Common wealth tax myths busted

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Canada's 47 billionaires increased their wealth by $78 billion during the pandemic, and they now control $270 billion in total. A 1% tax on wealth over $20 million could raise $10 billion in revenue in the first year. As Canada digs itself out of the economic repercussions of the pandemic, the time is now to enrich the soil so we can grow back an economy that shares its fruits more equitably with all Canadians.

Here are five commonly held myths that continue to muddy the conversation about tax reform:

Myth #1: A wealth tax might affect my own savings now or in the future.

Are you currently a member of the top 0.5% wealthiest families in Canada? Not sure? According to this report, you would make it into this category if your combined assets minus liabilities (eg. your mortgage) added up to more than $9.7 million. But hold up, even if you are a high net worth family with $9.7 million, you would not be affected by the wealth tax being proposed on assets over $20 million. That proposal will only affect the estimated 25,000 households in Canada who represent 0.2% of Canadians who currently control $1.8 trillion of Canada's wealth.

Meanwhile, the bottom 40% share just 1.2% of the wealth of this nation. A wealth tax would be one step to address this unsustainable level of inequality.

Myth #2: The wealthy deserve to keep their wealth -- they worked really hard for their money.

While it is tempting to believe the extremely wealthy all "bootstrapped" themselves into affluence through their own ingenuity and hard work, the data paints a different picture. A paper from the Canadian Centre for Policy Alternatives reports that in 2018, 54% of the wealthiest Canadian families inherited their wealth, an increase of 7% from 1999.

In addition, Canada's top CEOs are exorbitantly compensated, making 202 times more than the average worker in 2019. Put it another way, the wealthiest CEOs earned $53,482 in the first few hours of their day, before the rest of us are taking our lunch breaks. Is it really possible to work 202 times harder or smarter than everyone else?

As the CCPA report noted, Canada's most lavishly remunerated CEOs often share a last name with the wealthiest families in the country. The study's author, economist David Macdonald notes dryly, "no one is claiming these high-paying jobs aren't tough, but it's clear that being related to the company founder is at least as important as managerial competency."

Predictably, as the importance of inheritance to wealth accumulation grows, social mobility has been on the decline. Meantime, Canada is the only G7 country without an inheritance tax.

Myth #3: The wealthy already pay a lot in taxes.

Since 1990, Canada's wealthiest households have been given an ever expanding array of tax breaks and shelters. The very wealthiest of Canadians currently enjoy access to tax loopholes, off-shore tax havens, and other tax avoidance mechanisms the rest of us don't have access to. Jeff Rubin, an author and former chief economist at CIBC World Markets, writes that while he was aware the rich are growing richer, he was surprised to discover in his research that the after-tax incomes of Canada's richest households had grown even faster than their pre-tax incomes.

Stock options and capital gains are taxed at half the rate of employment income. Half of expenses claimed as "meals and entertainment," including costs for corporate perks such as sports sky boxes and elite club memberships, can be deducted from taxable income by businesses. Is this really necessary?

By the way, our corporate tax rate at 15% is already among the lowest in the world.

Myth #4: The rich create jobs. Taxing them more will just slow the economy down.

The venture capitalist, Nick Hanauer, has persuasively argued that capitalists and entrepreneurs are not so much job creators, as ideas creators. As Hanauer points out, a healthy middle class is what creates demand for the products that businesses provide -- this system (not rich people) is what creates the jobs. An economy that grows despite regressive taxation regimes does so in spite of under-taxing the rich, not because of it.

"It is counter-productive to build a tax system that asymmetrically benefits the people at the very top. We all are better off -- business-people and consumers, rich and poor -- if the burden of taxes is placed at the top and not the middle, enabling middle class citizens to consume, and starting the positive feedback loop of job creation again."

Hanauer's analysis is borne out by the data. A recent paper from the London School of Economics International Inequalities Institute reports that tax cuts for the rich over the last five decades in 18 OECD countries did not result in economic growth or reductions in unemployment. Sorry, Ronald Regan, "trickle down" is not a real thing.

Myth #5: If we tax them, they'll leave.

Stingy rich folks pulling up stakes to go live elsewhere because they don't like taxes? That's the exception rather than the rule, according to Stanford University Professor Cristobal Young, who investigated this myth fully for his book, *The Myth of Millionaire Tax Flight: How Place Still Matters for the Rich*.

In 2010, the United States enacted their Foreign Account Tax Compliance Act (FATCA) to target offshore tax evasion by American citizens and corporations. While the number of American citizens who renounced their citizenship did go up in the immediate years after FATCA, many of these were "accidental" Americans who were born in the US or resided in the US only briefly.

Finally, if we're talking about corporations bailing out of a region due to changes in taxation, guess what -- profitable multinationals will continue to do business in Canada even if they have to pay taxes. Netflix has not threatened to abandon their 7.3 million Canadian subscribers now that the federal government finally passed a foreign digital services tax. Netflix may have paid $0 in federal corporate taxes in 2020, but the digital entertainment streaming service will surely work out a way to continue operating in Canada while paying the new 3% DST.

Myth #6: Wealth taxes have been tried and they failed.

Just because it's easier to collect taxes from regular folks than those with superyachts and offshore accounts, doesn't mean we should give up the effort. Wealth tax, much like its familiar cousin, property tax, may appear to be more challenging to do well than, say, income tax or GST, but we can learn from earlier efforts in other nations.

The unrestricted movement of capital and well financed people was definitely a problem for European nations attempting to tax wealth. Capitalizing on improved global transparency and cooperation, a new wealth tax on Canada's super rich could take lessons from earlier failures, where the threshold was too low, catching the moderately well-off rather than just the super-rich, and where unwieldy exemptions (eg. artwork in France) distorted rich people's investment behaviour.

Current efforts by the OECD to expand information sharing between national taxation bodies could help address some of the tax evasion experienced by earlier efforts to tax wealth. Canada is one of over 100 nations who have signed on to the OECD's Common Reporting Standard, developed in 2014 as an information sharing arrangement among tax administrations to address tax evasion and promote voluntary compliance with tax laws. As more and more countries join the CRS, there are fewer and fewer places for the super wealthy to hide.

Despite studying the problem of tax evasion intensely, UC Berkeley economist Gabriel Zucman is optimistic that well designed wealth taxes can work. He proposes implementing a steep "expatriation tax" at the same time as a streamlined wealth tax targeting the extremely wealthy. We could do the same.

Colombia, Spain, France, Norway and Switzerland are OECD nations currently generating funds with their wealth taxes. Argentina recently imposed a one-time wealth tax on its super rich, while Bolivia passed an annual tax on the very wealth there. In the U.S. California and Washington state are seriously considering it at the state level. The United Nations, and the International Monetary Fund have both recommended governments consider a wealth tax to cover Covid-19 public spending.

As Canadians confront the full economic and social ramifications of the pandemic, we can't afford to continue doing business as usual. It's time to reform regressive tax policies that favoured the already rich to the detriment of everyone else. Small- and medium-sized businesses, low wage workers, and historically disadvantaged communities including Indigenous people have borne the brunt of the pandemic losses, while billionaires are capitalizing on everyone else's misfortunes. An overwhelming majority of Canadians now agree it is time to tax the rich. What are we waiting for?