The Road to Recovery:

the Canadian Taxpayers Federation framework to cut spending and taxes and get Canada's economy back on track

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizens' group dedicated to lower taxes, less waste and accountable government.

The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. At the end of 2019, the CTF had 235,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (Saskatchewan and Manitoba), Ontario, Québec and Atlantic Canada. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to effect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive emailed Action Updates. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine, published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board members and representatives are prohibited from donating to or holding a membership in any political party. In 2018-19 the CTF raised $5.1 million on the strength of 30,517 donations. Donations to the CTF are not tax deductible as a charitable contribution.

Canadian Taxpayers Federation

Overview

Canada is facing a historic challenge. We have to weather a global pandemic and recover economically. What we do in the next few months will make a difference for decades. We have to face tough choices and take bold decisions. The intent of this framework is to provide ideas for both.

As Canada begins to reopen its economy, the federal government will be facing a fiscal situation that has deteriorated dramatically from just a few short months ago. The 2020-21 federal deficit is now estimated to be at least $343 billion[1] – up from approximately $28 billion projected in late 2019[2] – due to a combination of reduced revenues and unplanned emergency spending.

Simply put, the challenge to right the federal fiscal ship will be unlike anything any government in Canada has ever faced before. Tinkering at the margins will not suffice. Tough choices lie ahead. Bold policies are required.

The scope of the challenge differs from previous economic downturns in a number of ways: the sheer size of the deficit; the severity of the economic downturn; and perhaps most uniquely, a continuing uncertainty looming over both businesses and consumers holding back the prospect of a so-called textbook economic recovery. Accordingly, the government faces daunting tasks on both the spending and revenue sides.

The CTF proposes to address this challenge in two ways.

First, to reduce costs by **winding down emergency spending measures and then moving to impose additional spending discipline across the entire government**.

Second, to boost the economy, reject the failed approach[3] of government-led stimulus spending and implementing a suite of **bold tax reduction measures designed to facilitate a private sector-led recovery** by incentivizing immediate economic activity and helping businesses first survive and ultimately thrive.

1. https://www.canada.ca/en/department-finance/services/publications/economic-fiscal-snapshot/details-economic-fiscal-projections.html

2. https://www.budget.gc.ca/efu-meb/2019/docs/statement-enonce/toc-tdm-en.html

3. https://www.fraserinstitute.org/studies/is-fiscal-stimulus-an-effective-policy-response-to-a-recession

Spending

The fiscal snapshot released by the government in early July 2020 projected a deficit of $343 billion. Of this, temporary emergency spending measures are estimated to account for $227 billion, while reduced revenues account for $71 billion. Increased pre-COVID spending accounts for approximately $9 billion, with the existing deficit (less $3 billion contingency risk) accounting for the remaining $34 billion.

Accordingly, winding down the entirety of emergency spending would cut the deficit to approximately $116 billion.

If revenue levels were to recover to pre-pandemic levels (see next section) this would result in a deficit of $34 billion.

There is no getting around the need for future spending restraint. Even prior to the pandemic, the federal government's expenditures had been rising and leaving deficits even while the economy was growing. With the collapse in revenues as a result of the pandemic-induced economic contraction, the gap has been exacerbated more than tenfold. Simply put, we could not even afford the government we had before the pandemic, and we definitely cannot to indefinitely sustain emergency spending at current levels.

The government will have to put the brakes on. Options to reduce spending include:

Reduce overall operating expenses (including employee salaries and benefits) to 2016-2017 levels (savings: $13.2 billion)

Employee salaries and benefits are the single largest direct expenditure by the federal government and we simply cannot afford to continue to pay as many people as much money. The pandemic has forced the vast majority of private businesses to downsize their workforces and trim salaries. Government – which is ultimately also paid for with revenue generation by the private sector – must follow suit.

Alternatively, the government could reduce the overall number of government employees by 15 percent, with the remaining 85 per cent of employees taking an average compensation reduction of 15 per cent. Based on an estimated 368,000 employees[4] at an annual cost of $51 billion[5], this would result in savings of approximately $14.3 billion.

A major part of federal employee costs are defined benefit pensions. A top priority for the Trudeau government should be to negotiate an end to these extremely expensive pension plans[6] and transition federal employees onto more sustainable defined contribution pension plans.

