Funding a Basic Income:
PROPOSED FEDERAL TAX MEASURES AND FUNDING PATHS

October 14, 2021
Executive Summary

This report aims to illustrate how the federal government could unilaterally finance a basic income with a total cost of either $84B or $122B. A total expenditure of $84B would allow for a basic income with maximum annual benefits of $16,989 to individuals and $24,027 to couples. This program is predicted to reduce poverty in Canada by 50%. Increasing expenditure to $122B would see maximum take-home amounts increase to $24,000 for individuals and $34,700 for couples and is predicted to eliminate poverty in Canada. Our approach for this study is two-fold.

First, we put forward 15 federal tax reforms that could potentially raise $81.4B in additional tax revenue. These measures aim to meet three criteria: 1) they must be progressive and not pose a cost to households with incomes below $100,000 (approximately 60% of Canadian households); 2) they must not unduly undermine productive investment; and 3) they can feasibly be implemented. These criteria were developed in collaboration with UBI Works and were designed to approximate political feasibility.

Second, we present four different funding paths for each of the two basic income programs considered, for a total of eight funding paths. For each of these paths, we outline how the federal government could use the tax revenues raised by the proposed federal tax measures as well as funding from other federal or provincial sources. In addition, we demonstrate how the federal government could garner more tax revenues to fund a basic income by potentially leveraging economic growth associated with the implementation of a basic income in combination with debt financing. Our analysis builds on the work undertaken by the Canadian Centre for Economic Analysis (CANCEA) for the report Potential Economic Impacts and Reach of Basic Income Programs in Canada.

Our analysis of the 15 proposed federal tax measures finds that there is scope to increase taxes for those with the capacity to pay, particularly in the financial and corporate sector more broadly. We have also identified changes to personal income taxes that could raise revenue while making the tax system more equitable for some middle-class taxpayers. Importantly, as we detail in the report, there are limitations to our calculations. Thus, the estimated revenues associated with the tax measures described here should be seen as illustrative, not definitive.

The funding paths we put forward illustrate that, with the federal tax measures outlined in the report, it could be possible to fund a basic income with a total cost of $84B with minimal funding from other sources. For this version of a basic income, multipliers could potentially reduce the revenue needed to fund a basic income by 17% in a year, based on our calculations and the modeling done by CANCEA. If this
version of a basic income were to be implemented incrementally over ten years, the federal government could also implement tax reforms incrementally. This approach would enable it to adjust and refine these new measures over time to maximize revenue collection.

Given the federal tax measures presented in this report, it would not be possible to fund a basic income with a total cost of $122B without financing from other sources. These sources could include spending from other government transfer programs that could be rolled into the basic income program or financing accessed through provincial tax systems in collaboration with provincial governments.

However, phasing in a basic income of this size over the course of ten years may make implementation more feasible by enabling the federal government to implement the program unilaterally for several years. A $122B basic income program implemented at 50% capacity in its first year could be entirely funded with the federal tax measures outlined in this report.

In sum, this report demonstrates the potential to finance a universal basic income with minimal cost to middle- and low-income families without unduly stifling productive investment.
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**Introduction**

UBI Works has engaged Vivic Research to investigate potential paths forward to finance a basic income. This work expands on analysis done by the Canadian Centre for Economic Analysis (CANCEA) towards funding a basic income, outlined in the report *Potential Economic Impacts and Reach of Basic Income Programs in Canada*.

This study puts forward various government revenue-generating proposals that would enable the federal government to finance a basic income with expenditure ranging from $84B to $122B. An expenditure totaling $84B would fund a basic income that would reduce poverty by 50% with the parameters set out in Ontario’s 2017 basic income pilot project: $16,989 annually for a single person and $24,027 for a couple with benefits reduced by 50% of employment earnings. Individuals with a disability would also receive an additional amount of $6,000 per year. An expenditure of $122B would fund a maximum basic income of $24,000 for individuals and $34,700 for couples (with a 50% reduction rate) and would lead to a 100% reduction of poverty.

In the first section of this study, we discuss various funding sources for a basic income. These sources include federal tax reforms, federal and provincial programs that can be folded into a basic income, debt, and potential tax revenues from the provincial government.

In the second section, we outline 15 changes to the federal tax system developed in collaboration with UBI Works that could raise a total of $84.1 towards funding a basic income. This level of taxation could potentially fund a basic income that reduces poverty in Canada by 50% ($84B). With the proposals put forward, we attempt to meet three criteria:

1. Their incidence is progressive in nature, and they are not likely to pose a cost to people with household incomes less than approximately $100,000;\(^3\)
2. They do not unduly undermine private capital investment or economic growth; and
3. They are feasible (represent an incremental change within the existing tax code and/or have strong international precedents).\(^4\)

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2. This analysis is based in part on Statistics Canada’s Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Vivic Research and the responsibility for the use and interpretation of these data is entirely that of the authors.
3. This criterion aligns with a core assumption of the CANCEA analysis that the revenue generation methods used to fund a basic income are paid by households “in proportion to their incomes received above the poverty line” (p. 15).
4. While not all 15 measures explicitly meet the criteria, the extent to which they do is explored in detail throughout the report.
In the third section, we present several projections based on the analysis done by CANCEA that illustrate how a basic income could be funded over time for both $84B and $122B funding targets. The final section outlines the limitations of the study, and the report ends with concluding remarks.

1. Funding Sources

The 15 reforms to the federal tax system outlined in this study could nearly fund a basic income that reduces poverty by 50% ($84B). Importantly, this assumes no reductions, efficiency gains or realization of expected savings relating to interactions with current programs and income supports for low-income Canadians valued at $32 billion. However, a more ambitious program would require funding from other sources. Table 2 provides a breakdown of the revenue generated by these measures by class of taxation.

Table 2: estimated tax revenues by type

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Potential Revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and Property</td>
<td>15.7</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>17.4</td>
</tr>
<tr>
<td>Sales</td>
<td>29.2</td>
</tr>
<tr>
<td>Personal Income</td>
<td>21.8</td>
</tr>
<tr>
<td>Total</td>
<td>84.1</td>
</tr>
</tbody>
</table>

There are other potential sources of financing beyond federal taxation. For example, provincial tax systems could provide an additional source of revenue for funding a basic income. Of all taxes collected in Canada in 2019 (taxes on income, production, and imports), the provinces collected approximately 43%. Assuming that tax measures like those put forward in this report could be implemented provincially and lead to a proportional increase in provincial tax revenue (namely income, sales, and property taxes), the provinces may potentially be able to raise approximately $65B that could be put towards funding a basic income. However, the method by which that provincial revenue is shared with the federal government to fund a federal basic income remains a critical question that we do not address in this study.

If a basic income were implemented in Canada, it could reduce the need for certain transfer programs currently provided by the federal government. Funding for these programs could be rolled into the funding of a basic income. Alternatively, benefits paid out to recipients may be adjusted when a basic income is implemented; payouts from a basic income may be considered income for the purposes of determining benefit amounts for these transfer programs, thus reducing total

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6 Statistics Canada. Table 36-10-0450-01 Revenue, expenditure and budgetary balance - General governments, provincial and territorial economic accounts (x 1,000,000)
program expenditures. Some of the transfer programs that could be rolled into a basic income include the Canada Worker’s Benefit (1.7B)\(^7\), the Canada Child Benefit ($23.7B)\(^8\), and social assistance programs funded by the Canada Social Transfer ($15.5B)\(^9\).10

In the same vein, an alternative source of funding at the provincial level is spending on social assistance programs and other transfer programs. For example, the provinces spend roughly the same amount on social assistance programs as the federal government through the Canada Social Transfer, totaling about $15.5B\(^9\). As with provincial taxes, there are essential considerations we do not address in this study regarding how the federal government would work with the provinces to use these resources to fund a basic income.

Lastly, the government could fund a basic income, in the short term, with debt. As CANCEA’s report on funding a basic income illustrates, there may be economic benefits to financing a basic income with debt rather than with tax funds or reallocation of funds from other programs. Based on CANCEA’s analysis, implementing a basic income is expected to increase economic activity and grow the economy. This growth is reflected in economic multipliers. This enhanced economic growth, in turn, leads to higher tax revenues.

However, raising revenue using taxation or reallocation of current program spending could hamper this economic growth in the short term, thus reducing the earning potential of the tax reforms put forward in this study. Funding a basic income with debt rather than through tax increases or reallocation of funding from other programs could, in theory, allow the government to maximize the economic growth associated with implementing a basic income. That being said, taking on debt brings its own costs that policymakers will need to consider if contemplating the use of debt. We do not address these considerations in this study.

Ultimately, there are many ways that the federal government could finance a basic income. Table 3 summarizes some of these potential funding sources. The factors for determining the best mix of funding for a basic income are not only economic, but also political. The right mix depends on the priorities and normative preferences of Canadians, politicians, and policymakers. We do not attempt to unpack or shape these preferences here. Rather, in the relevant sections of this report, we leave it to

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\(^7\) Department of Finance Canada (2021). Government expands Canada Workers Benefit to support one million more Canadians. Government of Canada.


