

# RECOMMENDATIONS FOR REFORMING THE TAX SYSTEM TO REDUCE POVERTY AND INEQUALITY AND INCREASE PRODUCTIVITY AND PROSPERITY FOR CANADIANS



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## ***The Canadian Community Economic Development Network***

The Canadian CED Network is a national, not profit organization and registered charity made up of several hundred member organizations and practitioners committed to supporting community economic development for the social and economic betterment of Canadian communities. The Network's Mission is to:

- Bring a national focus to the CED agenda
- Expand the scale and effectiveness of community economic development
- Share information and learning
- Build capacity and skills related to CED

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# **1. SUMMARY OF RECOMMENDATIONS**

The tax system in Canada needs to be used for two major purposes: (1) Redistribute wealth to reduce poverty and inequality amongst individuals, specific populations and geographic regions/communities; (2) encourage investment in communities to reduce poverty, increase self-sufficiency, and generate aggregate benefits to Canadian prosperity and productivity. Our recommendations for the 2008 Budget to take steps to achieve these two purposes are:

## **1. REDUCE POVERTY AND INEQUALITY**

- a) Increase the basic income exemption threshold for taxation for low income earners
- b) Decrease low income taxation rates
- c) Introduce a new tax rate on incomes above \$250,000
- d) Provide a comprehensive child tax benefit for low income families
- e) Increase the share of gas tax revenue available to municipalities that partner with their community organizations in developing comprehensive poverty-reduction strategies
- f) Increase corporate tax rates and use proceeds to finance various investment program in communities

## **2. INVEST IN COMMUNITIES**

- a) Create a RRSP eligible CED tax credit
- b) Create a community investment capital fund
- c) Expand program investments in place-based poverty reduction initiatives
- d) Create a procurement strategy for government that advantages community-based businesses that create opportunities for disadvantaged Canadians.
- e) Generate a comprehensive affordable housing spending program for low-income Canadians.

## 2. INTRODUCTION

This brief has been prepared by the Canadian Community Economic Development Network for the Parliamentary Standing Committee on Finance. The information contained in this brief is intended to respond to the Committee's pre-budget consultations on Canada's tax policy. The Canadian CED Network is a national association of community organizations, co-operatives, credit unions, foundations, municipalities and practitioners working to enhance the social, economic and environmental conditions of Canada's communities. There are several hundred member organizations in every province and territory inclusive of urban, rural, northern and Aboriginal community settings. Our head office is in Victoria, British Columbia, with regional coordinators and networks throughout Canada. We define Community Economic Development as citizen-led action to enhance the social and economic conditions of their communities on an integrated and inclusive basis, reducing poverty, unemployment and social disadvantage by creating social assets and economic opportunities.<sup>1</sup>

The Network believes that the greatest challenge posed to Canada's prosperity and productivity is rising levels of poverty, inequality and disadvantage amongst both specific populations and specific geographic communities. The aggregate impact of poverty, and cycles of decline in rural, northern, aboriginal and urban community settings, has increased costs to the taxpayer of social, health and other programs that address the symptoms of disadvantage and social exclusion. There are also indirect costs in terms of lost revenue from the tax base from employment, sales and production through those communities and people not employed and included in the economy. Finally, there is an aggregate cost of underdevelopment or decline in communities from the long term loss of potential economic activity and investment in those regions, and the multiplier that this represents in the overall productivity of the population and regions of Canada. It is imperative that these costs and drains on the Country's prosperity and productivity are reduced by progressive taxation policies that help redistribute wealth and provide incentives and supports for all Canadians to be included in the economy through strong and effective community economic development programs.

