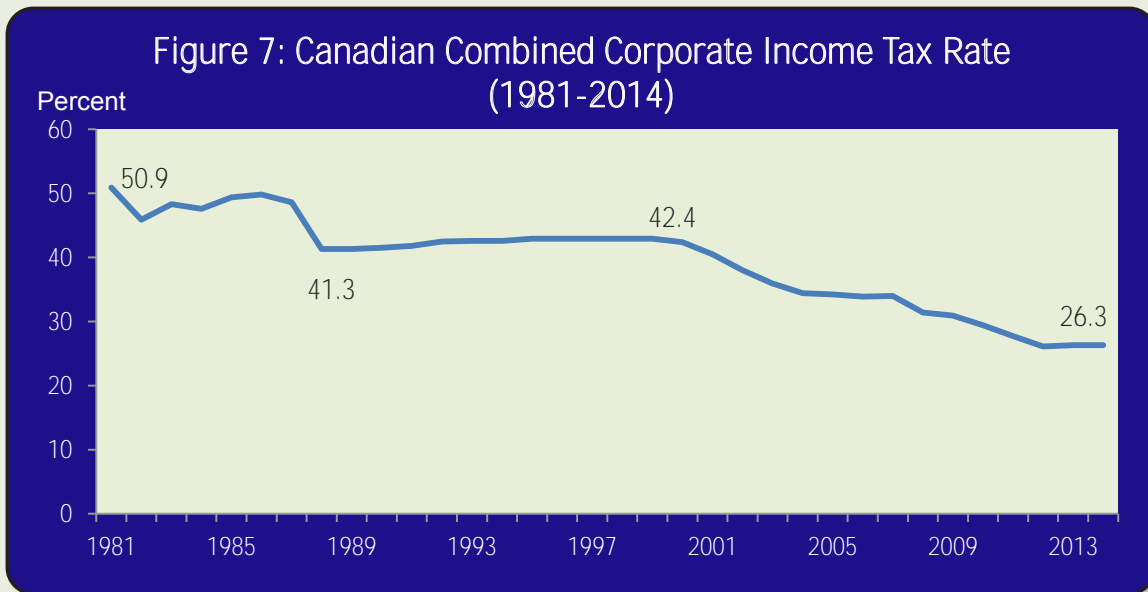
The revenue generated by corporate taxes plays an important role in building and maintaining Canada's physical and social infrastructure. Yet successive cuts in recent years have rendered Canada's combined federal and provincial corporate tax rates the second lowest among G7 countries, and considerably lower than U.S. rates.²⁵

The case for corporate tax cuts has been made on economic grounds – that tax cuts will enhance economic performance. Yet Canadians are right to wonder: **who benefits as corporate bank accounts have swelled and business investment declines?**

Corporate tax rates have decreased dramatically since 2000



Source: OECD Tax Database, Table II.1. <http://www.oecd.org/tax/tax-policy/tax-database.htm>



Source: OECD, OECD Tax Database. Table II.1. <http://www.oecd.org/tax/tax-policy/tax-database.htm>; Statistics Canada, CANSIM Table 180-0003 – Financial and taxation statistics for enterprises, by North American Industry Classification System (NAICS), annual

Canadians households are picking up the slack

- Successive rounds of tax cuts have cost Canadian families dearly by shifting the balance between individual and corporate taxes. In 2014-15, for the first time ever, more than half of the federal government’s revenue is projected to come from personal income taxes, up from a 30% share 50 years ago.²⁶
- The share of taxes paid to government by corporations, however, has been trending down. Despite record

profits, corporate taxes now make up roughly 14% of federal government revenues, down from over 20% before 1970.²⁷ The overall share of corporate taxes paid to all levels of government is even lower – at 8.3%.²⁸

- Taken together, cuts to corporate taxes since 2007 are costing the federal government up to \$13 billion per year in foregone revenue.²⁹

Figure 8: Federal Government Revenues by Income Source, 2000, 2007, 2014

	Q3 2000	Q3 2007	Q3 2014	% change
Income taxes	44.5%	47.4%	49.6%	11.3%
Corporations and government businesses	15.5%	15.1%	13.9%	-10.3%
Other sources	40.0%	37.5%	36.5%	-8.8%