\(^10\) Another transfer program that could be rolled into a basic income is the GST/HST transfer. However, we do not include this transfer in our list of options because we have increased expenditure on this program to help offset increases to the GST that would otherwise be more regressive.

the reader to establish their own mix of funding. This mix could include substituting some of the tax reforms put forward in this study for financing using debt, provincial taxation, or reallocation of funds from other programs.

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Potential revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal tax reforms</td>
<td>84.1</td>
</tr>
<tr>
<td>Potential provincial tax reforms</td>
<td>65.0</td>
</tr>
<tr>
<td>Rollup of federal transfer programs</td>
<td>40.9</td>
</tr>
<tr>
<td>Rollup of provincial social assistance</td>
<td>15.5</td>
</tr>
<tr>
<td>Total</td>
<td>205.5</td>
</tr>
</tbody>
</table>

**Table 3: potential funding sources for a basic income**

2. Taxation

In the sub-sections that follow, we outline 15 reforms to the federal tax system that could be implemented to raise revenue to finance a basic income. Along with these reforms, we present estimates of the revenue they could generate. In total, we estimate that these measures could potentially generate $84.1B in additional revenue for the federal government.

These measures were selected with the goal of minimizing the impact on middle-class and low-income households (households with incomes less than $100,000). The one measure where households with income less than $100,000 are likely to be impacted is the increase in the GST. As explained in the relevant section, we suggest an increase to the GST/HST credit to help offset the increased tax burden associated with this change.

In addition, these measures were selected with the aim of minimizing negative impacts on productive investment and economic growth. We assessed the proposed measures on this basis by examining relevant research literature when available. Lastly, many of the measures outlined here were selected because they have precedent either in Canada or elsewhere, suggesting that they are feasible to implement.

A limitation of the revenue estimates put forward in this section is that they are static and do not consider behavioural responses by taxpayers. Thus, the estimates are likely optimistic and should be understood as illustrative, not definitive. This limitation is particularly relevant for certain measures such as the financial transactions tax, the tax on passive income for corporations, taxes related to tax havens, the inheritance tax, and the luxury goods sales tax.
1. FINANCIAL AND PROPERTY TAXES
The three tax proposals outlined in this section – a non-resident speculation tax of 3%, a financial transactions tax of 0.25%, and a financial activities tax of 4% – seek to address the increasing trend of financialization in the Canadian economy.

Table 4: potential revenue of financial and property taxes

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Potential revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-resident speculation tax of 3%</td>
<td>$0.6</td>
</tr>
<tr>
<td>Financial transactions tax of 0.25%</td>
<td>$7.8</td>
</tr>
<tr>
<td>Financial Activities tax of 4% (3% on remuneration)</td>
<td>$7.3</td>
</tr>
</tbody>
</table>

Financialization refers generally to the process through which the financial sector has increased its size as a share of Western economies and has become increasingly divorced from the production of real goods and services. In Canada, the assets of the financial industry have grown from about 2.7 times real gross domestic product (GDP) in 1990 to nearly seven times GDP in 2019.

As the sector has grown, so have its profits. Figure 1 displays the operating profit margin of firms in the financial and non-financial sectors over the past 20 years. Profit margins in the financial sector have averaged over 30% over the past seven years, while profit margins in the non-financial sector have remained below 10%. The data suggest the financial sector has the capacity to pay additional taxes.

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13 Statistics Canada. Table 36-10-0580-01 National Balance Sheet Accounts (x 1,000,000); Statistics Canada; Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000).
This rise in profit margins has not been accompanied by an increase in taxes paid. In fact, the financial sector has enjoyed an effective tax rate lower than that of the non-financial sector since 2012, as shown in Figure 2.
The rise of financialization in general is also intricately linked to the financialization of housing. As Canada has simultaneously encouraged middle-class Canadians to use housing as a savings vehicle and experienced a reduction in the construction of affordable housing\textsuperscript{14}, housing prices have nearly tripled over the past 15 years\textsuperscript{15}. This trend has coincided with an increase in investors purchasing homes as rental properties, typified by CORE’s recent announcement of plans to buy $1B worth of single-family homes by 2026 and turn them into rentals\textsuperscript{16}. The proposed non-resident speculation tax will help discourage nondomestic investment in housing, which is divorced from local wage markets, and slow the financialization of housing.

Financialization of the housing sector played a role in the Great Recession of 2008-09. The use of complex financial sector instruments such as mortgage-backed securities enabled by weak regulation and fraud created asset bubbles, ultimately leading to the stock market crash of 2008. In the wake of the recession, governments poured money into the financial sector because the result of bank bankruptcy was perceived to be even worse than the recession. After these government bailouts, many governments, especially the members of the European Union, proposed new measures to tax the financial industry to both discourage inappropriate risk-taking and raise revenues. These measures included the financial activities tax (FAT) and financial transactions tax (FTT) that we propose in this section. Canada did not support or implement any of these taxes at a national level\textsuperscript{17}. However, these taxes could help curb the financialization of the Canadian economy and raise revenues from a sector with the ability to pay that could be used to fund a basic income.

In economic terms, taxing rents (i.e., unearned profits garnered because of market power, favourable regulations, or other mechanisms than the real value that society places upon their services) has no effect on productive investment. Given the growth in financial sector profits and the decreasing relation between real production and the size of the financial sector, there is reason to believe that some financial sector profits are rents, and thus taxing them would be efficient. However, it is impossible to distinguish rents from other profits in practice. Because these are still taxes on corporations, they could have a negative effect on productive investment by distorting investment costs. However, the effect should not be as large as an increase in overall corporate income tax rates\textsuperscript{18}. We discuss this point in more detail in the corporate taxation section.

\textsuperscript{15} The Canadian Real Estate Association. (n.d.).
1.1. Non-resident speculation tax of 3% ($0.6B)

Budget 2021 proposes a Tax on Unproductive Use of Canadian Housing by Foreign Non-resident Owners, which serves as the basis for this proposal. It is a 1% annual tax on property values owned by non-residents that are underutilized or vacant. The proposal put forward in this report expands this tax three-fold to a rate of 3%, making it the most ambitious tax of its kind to be implemented in Canada.

The aim of the tax is to “help to ensure that foreign, non-resident owners, who simply use Canada as a place to passively store their wealth in housing, pay their fair share” (p. 305). The scope of the tax is still being determined, and the government plans to issue a consultation paper in the coming months to determine whether certain properties should be exempt from the tax\(^\text{19}\).

British Columbia has already implemented a version of this tax that has proven moderately successful at reducing vacant and underutilized housing\(^\text{20}\). The province taxes foreign owners of vacant homes at 2% of property value and Canadian owners of vacant homes at 0.5% of property value\(^\text{21}\).

Since the tax would fall on non-Canadians, this tax would likely have no impact on Canadian households, regardless of their income level.

**Evaluative criteria**

4 **Tax incidence (progressivity):** This tax would likely have no impact on Canadian households and would mostly fall on foreigners.

4 **Impact on investment:** Given the current level of demand in the housing market, and the small base of this tax, this measure is likely to have little to no effect on investment in new housing projects. Some research suggests that new housing starts in Vancouver were not negatively affected by the BC version of this tax\(^\text{22}\).

4 **Feasibility:** A similar tax has already been implemented in British Columbia.

1.2. Financial transactions tax (FTT) of 0.25% ($7.8B)

In its 2019 estimates for the federal election, the Office of the Parliamentary Budget Officer (PBO) estimated the cost of implementing a financial transactions tax in Canada. A financial transactions tax is a fee or duty placed upon the sale, purchase,

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\(^{20}\) Lauster, N. (2021). Two Years of BC’s Speculation and Vacancy Tax Data!


transfer, or registration of a financial instrument\textsuperscript{23}. The tax estimated by the PBO would impose a fee of 0.5% on transactions made in equity, bond, money, derivatives, and foreign exchange markets\textsuperscript{24}. This report proposes a rate of 0.25% to better align with the rates currently in force in other jurisdictions (Hong Kong (20 basis points, rising to 26 basis points as of August 1, 2021), the UK (50 basis points), Italy (10 basis points) and France (30 basis points))\textsuperscript{25}. While some jurisdictions, such as the UK, have limited the scope of the FTT to equity trades, this study proposes an FTT on all financial transactions. This approach would limit the ability of financial institutions to shift transactions from one market to another or recharacterize transactions to evade the tax\textsuperscript{26}.

Recent surveys of the literature have argued that FTTs can raise substantial revenues without significantly increasing taxes for households on the lower end of the income distribution. However, as Weiss & Kawano point out, some households in the middle of the income distribution may bear some of the tax burden through their investments\textsuperscript{27}.

The amount of revenue that an FTT can generate is uncertain. Even advocates of the FTT point to the high degree of uncertainty in the amount of revenue these taxes can raise, even given experience in other jurisdictions\textsuperscript{28}. Furthermore, as the PBO’s estimate discusses, higher tax rates have been shown to lead to a reduction of trading as traders relocate to lower-taxed jurisdictions. Thus, the PBO classifies its estimates as highly uncertain\textsuperscript{29}.

