August 10, 2007

Submission to:
House of Commons Standing Committee on Finance
Pre-Budget Consultations – 2007

Submitted by:
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We need a fair tax system that delivers solid investments in healthy and prosperous Canada

Canada needs a tax system that is efficient and equitable. The Wellesley Institute – a community-based, non-partisan urban health institute based in Toronto – appreciates the opportunity to offer policy advice to the House of Commons' Standing Committee on Finance for its annual pre-budget consultations. As in previous years, our focus is on housing and homelessness, with a link this year – at the request of the committee – to tax issues.

EFFICIENCY: Canada needs a tax system that raises the revenues that are necessary to be invested in ensuring health and prosperity for all. Therefore, it is necessary – before considering the optimal tax rate – to determine the appropriate social investment.

> Recommendation #1 – The federal government should invest an additional $2.5 billion in housing and homelessness funding annually, to be funded by reinvesting part of the surplus of Canada Mortgage and Housing Corporation and through increased tax revenues.

EQUITY: To meet the first goal, Canada needs a tax system that is fair and based on ability to pay. A fundamental principle of taxation is that taxes must not only be fair, but seen as fair. In an increasingly globalized economy, social investment and taxation should be in line with investment and taxation levels in other countries.

> Recommendation #2 – The federal government should adopt a structured plan to bring social investments and taxation in line with other developed countries. The federal government should halt the shifting of the tax burden from corporations to individuals and should establish a tax structure that ensures that all citizens – personal and corporate – pay their fair share.

1. Efficiency: The federal government needs to increase investment

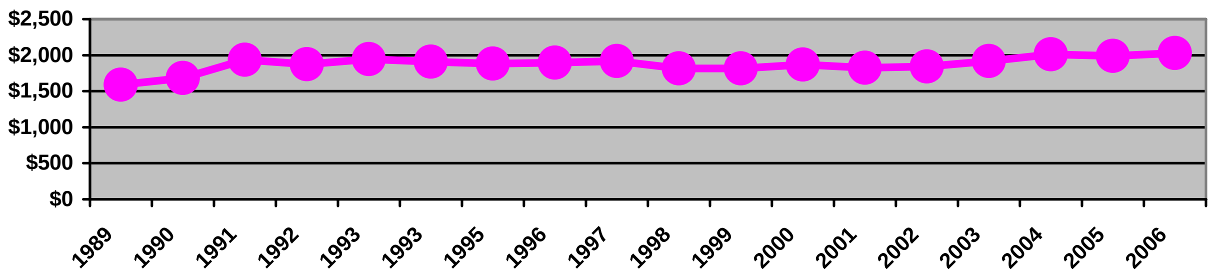
Housing insecurity has reached critical levels throughout Canada as government investment in affordable housing has stalled. The 1.3 million households in core housing need in 1991 grew to 1.8 million by 1996 and flat-lined at 1.7 million in 2001[1]. Experts expect that number will be up when the 2006 statistics are released. Local counts report that homelessness is on the increase. One-in-three Canadians rent their shelter and they have, on average, less than half the annual income of owner households. Median tenant income was $28,900 in 1990 and dropped to $27,500 by 2004 even as average rents increased faster than inflation, leaving renters to pay higher costs with less income[2]. Evictions set an all-time record in Ontario in 2006 for the second year in a row[3]. Poverty and income inequality is growing – pushing shelter costs even farther out of reach for those in most need[4]. Only the United Kingdom and United States have higher levels of poverty than Canada among members of the Organization for Economic Co-operation and Development[5].

There is little relief for owners. Ownership affordability is deteriorating as rising prices eclipse incomes[6]. A household needs an annual income of $77,712 and a down payment of $81,000 for a standard two-storey home in Canada (much more in Edmonton, Calgary, Vancouver and Toronto), and an annual income of $48,484 and a down payment of $50,000 for a standard condo[7]. Mortgage insurance lowers the entry cost, but increases the mortgage payments – making it easier to buy a home, but harder to afford the financing costs.

Canada's population is growing and the number in poverty and in core housing need is also growing, but federal housing spending corrected for inflation has remained stalled at about $2 billion annually since the early 1990s[8]. The federal government cut almost $2 billion from housing programs during the late 1980s and stopped funding new affordable homes in 1993.