Source: Statistics Canada. Table 380-0080 - Revenue, expenditure and budgetary balance - General governments, quarterly (dollars)

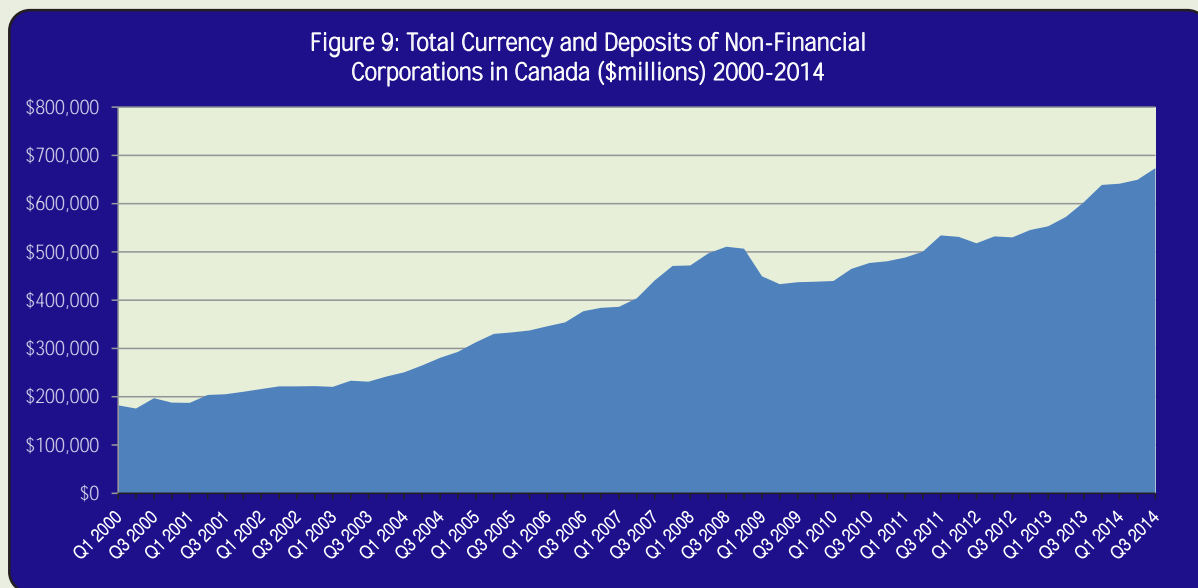
Who benefits from corporate tax cuts?

- Governments promise that corporate tax cuts will lead to increased economic activity and investment. However, those promises have fallen short. Why? Because record profits sit idle in bank accounts causing foregone tax revenues to undermine the quality of public programs, and further driving a wedge between the wealthy and the rest.
- A study that tracked 198 of the top Canadian companies that had year-end data from 2000 to 2009 revealed the companies were making 50% more profit and paying 20% less tax in 2009 than in 2000. What's more, the number of jobs created by these

corporations was actually lower than the average employment growth in Canada.³⁰

- Between 2000 and 2014, a period when corporate taxes fell to record lows (Figure 6), the total cash reserves of private, non-financial corporations grew to \$673.5 billion, an increase of nearly 370%.³¹
- A one percentage point increase in the corporate tax rate would generate \$1.85 billion in federal government revenue³² – more than enough to expand the number of high quality child care spaces and the stock of affordable housing units across the country.

Since 2000, corporate revenue has been increasingly piling up in bank



Source: Statistics Canada. Table 378-0121 - National Balance Sheet Accounts, quarterly (dollars)

²⁵ OECD, OECD Tax Database. Table II.1. <http://www.oecd.org/tax/tax-policy/tax-database.htm>

²⁶ Toby Sanger (2013), "Canada's (not so incredible) shrinking federal government," The Progressive Economic Forum, November 20, 2013. <http://www.progressive-economics.ca/2013/11/20/canadas-not-so-incredible-shrinking-federal-government/>

²⁷ Ibid.