Despite these concerns, FTTs have proven to be reliable sources of revenue in several jurisdictions. The UK FTT (called the Stamp Duty Reserve Tax) has been in place since 1986 and raised over $6B CAD in the 2019-2020 fiscal year\textsuperscript{30}. Hong Kong has decided to raise its FTT by six basis points to help pay for the economic recovery from the COVID-19 pandemic. This tax has consistently raised 5-9% of its annual government revenues over the past decade, approximately $3-6B CAD in a country of only 7.5 million people\textsuperscript{31}.

\begin{thebibliography}{10}
\bibitem{PBO} Office of the Parliamentary Budget Officer. (2019). Implement a new financial transaction tax.
\bibitem{Open Democracy} Open Democracy. (2019). Why the UK needs a Financial Transaction Tax.
\bibitem{PBO} Office of the Parliamentary Budget Officer. (2019). Implement a new financial transaction tax.
\bibitem{So} So, J. (n.d.). Implications of increase in stamp duty on stock transactions. Lexology.
\end{thebibliography}
Evaluative criteria

4 **Tax incidence (progressivity):** This tax would fall predominantly on those who have large financial portfolios, which are disproportionately among the wealthiest Canadians. It would have a potentially small impact on middle-class Canadians through their pension plans, RRSPs, and other private investments.

4 **Impact on investment:** This tax will reduce trading frequency which could increase the cost of capital\(^\text{32}\). However, if implemented at a low rate, the impact on investment may be limited.

4 **Feasibility:** FTTs have been implemented in France, Italy, the UK, and Hong Kong.

1.3. **Financial activities tax (FAT) of 4% (3% on remuneration) ($7.3B)**

A financial activities tax – a tax on total profits and remuneration in the financial sector – is another revenue-generating mechanism available to the federal government that is currently used in Québec, France, the United Kingdom, Denmark, and Israel. For example, Québec currently imposes a compensatory tax on financial institutions. Wages and salaries paid by banks are subject to a tax of 4.14%, while those paid by other financial institutions are taxed at lower rates. Insurance corporations are not subject to the tax on remuneration, but insurance premiums are taxed at 0.48%\(^\text{33}\). In France, there is a progressive tax on wages and salaries in industries not subject to the Value Added Tax (similar to Canada’s GST), which includes their financial sector\(^\text{34}\). The United Kingdom has implemented an 8% FAT on bank profits\(^\text{35}\). FATs were also proposed by the IMF and G20 countries in the wake of the 2008-09 recession and could also have the added benefit of deterring risk-taking by the financial industry\(^\text{36}\).

This measure proposes a 4% tax on profits and a 3% tax on remuneration (including all wages, salaries, and bonuses) in the financial sector. Based on data from 2019, this tax would have raised an estimated $7.3B\(^\text{37,38}\). It is important to tax both profits and remuneration so that large bonuses cannot be shifted to salaries and vice versa.

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\(^{33}\) Government of Québec. (n.d.). Taxe Compensatoire à payer par une société quie es tune institutions financière.

\(^{34}\) Government of France. (n.d.). Taxe sure les salaires.


\(^{37}\) This number was calculated by applying a tax rate of 4% to the total profits before income tax of the total finance and insurance industries and a tax rate of 3% to the total wages, salaries and employee benefits of the total finance and insurance industries in 2019, the most recent year data was available.

\(^{38}\) Statistics Canada. Table 33-10-0006-01 Financial and taxation statistics for enterprises, by industry type.
versa. Importantly, this tax would also apply to the remuneration of employees that were not based in Canada.

As discussed in the introduction to this section, the financial sector has the capacity to pay additional taxes. Operating profit margins have consistently been three times larger in the financial sector than other sectors in the Canadian economy. Furthermore, the average hourly wage in the financial sector is about $5/hour above the overall average hourly wage in Canada, another indicator of potential rents in the sector\textsuperscript{39}.

In theory, given that this tax targets economic rents, the tax itself should be efficient (i.e. is non-distortionary and does not harm investment). However, it is likely that the tax will have some impacts on investment and may have tax incidence similar to that of a corporate income tax (as discussed in more detail in the corporate taxation section)\textsuperscript{40}.

**Evaluative criteria**

4 **Tax incidence (progressivity):** Evidence is mixed (see corporate income tax section) but regressive tax incidence may be less likely than compared to an increase in the corporate income tax rate.

4 **Impact on investment:** Evidence is mixed (see corporate income tax section), but negative impacts on investment may be less likely than compared to an increase in the corporate income tax rate.

4 **Feasibility:** FATs have been implemented in Quebec, France, and the UK.

2. **CORPORATE INCOME TAXES**

This study puts forward six proposals that would increase the amount of tax paid by Canadian corporations: 1) a passive income tax of 10%, 2) elimination of the deduction for business meals and entertainment expenses, 3) elimination of the Accelerated Investment Incentive for Corporations in the Oil and gas sectors, 4) elimination of tax deductions for coal mining exploration, 5) application of the corporate tax rate to multinationals based on their proportion of sales in Canada, and 6) a withholding tax of 1% on the value of business assets held in tax havens\textsuperscript{41}.

\textsuperscript{39} Statistics Canada. Table 14-10-0064-01 Employee wages by industry, annual
\textsuperscript{41} This report also proposes changes to capital gains deductions for corporations, which we discuss alongside similar changes to personal capital gains in the personal tax section.
Table 5: potential corporate income tax measures

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Potential revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive income tax of 10%</td>
<td>$3.9</td>
</tr>
<tr>
<td>Eliminate the deduction for business meals and entertainment expenses</td>
<td>$0.7</td>
</tr>
<tr>
<td>Eliminating the Accelerated Investment Incentive for Corporations in the Oil and gas sectors</td>
<td>$0.6</td>
</tr>
<tr>
<td>Eliminating tax deductions for coal mining exploration</td>
<td>$2.0M</td>
</tr>
<tr>
<td>Apply corporate tax rate to multinationals based on the proportion of sales in Canada</td>
<td>$6.1</td>
</tr>
<tr>
<td>Withholding tax of 1% on the value of business assets held in tax havens</td>
<td>$1.7</td>
</tr>
</tbody>
</table>

Many of the proposals put forward in this section will increase the effective tax rate of corporations. While these measures will bring effective tax rates more in line with statutory tax rates, there may be potential downsides for increasing corporate tax rates for workers and overall investment and economic growth.

Research on the incidence of corporate taxes is mixed, and there is evidence to suggest that workers may shoulder some of the burden of these taxes. Recent economic modeling indicates that capital bears around 60% of the incidence of corporate taxes\(^{42}\). However, some recent empirical work found no evidence to support the claim that higher corporate taxes are related to lower wages or higher unemployment\(^{43}\). While some of the incidence of corporate taxes does likely fall on low and middle-class households, it is possible that more is borne by higher-income households who are more likely to derive income from capital and labour.

Higher corporate taxes may also have negative impacts on investment, but as the research on tax incidence, the evidence is mixed. A summary of empirical economic research suggests that higher corporate tax rates are associated with lower investment\(^{44}\). However, preliminary evidence on the impact of the Tax Cuts and Jobs Act implemented under the Trump administration in the US found that the corporate tax cut from 35% to 21% had no effect on investment and actually led to increased shareholder payouts\(^{45}\).


The six proposals put forward in this section have been selected because they have characteristics that may offset the potentially negative impact of increasing corporate income taxes on both tax incidence and investment. We detail these offsetting factors in the following sections.

2.1 Passive income tax of 10% ($3.9B)

This proposal would implement a new 10% non-refundable tax on all passive investment income earned in corporations (i.e., adjusted aggregate investment income). There is a significant tax deferral advantage to retaining income in corporations and reinvesting it rather than paying it out to shareholders\(^{46,47}\). This strategy gives shareholders and business owners a significant tax advantage over other citizens. The Department of Finance estimated that 83.4% of passive investment income is earned by the top 1% of income earners and 96.3% is earned by the top income decile\(^ {48}\). Increasing taxes on this income would thus be a highly progressive tax measure that should have a limited effect on lower- and middle-class Canadians. Furthermore, because this is a tax on passive investment income, it should not discourage productive investment in the economy. If anything, it should encourage firms to reinvest more of their profits into growing their business. In the first year, we estimate that this tax could generate $3.95B in revenue\(^ {49,50}\).

However, this measure would likely have significant behavioural effects. Passive investing within corporations would be severely discouraged, leading to reductions in tax revenue over time. Some of this revenue would be shifted to personal income taxes as individuals paid out more of their business income to shareholders and invested it personally. Thus, we propose increases to personal income tax rates, as described later in this document.

**Evaluative criteria**

4 **Tax incidence (progressivity):** This tax would be progressive as most people who earn passive income from corporations are at the top of the income distribution.

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\(^{47}\) There are other significant loopholes in the current taxation of passive income within corporations. CCPCs are subject to lower tax rates on passive investment income than other types of corporations, a fact that has been used by tax planners to avoid taxes. Due to imperfect tax integration, after-tax income from passive investments other than eligible dividends is currently higher when retained within a corporation than when paid out to shareholders. That is, passive investment income results in more after-tax income available for investment when retained within the corporation than when distributed to shareholders. When making changes to the taxation of corporate passive income, these loopholes should also be addressed.


