Canadian taxes not as high as you may think

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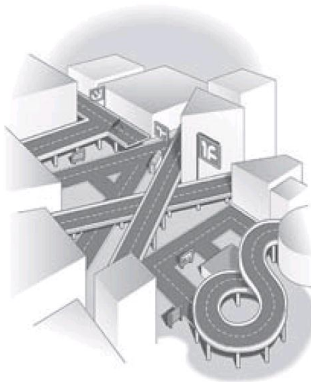
As the deadline for filing income taxes looms, many Canadians, like me, are scrambling to pull together financial information. As we calculate our taxes, we are especially likely to complain about how much we owe for the year, and question why the amount seems so high.

Although "death and taxes" jokes are inevitable, it's worth setting the record straight about taxation in Canada: where we are relative to other countries, and how much we pay compared to decades ago.

I suspect most Canadians believe that we live in a high-tax country but that's just not true. Adding up the income, sales, corporate, property and other taxes we pay to all levels of government, total taxes are 31 per cent of Canada's economy. This is below the average (33.8 per cent) for rich, industrialized countries that are part of the Organization for Economic Cooperation and Development (OECD). If Canadians paid taxes at the OECD average, we'd owe an additional $45 billion a year.

For high-tax countries, we need to look to France, Finland, Austria, Norway, Belgium, Italy, Sweden and Denmark. Taxes add up to between 42 and 48 per cent of their economies. In other words, their citizens pay up to half again as much as we do in Canada.

Yes, there are also a handful of OECD countries that collect fewer taxes than we do, including the United States, Greece, Portugal, Spain, Ireland, Japan and Australia. Keep in mind, all but Australia have a larger public debt than Canada relative to the size of their economies. So they're not obviously strong role models.



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Since Canada is a relatively low-tax country by international standards, perhaps we feel heavily taxed because we pay more now than we did in the past. This is true when total revenue collected by federal, provincial and municipal governments is compared to what Canadians paid a generation ago. We pay $22 billion more now than we would if 1976 tax laws still applied. This increase is driven primarily by our decision to collect more pension plan premiums.

But here's the thing. Over that same period, we decided to increase spending on medical care and pensions by more than $80 billion a year. Spending on these programs increased four times faster than the taxes that pay for them.

Canadians haven't always been so unwilling to balance the country's chequebook. Just 10 years ago, taxes were $80 billion higher because Canadians were still determined to pay for the things we want.

However, since 2000, we've prioritized tax cuts to "pay ourselves" first and foremost. Individual income tax is down nearly $38 billion a year, and we slashed sales taxes by nearly $19 billion to a level far below a generation ago. Corporate taxes also dropped substantially, down nearly $18 billion. This is one reason why KPMG's annual competitiveness reports show that Canada has become an especially good place for companies to do business. But in the spirit of full disclosure, corporate taxes in Canada are only around $3 billion lower than they would have been had we kept corporate rates as they were in 1976.

Because the Occupy movement has effectively revealed the growing gap between the rich and the rest, some Canadians worry that a big problem with taxation is that the wealthiest Canadians are not paying their fair share. Compared to 1976, there is reason for concern.

Canadian Tax Federation data show that current marginal federal and provincial income tax rates combined peak at about 43 per cent. This top rate kicks in on income above $128,800. Back in 1976, someone with the same income after adjusting for inflation would be paying a tax rate of 49 per cent. Plus, in 1976, we had even higher tax rates for incomes above $198,000, with the peak rate of 61 per cent coming at $305,000.

This means we have definitely moved far closer to a flat tax for the one per cent compared to a generation ago, and substantially reduced their income tax responsibilities. Plus, more privileged Canadians often can organize their income so that it is taxed at corporate rates, which provide substantial savings compared to paying taxes as individuals.

Before we conclude that problems with taxation rest only with the one per cent, middle-income Canadians need to take a hard look in the mirror. The proportion of total income tax paid by the vast majority is down, compared to both 1976 and 2000. By contrast, Statistics Canada data show it has gone up for the most affluent 20 per cent of Canadian families, as much as nine per cent compared to a generation ago. This is partly because the top 20 per cent of earners have seen their incomes rise in recent decades faster than others. But it is also because middle-income Canadians were paying combined federal and provincial income tax rates around five per cent higher than they are now. This is conveniently disguised by the slogan, "We are the 99 per cent."

The pattern of dramatic tax cuts that began in 2000 does not play out neutrally across generations, because spending patterns have not been neutral. Since expenditures on medical care and pensions grew while taxes declined, there are far fewer resources with which to adapt to the declining standard of living for generations under age 45. They are squeezed for time because it takes two adults to earn what one often could a generation ago, and they must pay for housing prices that have skyrocketed, along with larger student debts. There are policy solutions to their challenges — my proposed New Deal for Families — just as we have implemented successful policy solutions for the sick, and for seniors. But policy solutions need to be paid for; otherwise we squeeze generations that follow with larger debts. We can make room to pay for them by spending less on other things like fighter jets and jails, or yes, possibly changing expectations around medical care. Or we have to pony up ourselves, as we did before the year 2000.

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