Basic Income: Business Perspectives – Audience Question

Webinar August 19, 2020

Q: Sameer, what's included in the $300B in tax expenditures [that you are proposing pays for BI]? Hopefully not childcare or healthcare or long-term care.

A: Tax expenditures are government spending through the tax system (rather than directly) to incentivize certain objectives (saving for retirement, investment, etc.). They are not program costs for long-term care, health care, etc. They are also not the cost of the CRA administering the tax system.

More precisely, they are the tax revenues lost by the government as a result of tax breaks (credits, deductions, exemptions, etc.) that are non-structural. Structural tax breaks include, for example, deductions of ordinary business costs (such as paying employees' salaries) from the business income you pay tax on. Tax expenditures are non-structural tax breaks; that is, tax breaks designed to help certain people or incentivize certain behaviour.

Tax expenditures in Canada cost over $300 billion per year (about 15% of Canada's GDP). The Department of Finance publishes them federally here and we can make rough estimates of provincial/territorial numbers by extrapolating from the federal data as well as from the provinces that also publish these numbers. There are many different tax expenditures, which have a variety of goals, and some are even progressive, being targeted to those with low incomes.

However, the two most costly tax expenditures are RRSP/RPP and capital gains. They cost about $80 billion and $30 billion, respectively, so together account for more than a third of all tax expenditures. Most of their benefit accrues to the top of the income distribution: the top 1% enjoys 15% of the RRSP/RPP and 87% of the capital gains. While everyone theoretically has the opportunity to take advantage of these tax breaks, they are highly regressive in practice, both because the rich can save more and realize more capital gains from selling their assets and because the tax breaks are worth more to higher-income earners that would otherwise face higher tax rates.

Some might argue that eliminating the tax breaks for RRSPs/RPPs would make it hard to save for retirement. But eliminating the tax breaks does not prevent people from saving for retirement. And there is little evidence that these tax breaks have increased how much people save for their retirement. In fact, most people approaching retirement have very little savings in their RRSPs/RPPs: less than 9% could generate $20,000 per year (pre-tax, and assuming a standard 4% withdrawal rate). The UBI alone is more than that: each adult would get $24,000 per year tax-free, plus OAS, GIS, and CPP, and everyone can still save for retirement through their own accounts or through employer pensions.

Many people take advantage of tax expenditures to reduce their taxes, but on the whole, most of the benefit of tax expenditures goes to the rich. If viewed in a vacuum, eliminating tax expenditures would effectively raise taxes. But virtually everyone would directly benefit more from a UBI and a flat tax than from tax expenditures. Tax expenditures are far less efficient and far more regressive than a UBI and lower tax rates. Replacing the tax expenditures with a UBI and a flat tax would make almost everyone better off and would create a fairer, more efficient tax system that would be both more progressive and encourage investment overall.

- Sameer Nurmohamed, Associate - Osler, Hoskin & Harcourt LLP