\(^{49}\) This number was calculated by adjusting the total other (i.e., not active business income) income reported on corporation income tax returns in 2018 for inflation and then applying a tax rate of 10%.

4 **Impact on investment**: We anticipate that this measure would incentivize productive investment relative to passive investment. However, it could reduce the after-tax income available for corporations to invest.

4 **Feasibility**: The “passive income” concept is already defined within the Canadian tax system with respect to CCPCs, and this tax would be building off this definition.

### 2.2 Eliminate the deduction for business meals and entertainment expenses. ($0.7B)

This tax deduction allows businesses to deduct the lesser of 50% of the actual cost of meals and entertainment expenses and 50% of a “reasonable” amount of meals and entertainment expenses from their taxable income. In the US, the Tax Cuts and Jobs Act implemented similar restrictions on the tax-deductibility of entertainment expenses in 2017.\(^{51}\)

There is no evidence on the distribution of meals and entertainment expenses. However, this proposal is unlikely to have a significant effect on investment. It should discourage unnecessary meals and entertainment expenses incurred by businesses. It would only impact investment insofar as it increases the effective corporate income tax paid by corporations.

**Evaluative criteria**

4 **Tax incidence (progressivity)**: There is no evidence on the tax incidence of this measure.

4 **Impact on investment**: This measure will primarily discourage corporate spending on meals and entertainment, but it may impact investment indirectly through increased effective corporate income tax rates.

4 **Feasibility**: Restrictions on similar tax deductions have been implemented in the US.

### 2.3 Eliminating the Accelerated Investment Incentive for Corporations in the Oil and gas sectors ($0.6B)

The Accelerated Investment Incentive allows businesses in the oil and gas sector to write off a larger share of selected capital assets in the year the asset is acquired or becomes available for use\(^{52}\). The incentive operates through two channels:

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1. A 50% increase in the capital cost allowance (CCA) for capital assets acquired before November 20, 2018 that becomes available for use before 2024\textsuperscript{53}.

2. The suspension of the CCA half-year rule for property acquired after November 20, 2018 that becomes available for use before 2028.

Furthermore, an enhanced first-year allowance in respect of Canadian oil and gas property expense is in place through which an enhanced deduction will generally apply to Canadian oil and gas property expenses (COGPE) incurred after November 20, 2018 and before 2028\textsuperscript{54}.

Whether eliminating the accelerated investment incentive for corporations in the oil and gas sector will hinder productive investment raises the broader question of whether, after having declared a national climate emergency, any investment in oil and gas is productive or desirable. The primary goal of this tax incentive is to encourage investment in depreciable property for businesses. Thus, excluding oil & gas companies from this incentive will have a negative impact on investment within the oil and gas sector. However, given productive investment is commonly defined as an investment where the expected social return is greater than the expected social cost, it can be reasonably argued that efforts to spur the growth of highly polluting industries such as oil and gas are unproductive in their nature.

Eliminating the accelerated investment incentive for corporations in the oil and gas sector would increase the effective tax rate paid by these corporations, which may or may not generate regressive tax incidence outcomes.

**Evaluvative criteria**

4 **Tax incidence (progressivity):** The evidence is mixed.

4 **Impact on investment:** Given that investment in highly polluting industries is detrimental to the long-run viability of humanity and the Canadian (and global) economy, we anticipate that cancelling this deduction would have a positive impact on productive investment as it better aligns tax incentives to climate realities.

4 **Feasibility:** We do not foresee major technical barriers in removing this deduction.

2.4. **Eliminating tax deductions for coal mining exploration ($2M)**

The Mineral Exploration Tax Credit (METC) is a 15% non-refundable tax credit on flow-through mining expenditures (FTME), i.e. “costs relating to the prospecting and

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\textsuperscript{53} Invest Canada (2021). Accelerated Investment Incentive.

carrying out of geological, geophysical, or geochemical surveys conducted from above the surface of the earth in searching for, but not limited to, a base-metal or precious-metal deposit are eligible expenses for METC treatment. The METC allows individual shareholders to claim a tax credit on their personal income tax returns for expenses incurred by the mining company in which they are invested. Investors who claim the METC may also claim 100% of the Canadian Exploration Expense (CEE) deduction.

The METC was initially intended as a temporary tax incentive to spur growth in the mining industry. The tax credit – originally named the Investment Tax Credit for Exploration (ITCE) – was instituted in 2000 and was set to expire in 2003. The METC remains in place today thanks to strong lobbying efforts from the mining industry. However, the short-term nature of its original design and implementation gives

**Evaluative criteria**

4 **Tax incidence (progressivity):** The evidence is mixed.

4 **Impact on investment:** The evidence is also mixed.

4 **Feasibility:** We do not foresee major technical barriers in removing this deduction.

2.5. **Apply corporate tax rate to multinationals based on the proportion of sales in Canada ($6.1B)**

This measure proposes that the net income of multinational enterprises (MNEs) be taxed in Canada based on the share of the MNE’s global sales that occur in Canada. The proportion of net income that firms allocate to Canada would be taxed at the domestic corporate tax rate. This measure could raise up to $6.0B in revenue.

One hundred thirty countries recently agreed upon a similar proposal under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. This agreement is a first step towards reducing MNEs’ ability to shift taxable income towards low-tax jurisdictions and ensuring fair allocation of taxation rights on digital companies. However, it remains to be seen whether this proposal will be implemented and whether significant proportions of taxable income would be exempt (the proposal currently suggests that only MNEs with a profit margin greater than 10% would be subject to the tax). While international cooperation is desirable, experts have acknowledged that this policy could be implemented unilaterally without

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57 This estimate is derived from multiplying the reported effective corporate tax rate by the total profits shifted out of Canada as reported by Torslov, et al. (2020). (Torslov et al. (2020). The Missing Profits of Nations. National Bureau of Economic Research.)
58 OECD. (2021). Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy.
affecting investment because sales are much less mobile than profits and intangible assets.\textsuperscript{59}

This policy would primarily affect large multinational enterprises who pay lower effective tax rates in Canada than large Canadian enterprises.\textsuperscript{60} In fact, the effective tax rate for large multinational enterprises in Canada is negative, indicating that they receive more money from the Canadian government than they pay in taxes, likely because they are able to shift their profits to tax havens\textsuperscript{5}. There is no difference in the effective rates of small MNEs and small Canadian enterprises in Canada.

The proportion of taxable income allocated to Canada would be based on the sales of MNEs, and not their assets or employment. Therefore, the literature suggests that this tax should have a limited impact on employment and investment in Canada, thus protecting jobs for low- and middle-income households.\textsuperscript{61} Sales-based formulas are commonly used to allocate profits between US states.\textsuperscript{62}

Other measures have been proposed to discourage the use of tax havens, including requiring Canadian enterprises to demonstrate that foreign subsidiaries were performing real economic activity and capping interest payments to foreign subsidiaries at 10% of earnings before tax. However, these measures would not significantly increase taxable income in Canada if MNEs’ taxable income in Canada is based on their share of sales in Canada. For example, a Canadian corporation whose sales were entirely in Canada but used interest payments to a subsidiary that was not engaged in real economic activity to shift their income to a tax haven would see their taxable income increase by similar amounts under both proposals.

**Evaluative criteria**

4 **Tax incidence (progressivity):** Job losses from multinationals relocating in response to tax increases are a crucial consideration when evaluating the potential regressiveness of this measure. However, given that taxable income would be based on the sales of MNEs, we anticipate a limited impact on employment.

4 **Impact on investment:** Likewise, given that taxable income is based on the sales of MNEs, the literature suggests that this tax should have a limited impact on investment.


4 **Feasibility**: A similar proposal was recently agreed upon by 130 countries under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. Furthermore, sales-based formulas are commonly used to allocate profits between US states. However, given that the tax addresses the offshoring of business activities, the base of this tax may erode over time, which could reduce the earning potential of this measure in the long run.

**2.6. Withholding tax of 1% on the value of business assets held in tax havens ($1.7B)**

This proposal would implement a 1% withholding tax on the value of assets held by Canadian corporations in recognized tax havens. According to the PBO, this measure would raise $1.7B in revenue. Coupled with taxing MNEs' income based on their share of sales in Canada, incentives to use tax havens would be significantly reduced. It is important to note that these measures are likely to encourage firms to reduce their use of tax havens, so the tax base for this measure would likely erode over time.

The incidence of this tax could largely fall on shareholders of Canadian enterprises that engage in profit shifting to tax havens. Furthermore, this proposal would discourage investment in tax havens by significantly increasing the effective tax rate on income earned in tax havens. Thus, enterprises would be encouraged to shift investment to other jurisdictions, including Canada.

**Evaluative criteria**

4 **Tax incidence (progressivity)**: The evidence is mixed.

4 **Impact on investment**: Since this measure will discourage investment in tax havens, productive investment in Canada may not be impacted and could potentially increase.

4 **Feasibility**: Like with the FAT, given that the tax is intended to curb the offshoring of business activities, the base of this tax may erode over time, which could reduce the earning potential of this measure in the long run.

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63 Andorra, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands, the Cook Islands, Hong Kong, The Isle of Man, Mauritius, Liechtenstein, Monaco, Panama, and St. Kitts and Nevis.