The Network believes that the aggregate impact of the contributions of community economic development to Canada's overall productivity and prosperity are significant. By focussing on creating economic opportunities in disadvantaged communities and populations, at the same time as creating social assets and resources that remove barriers to social and economic participation, community economic development creates an enabling environment for self-sufficiency and advancement for those that could otherwise be dependent on government programs. At the same time community economic development organizations tackle the root causes of poverty and disadvantage, operating beyond the paradigm of "charity" and focussing instead on self-

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<sup>1</sup> Canadian Community Economic Development Network (2003) *Profile of CED in Canada*. Victoria: Canadian Community Economic Development Network. [http://www.ccednet-rcdec.ca/en/pages/resources\\_2.asp](http://www.ccednet-rcdec.ca/en/pages/resources_2.asp)

help and transformative development that is people and outcome centred. This new paradigm of active and integrated social and economic development is a major focus in other countries with which Canada is competitive in global markets. Europe, the United States, Australia, India, Latin America and the World Bank have all invested in civil society infrastructure to combat regional, community and population-based inequality and disadvantage. The rationale has been clear, growing inequality amongst regions, communities and populations has an aggregate impact on the overall economic productivity of a nation. The social and economic conditions that create these inequalities over time are inter-related and inter-dependent. This requires an integrated approach that builds on the capacity of civil society to move beyond top down state interventions and mobilize social and human capital to achieve significant outcomes by people, for people in their own communities. Canada is now lagging seriously behind its competitors in supporting these community-based approaches to development and poverty-reduction. We are therefore recommending the following measures for tax and spending policy in the 2008 budget.

### **3. REDUCING POVERTY AND INEQUALITY THROUGH TAX REFORM<sup>2</sup>**

Income inequality in Canada has been steadily increasing.<sup>3</sup> Income inequality reduces social cohesion and stability, and undermines core Canadian values of fairness and equality. We propose the following changes to the tax system to help reverse this trend.

#### **a) Increase the basic income exemption threshold for taxation for low income earners**

Increase the basic personal exemption from \$8,839 to \$15,322 (the inflation adjusted 2005 Statistics Canada Low Income Measure for one adult with no children) for taxable incomes less than \$36,378, with a progressive claw back towards \$8,839 for incomes above \$36,378, formulated to avoid work disincentives.

#### **b) Decrease low income taxation rates**

Reduce the rate for the \$0 - \$36,378 tax bracket from 15.25% to 12.75%. Allowing low income earners to keep more of their income would directly contribute to reducing poverty rates amongst the working poor while at the same time strengthening the incentives to enter and stay in the labour force.

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<sup>2</sup> Many of these reforms in the next two sections are derived from work completed through the Canadian Center for Policy Alternatives. See: Canadian Centre for Policy Alternatives (2007). *Alternative Federal Budget 2007: Strength in Numbers (2007)*. Ottawa: Canadian Centre for Policy Alternatives. Retrieved from: [http://policyalternatives.ca/documents/National\\_Office\\_Pubs/2007/AFB2007\\_Strength\\_in\\_Numbers.pdf](http://policyalternatives.ca/documents/National_Office_Pubs/2007/AFB2007_Strength_in_Numbers.pdf)

<sup>3</sup> See: Yalnizyan, A. (2007). *The Rich and the Rest of Us: the Changing Face of Canada's Growing Gap*. Ottawa: Canadian Centre for Policy Alternatives. Retrieved from: <http://www.growinggap.ca/files/The%20Rich%20and%20The%20Rest%20of%20Us.pdf>

**c) Introduce a new tax rate on incomes above \$250,000**

Increase the federal income tax rate from the current rate of 29% to 31.5% on income earned beyond \$250,000. Although this applies to only 0.5% of Canadians, it would generate revenues in excess of \$1 billion.

**d) Provide a comprehensive child tax benefit for low income families**

Increase the Canada Child Tax Benefit (CCTB) by \$1500. This would be funded partially through a reallocation of the Universal Child Care Allowance (UCC), which is effectively an income support program for parents with young children. Administering child related tax benefited through the CCTB would have two significant benefits. First, the CCTB is more efficient as it has an existing administrative framework through the tax system and does not require the additional administrative costs of the UCC. Secondly, the CCTB is better targeted than the UCC benefits: the CCTB starts being reduced when family net income is more than \$37,178 and it provides benefits to families with children up to 18 years of age.

**e) Increase the share of gas tax revenue available to municipalities that partner with their community organizations in developing comprehensive poverty-reduction strategies**

Immediately and permanently increase the gas tax transfer for municipalities and communities to \$.05 a litre and earmark these funds for poverty focused community economic development. This will provide municipalities with an additional \$1 billion in funds to address the growing need for poverty reduction while at the same time facilitating the development of new economic opportunities at the local level.