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4. https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#rpb/.-.-(subject.-.-'gov_gov.-.-table.-.-'programFtes.-.-columns.-.-(.-.-'*7b*7bpa_last_year_5*7d*7d.-.-'*7b*7bpa_last_year_4*7d*7d.-.-'*7b*7bpa_last_year_3*7d*7d.-.-'*7b*7bpa_last_year_2*7d*7d.-.-'*7b*7bpa_last_year*7d*7d.-.-'*7b*7bplanning_year_1*7d*7d.-.-'*7b*7bplanning_year_2*7d*7d.-.-'*7b*7bplanning_year_3*7d*7d).-.-dimension.-.-'gov_outcome.-.-filter.-.-'All)

5. https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Fed%20Personnel%20Spending/Fed_Personnel_Spending_EN.pdf

6. https://www.huffingtonpost.ca/aaron-wudrick/public-sector-pensions_b_12195134.html

Cut the size of the equalization program by 25 per cent (savings: $5 billion)

While the structure of Canada's equalization program remains a subject of intense debate and calls for reform, drastically diminished revenues should also be reflected in the program's size and take into account the reduced capacity of the federal government. Between 2011-12 and 2020-21, total equalization dollars transferred ballooned by more than 40 per cent, from $14.6 billion to 20.5 billion[7].

Index transfers to the provinces to the rate of inflation (savings: ~$3 billion)

In July, the federal government announced $19 billion in one-off pandemic funding for the provinces. But the two largest annual federal transfers, the Canada Health Transfer and the Canada Social Transfer, total $66.8 billion in 2020-21. Budget 2019 projected to increase those transfers by between 2.5 and 3.7 per cent annually. Indexing future annual transfers to the rate of inflation would provide better predictability and stability without requiring Ottawa to constantly renegotiate transfer amounts.

Cut Canadian Heritage's budget by 50 per cent (savings: $650 million)

Simply put, many of the programs and activities run by this department are nice-to-haves at a time when core government programs and services need to be the priority. Canadian Heritage was also responsible for spending $8.2 million on an outdoor ice rink on Parliament Hill[8].

Cut Global Affairs Canada's budget by 25 per cent (savings: $1.5 billion)

With millions of Canadians struggling, the federal government needs to prioritize spending on Canadians. Moreover, Global Affairs Canada has an appalling track record of wasting taxpayer dollars, from spending outrageous sums on cushions[9] and crystal stemware[10], to flying chefs around the world[11] and subsidizing jazz tours[12].

Eliminate corporate welfare (savings: $3.2 billion[13]) **and eliminate regional development** (savings: $1 billion)

The Trudeau government has long shown an affinity for failed corporate welfare programs, including its much-touted Strategic Innovation Fund, which has cost taxpayers more than $1 billion since 2017 and created just 6,631 jobs (a subsidy of $159,000 per job[14].)

Measures to assist business during and after the pandemic need to be fair to all and harness positive incentives. Pork-barrelling and picking favourite businesses and industries to receive special taxpayer handouts has always been bad industrial policy. Business subsidies should be eliminated in exchange for broad-based tax relief.

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7. https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html

8. https://globalnews.ca/news/4025153/parliament-hill-rink-teddy-waste-award-2018/

9. https://globalnews.ca/news/4320304/mexico-embassy-cushions-canada-waste/

10. https://torontosun.com/opinion/columnists/opinion-canadas-diplomats-shell-out-big-time-for-cushions-wine-glasses-and-more

11. https://edmontonjournal.com/news/national/canadian-chefs-flown-around-the-globe-on-the-taxpayers-dime-report/wcm/d756dd6e-f86f-410a-bd6d-31e764ae138a

12. https://edmontonjournal.com/news/national/canadian-chefs-flown-around-the-globe-on-the-taxpayers-dime-report/wcm/d756dd6e-f86f-410a-bd6d-31e764ae138a

13. https://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2019/pdf/2019-vol2-eng.pdf

14. https://www.blacklocks.ca/govt-inflated-jobs-estimate/

Cut aggregate appropriations for Crown corporations by 25 per cent[15]: (savings: $2.275 billion)

Many Crown corporations are heavily subsidized and duplicate services provided by the private sector. Possible areas for saving include:

Cut the CBC's subsidy by 50 per cent: (savings: $600 million)

Despite an extra $150 million in annual funding since 2016, the CBC's viewership continues to fall, with one internal ratings report showing that in April, 2020, the CBC's share of Canada's TV audience was as low as 3.8 per cent[16] while local CBC TV newscast viewership dropped 27 per cent between 2017 and 2019[17].

Cut VIA Rail's budget by 50 per cent (savings: $280 million)

VIA Rail set a ridership record in 2019 and yet still lost more than $400 million before taxpayer subsidies[18].

