# More Tax on Canada's Wealthy Isn't Better, Report Says

Posted on Jan. 30, 2020

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Increasing income taxes on the wealthiest Canadians doesn’t pay off and poses risks to economic growth and low- and middle-income earners, according to a new study.

Although calls for higher taxes on wealth arise frequently in Canada, increased taxes on the highest incomes haven’t had the desired effects on revenues or income inequality, according to a report released January 23 by Canadian think tank Fraser Institute. Raising tax rates on the rich may sound good in theory, but in reality, behavioral responses like reduced working hours or income shifting to new jurisdictions can reduce revenue, the report says.

Canadian individual income taxation is already progressive, and unlike in most other OECD countries, the proportion of income attributable to the highest 10 percent of earners in Canada has decreased in recent years, according to the report. Despite this receding share of income, the proportion of tax paid by the top 10 percent has been over 50 percent since 1997, it says.

Canada’s federal government and seven of the country’s provinces have introduced higher taxes on high incomes in recent years. Wealth taxes are “irresistibly attractive to some politicians,” but discussions about top tax rates can be misguided, the report says. “Raising taxes on the 1 percent in practice generates little revenue beyond the sizable amounts already collected from these people,” it says, adding that some studies have concluded that a tax increase for the top 0.1 percent of earners causes tax revenue to decline. High taxes on the most productive members of the labor force discourage “working, saving, and investing, and being entrepreneurial,” the institute said.

Extending high taxes to the top 10 percent affects incomes that may not be thought of as high, the study says. In 2017, for example, the top 10 percent included people making C $96,000. “So few people in Canada earn very high incomes,” they have a decreased share of income, and tax evasion among them is rare, the report says. For an American to be considered among the top 1 percent of income earners, the individual needs an income of over C $500,000, “versus [C] $236,000 in Canada,” it says.

Increased taxes on Canada’s highest incomes “can reinforce the decade-long trend [of] slower economic growth,” which is a threat to lower- and middle-income earners, the report warns. “It is the steady slowdown in annual growth after 2000 that has cost Canadians thousands of dollars every year, not the growth of incomes for the top decile,” the institute said. It recommended that policymakers focus on boosting growth rather than raising taxes on small population segments.

“The Fraser Institute’s report offers a compelling rebuttal to the current administration’s apparent assumption that increasing the tax burden on high earners will result in increased tax revenues,” said Roy Berg, an international tax lawyer based in Calgary. As tax revenues haven’t increased significantly, it's questionable whether the income redistribution policy objective is a worthy one “in light of the risk it poses to GDP growth,” he said.

“I see wealth declining in Canada and tons of private capital leaving Canada because of the attack on the wealthy that has unfortunately been commonplace for the last four-plus years,” said Kim Moody of Moodys Gartner Tax Law LLP. He said that in some provinces — Ontario for example — the top individual marginal tax rate is roughly 54 percent and applies to taxable income of around C $210,000. “I find that rate very high, and ultimately it harms Canada’s competitiveness for skilled labor and discourages entrepreneurship,” Moody said.

“Much of the political pressure for higher taxes on the wealthiest in Canada seem to assume that trends in the United States are the same here, when they are not. Canadian policy needs to be formulated based on Canadian reality,” said Aaron Wudrick of the Canadian Taxpayers Federation. “Trying to squeeze the richest for a bit more may be popular politics, but it is flimsy policy."

There aren’t many in the super-rich category in Canada to begin with, and there’s evidence that the wealthiest individuals are those with the largest behavioral response to tax increases, Wudrick said. “We are not going to redistribute our way out of our problems,” he said.