²⁸ Statistics Canada, CANSIM Table 380-0080 – Revenue, expenditure and budgetary balance, General governments, quarterly (dollars)

²⁹ Jim Stanford (2013), "Good time to rethink corporate tax cuts," The Progressive Economics Forum, November 14, 2013. <http://www.progressive-economics.ca/2013/11/14/good-time-to-rethink-corporate-tax-cuts/>

³⁰ David MacDonald (2011), "Corporate Income Taxes, Profit, and Employment Performance of Canada's Largest Companies," Behind the Numbers. Ottawa: Canadian Centre for Policy Alternatives. <https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2011/04/Corporate%20Income%20Taxes%2C%20Profit%2C%20and%20Employment.pdf>

³¹ Statistics Canada, CANSIM Table 378-0121 – Total currency and deposits for non-financial corporations, National Balance Sheet Accounts, quarterly (dollars)

³² Jason Jacques, et al. (2013). Revenue Impacts Arising from Tax Adjustments: 2014. Ottawa: Office of the Parliamentary Budget Officer. http://www.pbo-dpb.gc.ca/files/files/Ready_Reckoner_2014_EN.pdf

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

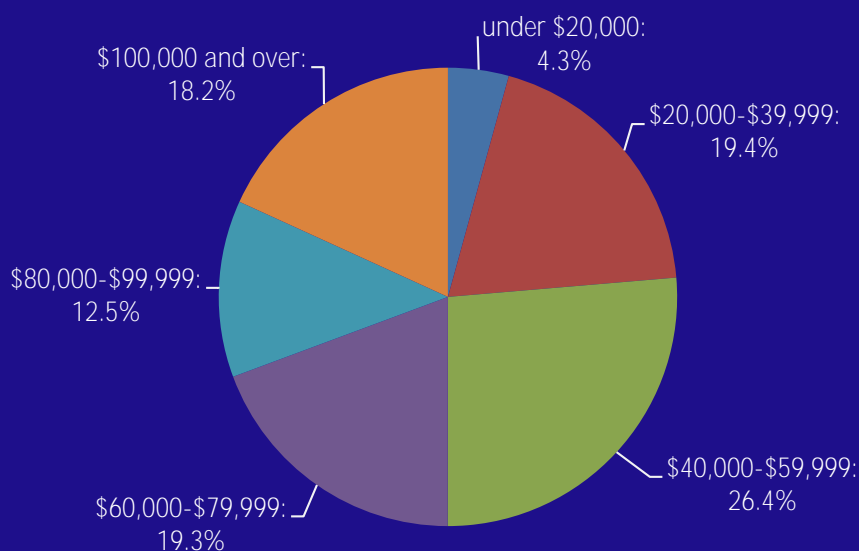
- Studies also show many tax expenditures disproportionately benefit middle- or upper-income brackets – a result of their non-refundable design. Tax filers receive the benefit of a deduction or credit only if its value is greater than taxes owed. If you pay no income tax – or only a small amount – you 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>

Putting a Price on Carbon

In addition to generating revenue, taxation can be used to achieve positive policy objectives, such as poverty reduction and environmental goals.

In light of growing concern over climate change and environmental devastation, Canadians are increasingly supportive of the introduction of a carbon tax.⁴⁵ A carbon tax places a price on emissions of greenhouse gases by taxing carbon containing fossil fuels. It is considered to be an effective, efficient way to curb energy use, and help offset the harmful impacts of climate change – both at home and abroad.

Public justice calls us to care for creation and be responsible citizens. Recognizing that economic, social, and ecological sustainability are intrinsically connected, we must make sustainable choices and wise economic decisions. This requires a critical view of the consumer and growth-driven mentality that in large part fuels pollution and its effects.

Canada should put a price on carbon. The money raised from a carbon tax (or cap-and-trade system) should be used as credits for low income people, for programs that help families and businesses to adapt their practices and their homes and buildings, to encourage the development of new, green practices and technologies, and as investments into clean energy infrastructure in order to facilitate the transition off fossil fuels.