3. SALES TAXES

This study puts forward two proposals related to sales taxes: a luxury tax based on that proposed by the Liberal party and an increase to the GST. Sales taxes are a tax on consumption, and as such, are anticipated to have a minimal impact on productive investment by households. In fact, these taxes may incentivize savings and real investment67.

Table 6: potential sales tax measures

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Potential revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxury Goods Tax (10%)</td>
<td>$0.6</td>
</tr>
<tr>
<td>Doubling the GST and GST/HST credit</td>
<td>$28.6</td>
</tr>
</tbody>
</table>

3.1. Luxury goods tax of 10% ($0.6B)

A luxury goods tax is levied on the sale of goods deemed non-essential or accessible only to those in high-income brackets68. The federal Liberal government has included a 10% tax on luxury cars, boats, and personal aircraft with a sale price of over $100,000 in their federal party platform for 202169. Luxury goods taxes have been implemented in Chile, Hungary, Turkey, South Korea, Thailand, Egypt, Tunisia, and Botswana70.

We anticipate that productive investment is not likely to be affected by a luxury goods tax given that the tax impacts consumption. However, the measure may have a negative impact on jobs. For example, in 1991, the United States implemented a tax on a wide variety of luxury goods, including personal aircraft, furs, luxury jewelry, and yachts. The tax was scrapped two years later after the yacht industry saw major declines resulting in significant job losses71.

Furthermore, the revenue generated from this tax is uncertain as income and substitution effects tend to decrease demand significantly for luxury items for individuals of all income levels. Eighteen months after implementing its luxury tax, the US government raised only $12.6M ($23.5M in 2021 dollars)72.

Evaluative criteria

4 **Tax incidence (progressivity):** While this tax would not directly tax middle- and low-income households (that do not purchase luxury goods), the measure could impact employment for those that work for Canada’s luxury goods manufacturers.

4 **Impact on investment:** Since this measure taxes consumption, it is possible that it will incentivize investment by households.

4 **Feasibility:** Luxury taxes have been implemented in several jurisdictions around the world and have been proposed by the Liberal party.

3.2. **Doubling the GST and increasing the GST/HST rebate ($28.6B)**

The Goods and Services Tax (GST) is one of Canada’s highest-yielding taxes, second only to personal and corporate income taxes. In the fiscal year 2019/2020, the tax generated $37.4B in revenue.73

Increasing the GST rate is an incremental tax reform that would still put Canada’s federal and provincial sales tax rates below those implemented in other jurisdictions, such as Hungary (27%)74, Denmark (25%),75 Norway (25%),76 and Sweden (25%).77 With this change, the sales tax rates of New Brunswick, Newfoundland and Labrador, and Nova Scotia – which have some of the highest provincial and federal sales tax rates in the country – would be 20%.

While the GST has the capacity to generate substantial revenues given its large tax base (nearly all consumption in the Canadian economy), it is also a regressive tax, meaning that it disproportionately impacts lower-income households. Figure 3, which shows the average GST paid by households as a proportion of net household income, demonstrates that households in the lowest income decile (with net incomes less than $21,396) face a greater relative tax burden than households in the second, third, or fourth deciles. Households in the fifth decile also pay more relative to their incomes than households in the sixth, seventh, and eighth deciles. To help mitigate the regressivity of the tax, the federal government offers the GST/HST credit, a refundable tax credit geared to family income.

To fund a basic income, we double the GST from a rate of 5% to 10%\textsuperscript{78}. With this measure, we also expand the maximum GST/HST credit commensurately, as well as expand the phase-out threshold by $20,000. This increase will help ameliorate but not completely offset the increased tax burden on households with incomes less than $100,000. Using the SPSD/M (V28.1), we estimate that this measure will increase government revenues by $28.6B for 2021.

\textsuperscript{78} Increases to the GST may increase activity in the underground economy, decreasing the revenue yield of this measure. One potential way to mitigate this response could be to implement the GST increase in phases.
Figure 4: Average increase of GST paid and GST/HST credit receipt, by household net income decile (2021)

Source: Social Policy Simulation Database, v28:1

**Evaluative criteria**

4 **Tax incidence (progressivity):** While the GST is a regressive tax measure, increases to the GST/HST credit would help mitigate the increased tax incidence for these households. However, this measure will not completely offset the increased taxes paid by households with incomes below $100,000. The parameters of the GST rate and GST/HST credit could be further modified to reduce the net impact on households.

4 **Impact on investment:** Since this measure taxes consumption, it is possible that it will incentivize investment by households.

4 **Feasibility:** This measure would be expanding on an already established tax, so we do not foresee significant barriers in implementing this change.

4. **PERSONAL INCOME TAXES**

This study puts forward four proposals to modify personal income taxes: 1) an inheritance tax of 45%, 2) increases to personal income tax rates (which includes
changes to the basic personal amount and marginal tax rates and brackets), 3) modifications to RRSP and RPP income deductions so they better support lower-income filers, and 4) elimination of the 50% capital gains exemption except on corporate shares (for both personal and corporate income taxes). In our estimates, we have accounted for interactions between these different changes.

The incidence of these tax changes is relatively straightforward as the tax is applied directly to an individual’s income. However, debate exists within the literature on to what extent higher personal income taxes impact productive investment. More recent literature suggests that the impact of personal income taxes on investment is minimal. A relatively recent review of the literature suggests that changes to marginal individual income tax rates have had a statistically insignificant impact on economic growth and its confounding factors, including labour supply, private savings, investment, and productivity.79

Table 7: Potential personal income tax measures

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Potential revenue ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inheritance tax of 45% on estates over $5M</td>
<td>$2.1</td>
</tr>
<tr>
<td>Increasing personal income taxes for incomes more than $130K and target the basic personal amount to incomes under $100k</td>
<td>$6.9</td>
</tr>
<tr>
<td>Eliminate 50% capital gains exemption except on corporate shares</td>
<td>$8.3</td>
</tr>
<tr>
<td>Increase progressivity of RRSPs and RPPs</td>
<td>$8.7</td>
</tr>
</tbody>
</table>

4.1. Inheritance Tax of 45% on estates over $5M ($2.1B)

This measure would impose an inheritance tax of 45% on the beneficiary funds of estates over $5M in total asset value. The proposal is in line with that put forward by the Canadian Centre for Policy Alternatives and is expected to generate $2.14B (2021 CAD) in revenues for the federal government.80

Canada does not have an inheritance tax (and technically does not have an estate tax either in that no tax is paid based on the total assets of the estate).81 It is the only G7 country without a federal inheritance tax.82 However, there is an income tax paid on the final tax return as of one’s date of death, filed by the estate executor. Furthermore, there are probate fees (also referred to as estate administrative taxes).

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80 Macdonald, D. (2018). Born to Win: Wealth concentration in Canada since 1999. Canadian Centre for Policy Alternatives. This estimate does not consider potential strategies taxpayers may use to avoid the tax, which policy makers will need to consider when designing the tax. One solution may be a complementary “gift tax”.
81 Yih, J. (2020). Is there such thing as estate and inheritance tax in Canada.
which are levied by provincial governments and are typically equal to a small percentage of the total value of the estate. In Ontario, for example, 1.5% of the total value of the estate must be paid in probate.

An inheritance tax is likely to have little impact on productive investment. Receiving an inheritance is positively correlated with increased entrepreneurship and innovation. However, the amount of the inheritance matters very little. One study found that a $1M reduction in the size of an inheritance would reduce the likelihood of owning and managing a business by about one percentage point\(^{83}\).

Furthermore, this tax policy will have a minimal impact on households with incomes below $100,000. The median asset value for families in Canada is $477,000. This corresponds with a median after-tax income of $62,900. Extrapolating from these figures, we can reasonably state that taxes on estate values above $5M will have a negligible impact on households with incomes below $100,000.

**Evaluative criteria**

4 **Tax incidence (progressivity):** This measure is unlikely to impact households with incomes below $100,000 as the assets held by these households tend to be less than $5M.

4 **Impact on investment:** Inheritance taxes are unlikely to have a negative impact on investment. While inheritance is correlated with entrepreneurship (which can be understood as a form of productive investment), the amount of the inheritance has little impact on entrepreneurship.

4 **Feasibility:** Other G7 countries have inheritance taxes, so implementing this tax would bring Canada in line with its international peers.

**4.2. Increasing personal income taxes (decreasing the basic personal amount and increasing marginal tax rates) ($6.9B)**

This report puts forward two broad changes to personal income tax rates: reductions to the basic personal amount and increases to personal income tax rates. Using the Statistics Canada Social Policy Simulation Database/Model, we estimate that the revenue of these two measures combined is $6.9B.

The changes we implement to the marginal tax rates and brackets are summarized below:

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4 Reduce the lower-bound of the fourth bracket ($150,473 for 2020) by $20,000 and increase the tax rate from 29% to 31.5%.

4 Reduce the lower-bound of the fifth bracket ($214,368 for 2020) by $20,000 and increase the rate from 33% to 36%.

4 Include a new, sixth bracket with a lower-bound of $750,000 and a rate of 38%.

These increases in marginal tax rates not only increase revenues to fund a basic income, but they also bring personal income taxes in alignment with the increases in corporate income taxes put forward in previous sections, specifically the 10% tax on passive income.

