

Should Upper-Income Canadians Pay More Income Tax?

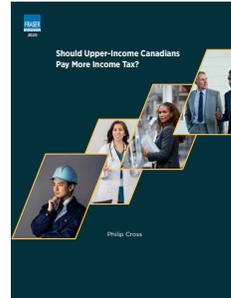
by Philip Cross

The increasing focus on the distribution of income and taxes in recent elections is one consequence of a decade of chronic slow growth in much of the OECD region of industrialized nations. After all, when the overall size of the economic pie stops growing, it is predictable that different groups in society reflexively lobby for a larger slice for themselves because that seems the only way to raise their disposable income. However, it is not appreciated enough how prioritizing distributional issues reinforces the trend of slow growth. Robert Lucas declared in 2004 that “of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution”.

Canada’s income-tax system is already highly progressive. The top 10% of income-tax filers pay over half of all income taxes. Comparing the share of the top decile’s income taxes with their income shows this measure of the relative burden of income taxes is the highest on record back to 1982. This groups includes people that few would consider high income, since the income threshold for an individual belonging to the top 10% was less than \$100,000 in 2017. The distribution of income has not become more skewed over the past decade, as the share of income going to the top 10% has declined. This is contrary to the experience of most OECD countries over the past decade.

Government attempts to increase taxes on high incomes does not generate significant revenue, partly because so few people in Canada earn very high incomes and because their share of income has fallen. Tax evasion is quite rare among high incomes, as fewer than 1% avoid paying any income tax. On the contrary, the effective tax rate rises as income rises within the top decile, with the top 1% paying nearly half their income to taxes. However, high income taxes on upper-income Canadians can reinforce the decade-long trend to slower economic growth, the true source of the recent struggles of lower- and middle-income Canadians.

It is not appreciated enough how prioritizing distributional issues reinforces the trend of slow growth. Robert Lucas declared in 2004 that “of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution”.



Should Upper-Income Canadians Pay More Income Tax?

by Philip Cross

[Click here to read the full report](#)

