

Thursday, January 6, 2000.

Hon. Paul Martin
Minister of Finance
Department of Finance
L=Esplanade Laurier
Ottawa, ON K1A 0G5
Via Fax, E-mail and Post

Dear Minister Martin:

To begin, Happy New Year to you and your family. As we enter this new century, Canadian taxpayers are looking to this February's budget (your seventh as Finance Minister) with guarded optimism. Indeed, we sense an optimism that has not been seen in Canada for over 15 years when it comes to the prospects for tax-relief in the forthcoming federal budget.

Mr. Minister, this optimism stems partly from an improving national fiscal situation and more directly from your remarks delivered before the House of Commons Finance Committee last November. In an eloquent manner, you stated:

... for this government, the need for tax reduction is not a matter for debate. It is not just one option among many. It is not secondary. It is not something to be considered only once the list of spending proposals has been exhausted. Tax reduction is essential to secure strong and sustained economic growth.

Indeed, there are many reasons for reducing taxes. Most are well-known and do not need repeating here. However, there is one I would like to mention because it is too frequently overlooked – it is quite simply that Canadians are entitled to keep more of the money they earn. After all, they worked for it. It's theirs.

We could not agree more! Your challenge is to now translate these words into action. Or more appropriately, more dollars into the pockets of hard-working Canadians across all income groups.

To this end, the House of Commons Finance Committee submitted its report on the pre-budget consultations to Parliament shortly before Christmas. We are encouraged that the Committee has forwarded various tax relief options in this report for your consideration. However, we must point out that the single most important measure for Budget 2000 was not included in the Committee's report.

In our view, ending the stealth tax known as bracket creep by restoring full-indexation to the tax system **must** be the measure introduced in next month's budget before any action on the tax reduction front proceeds. To offer Canadians other tax relief measures (while welcome) in the absence of ending bracket creep will be viewed by our organization as half hearted at best.

To do so would be to employ a ***daylight savings approach*** to tax relief. Initially, taxpayers could spring forward with an easing of their tax burden, but they will quickly fall back as inflation driven incomes will be exposed to more and more taxes year after year due to the continued existence of bracket creep.

Returning to the Finance Committee's 1999 report, it is all the more perplexing that a bracket creep recommendation was not included given the Committee's wholehearted support of ending this stealth tax in their 1997 and 1998 submissions to Parliament.

In each report, the Committee recommended that "the government re-introduce indexation when the fiscal situation permits."

With record surpluses of over-taxation expected to roll into the federal treasury – some \$95 billion – over the next five years, it is quite clear that the fiscal situation now permits a re-indexation of the tax system. This argument is made all the more compelling when we look at your plans to index government spending to inflation and population growth as outlined on page 81 of your November Economic Statement.

Below we list four other reasons why re-introducing full-indexation to the tax system to end bracket creep must be priority number one for your government when it comes to the issue of personal tax relief.

There is an overwhelming national consensus in support of ending bracket creep. Advocacy groups across the political spectrum agree on this point. All the opposition parties also understand the efficacy of this move. Finally, public sentiment as it has been articulated in editorial opinion, letters to the editor and talk radio programs from coast to coast to coast is unified when it comes to this issue. Not since the national resolve to reduce the deficit has support for a fiscal measure been so convincing.

It has punished millions of Canadian taxpayers. According to the Caledon Institute and the OECD, almost one in five (a full 20%) of Canadian taxpayers have been moved onto the tax rolls or into higher tax brackets due to bracket creep. The raw numbers are staggering: one million Canadians have been pulled onto the tax rolls; 1.9 million more have moved from the bottom tax bracket to the middle bracket (17% to 26%); and 600,000 taxpayers have moved from the middle bracket to the highest (26% to 29%). Even the House of Commons Finance Committee quantified the effects of bracket creep in its 1997 report. The Committee estimated that 840,000 low-income families had been pulled onto the tax rolls from 1986 to 1995.

Bracket creep punishes all taxpayers but is most punitive to those who rely on government entitlements to supplement their income. Everything from the basic personal exemption to the pension income credit to child care expense deductions to the disability tax credit to the refundable GST credit has been affected by bracket creep. Given the long-term static nature of most of these credits, their real value has actually decreased. For example, while you have raised the basic personal exemption (BPE) from \$6,456 to \$7,131, this measure does not account for the 14-year effects of bracket creep. Had the system been fully indexed for inflation, the BPE would actually be \$8,155 according to the Caledon Institute.

Your government continually speaks of providing targeted tax relief to lower and middle-income Canadians. Yet lack of full indexation in the tax system, has most directly and punitively punished this same constituency. It is time to fix this situation permanently.

Mr. Minister, restoring full-indexation to the tax system would be consistent with your reported plans to provide a multi-year plan of tax relief. The positive cumulative effects of ending bracket creep would parallel the anticipated growth in federal revenues. It is affordable and sustainable.

More importantly, ending bracket creep also puts Canada on the path of major tax reform which you have spoken about in various speeches during your tenure as Finance Minister. It is the ideal combination of great social policy and good fiscal policy.

Mr. Minister, Budget 2000 is your opportunity to lay a foundation for the pillars of optimism for Canadian taxpayers. Restoring full-indexation to the tax system is the most expeditious and fiscally responsible way to build this optimism. We anxiously await the federal budget and trust that you will give due consideration to the arguments we have raised with respect to bracket creep.

Yours in promoting and restoring full-indexation, sincerely,

Walter Robinson

Federal Director

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