**f) Increase corporate tax rates and use proceeds to finance various investment program in communities.**

Reverse recent corporate tax cuts and increasing the Corporate Income Tax (CIT) rate by 0.5 percentage points. Budget 2006 and Budget 2007 ended up reducing the general corporate income tax rate from 21 per cent to 18.5 per cent by 2011. While these and previous corporate tax cuts have pushed corporate profits to record levels, there is little evidence showing this has increased investment in the Canadian economy. Canada's corporate tax rates are already significantly below those in the US, suggesting that Canada can afford this increase without compromising competitiveness.<sup>4</sup> CCEDNet proposes that these additional funds be used to directly contribute to investment in Canada through the proposals in the following section.

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The above reforms would shift some of the burden of financing the Canadian tax system from disadvantaged Canadians on to those who are better equipped to pay, while still

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<sup>4</sup>Department of Finance Canada (2007). *The Canadian Tax Advantage*. Ottawa: Department of Finance. Retrieved from:

[http://www.fin.gc.ca/toce/2002/cantaxadv\\_e.html](http://www.fin.gc.ca/toce/2002/cantaxadv_e.html)



maintaining a competitive tax structure - Research shows that taxation levels play a minuscule role in economic competitiveness relative to the importance of strong institutions, social stability, and a healthy, educated population.<sup>5</sup> This proposal can be made revenue neutral by adjusting the proposed rate changes, but for these initiatives to have a significant impact additional funds may need to be diverted from other initiatives.

**CCEDNET proposes that these additional funds come from amendments to the government's "Tax Back Guarantee" initiative and a reduction in funds allocated to debt reduction.** We propose that the Tax Back Guarantee initiative specify that these tax reductions be targeted as outlined above in (a), (b) and (d). We also propose that the government adopt a Social Return on Investment framework for evaluating the costs and benefits of debt reduction. Preliminary research shows that the social return on investment in communities in many cases are well above the cost of government borrowing.<sup>6</sup>

#### **4. INVESTING IN COMMUNITIES**

Canada is currently experiencing a period of strong economic growth, but there still exist concerns regarding the economic well-being of Canadians. Many of the benefits of economic growth are not reaching those most in need. As has been the trend since the end of the post war boom, most of the gains from economic expansion have been reaped by the most well-off in our country. Additionally, current economic growth is being primarily driven by the high world prices of many natural resources available in Canada. Due to the high volatility of natural resource prices and declining terms of trade of natural resources overtime relative to services and manufactures, the current pattern of growth may not be a reliable base for long run economic prosperity.

As noted above in Section Two, targeted investment in communities can simultaneously address both of these concerns and generates long run growth and cost savings to government. Below are our proposals to facilitate long term growth and development through community investment:

##### **a) Create a RRSP eligible CED tax credit**

A key barrier hindering the potential of CED organizations is access to long term capital. We propose the creation of a RRSP eligible CED tax credit for Canadians wishing to invest in community economic development investment funds operated by local non-profit corporations to create employment, enterprises, and affordable housing in their communities. The model we propose is based on the Equity Tax Credit through the Community Economics Development Investment Funds (CEDIF) program in Nova Scotia.<sup>7</sup>

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<sup>5</sup> World Economic Forum (2007). *Global Competitiveness Report 2006-2007* Geneva: World Economic Forum. Retrieved from:

<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>

<sup>6</sup> Western Economic Diversification (2003). *Evaluation of the Community Futures Program*. Edmonton: Western Economic Diversification. Retrieved from:

[http://www.wd.gc.ca/rpts/audit/cfdc/CFDC\\_Evaluation\\_Report-Final\\_e.pdf](http://www.wd.gc.ca/rpts/audit/cfdc/CFDC_Evaluation_Report-Final_e.pdf)

<sup>7</sup>For further reading see: Canadian Community Economic Development Network (2003). *Development of Federal Tax Credits to Support Community Investment in Canada*. Victoria:

**b) Create a community investment capital fund**

We propose that the Canadian government, in cooperation with provinces, municipalities, and donor organizations (foundations, pension funds, corporations, financial institutions) create a community investment capital fund available for community non-profit organizations to access patient capital to invest in community enterprises and asset building programs to reduce poverty. We propose using the Social Economy Trust in Quebec as a model.<sup>8</sup>