In addition, we modify the basic personal amount, building on reforms implemented by the government in the 2020 tax year. These changes increased the basic personal amount for taxpayers with taxable income less than $214,368 but not for those with incomes more than this threshold\textsuperscript{84}. We expand on these changes by eliminating the basic personal amount for filers with incomes in the top bracket.

**Evaluative criteria**

4 **Tax incidence (progressivity):** These changes will impact people with taxable incomes in excess of approximately $150,000 (which is greater than the 95\textsuperscript{th} percentile) and not individuals on the lower end of the income distribution.

4 **Impact on investment:** As discussed in the introduction, recent research suggests that increases to personal income tax rates likely do not impact investment.

4 **Feasibility:** Given that these measures are expanding on the current personal income tax structure, we do not foresee any barriers in implementing these changes.

4.3. **Increasing progressivity of RRSPs and RPPs by modifying income deductions ($8.7B)**

Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs) are retirement savings plans that allow users to deduct contributions from their taxable income, reducing their taxes paid. Generally, gains accrued within these plans are tax-exempt, and income is taxed when withdrawn from the plan.

RRSPs and RPPs are regressive tax expenditures. 63% of the benefits accrued from RRSPs go to the highest decile (individuals with total annual incomes greater

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than $84,000), and 57% of benefits of RPPs go to filers in the highest decile\(^8\). For RRSPs in particular, high-income individuals have an incentive to contribute to RRSPs. They can offer a significant tax advantage, and eligibility for public pension benefits is generally less of a concern amongst high-income earners\(^8\).

In contrast, the incentive to contribute to RRSPs specifically is weak amongst low-income individuals because their marginal tax rates are already low, and their ability to save is limited. Furthermore, RRSP dispersions upon retirement can crowd out public pension benefit entitlements, specifically the Guaranteed Income Supplement (GIS). Additionally, the benefits of RRSPs are most acute when applied to long-run investments as investment income, and capital gains earned in the plans are exempt from taxation\(^7\).

RRSPs and RPPs are estimated to have a net cost to the government of $15.4B and $27.0B in 2021, respectively\(^8\). This study proposes that contribution deductions be reformed to a refundable tax credit valued at 15% of the contribution. The current deductions offered through RPPs and RRSPs reduce the amount of taxes paid by filers. In contrast, a refundable tax credit would provide a payment to filers equal to 15% of the amount of money contributed to the RPP or RRSP in a year.

The proposed change would make RRSPs more progressive by providing more financial incentives to low-income filers to contribute to RRSPs and increase taxes paid by the highest earners. These reforms would also maintain incentives for taxpayers to save, particularly lower-income Canadians. We estimate the total cost savings of this reform to be $8.7B\(^9\).

**Evaluative criteria**

4 **Tax incidence (progressivity):** This modification to RRSP deductions would make the program more progressive by increasing the financial incentive to use the program for low-income taxpayers and reducing the tax reductions enjoyed by high-income filers.

4 **Impact on investment:** This change may increase incentives for low-income filers to save but reduce those incentives for high-income filers.

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\(^{87}\) Lammam, C., Palacios, M., Clemens, J. (2013). RRSPs and an expanded Canada Pension Plan: A preliminary analysis. The Fraser Institute.


\(^{89}\) Based on data from the SPSD (V 28.1) and Department of Finance’s Report on Federal Tax Expenditures.
4 Feasibility: Given that the federal government currently offers several refundable tax credits through the tax system, it may be feasible for the government to offer an additional credit like that described here.

4.4. Eliminate 50% capital gains exemption except on corporate shares ($8.3B)

The exemption of 50% of capital gains from taxable income is one of the most regressive elements in the Canadian tax system, with an estimated 92% of its benefits accruing to the top decile of income earners\(^90\). This proposal would eliminate this exemption on all forms of capital gains except for corporate shares (including mutual funds). Implementation of this policy could be relatively straightforward given that individuals and corporations already report their capital gains broken down by source\(^91\)\(^92\).

The intent behind exempting returns from corporate shares is to preserve incentives for productive investment. While the capital gains exemption was implemented to encourage saving, recent evidence suggests that increasing marginal effective tax rates on capital gains does not reduce reporting of capital gains. In fact, after the abolition of the $100,000 lifetime capital gains exemption in 1994, capital gains realizations actually increased for those Canadians most affected by the policy change\(^93\). Thus, this policy change may not reduce Canadians’ savings, and the exemption for corporate shares could ensure that it have little impact on productive investment.

The Department of Finance estimates that the capital gains exemption will cost the federal government $19.7B in 2021. Assuming that returns on shares are equal to returns on other capital assets (including land, natural resources, non-residential structures, and residential structures other than principal residences), we estimate that approximately $8.0B in revenue could be raised by this tax proposal. Corporate income tax revenue would increase by $4.3B, and personal income tax revenue would increase by $4.0B.

Another positive aspect of this proposal is that it would discourage the use of investment properties, one contributing factor to the ongoing housing affordability crisis in Canada\(^94\).

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\(^94\) August, M. (2021). The rise of financial landlords has turned rental apartments into a vehicle for profit. Policy Options.
Evaluative criteria

4 **Tax incidence (progressivity):** This measure would likely be progressive as it is generally high-income tax filers that benefit most from the exemption.

4 **Impact on investment:** Recent Canadian research suggests that changes to capital gains exemptions have a minimal impact on investment.

4 **Feasibility:** The most complex aspect of this proposal would be to identify capital gains from corporate shares specifically so that the current deduction could continue to be applied. However, corporations and individuals already report capital gains by source, so in this respect, we find the proposed measure feasible.

3. Funding Projections

In this section, we outline several funding paths towards implementing a basic income. We base our projections on the 2020 report conducted by the Canadian Centre for Economic Analysis (CANCEA) entitled *Potential Economic Impacts and Reach of Basic Income Programs in Canada*. The authors present a range of projections that illustrate how a $122B basic income, which would eliminate poverty, can be funded through various combinations of tax revenues collected from households and businesses as well as debt.

Debt in the CANCEA report is posited as an initial funding source for a basic income. The advantage of using debt instead of funding from taxes or reallocation of funds from other programs is that, in theory, it allows the government to foster greater economic stimulus from the program. Based on CANCEA’s analysis, implementing a basic income is expected to increase economic activity, reflected in economic multipliers. This increased activity, in turn, can lead to higher tax revenues which can then be reinvested into the basic income program. However, taxation or reallocation of funds from other programs could hamper this economic activity, reducing the earning capacity of the government. Financing with debt is not expected to have the same negative effect, according to the analysis.

In these projections, debt is eliminated or “ramped down” by the same proportion each year through implementing additional, progressive, taxes (or other revenue generation strategies via the tax system). In the scenarios generated for this report, we reduce debt by the same proportion each year to align with CANCEA’s projections.

For many of the projections outlined in this report, specifically those for a basic income costing $122B, it is necessary to use funding from other sources, as outlined in Table 3 in the Funding Sources section (potential provincial tax reforms and the rollup of federal and/or provincial transfer programs). This additional revenue is
necessary to fund the debt ramp downs since the total revenue generated from the federal tax measures outlined in this report is less than the revenue needed to fund a $122B basic income.

In the following sections, we explore a total of eight funding options for basic incomes costing $84B and $122B, which correspond with a 50% and 100% reduction in poverty. Funding comes from four primary sources: 1) the federal tax proposals outlined in this report; 2) debt; 3) additional tax revenue raised by GDP growth caused by the program (multipliers); and 4) funding from other sources as outlined in Table 3 in the Funding Sources section. All funding paths in this report are in constant dollars.

For the purposes of the funding scenarios outlined in this section, funding from federal tax measures and other funding sources can be understood to be directly interchangeable. In these scenarios, the distinction between financing through taxation and other sources is merely illustrative. The distinction is intended to reflect the constraints the federal government faces in generating tax revenue in a way that meets the criteria laid out in earlier sections of the report (e.g., minimal impact on the middle class and productive investment). Users of this report can modify the funding paths presented here to prioritize different sources of funding. For example, suppose increasing personal income tax rates is not a preferred method for funding a basic income. In that case, the federal government could instead use funds from other sources, provided it is feasible to do so.

We conclude this section with an overview of critical assumptions from the CANCEA report and explain how they are integrated into this analysis.

**$84B Target: 50% Poverty Reduction**

There are several feasible ways to fund a basic income that would reduce poverty by 50%. In fact, it may be possible to fund such a basic income with only the revenue from the federal tax reforms outlined in this study.

We present four scenarios for funding a basic income of $84B that 1) minimize new tax increases, 2) minimize funding from other sources, 3) phase in a basic income over ten years without debt, and 4) implement a basic income immediately. The final two scenarios relax the assumption that part of the cost of the basic income will be made up for by increased tax revenue from the economic multiplier effects of a basic income. All projections in this section assume a maximum of $17.2B\textsuperscript{95} in funding from other revenue sources like provincial taxation and the rollup of provincial or federal programs.

