Canada's massive tax cuts 1997-2016 --

Federal 'revenue holes' created in 1997-2005 and 2005-2016

Canadian governments began their tax cut programs in the late 1990s in the wake of recovering from the severe 'category 4' 1990-1992 recession. The government of the day had battled large federal deficits following the recession by making deep cuts to major government programs including employment insurance, health funding, and education transfers.

Once annual federal operating deficits had been eliminated, however, new surpluses were not used to reverse the cuts that had been made to federal programs. Instead, these new operating surpluses were used to fund federal tax cuts beginning in 1998, greeted as 'leaving more money in people's pockets.'

These federal tax cuts began with reductions in personal income and capital gains taxes in the late 1990s and early 2000s. Tax cuts accelerated throughout the 2000s with massive cuts to personal, consumption, and corporate taxes. By 2008 and 2009, some of the largest of these cuts were justified as a solution to the 2008-2009 category 4 recession. Throughout, provincial governments were encouraged to follow the federal example.

Going forward, what will be the impact of two decades of continual tax cuts?

By 2016, the cuts made since 1997 will produce a $94.4 billion 'revenue hole' in the federal government's annual budget.

This revenue hole is massive. The federal government is projected to receive total tax revenues in 2016 of $228 billion. If those $94.4 billion in tax cuts had not been made, 2016 federal revenues would be 41% higher – $322 billion instead of $228 billion.

No one government bears responsibility for the total revenue hole. Nearly half the tax revenue that will be lost in 2016 – $45.8 billion – is due to federal tax cuts made between 1997 and 2005.

The other half of 2016 lost revenues – $48.6 billion – is the result of federal tax cuts made between 2005 and 2016.

Who gets the benefits of these massive tax cuts? The biggest cuts have been made to federal personal income taxes. Over half of all these cuts – 55% – have reduced federal personal taxes. The other large federal revenue losses are from cuts to corporate income tax and GST rates.

$94.4 billion is a lot of money for a government to lose in just one annual budget. And these are permanent reductions: this revenue hole has been growing every year for two decades, and it will continue to get larger every year.

This $94.4 billion revenue hole explains why so many federal government programs, ranging from environmental monitoring and rail safety to employment insurance, refugee and immigration funding, veteran’s services, Aboriginal communities, Old Age Security, and transfers for health funding, education, and child care, have been cut so dramatically or put on hold over the years.

In fact, that $94.4 billion could easily cover the annual costs of much-needed funding in all those areas, and would still leave substantial sums for emerging issues such as sustainable public transportation, affordable child care, lower university and training costs, drug and dental coverage, and climate change initiatives.

But Canadian political imaginations seem to have shrunk as Canada’s revenue holes have grown.

To a surprising extent, the 2015 election debates have largely ignored Canada’s huge revenue hole.

Instead, the three leading parties have centred their visions around three constrained fiscal plans:

Conservatives: Canada should ‘freeze’ all existing tax and budget levels going forward.
NDP: It is time to increase corporate tax slightly to fund crucial spending programs.
Liberals: It is time to incur small budgetary deficits to fund crucial spending programs.

The health of Canada’s revenue systems is a serious issue. Canada is one of the richest countries in the world. But because Canada has become one of the biggest tax cutters in the OECD, indeed, in the world, its federal government now provides some of the lowest levels of funding for crucial programs and services that people living in rich countries need in order to maintain their standards of living and aspirations for their futures.

It is time to ask whether Canadians will in fact be better off if essential health, education, infrastructure, child care, and development programs continue to be starved in order to keep federal taxes extremely low – or whether it is time to put the brakes on extreme tax cuts and attend to people’s real world needs.

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This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Kathleen Lahey and Andrew Mitchell, and they bear the entire responsibility for the use and interpretation of these data.

Revenue holes created by 1997-2005 and 2005-2016 federal income tax and GST cuts, 2016

Impact of all federal income tax and GST cuts made since 1997 on federal tax revenues in 2016	**Impact of cuts made 1997-2005 ($2016)**	**Impact of cuts made 2005-2016 ($2016)**	**Impact of all 1997-2016 cuts ($2016)**
Personal income tax (PIT) cuts	$36.3 bill.	$16.0 bill.	$52.3 bill.
Corporate income tax (CIT) cuts	$9.5 bill.	$19.6 bill.	$29.1 bill.
Goods and Services Tax (GST) cuts	–	$13.0 bill.	$13.0 bill.
Total all cuts – 2016 'revenue holes'	**$45.8 bill.**	**$48.6 bill.**	**$94.4 bill.**
Total federal PIT, CIT, and GST revenues forecast for 2016 year	$228.0 bill.	$228.0 bill.	$228.0 bill.
Total federal PIT, CIT, and GST revenue that would have been received in 2016 if no 1997-2005 cuts were made	$273.8 bill.	$276.7 bill.	$322.4 bill.
Size of 2016 federal revenue holes as % of all PIT, CIT, and GST revenues forecast to be received in 2016	**20.1%**	**21.3%**	**41.4%**

Sources: PIT: Statistics Canada SPSD/M v. 22 (2015); CIT: Canadian Manufacturers and Exporters, *The Economic Impact of Corporate Tax Rate Reductions* (2011), table 9, at 33; Parliamentary Budget Officer, *Ready Reckoner* (2014), http://www.readyreckoner.ca/; Total PIT, CIT, GST revenues forecast for 2016: Canada, Minister of Finance, *Budget 2015* (2015), table 5.2.5, at 364.