



NEWS RELEASE

Repealing Ontario’s “temporary” income tax hike would boost economic activity with minimal costs

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For Immediate Release

TORONTO—Repealing Ontario’s eight-year-old and so-called “temporary” tax increase on professionals, entrepreneurs, and skilled workers would significantly increase economic activity—and cost very little in forgone tax revenues, finds a study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“To help Ontario recover from the COVID recession, the Ford government should spur economic activity and increase the province’s attractiveness for investment, entrepreneurs and high-skilled workers,” said Ben Eisen, a senior fellow with the Fraser Institute.

The study, *The Revenue Effects of Rescinding Ontario’s Tax Rate Hike on High-income Earners*, finds that lowering the province’s top personal income tax rate from the current 20.53 per cent back to 17.41 per cent—where it was prior to a “temporary” rate hike in 2012—would only cost the government \$26 million in the first year in foregone tax revenues.

In fact, while the study estimates very modest declines in tax revenues in the longer-run, given a sufficiently strong and positive economic response to the tax reduction, it is entirely plausible that future tax revenues will actually increase.

That’s because when governments raise tax rates on top earners to generate revenue, those same taxpayers respond by working or investing less, or by legally shifting income or expenses to reduce their taxes.

But lowering the top marginal tax rate encourages more productive work and risk-taking by high-income earners. It would also make Ontario more attractive for new entrepreneurial businesses that rely on skilled professionals who, in turn, might locate in Ontario in greater numbers.

Currently, Ontario has the second-highest top personal income tax rate of any Canadian province or U.S. state.

“Policymakers need to be aware of the behavioural changes that accompany income tax rate changes,” said study author Ergete Ferede, professor of economics at MacEwan University in Alberta.

“Repealing Ontario’s so-called temporary top tax rate hike is an easy way to boost economic activity and make the province more competitive.”

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MEDIA CONTACT:

Ben Eisen, Senior Fellow
Fraser Institute

To arrange media interviews or for more information, please contact:
Bryn Weese, Fraser Institute
604-688-0221 ext. 589
bryn.weese@fraserinstitute.org

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