\textsuperscript{95} This value is the sum of total federal spending of the Canada Workers Benefit and social assistance via the Canada Social Transfer. We choose these programs as a benchmark because they would overlap with a basic income and are under the jurisdiction of the federal government.
1. Minimal tax increases

Funding under this scenario includes the proposed federal tax measures outlined in this report except for the GST and GST/HST credit increase (which generates $28.6B in revenue). Without the proposed GST increases, the total federal tax revenue available to fund a basic income is $55.5B.

This scenario is constrained to begin with no funding from other sources, which under our assumptions, maximizes the multiplier effects of the program in the long run. The program would no longer be funded by debt after ten years. After ten years, funding of $17.2B from other sources would be phased in. This scenario would require 34% initial debt funding and after 25 years would accumulate $121.1B in debt.

Table 8. Minimal tax increases for $84B basic income

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
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<tbody>
<tr>
<td>New federal tax revenue</td>
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<td>$55.5</td>
<td>$55.5</td>
<td>$55.5</td>
<td>$55.5</td>
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<td>Other funding</td>
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<tr>
<td>Total non-deficit funding</td>
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<td>Additional tax revenue multipliers</td>
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<td>$11.4</td>
<td>$11.8</td>
<td>$11.8</td>
<td>$12.9</td>
</tr>
<tr>
<td>Deficit</td>
<td>$28.5</td>
<td>$9.3</td>
<td>-$0.1</td>
<td>-$0.5</td>
<td>-$0.5</td>
<td>-$1.6</td>
</tr>
<tr>
<td>Cumulative debt</td>
<td>$28.5</td>
<td>$113.4</td>
<td>$131.7</td>
<td>$129.8</td>
<td>$127.1</td>
<td>$121.1</td>
</tr>
</tbody>
</table>

2. Minimal funding from other sources

This funding option finances a basic income with federal taxes and debt alone while taking into account the impact of economic multipliers. For the first year of this scenario, we assume that all federal tax changes proposed in this report are implemented in their totality except for the GST increase (and associated GST/HST credit increase). We assume that the GST is increased gradually over ten years, starting with a two-percentage-point increase in the first year and ending with a three-percentage-point increase by year ten. The GST/HST credit is increased commensurately.

This scenario results in greater multiplier effects in the long run but smaller multiplier effects in the short run than the minimal tax scenario because of its reduced reliance on debt funding. It uses 20% initial debt funding and accumulates $65.6B in debt over 25 years.

96 Since debt issuance increases the quantity of money in the economy while reducing funding to transfer programs moves money from one program to another.
Table 9. Minimal funding from other sources for $84B basic income

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$66.</td>
<td>$69.4</td>
<td>$71.9</td>
<td>$71.9</td>
<td>$71.9</td>
<td>$71.9</td>
</tr>
<tr>
<td>Other funding</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td><strong>Total non-deficit funding</strong></td>
<td><strong>$66</strong></td>
<td><strong>$69.4</strong></td>
<td><strong>$71.9</strong></td>
<td><strong>$71.9</strong></td>
<td><strong>$71.9</strong></td>
<td><strong>$71.9</strong></td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$10.0</td>
<td>$11.7</td>
<td>$12.5</td>
<td>$12.5</td>
<td>$14.4</td>
</tr>
<tr>
<td>Deficit</td>
<td>$17.2</td>
<td>$4.6</td>
<td>$0.4</td>
<td>-$0.4</td>
<td>-$0.4</td>
<td>-$2.3</td>
</tr>
<tr>
<td><strong>Cumulative debt</strong></td>
<td>$17.2</td>
<td>$65.4</td>
<td>$75.7</td>
<td>$75.3</td>
<td>$73.3</td>
<td>$65.6</td>
</tr>
</tbody>
</table>

3. Program phase-in with no multipliers or debt

In this scenario, we phase in the basic income over a 10-year period, starting with a 50% implementation in the first year. In the first year, $42.0B of the $84.1B in additional federal tax revenue put forward in this report is used to fund the basic income. We assume that the $42.1B in proposed tax measures not implemented in the first year include the GST increase (and associated credit increase), as well as $13.5B in other measures. These measures could include the financial transactions tax, as proponents have indicated that this program is best implemented incrementally. These measures could also include personal income tax increases, which could also be increased incrementally over time.

By year ten, all tax measures put forward in the study have been phased in and are in force, with the exception of the GST. By the tenth year, we assume that the GST rate has increased by two percentage points (and that the GST/HST credit has also increased proportionally). We also phase in $17.2B of funding from other sources over ten years. This scenario assumes no additional tax revenues generated through economic multiplier effects.

Table 10. 10-year program phase-in with no multipliers or debt

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$42.0</td>
<td>$54.4</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
</tr>
<tr>
<td>Other funding</td>
<td>$0.0</td>
<td>$8.6</td>
<td>$17.2</td>
<td>$17.2</td>
<td>$17.2</td>
<td>$17.2</td>
</tr>
<tr>
<td><strong>Total non-deficit funding</strong></td>
<td><strong>$42.0</strong></td>
<td><strong>$63.0</strong></td>
<td><strong>$84.0</strong></td>
<td><strong>$84.0</strong></td>
<td><strong>$84.0</strong></td>
<td><strong>$84.0</strong></td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Deficit</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Total program cost</td>
<td>$42.0</td>
<td>$63.0</td>
<td>$84.0</td>
<td>$84.0</td>
<td>$84.0</td>
<td>$84.0</td>
</tr>
<tr>
<td>Cumulative debt</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
</tbody>
</table>
4. Immediate implementation with no multiplier effects

In the first year of this scenario, all federal tax measures proposed in this study are implemented with the exception of the GST (and GST/HST credit) increase. By the tenth year, the program is financed with $17.2B in funding from other sources, and the GST rate has been increased two percentage points (with a commensurate increase in the GST/HST credit). In this scenario, we assume no economic multipliers to help offset the cost of the program. This approach requires 50% of initial funding to be debt, entirely eliminates debt funding after ten years, and accumulates $156.5B in debt after 25 years.

Table 11. Immediate program implementation with 10-year debt ramp down and without multipliers

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$55.5</td>
<td>$61.2</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
</tr>
<tr>
<td>Other funding</td>
<td>$0.0</td>
<td>$8.6</td>
<td>$17.2</td>
<td>$17.2</td>
<td>$17.2</td>
<td>$17.2</td>
</tr>
<tr>
<td>Total non-deficit funding</td>
<td>$55.5</td>
<td>$69.8</td>
<td>$84.0</td>
<td>$84.0</td>
<td>$84.0</td>
<td>$84.0</td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Deficit</td>
<td>$28.5</td>
<td>$14.3</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Cumulative debt</td>
<td>$28.5</td>
<td>$128.3</td>
<td>$156.8</td>
<td>$156.8</td>
<td>$156.8</td>
<td>$156.8</td>
</tr>
</tbody>
</table>

$122B TARGET: 100% POVERTY REDUCTION

We present several funding scenarios to fund a larger $122B basic income that would eliminate poverty. It is impossible to fund a basic income of this magnitude with the tax measures outlined in this report alone. Thus, funding from other sources is necessary for all the scenarios we present.

In the subsections that follow, we present four scenarios for funding a $122B basic income that 1) minimize new tax increases, 2) minimize funding from other sources, 3) phase in a basic income over ten years without debt, and 4) implement a basic income immediately. We assume that there will be no additional tax revenue generated from economic multiplier effects to fund the program for the last two scenarios.

1. Minimal tax increases

For this scenario, we posit a minimum increase in federal tax revenues of $66.8B. This amount includes all federal tax measures outlined in this report except for the GST (and GST/HST credit) increase. Instead, we include an increase in the GST (and commensurate increase in the GST/HST credit) of two percentage points. Debt financing in this scenario would be ramped down over ten years, requiring $38.0B in funding from other sources by the tenth year. 45% of the initial funding for this scenario comes from debt, and there would be $257.9B in cumulative debt after 25 years.
Table 12. Minimal tax increases for $122B basic income

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
<td>$66.8</td>
</tr>
<tr>
<td>Other funding</td>
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<td>$19.0</td>
<td>$38.0</td>
<td>$38.0</td>
<td>$38.0</td>
<td>$38.0</td>
</tr>
<tr>
<td><strong>Total non-deficit funding</strong></td>
<td><strong>$66.8</strong></td>
<td><strong>$85.8</strong></td>
<td><strong>$104.8</strong></td>
<td><strong>$104.8</strong></td>
<td><strong>$104.8</strong></td>
<td><strong>$104.8</strong></td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$16.5</td>
<td>$17.2</td>
<td>$17.5</td>
<td>$17.5</td>
<td>$18.2</td>
</tr>
<tr>
<td>Deficit</td>
<td>$55.2</td>
<td>$19.7</td>
<td>$0.0</td>
<td>-$0.3</td>
<td>-$0.3</td>
<td>-$1.0</td>
</tr>
<tr>
<td><strong>Cumulative debt</strong></td>
<td><strong>$55.2</strong></td>
<td><strong>$224.6</strong></td>
<td><strong>$264.0</strong></td>
<td><strong>$263.1</strong></td>
<td><strong>$261.6</strong></td>
<td><strong>$257.9</strong></td>
</tr>
</tbody>
</table>

2. Minimal funding from other sources

This scenario assumes that all federal tax measures proposed in this study are implemented and that in the first year there is no funding from other sources. By the tenth year, debt funding has been ramped down, and the program is funded with $24.0B from other funding sources. 31% of initial program funding comes from debt, and after 25 years, the federal government would accumulate $152.8B in debt.

