

# BUDGET WATCH 2010



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## Putting the budget to work for all Canadians: Taxes and public services

### You can't have one without the other

The Conservative and corporate chorus has a single prescription for any and all economic problems: Cut taxes! In fact, cutting taxes just creates more economic problems.

Cutting taxes ignores the fact that these taxes pay for services that individuals and communities need. Taxes allow governments to provide equal access to public services. Lower taxes sound good but not if you have to purchase individually the services that our taxes pay for such as safe water, roads, sanitation, health care and education. The reason we pay taxes is to pay for services that we collectively value as a society. Progressive taxation needs to be central to Canada's deficit debate.

Most Canadians derive the same dollar value from the public services that their taxes pay for, about \$15,000 per capita regardless of their family type or income. But, while governments are quick to talk about the cost of services, they fail to measure the flip side – the benefits these services provide.

### Cut tax revenues and you starve public services

Tax revenue losses have been mounting up.

- Since 1995, tax revenue overall in Canada has dropped from 36% to 33% of Gross Domestic Product (GDP), a loss of nearly \$50 billion in annual revenue.
- The federal government has lowered taxes to the point that 2009-10 revenues are only 14.4% of GDP - the lowest level as a proportion of GDP in 50 years.
- The government has cut current corporate tax rate from 22.12%, what they were 2007 only 2.5 years ago, to 15% by 2012.

Even before the recession, the federal government's tax cuts had already almost put Canada into a deficit position. The current deficit is caused partly by the stimulus spending needed to support the economy, but primarily by government-engineered tax cuts.

### We can afford our public services

The Canadian Centre for Policy Alternatives' Alternate Federal Budget offers different choices that would begin to reverse the revenue deficit. These measures would raise significant revenue without undue hardship on lower and middle-income workers and ensure funding for federal public services.

Alternative options that the government could propose include:

- taxing high incomes by establishing a new 31.5% tax bracket for income over \$250,000. This would only affect the richest 0.8% of Canadians and raising \$3.8 billion in revenue over three fiscal years.
- capping Tax Free Savings Accounts (TFSA) at \$10,000. Most of the gains from TFSA will flow to an affluent minority. This measure would only save about \$0.2 billion over the first three fiscal years but would save exponentially more if the current tax break is allowed to continue.
- fully taxing Capital Gains. Most Canadians pay taxes on everything they earn, while investors and speculators only have to pay taxes on 50% of their investment earnings. Closing this loophole would apply to 0.8% of tax filers. Capital gains tax breaks were supposed to encourage investment in new production capacity – like factories and machines. Instead it has facilitated speculation. Closing this tax loop hole will increase federal revenues by \$12.9 billion over two years.
- fully taxing Stock Options, which are currently treated as capital gains and not employment earnings, would increase revenues by \$1.8 billion over two fiscal years.
- taxing securities transactions in Canada. Levying a small 0.3% charge every time a stock is traded would raise about a billion dollars over the next three years. Costing almost nothing for long term investors, it discourages the kind of speculation that caused the recession. World leaders, especially those from Britain, France and Germany, are very interested in applying an international tax on currency transactions.
- reinstating the federal corporate tax to its 2007 general rate of 21%, together with its 1.12% corporate surtax. Reversing Harper's recent corporate welfare give away will increase revenues by \$22 billion over the next three fiscal years.
- reinstating the 2003 corporate tax rate of 28% for the oil and gas industry would raise about \$2.2 billion in revenues over two years.
- reversing the most recent 1% GST cut, providing revenues of \$5.2 billion, and directing it towards clear and specific public goals.

Public sector workers didn't cause the recession. Greedy speculators and lazy bankers did. They're the same groups that continue to call for tax cuts. Yet their tax-cutting demands helped created the current deficit. Reinstating tax revenues is the only solution to the deficit that makes sense.