**c) Expand program investments in place-based poverty reduction initiatives**

Place based poverty reduction initiatives promote innovative ways of assessing the impact of locally-based CED work on the lives of individuals in their communities. They provide valuable research output for community development organizations, exposing them to best practices thereby enhancing their efficiency. We therefore propose expanding program investments in place-based poverty reduction initiatives run by non-profit organizations to tackle concentrated social and economic disadvantage in rural, northern, Aboriginal and urban settings. These programs would be built upon the success of the Social Development Partnership Program of HRSD.

**d) Create a procurement strategy for government that advantages community-based businesses that create opportunities for disadvantaged Canadians.**

The emergence of social purchasing portals across Canada has facilitated the process of acquiring goods and services from social enterprises and other community producers. These initiatives help promote community economic development without added cost or loss of purchasing value. Despite its potential, this approach faces many obstacles in its efforts to compete for government procurement. We therefore propose that the government of Canada create a procurement strategy for government that advantages community-based businesses that create opportunities for disadvantaged Canadians. This strategy would include a legislative initiative to facilitate purchasing from social enterprise and funding for a communications strategy to raise awareness of the benefits of socially-minded procurement.

**e) Generate a comprehensive affordable housing spending program for low-income Canadians.**

Despite Canada's strong economic performance, 1.5 million Canadian households are still in desperate need of decent, affordable housing. A lack of affordable and accessible housing promotes precariousness and instability amongst the working poor, reducing the productivity of Canada's workforce. We propose the following three initiatives to promote stable affordable housing for low income Canadians:

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Canadian Community Economic Development Network. [http://www.ccednet-rcdec.ca/en/pages/resources\\_2.asp](http://www.ccednet-rcdec.ca/en/pages/resources_2.asp)

<sup>8</sup> For more see: Canadian Community Economic Development Network (2003). CED Funding and Delivery in Canada. Victoria: Canadian Community Economic Development Network. [http://www.ccednet-rcdec.ca/en/pages/resources\\_2.asp](http://www.ccednet-rcdec.ca/en/pages/resources_2.asp)

- 1) Renew and extend funding for the Homelessness Partnering Strategy and Residential Rehabilitation Assistance Program for five years;
- 2) Extend the mandate of the Supporting Communities Partnership Initiative, to build on the success of implementing solutions to homelessness at the community level; and
- 3) Reverse the \$45 million annual cuts to the Canadian Mortgage and Housing Corporation's (CMHC's) housing programs budget **and** increase funding by \$1.3 billion per year to expand and repair the social housing stock in Canada. These funds would be used to build 20,000 new affordable housing and renew 8,000 units per year.

## 5. CONCLUSION

Rising levels of poverty, inequality and disadvantage amongst both specific populations and specific geographic communities has meant increased costs to the taxpayer in the form of social, health and other programs. The indirect costs in terms of lost revenue from the tax base from employment, sales and production, are also significant. It is clear that growing inequality amongst regions, communities and populations has an aggregate impact on the overall economic productivity of a nation. These costs hold Canada back from reaching its economic potential and impose a significant social cost on those living in poverty.<sup>9</sup>

CCEDNet advances that these losses can be reduced through a program of progressive taxation policies that redistribute wealth, and incentives and supports for all Canadians to be included in the economy through strong and effective community economic development programs. By creating economic opportunities for the disadvantaged, generating social assets, and removing barriers to social and economic participation, community economic development creates an enabling environment for self-sufficiency and advancement for those that could otherwise be dependent on government programs. By promoting this integrated approach that builds on the capacity of civil society to mobilize social and human capital, Canada will increase its competitiveness in the global economy while at the same time generate a more just society.

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<sup>9</sup> Canadian Community Economic Development Network (2003). *Human Capital Development in Canada: Closing the Gaps* Victoria: Canadian Community Economic Development Network. [http://www.ccednet-rcdec.ca/en/pages/resources\\_2.asp](http://www.ccednet-rcdec.ca/en/pages/resources_2.asp)

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