Table 13. Minimal program reductions for $122B basic income

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
</tr>
<tr>
<td>Other funding</td>
<td>$0.0</td>
<td>$12.0</td>
<td>$24.0</td>
<td>$24.0</td>
<td>$24.0</td>
<td>$24.0</td>
</tr>
<tr>
<td><strong>Total non-deficit funding</strong></td>
<td><strong>$84.1</strong></td>
<td><strong>$96.1</strong></td>
<td><strong>$108.1</strong></td>
<td><strong>$108.1</strong></td>
<td><strong>$108.1</strong></td>
<td><strong>$108.1</strong></td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$12.1</td>
<td>$13.9</td>
<td>$15.4</td>
<td>$15.4</td>
<td>$18.7</td>
</tr>
<tr>
<td>Deficit</td>
<td>$37.9</td>
<td>$13.8</td>
<td>$0.0</td>
<td>-$1.5</td>
<td>-$1.5</td>
<td>-$4.8</td>
</tr>
<tr>
<td><strong>Cumulative debt</strong></td>
<td><strong>$37.9</strong></td>
<td><strong>$155.1</strong></td>
<td><strong>$182.7</strong></td>
<td><strong>$178.1</strong></td>
<td><strong>$170.4</strong></td>
<td><strong>$152.8</strong></td>
</tr>
</tbody>
</table>

3. Program phase-in with no multipliers or debt

The basic income is phased in over ten years in this funding path, beginning at 50% implementation. The federal tax measures outlined in this report are also phased in over the first ten years of the scenario. In the first year, $43.8B of the $84.1B that could potentially be raised by the federal tax reforms is used to fund the basic income. We assume that the $40.3B not collected includes the GST (and credit) increase ($28.6B) and $11.7B in other measures. These other measures could include the proposed personal income tax increases, the financial transaction tax, or other tax measures that are best implemented incrementally. By year ten, all the federal tax measures outlined in this report are fully implemented. The funding path begins with $17.2B in funding from other sources and is increased to $37.9B by the tenth year to finance the program fully. This scenario assumes no additional tax revenues generated through economic multiplier effects.
Table 14. 10-year phase-in $122B basic income with no debt

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$43.8</td>
<td>$64.0</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
</tr>
<tr>
<td>Other funding</td>
<td>$17.2</td>
<td>$27.6</td>
<td>$37.9</td>
<td>$37.9</td>
<td>$37.9</td>
<td>$37.9</td>
</tr>
<tr>
<td>Total non-deficit funding</td>
<td>$61.0</td>
<td>$91.5</td>
<td>$122.0</td>
<td>$122.0</td>
<td>$122.0</td>
<td>$122.0</td>
</tr>
<tr>
<td>Additional tax revenue multipliers</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Deficit funding</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Total program cost</td>
<td>$61.0</td>
<td>$91.5</td>
<td>$122.0</td>
<td>$122.0</td>
<td>$122.0</td>
<td>$122.0</td>
</tr>
<tr>
<td>Cumulative debt</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

4. Immediate implementation of $122B with no multiplier effects

Under this scenario, all the federal tax measures outlined in the report are implemented beginning in the first year. The first year is also funded with $17.2B in funding from other sources (which corresponds with current funding to federal transfer programs) and $20.7B in borrowed funds. Debt funding is ramped down over a ten-year period, and by the tenth year the basic income program is funded with $37.9B from other funding sources. 17% of funding in the first year is from debt, and after 25 years the cumulative debt would be $113.9B. This scenario assumes no additional tax revenues generated through economic multiplier effects.

Table 15. Immediate program implementation with 10-year debt ramp down and without multipliers

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2026</th>
<th>2031</th>
<th>2036</th>
<th>2041</th>
<th>2046</th>
</tr>
</thead>
<tbody>
<tr>
<td>New federal tax revenue</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
<td>$84.1</td>
</tr>
<tr>
<td>Other funding</td>
<td>$17.2</td>
<td>$27.6</td>
<td>$37.9</td>
<td>$37.9</td>
<td>$37.9</td>
<td>$37.9</td>
</tr>
<tr>
<td>Total non-deficit funding</td>
<td>3</td>
<td>$111.7</td>
<td>$122.0</td>
<td>$122.0</td>
<td>$122.0</td>
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<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Deficit funding</td>
<td>$20.7</td>
<td>$10.4</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Cumulative debt</td>
<td>$20.7</td>
<td>$93.2</td>
<td>$113.9</td>
<td>$113.9</td>
<td>$113.9</td>
<td>$113.9</td>
</tr>
</tbody>
</table>

**METH O D A ND A SSUMPTIONS**

For the calculations used to create these projections, we adjust the tax revenue projections in the CANCEA report in several ways. First, we estimate tax revenue raised for years and models for which tax revenue was not reported. Then, when our proportion of initial debt funding is not equal to one of the CANCEA projections, we take a weighted average of the tax revenue projections of the two CANCEA models with the closest debt proportions (e.g., 10% and 50% debt funding projections for a scenario with an initial debt proportion of 41%). Then we adjust the additional tax revenue resulting from multipliers by the relative size of the program compared to that in the CANCEA report. Finally, tax revenue resulting from multipliers is adjusted by the proportion of non-debt funding coming from taxes rather than from other
program offsets. We make this adjustment because the CANCEA report assumes that all funding for a basic income is derived from taxes proportional to income above the poverty line rather than other programs targeted at low-income individuals, which will not have a multiplier effect.

CANCEA’s analysis assumes that the additional taxes that households pay are proportional to their income above the poverty line (households below the poverty line do not pay more tax). This assumption motivated the first criterion we used to select tax measures - that the measure be progressive or not regressive (with a preference for policies that do not impact people with household incomes less than $100,000). Given this criterion, many of the tax changes outlined in this report would likely be more progressive than CANCEA’s assumed tax changes, with the exception of the GST increase, which could be more regressive. However, we attempt to mitigate somewhat the regressiveness of the GST increase with a commensurate increase in the GST/HST credit.

Second, the CANCEA report assumes that existing government transfers are unaltered. This assumption underlies the economic multipliers used to estimate the additional tax revenues resulting from economic multipliers. However, it is not possible to fund a $122B basic income with the revenue-generation measures listed in Table 1 without rolling some funds from current transfer programs into a basic income, thus violating this assumption. Moving funds from these transfer programs into a basic income program would lead to lower economic multipliers than presented in the CANCEA report. We do not have sufficient information to determine whether, on net, the CANCEA economic multipliers used for these calculations are over- or under-estimates based on the two assumptions outlined here. However, as mentioned in the first paragraph, we do adjust the multipliers so that they better align with the specifics of each of the scenarios put forward in the report.

Lastly, the CANCEA report assumes that there is a certain mix of taxes imposed on corporations and households. Based on their model, CANCEA’s modeling results show that the amount of GDP growth (and thus the additional tax revenue) generated by a basic income varies by the proportion of the taxes that fund it that are borne by businesses. These results are based on the understanding that taxes on businesses harm investment. As discussed earlier, the federal tax measures put forward in this report were selected with the goal of limiting negative impacts on investment. However, the corporate and financial taxes put forward are likely to have some effect on investment. Thus, we assumed that half of the corporate passive income tax revenue, half of the additional corporate income tax raised by capital gains taxation changes, half of the financial activities tax and financial transactions tax revenue, as well as the elimination of oil, gas and coal tax credits, would be borne by

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97 Canadian Centre for Economic Analysis. (2020). Potential Economic Impacts and Reach of Basic Income Programs in Canada. (p. 15)
businesses for the purposes of the CANCEA modeling. These assumptions result in $12.3B of the funding (10% of $122B) falling on businesses. Thus, our funding scenarios rely on CANCEA’s projections with 90% household funding.

**Conclusion**

This study aims to illustrate various means by which a basic income could be funded in Canada. The report describes 15 revenue-generation measures for the federal government that could contribute to funding a basic income, totaling $84.1B in additional revenue. The latter section of the report illustrates how a basic income could be funded over time with these measures in combination with funding that would be made available from other programs, economic multipliers resulting from the basic income, and debt.

There are limitations to this analysis. First, the revenue estimates of the measures put forward in this study are static and do not consider behavioural responses by taxpayers. Thus, the estimates are likely optimistic and should be understood as illustrative, not definitive. This limitation is particularly relevant for certain measures such as the financial transactions tax, the tax on passive income for corporations, taxes related to tax havens, and the luxury goods sales tax. In addition, these estimates do not consider other costs of taxation, such as the marginal cost of public funds.

Second, there are limitations related to the funding projections, and these limitations are detailed in the Method and Assumptions section of this report. In sum, we are unable to say with certainty whether the economic multipliers used to calculate additional tax revenues resulting from a basic income are overly optimistic or pessimistic. Thus, like with the tax change estimates themselves, the estimates presented in these projections should be understood as illustrative, not definitive.