Cut the Canada Council for the Arts budget by 50 per cent (savings: $150 million)

The Canada Council for the Arts saw its taxpayer subsidy leap by 13 per cent between 2018 and 2019[19] and spends $19 million on administration costs.

Cut Marine Atlantic's budget by 50 per cent (savings: $60 million)

Marine Atlantic continues to lose money while subsidizing freight rates to undercut private sector competition[20].

Abolish the National Capital Commission (savings: $120 million)

The duties performed by the NCC duplicate work that could be performed by Canadian Heritage and provincial and municipal bodies.

Abolish Telefilm Canada (savings: $100 million)

Private sector investment in Canada's TV and film production are at record levels[21]. There is no need to spend $100 million of taxpayer money on cultural content Canadians are not willing to pay for directly when they are spending far more voluntarily through subscription streaming services.

Cut Member of Parliament and Senator salaries by 20 per cent (savings: $16 million)

Members of Parliament and Senator salaries cost taxpayers $80 million annually. In many other countries, politicians have taken pay cuts[21] to show leadership and solidarity and our own politicians would do well to follow suit. While the impact on the bottom line is small, symbolically it would be significant and provide much needed moral authority to implement necessary spending cuts elsewhere.

Cut the Senate's operations budget by 20 per cent (savings: $19 million)

The unelected and unaccountable senate should limit itself to discharging its basic constitutional functions. With a current budget of $114 million[23] and exempting Senator salaries (which we propose to reduce by 20 per cent), a 20 per cent reduction in Senate operations would save taxpayers around $19 million.

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15 https://www.canada.ca/en/treasury-board-secretariat/services/reporting-government-spending/inventory-government-organizations/crown-corporations-financial-data/consolidated-financial-information-crown-corporations-annual-report-2018-2019.html#table1-fn6

16 https://www.theglobeandmail.com/arts/television/article-covid-era-cbc-tv-is-a-shambles/

17 https://www.blacklocks.ca/cbc-audience-down-27/

18 https://media.viarail.ca/sites/default/files/publications/2019%20VIA%20RAIL%20AR_ENGLISH.pdf

19 https://canadacouncil.ca/-/media/Files/CCA/Corporate/Annual-Reports/en/2018-19-Annual-Report-December-13.pdf nnual-Report-December-13.pdf

20 https://www.huffingtonpost.ca/aaron-wudrick/its-unfair-that-taxpayers-are-keeping-this-ferry-afloat_a_23277282/

21 https://www.theglobeandmail.com/business/article-netflix-says-its-surpassed-its-500-million-deal-with-department-of/

22 https://nationalpost.com/opinion/aaron-wudrick-time-for-mps-to-take-a-pay-cut

23 https://sencanada.ca/content/sen/committee/421/CIBA/reports/CIBA_RPT33_E.pdf

Cut the Office of the Governor General's budget by 50 per cent (savings: $11 million)

We can't afford to spend $22 million annually on an office which performs ceremonial duties, and taxpayers certainly should not be spending $140,000 to draft plans for an unbuilt staircase[24].

Sell off federal buildings (savings: hundreds of millions)

Before the COVID-19 pandemic, federal government employees occupied approximately 30 per cent of all office space in greater Ottawa. If a significant portion of the region's federal employees are able to work remotely, it does not make sense for taxpayer to pay for millions of square feet of office space.

TABLE 1 Spending Cuts

	Millions
Reduce operating expenses to 2016-17 levels	13,200
Cut equalization by 25%	5,000
Eliminate corporate welfare	3,200
Index transfers to provinces to rate of inflation	3,000
Cut appropriations to Crown corporations by 25%	2,500
Cut Global Affairs budget by 25%	1,500
Eliminate regional development	1,000
Cut Canadian Heritage budget by 50%	650
Cut Senate operations budget by 20%	19
Cut MP & Senator salaries by 20%	16
Cut the Office of the Governor General's budget by 50%	11
Total	**30,096**

24. https://www.cbc.ca/news/politics/rideau-hall-expenses-privacy-projects-1.5676088

Tax and regulatory measures

Prime Minister Trudeau has recently been adamant that it he not considering any (further) tax hikes. The reason is obvious: there would be no surer way to kill a nascent economic recovery than by crushing it with higher taxes.

In normal times, paying for tax cuts with borrowed money is questionable. But in the current situation, just holding the line on taxes is unlikely to be enough to address major impediments to economic recovery. With revenue losses projected at $82 billion, it is essential that the government take steps to induce economic recovery. Many businesses are on the brink of bankruptcy, and the path to recovery is being hamstrung by lingering uncertainty and fear that the virus will force another shutdown.