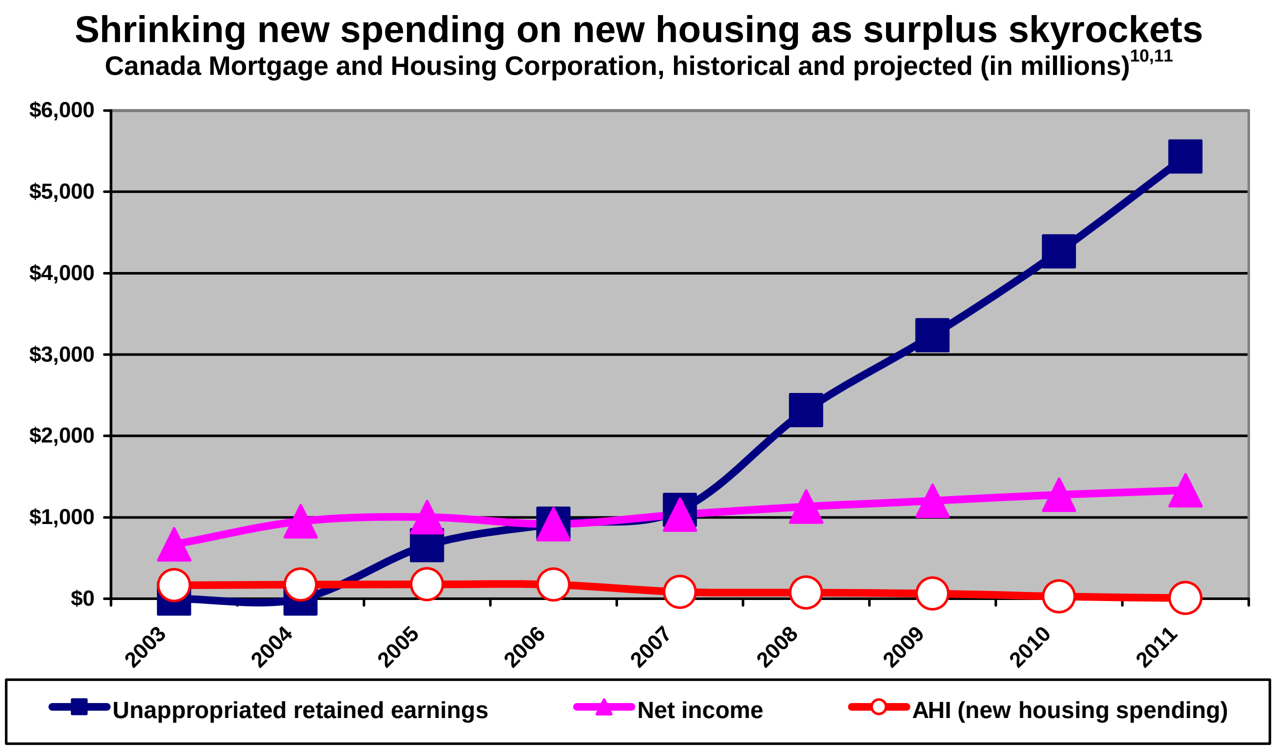
Government spending on housing has been flat-lined for 15 years

Real federal housing spending (in millions of dollars)[9]



[1] Canadian Housing Observer (Canada Mortgage and Housing Corporation, 2006)
[2] Canadian Housing Observer (Canada Mortgage and Housing Corporation, 2006)
[3] Annual Statistical Reports, Ontario Landlord and Tenant Board
[4] Income Inequality and Redistribution in Canada (Statistics Canada, 2007)
[5] Income Inequality and Low-Income in Canada: An International Perspective (Statistics Canada, 2005)
[6] Housing Affordability (RBC Economics, 2007)
[7] Housing Affordability (RBC Economics, 2007)
[8] CANSIM (Statistics Canada)
[9] Housing spending (CANSIM, Statistics Canada), inflation (CANSIM, Statistics Canada)

In 1996, the federal government announced plans to download most housing programs to the provinces and territories, and locked-in growing annual cuts in housing spending. In 1998, the federal government partly commercialized Canada Mortgage and Housing Corporation, but has refused to allow its growing surplus to be reinvested in housing. There is a patchwork of short-term, thinly-funded, poorly-co-ordinated and one-time-only federal housing initiatives. The meagre $82 million in the Affordable Housing Initiative (AHI) for 2007 will shrink to $9 million by 2011[10]. CMHC's annual net income will rise from $1 to $1.3 billion over that same period and its unappropriated retained earnings will grow from $1.6 to $5.4 billion[11].



