

Editorial: End tax breaks for the rich

A new report shows the injustice of Canada's system of tax breaks.

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Every year, Ottawa spends about \$110 billion to help poor and middle class people through programs like the Canada Pension Plan, employment insurance and others, collectively known as the social safety net. These expenditures, as with all direct spending, are reported to Parliament to be scrutinized. Information on the costs and impact is available to all.

Less public, but nearly as costly, is the roughly \$100 billion the federal government forgoes annually in so-called tax expenditures. These exemptions, deductions and rebates, often offered as politically micro-targeted giveaways, have proliferated in recent decades and with particular intensity during the Harper years. Yet they are not subjected to the same kinds of accountability or evaluation that are applied to other government outlays.

As Auditor General Michael Ferguson warned last year, not even the finance department seems to know exactly how much money is forfeited or whether these giveaways achieve their stated objectives. By some estimates, tax expenditures now account for roughly a quarter of all government spending. That's a lot of money to lose track of.

Moreover, what little we do know is cause for concern. A new report from the Canadian Centre for Policy Alternatives shows that, while some of these measures are used to good effect, many others benefit most those who need help least. In fact, of the 64 tax breaks on which good data are available, all but five provide more benefit to the top half of earners than to the bottom.

In particular, the five most regressive loopholes give enormous breaks to the very rich without doing much, if anything, for the majority. These expenditures alone cost a

combined \$10 billion annually – more than enough to pay for, say, a national child care program.

“In essence there are two federal [transfer] systems in Canada,” writes economist David Macdonald, the report's author, “one for the poor and middle class, and another shadow transfer system for the rich.”

The most problematic of the tax expenditures are profoundly unjust. Take pension income splitting, which allows the higher-earning spouse to shift pension income to the lower earner. The loophole costs federal coffers \$965 million annually, 83 per cent of which goes to the richest 10 per cent.

Or take the tax break on dividends for shareholders of Canadian firms, which costs \$4.1 billion a year, half of which goes to the top 1 per cent. Or the executive stock option loophole, which drains about \$1 billion annually from the public purse, money that's distributed even more regressively. A full 90 per cent of the benefit is enjoyed by the top 1 per cent.

Upon being installed as finance minister, Bill Morneau declared tax fairness his top priority. Yet his record on the issue is mixed. He at first vowed to close the loophole on executive stock options, perhaps the most obscene such tax break, but then, as the *Star* recently criticized, shamefully changed his mind under industry pressure. The Liberals did deep-six several wasteful Harper-era boutique tax credits, but added a dubious one of their own for teachers.

More encouraging, Morneau announced in April that his government will undertake a comprehensive review of tax expenditures with the double aim of simplifying the system and making it more progressive. In the process, he hopes to find \$3 billion in savings – a

modest, if plausible, goal. (The CCPA report recommends finding \$5 billion annually by closing or capping the most regressive loopholes.)

The review is essential. Clearly we ought to subject tax expenditures to the same oversight and public debate as any other spending. This

is especially true given the astronomical cost of these measures and our current context of slow growth and fiscal restraint. If the government wants to provide billions of dollars in tax breaks to the richest, it should at least be given the unenviable task of justifying its regressive largesse to the many who are struggling.