

Canada's massive tax cuts 1997-2016 –

Who gets the cuts? 'Upside down' personal federal tax cuts

c 2015 by Kathleen A. Lahey

Tax cuts in Canada almost always give the largest benefits to those with the highest incomes. The tax cuts carried made in the federal-level structural detaxation programs of the last two decades are no exception.

When tax cuts are distributed on the basis of income, they give the smallest financial benefits of those cuts to people with the lowest incomes. At the same time, the largest shares of tax cuts invariably go to those with the highest incomes.

Canadian finance officials are well aware of this 'upside down' distribution of tax cuts benefits. But when designing the 1997-2016 federal tax cuts, little effort was been made to minimize or avoid the 'upside down' effect. These total tax cuts are now projected to remove an estimated \$94.4 billion from upcoming 2016 tax revenues alone – a reduction in total potential federal revenue by a factor of some 40%.

It is time to consider anew what cuts have been made, and whether they are fair. This can be done by looking at who will get the \$47 billion in 1997-2016 federal tax cuts that come from cuts to federal personal taxes (income, payroll, and commodity taxes) over the last two decades. These cuts alone represent over half of the \$94.4 billion 2016 federal revenue hole left by all the 1997-2016 tax cuts.

The table below shows that the distribution of this \$47 billion is markedly 'upside down' – the largest tax cuts go to the wealthiest, and the smallest, to the poorest.

The 10% of households with the lowest incomes (decile 1) will receive the smallest shares of tax cut benefits in 2016. This decile will receive less than 1% of the \$47 billion in 2016 federal personal tax cuts.

In contrast, the 10% in the highest income decile (decile 10), with incomes of \$168,801 and up, will receive over 35% of that \$47 billion. Together, the wealthiest 20% receive over 52% of the entire \$47 billion.

This upside down distribution is often defended on the basis that people with high incomes pay higher rates of taxes. The argument is that when tax rates are cut or new tax benefits are created, those who have been paying taxes at higher rates deserve to get bigger tax cuts.

This not the whole picture. Governments have considered every one of the many tax cuts that have produced this \$47 billion part of the 2016 revenue hole very carefully, using detailed statistical analysis to confirm who will 'win' and who will 'lose' from such cuts or changes.

Thus each tax cut is in fact a government decision as to how much more money different groups of people deserve to have added to their pockets – if any – when these tax cuts are made.

The \$47 billion in personal federal taxes that have been foregone for the 2016 year could have been distributed equally. Literally, an equal 10% share of that \$47 billion could have been allocated among those in each decile.

Comparing the actual distribution of these tax cuts with the ‘equal share’ that could have gone to those in each decile demonstrates just how ‘upside down’ the distribution of these tax cuts has been:

- * Sixty percent of all households will receive much less than their equal share.
- * Only those in the seventh decile will receive an amount close to their equal share.
- * The top 10% will get 356% of their equal share.
- * The bottom 10% will only get 7% of their equal share.

Yes, federal personal tax changes since 1997 do indeed ‘leave more money in people’s pockets.’

But in reality, this has been achieved by leaving very little additional money in most people’s pockets in order to leave massively much more money in relatively fewer wealthy people’s pockets.

The other reality is that massive tax cuts mean massive government spending cuts. Those with high incomes, who will receive far more than their equal shares of tax cut benefits every year, will have a great deal more extra money in their pockets to offset the effects of pervasive federal spending cuts.

Not so those with low and average incomes, who have little or no extra money in their pockets.

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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.

Distribution of \$47 billion in net 1997-2016 personal tax cuts, by decile and by equal decile shares, Canada, 2016

Range of total family incomes in each decile	Net tax cuts received in each decile (\$millions)	Net tax cuts received in each decile (%)	Actual decile share +/- equal share (\$4,695 mill.)	Actual decile share as % of equal share
1: up to \$19,700	\$ 330.5	0.7%	(\$4,364)	7%
2: \$19,701-\$29,100	\$ 946.4	2.0%	(\$3,748)	20%
3: \$29,101-\$39,500	\$ 1,298.6	2.7%	(\$3,396)	28%
4: \$39,501-\$50,500	\$ 2,135.8	4.5%	(\$2,559)	46%
5: \$50,501-\$63,400	\$ 2,891.5	6.2%	(\$1,883)	62%
6: \$63,401-\$78,900	\$ 3,736.0	8.0%	(\$959)	80%
7: \$78,901-\$98,700	\$ 4,809.2	10.2%	\$114	102%
8: \$98,701-\$125,800	\$ 6,111.8	13.0%	\$1,417	130%
9: \$125,801-\$168,800	\$ 7,979.9	17.0%	\$3,285	170%
10: \$168,801 and up	\$16,708.9	35.6%	\$12,014	356%
All	\$46,948.5	100%		
Top 20%	\$24,688.8	52.6% of all cuts		

Source: Statistics Canada SPSD/M v. 22; deciles and results have been rounded; decile income ranges are of economic families, which include single individuals; decile 'equal share' is 10% of total tax cut benefits (\$5,256 million per decile); () indicates negative figures.