As a counterweight to this phenomenon, the CTF proposes substantial tax relief – significant enough to change behaviour and induce businesses to invest and hire even in the face of uncertainty. The proposed trade-off is to forego relatively little revenue in the short term in order to boost recovery and generate greater revenue in the medium term.

The value of these tax cuts are based on revenues as projected in the July 2020 fiscal snapshot[25].

Proposed options include:

Temporarily elimination of the 9 per cent small business tax rate (benefit: $6 billion)

Simply put: most small businesses have been through the most difficult period of their existence and it will be months, if not years, before they fully recover. One in seven is at risk of going under[26]. The CTF proposes to temporarily eliminate the small business tax rate for all businesses in Canada under the $500,000 annual threshold for the next two years.

Cut the general business tax rate from 15 per cent to 10 per cent (benefit $7.4 billion)

Many large businesses have also been hit hard by the economic shutdown, and before the pandemic, more than 7.5 million Canadians worked[27] for businesses with over 500 employees. Helping those businesses become more viable will mean more jobs kept and more rehiring of those laid off.

Reduce every income tax bracket by one percentage point (benefit: $6.7 billion)

Millions of Canadians have taken pay cuts or lost hours. Cutting them a small break on their taxes will help make reduced incomes stretch a little further.

Scrap the federal carbon tax (benefit: at least $118 million in reduced GST/HST[28])

The federal carbon tax has virtually no impact on global climate change, but serves as an unnecessary source of federal-provincial tension. The Trudeau government should scrap it and allow provinces to design climate change policies tailored to their own circumstances.

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25. The July 2020 Fiscal Snapshot estimated reduced 2020-21 revenues for personal income tax of approximately $30.9 billion for personal income taxes (a 17 per cent reduction) and $10.8 billion for corporate taxes (a 20 per cent reduction)

26. https://www.newswire.ca/news/canadian-federation-of-independent-business

27. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410021501

28. https://nationalpost.com/pmn/news-pmn/canada-news-pmn/carbon-price-not-exempt-from-gst-despite-promise-it-be-revenue-neutral

Scrap the beer escalator tax (benefit: $35 million)

Escalator taxes are a terrible precedent and let governments do an end run around transparency and parliamentary accountability. The government should scrap the alcohol tax that rises every year automatically without even requiring a vote and give consumers a break.

Scrap the *Impact Assessment Act*

This legislation, which is being challenged in court by the Alberta government, makes it harder for major natural resource projects to be approved by strangling them in red tape.

Reform the tax code to eliminate loopholes and reduce offshore tax evasion (benefit: unknown)

While largely a long-term project which will take years, the government should look to eliminate large tax loopholes that benefit special interests in exchange for broad-based tax relief that treats Canadian families and businesses fairly. Priority boutique measures to eliminate could include the **Labour-Sponsored Venture Capital Corporation** credit, which crowds out funding of private venture capital while giving large tax breaks to a handful of wealthy investors and costs taxpayers $165 million annually[29], and the **deduction of union and professional dues** which costs taxpayers more than $1 billion annually[30].The use of **offshore tax havens** can be also be dramatically reduced by eliminating the many loopholes that enable their exploitation through aggressive tax planning[31].

TABLE 2 Tax Cuts

	Millions
Temporarily eliminate 9% small biz tax rate	6,000
Cut general corporate rate from 15% to 10%	7,400
Cut every income tax bracket by 1%	6,700
Scrap carbon tax (reduced GST figure)	118
Scrap alcohol escalator tax	35
Total	**20,253**

29. https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures/2020/part-5.html#Labour-Sponsored-Venture-Capital-Corporations-Credit

30. https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures/2020/part-4.html#Deduction-of-union-and-professional-dues

31. https://www.macleans.ca/opinion/to-tackle-its-tax-haven-problem-canada-must-simplify-the-tax-code/

Conclusion

These ideas do not represent an exhaustive plan – they are important examples of the types of spending and tax decisions this government can take to get our economy back on track. But they underscore that it is possible to think boldly, question assumptions, and reimagine ambitious policy as being more than simply having government expand endlessly by spending money we do not have.

The Trudeau government faces a stark choice. It can kick the can down the road and take the politically easy route of promising a chicken in every pot by paying for it with borrowed money. Or it can think outside the box, take tough but necessary steps to control spending, and empower Canadians and Canadian businesses to lead the economy recovery by leaving more money in their pockets.