Since 2001, real federal spending on housing has been frozen at 1% of overall real spending. Municipalities, national and local housing and homelessness groups and academics have called on the federal government to add an additional 1% ($2 billion) annually to meet the current and pent-up need for affordable housing, as well as finance repairs to aging housing. This would fund more than 25,000 new homes and repair more than 45,000 existing homes annually. The federal government should allocate permanent funding of $500 million annually for the national homelessness program. The majority of Canadians support these investments[12].

Recommendation #1 – The federal government should invest an additional $2.5 billion in housing and homelessness funding annually, to be funded by reinvesting part of the surplus of Canada Mortgage and Housing Corporation and through increased tax revenues.

[10] Canada Mortgage and Housing Corporation, 2006 (including forecasts to 2011)
[11] Canada Mortgage and Housing Corporation, 2006 (including forecasts to 2011)
[12] See, for instance, the Urban Social Challenges survey released by Canada West Foundation (May, 2007)

2. Equity: Canada needs fair tax system to raise necessary funds

Canada has enjoyed a robust economy since the early 1990s. Our Gross Domestic Product grew from $679 billion in 1990 to $1.44 trillion in 2006[13], but not all Canadians have benefited. The one-in-three Canadians who rent have seen their incomes shrink. Poverty and income inequality have increased. Overall, average incomes in Canada have barely budged, moving from $54,300 in 1990 to $55,500 in 2006[14]. The social contract between government and its citizens emerging after the second world war called for increased social investment (especially in health, education, housing and income supports) in response to the real needs of Canadians.

But recent federal governments have put a priority on tax cuts, which benefit wealthy people and profitable corporations. Overall, real government spending as a percentage of GDP has dropped from 22% in 1990 to less than 15% in 2006[15]. Federal governments made the choice to cut social investments and hoped private markets would meet the need for affordable homes. But the booming private economy has failed to deliver. As TD Economics has noted: "After ten years of economic expansion, one in five households in Canada is still unable to afford acceptable shelter – a strikingly high number... What's more, the lack of affordable housing is a problem confronting communities right across the nation – from large urban centres to smaller, less-populated areas. As such, it is steadily gaining recognition as one of Canada's most pressing public-policy issues…In short, there is only spotty evidence that a rising tide lifted all boats"[16].

The federal government cut its corporate income tax rate from 25% in 2002 to a scheduled 18.5% by 2011, plus eliminated the federal Large Corporations Capital Tax, while personal income tax rates have held steady. During this time, while the corporations have posted historically high profits, the tax burden has shifted to individuals. The international consultancy KPMG, using a different base, reaches the same conclusion. KPMG reports corporations in Canada enjoy a lower tax rate than our biggest trading partner, the United States[17].

Compared to 30 developed countries monitored by the Organization for Economic Co-operation and Development, Canada ranks near the bottom in social spending as a percentage of GDP[18]. We're well below the international average. There are only six countries with worse records than Canada on social investment. On the tax side, Canada is also an under-performer. Of the 30 countries in the most recent OECD survey, Canada ranks in the bottom one-third in total tax receipts as a percentage of GDP[19].

Compared to our international partners, Canada dramatically under-invests in critical social needs and it under-taxes the profitable corporate sector. The economy has been booming in recent years, and corporations have enjoyed record profits, yet that economic growth has not been shared equitably. Corporations in particular have not paid their fair share of taxation in recent years, relative to the urgent need within our country and compared to average taxation rates among other developed countries.

