

# Breaking down the parties' tax-cut pledges in an election that's evolved into a bidding war for votes

By Michael Smart

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“An election is no time to discuss serious issues,” a wise Canadian once said. As proof, I bring you the 2019 tax policy ideas of the Liberal and Conservative parties. A few months ago this election looked to be a referendum on Liberal carbon pricing policies. Now it is devolving into a bidding war, as the two leading parties trade tax-cut pledges.

Both are offering general income tax relief worth about \$300 for the average taxpayer. That might not sound like much, but it adds up fast. Under each plan revenues would fall by well over \$5 billion annually.

The details differ. More of the tax cut would go to high-income families under the Conservative plan, while everyone gets the same cut under the Liberal one, except taxpayers in the top two tax brackets.

So far, neither party says how it would pay for its cut. That's irresponsible. Tax cuts are nice to have but they have consequences. An unfunded tax cut means an increase in the federal deficit, plain and simple. That might be good politics but, at this stage of the economic cycle, it's not good policy.

And that's not all that's on offer this election.

The Conservatives are proposing a bold step forward ... into the past decade. They want to restore Harper-era tax credits for transit passes, children's arts and sports activities, and private saving for post-secondary education. Those are all worthy activities, without a doubt. But, by the Harper government's own estimates, these “boutique” tax breaks go disproportionately to high-income families and do little to nudge people's behaviour in the intended directions.

Take the proposed public transit credit, which Andrew Scheer suggests will “reduce the

number of cars on the road.” But one study found no evidence the credits increased transit ridership last time around. Transit usage responds far more to service frequency than to fares, and the most direct way to improve service is to transfer funds directly to urban transit agencies for construction. Scheer presumably is betting the politics of these proposals make sense even if the economics do not. Let's hope Canadians see through this stratagem and refuse to be bribed with their own money.

On the other hand, Scheer's proposal to reduce taxes on parental leave benefits does have merit. Canada's benefits to new parents are below the average for rich countries. It makes sense for government to support working families during this important life event. And, although this view is controversial, it might also be good for child development.

For his part, Justin Trudeau has proposed enhancing interest-free loans for first-time homebuyers. Housing affordability is a key issue, especially for younger generations. But more dollars chasing the same houses in Canada's hot real estate markets won't do much except increase prices and developers' profits even more.

Far better to look at supply-side measures to spur housing construction where it's needed. Ottawa could start by cutting the GST on new housing, which is especially costly in expensive urban markets.

So far, ho hum. Better news for tax policy nerds: the federal NDP has brought one truly new idea to the debate this time around — a proposal for a “modest” one per cent annual tax on individual wealth over \$20 million. A “modest proposal,” indeed, but no more

practical than Jonathan Swift's modest 18th-century proposal that starving Irishmen sell their children for food. Several studies of European wealth taxes have shown they are easy to avoid by moving assets and may also discourage saving and investment.

Growing inequality is a real problem in the Western world. In Canada, high-income taxpayers have too many ways to avoid taxes, which exacerbates the problem. But, with our current porous tax base, higher tax rates alone won't raise much new revenue, and they won't reduce inequality. What is needed instead is a careful look at tax breaks for business and capital income in all forms. A simpler, more effective income tax base would be fairer for all and would raise more revenue for social programs without a hike in job-killing tax rates.

In light of big changes happening in the world around us, our tax system deserves a fresh makeover. Our economy is increasingly populated by large global companies that deal with customers via the internet, which Canada's tax system has not yet adapted to. Digital service companies like Netflix and

Google don't pay sales tax in Canada, unlike in some other rich countries. That hurts homegrown bricks-and-mortar businesses and eats into tax revenues.

Big internet companies should be paying more profit taxes, too. Right now, it's too easy for them to shift profits to international tax havens. Our major trading partners in the U.S., Europe and Australia have been enacting new taxes on digital companies, with more changes to come. Meanwhile, Ottawa seems content to sit on its hands.

On climate change, too, there is more work to do. The Liberal carbon pricing plan will do more to reduce emissions at lower economic cost than the Conservative plan. But neither party's proposal meet Canada's commitments under international agreements. Getting there won't be easy but more robust carbon pricing is surely part of the answer.

But these are all serious issues, so discussing them will have to wait until after the election, at least.

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