Fiscal Policy

The strongest consensus that emerged at G20 Business Summits is that addressing deficits effectively is essential to improving confidence and driving business investment —a precursor to sustainable economic growth.

The window of opportunity to bring indebtedness down is quickly closing as a rapidly aging population and slower growth in the labour force will exert significant pressures on the public purse. Demand for publicly funded programs, like health care and elderly benefits, will rise significantly, and a smaller number of workers will shoulder a larger share of the tax burden.

The actions we take to eliminate deficits can strengthen the economy or weaken it. We have to get it right.

The Canadian Chamber has called on the federal government to balance its books by 2015 and to do so by limiting program spending growth to about 1.6 per cent per year, on average, through fiscal 2015-16. On the surface this may not appear draconian, but it would represent a dramatic shift since federal program spending increased around six per cent per year from fiscal 2000–01 to fiscal 2008–09. Savings can also be realized by improving the efficiency and effectiveness of government programs. The Canadian Chamber recognizes that across-the-board slashing of government programs without underlying structural reforms will generate little in the way of sustained savings. Close scrutiny of government programs must be an ongoing process.

The Canadian Chamber believes that increasing taxes on Canadian families and businesses is the wrong way to eliminate deficits. In a highly integrated global economy, the tax base is constantly on the move. Skilled workers, businesses, jobs and capital move easily across national borders, seeking the best economic opportunities. They are drawn to low-cost, low-tax environments. It is crucial that we do not undermine the progress that has been achieved to-date with respect to corporate and personal income tax reductions.

With respect to business taxes, the government must proceed with the legislated 1.5 percentage point reduction in the federal general corporate income tax rate (taking it to 15 per cent as of January 1, 2012), continue to review and make improvements to capital cost allowance (CCA) rates, and focus on reducing tax administration and compliance costs for businesses.

When it comes to personal income taxes, there is still much unfinished business. Many low- and middle-income Canadian families with children pay higher effective marginal tax rates on their labour earnings than individuals at the top of the income spectrum because many of the public transfers these families receive (including child tax benefits, the GST and provincial sales tax credits, provincial property tax credits, student financial assistance and social welfare) end up being clawed back as income rises. Punitive marginal tax rates send a strong negative message about the merits of working, upgrading one's skills and pursuing higher education. Fiscal conditions permitting, the Government should reduce high marginal personal income tax rates for low- and middle-income Canadians.

To help attract and retain high-tech skilled workers, upper management, entrepreneurs and professionals, many of whom are quite mobile, a lowering of taxes is also warranted at the top end of the income spectrum. Fiscal conditions permitting, the Canadian Chamber recommends that the federal government raise the threshold at which the top federal marginal personal income tax rate kicks in to $200,000 from the current $128,800. This would result in the marginal personal income tax rate on income between $128,800 and $200,000 falling from 29 per cent to 26 per cent.

The federal government must also review the hundreds of exemptions, deductions, rebates, deferrals or credits that are part of the federal tax system to ensure they are cost effective and economically efficient. For example, some credits simply subsidize activities many recipients would have done anyway. Others may stimulate spending in certain areas prompting suppliers to raise prices and, therefore, negate the benefit of the tax credit. In many cases, the government is using tax preferences to achieve social objectives rather than funding the initiative through spending programs. The incentives show up as tax

cuts when in fact they are spending increases. Ultimately, the myriad of tax preferences enormously complicate the tax structure, increase compliance costs and open up avenues for evasion and avoidance of tax. Broadening the tax base would facilitate lower tax rates so that everyone benefits.

Recommendations

That the federal government:

Re: Debt Management

1. Balance the federal books by 2015.
2. Ensure that the debt-to-GDP ratio falls below 30 per cent by 2015.

Re: Program Spending

3. Limit growth in program spending to an average of about 1.6 per cent per year through 2015-16.
4. Continue to review all direct program spending and operating costs on a four-year cycle to determine where the payoffs are the greatest and identify areas where spending can be reduced or eliminated.
5. Broaden the scope of spending review beyond direct program expenses.

Re: Tax Policy

6. Refrain from hiking taxes to return to balanced budgets by 2015.
7. Continue to review and make improvements to Capital Cost Allowance (CCA) rates.
8. When fiscal conditions permit, reduce personal income tax rates for low- to modest-income earners—the 15% rate (on the first $41,544 of taxable income) to 14%, and the 22% rate (on taxable income between $41,544 and $83,088) to 21%.
9. When fiscal conditions permit, raise the threshold at which the top marginal personal income tax rate kicks in to $200,000.
10. Conduct a rigorous review of all tax preferences to identify those failing the tests of economic efficiency and cost effectiveness. Phase out those that do not pass the tests.

Submitted by the Economic Policy Committee, co-sponsored by the Edmonton Chamber of Commerce

Replaces 2010 resolution "Fiscal Policy"