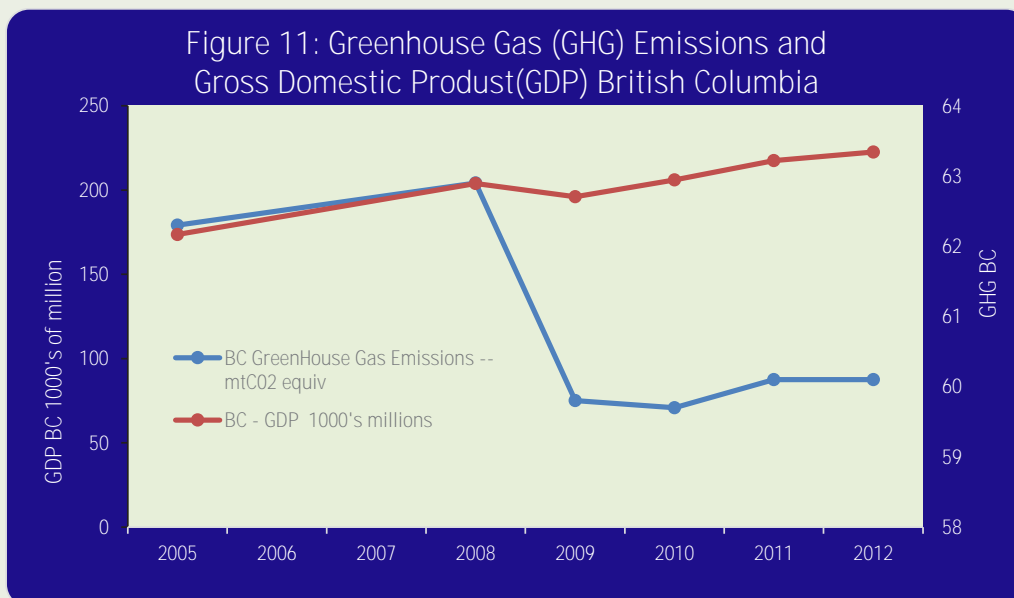
Canada is failing in its international commitments – government leadership is needed.

- In 2009, Canada committed to reduce our greenhouse gas (GHG) emissions by 17% from our 2005 level by the year 2020. However, in 2014, Environment Canada suggested that there is a 116 million tonne gap between what is predicted for 2020 and our stated target.⁴⁶ In other words, we're less than half way to

meeting our target.

- While the private sector has a role to play in mitigating and adapting to the effects of climate change, the unregulated market has not been able to respond to the climate crisis.

A carbon tax can result in economic growth and reduced greenhouse gas emissions, as shown in British Columbia



Sources: National Inventory Report 2014. http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/8108.php | 2014NIR – PT1-Final.pdf

Statistics Canada, CANSIM, table 380-0063. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ03-eng.htm>

A carbon tax has proved effective in British Columbia

- In 2008, British Columbia introduced a tax on carbon emissions, beginning at \$10 per tonne of emissions in 2008 and rising \$5 every year until it reached \$30 in July 2012.
- British Columbia's carbon tax has contributed to a 15% reduction in fuel consumption and a 9.9% reduction in per capita GHG emissions. It raises \$1 billion in revenue each year.⁴⁷
- Two-thirds (64%) of respondents to a 2012 poll believe that B.C.'s carbon tax has been good for the province.⁴⁸ A review of the carbon tax policy conducted a year later revealed that support is on the rise.⁴⁹

Canadians support the idea of a carbon tax

- Across the country, 54% of Canadians would support a B.C.-style carbon tax in their province as a way of addressing climate change.
- A majority (57%) of Canadians say it is reasonable for households to pay an additional \$100 per year to help address climate change.⁵⁰
- An even larger majority (69%) say that "Canada should introduce a policy that provides a financial incentive to reduce carbon emissions over time."⁵¹

A carbon tax is more efficient than a cap-and-trade system

- Establishing a carbon tax is a more transparent and economically efficient strategy for meeting Canada's international GHG reduction targets than a cap-and-trade system, and less intrusive than government regulation of specific sectors.
- Unlike a cap-and-trade system, a carbon tax can be administered simply as governments already have the knowledge and infrastructure necessary to implement a tax. Furthermore, the tax imposes a single price on carbon, thereby offering price stability and predictable tax revenues.