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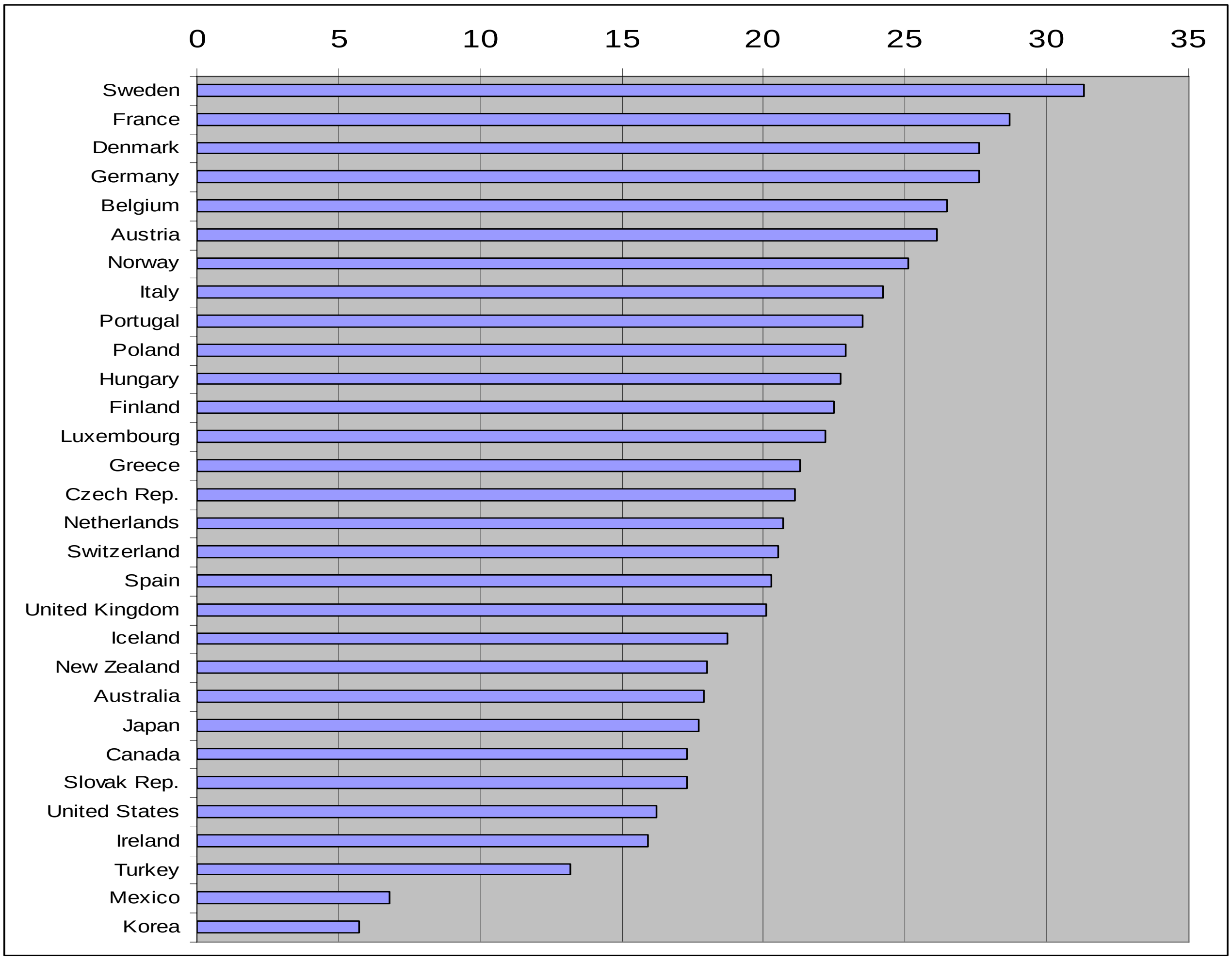
[13] CANSIM (Statistics Canada)
[14] CANSIM (Statistics Canada)
[15] CANSIM (Statistics Canada)
[16] Affordable Housing In Canada: In Search of a New Paradigm (TD Economics, 2003)
[17] Corporate and Indirect Tax Rate Survey (KPMG International, 2007)
[18] Society At A Glance (OECD, 2007)
[19] OCED In Figures (2006-2007)

Canada near bottom in social investment

Total social spending as a percentage of GDP[18]



Recommendation #2 – The federal government should adopt a structured plan to bring social investments and taxation in line with other developed countries. The federal government should halt the shifting of the tax burden from corporations to individuals and should establish a tax structure that ensures that all citizens – personal and corporate – pay their fair share.

Increased social investment in new affordable homes and related policy areas is an urgent necessity. A fair tax system is required to support this investment. These are not only practical and effective policy options, but they will benefit Canadians and, over time, will benefit taxpayers. A recent study put the cost to taxpayers of homelessness at $4.5 to $5 billion annually[20]. A comprehensive and fully-funded national housing strategy would cost less than half of that. A significant volume of Canadian and international research demonstrates that poor housing leads to poor health outcomes, including increased illness and premature death.

On behalf of the Wellesley Institute, thank you for the opportunity to make these submissions.

[20] Gordon Laird, Shelter – Homelessness in a Growth Economy (Sheldon Chumir Foundation, 2007)