NEWS RELEASE

Ottawa’s tax hike on high-income earners will take in less revenue than expected—and eventually less than if it hadn’t increased taxes at all

June 25, 2019
For Immediate Release

TORONTO—The federal government’s recent tax increase on top earners will not raise the level of revenues expected and will eventually reduce government revenue, finds a study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“When governments raise tax rates with an eye on more revenue, taxpayers respond by working or investing less, or legally shifting income or expenses to reduce their taxes, which results in less additional revenue than governments expect,” said Finn Poschmann, resident scholar at the Fraser Institute.

In ***Revenue Effects of Tax Rate Increases on High-income Earners***, Ergete Ferede, study author and associate professor of economics at MacEwan University in Edmonton, spotlights the federal government’s top personal income tax rate increase (from 29 per cent to 33 per cent), which took effect in 2016. He accounts for the fact that when income tax rates change, taxpayers respond.

According to study estimates, if there were no behavioural responses from taxpayers—in other words, taxpayers continue to behave as if there were no tax changes—the federal government would collect an additional $10 billion this year due to the tax increase. But after accounting for taxpayer responses, that number drops to $800 million—a difference of $9.2 billion.

More worryingly, by 2025, the author estimates that taxpayers’ behavioural responses to the tax rate increase will outweigh any additional revenue collected, meaning Ottawa will actually collect less tax revenue than it would have had it not increased the tax rate.

“Tax rate hikes on high-income earners seem to be a popular policy choice for governments facing budget challenges, but this study casts doubt on the appropriateness of raising tax rates on high-income earners as a tool for gaining revenue,” Ferede said.

(30)

MEDIA CONTACT:
Finn Poschmann, Resident Scholar
Fraser Institute

To arrange media interviews or for more information, please contact:
Mark Hasiuk, 604-688-0221 ext. 517, mark.hasiuk@fraserinstitute.org

Follow the Fraser Institute on **Twitter** | Like us on **Facebook** network of think-tanks in 87 countries. Its mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being. To protect the Institute's independence, it does not accept grants from governments or contracts for research. Visit www.fraserinstitute.org