Carbon Tax vs. Cap-and-Trade

Carbon pricing takes two main forms: a carbon tax policy and a cap-and-trade system.

To administer a **carbon tax**, the government sets a price per tonne of emissions and adds that cost to the price of the energy source.

A **cap-and-trade** or emissions trading system is a market-based approach to carbon pricing. Under this system the government, or group of governments, sets a yearly cap or limit on the amount of greenhouse gases which can be emitted by industry. The cap is based on one-

tonne "permits" which are distributed or sold to covered industrial sectors. Facilities are not allowed to go over their permitted emission allowances; if they do they must purchase additional allowances on the market. Facilities that emit less than their permitted allowances may sell their permit surplus on the market or save them for future use. Overtime the number of allowances distributed is decreased, lowering the level of greenhouse gas emissions and raising the market-value of emission allowances.

Source: Carbon and the Common Good: A CPJ backgrounder on pricing carbon emissions. 2012

A carbon tax would generate \$15 billion a year in revenue to aid in adaptation and further reduction of GHG emissions

- A harmonized carbon tax set at \$30 per tonne of GHG emissions would increase government revenues by about \$15 billion per year.⁵²
- Half of the income from the tax could be passed on to low-income families in the form of a rebate to help cover the carbon tax's impact (since low-income people spend a higher percentage of their budgets on energy). The remaining income from the carbon tax could fund programs that will reduce Canada's GHG emissions – such as investments in research and development, energy efficiency, and renewable energy – and help transition to a green economy.

- The goal of the carbon tax is to reduce and possibly eliminate the behaviour being taxed. As the behaviour changes, revenue will decrease. If the tax is made revenue-neutral through the elimination of other taxes, governments will be faced with declining revenue. It therefore makes more sense to use the revenue generated by green taxes for credits to off-set the tax's adverse impact on the poor and for programs to mitigate and adapt to climate change.



⁴⁵ Bruce Anderson and David Coletto (2015). "Should Carbon Be Priced? Should Public Opinion Decide Pipelines?" <http://abacusdata.ca/the-politics-of-climate-carbon-and-social-license/>

⁴⁶ Environment Canada (2014). "Measuring Canada's Progress on Greenhouse Gas Emissions," in Canada's Emission Trends 2014. <http://ec.gc.ca/ges-ghg/default.asp?lang=En&n=E0533893-1>

⁴⁷ British Columbia, Ministry of Finance (2010), Budget and Fiscal Plan 2010/11 – 2012/13. http://www.bcbudget.gov.bc.ca/2010/bfp/2010_Budget_Fiscal_Plan.pdf

⁴⁸ Sustainable Prosperity (2012), British Columbia's Carbon Tax Shift: The First Four Years, University of Ottawa. <http://www.sustainableprosperity.ca/dl872&display>

⁴⁹ Pembina Institute (2014). The B.C. Carbon Tax – Backgrounder, p. 3. <http://www.pembina.org/pub/the-bc-carbon-tax>

⁵⁰ Environics Institute and David Suzuki Foundation (2013), Canadian public opinion about the BC carbon tax. <http://www.environicsinstitute.org/uploads/news/focus%20canada%202013%20-%20public%20opinion%20on%20bc%20carbon%20tax%20-%20december%2016-2013.pdf>

⁵¹ Bruce Anderson and David Coletto (2015). "Should carbon be priced? Should public opinion decide pipelines?" Abacus Data. <http://abacusdata.ca/the-politics-of-climate-carbon-and-social-license/>

⁵² Canadian Centre for Policy Alternatives (2014), "Alternative Federal Budget 2014: Striking a better balance," pp. 34-36. https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2014/02/AFB2014_MainDocument.pdf



Citizens for Public Justice is a national organization committed to seek 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.

CPJ’s mission is to promote public justice in Canada by shaping key public policy debates through research and analysis, publishing, and public dialogue. Public justice is the political dimension of loving one’s neighbour, caring for creation, and achieving the common good, and is particularly the responsibility of government and citizens. It involves seeking out and implementing just policies that allow everyone to live in dignity and participate in society. CPJ encourages citizens, leaders in society, and governments to support policies and practices which reflect God’s call for love, justice, and the flourishing of Creation.

