Tax policies may aggravate gap between rich and poor

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The Conservatives, who will soon deliver their post-election budget, are championing a set of plans that may accelerate Canada's growing gap between rich and poor, a sign of inequality that has already reached troubling levels.

In a 2008 study of 30 OECD countries, Canada was singled out as one of the member nations that has witnessed the worst widening of the wealth gap.

Inequality and poverty declined in Canada for 20 years before the late 1990s, the OECD study said, but since have gotten much worse. Among OECD nations, only Germany saw as sharp an increase in inequality of household earnings, the report found. "In the last 10 years, the rich have been getting richer, leaving both middle and poorer income classes behind," the OECD said of Canada.

How pronounced is the income gap? According to Toronto research agency Investor Economics, the richest 3.8 per cent of Canadian households controlled 66.6 per cent of all financial wealth (not counting real estate) by 2009, up from 60.6 per cent in 2005, just before Prime Minister Stephen Harper's government came to power. Looking ahead, the agency predicts the portion of financial wealth controlled by this richest group of Canadians is headed for 70 per cent by 2018.

And some analysts say the economic strategies being pursued by a re-elected Harper will only make matters worse, leading to a further expansion of the income gap between the very rich and others in Canada.

The crux of the issue concerns the Conservatives' plan to continue implementing corporate income tax cuts and to eventually bring in other tax breaks, such as expanding deposits in Tax-Free Savings Accounts and allowing two-income couples with children younger than 18 to split their income for federal tax purposes. While these measures have been promoted as ways of creating jobs or helping average Canadians, some economists say the benefits to the rich from these tax breaks will far outweigh anything seen by other members of society.

Despite running a $30 billion budget deficit, the Harper government will phase in another round of corporate income-tax reductions, worth $6 billion in forgone revenue, next year. The cuts are part of $60 billion in business tax breaks under Harper.

Also in the election campaign, the Conservatives promised, once Ottawa's books are balanced, to bring in income-splitting on tax returns for families with dependent children. The measure, which Harper says will cost Ottawa $2.5 billion annually in forgone revenue once fully implemented, is intended to help families that choose to have one spouse stay home to raise children. But economists point out that the measure will do nothing to help single parents, who account for one in five families with young children and have the highest rate of poverty in this country.

Also, couples where both parents work but have roughly equal incomes would see little tax benefit. Only families where one spouse stays at home while the other makes top dollar would reap large benefits — in some cases with tax savings of more than $6,000, economists estimate.

On the way to winning a majority government, the Conservatives also pledged, when the books are balanced, to double the contribution limit for Tax-Free Savings Accounts (TFSAs). Currently, anyone 18 and older can invest $5,000 annually, with interest accumulating free of tax. While 4.7 million Canadians have opened a tax-free account, some economists argue that this savings vehicle largely benefits upper income earners. Only well-off Canadians have enough cash left over after paying their bills to maximize their contributions to TSFAs, these analysts say.

Taking into account the Conservatives' overall tax-reduction agenda, economist Erin Weir says these measures "also worsen inequality by reducing the public revenues available to fund social spending that benefits ordinary Canadians and helps alleviate poverty."

"The growing gap between the rich and the rest of us has many causes, including higher remuneration for top earners, much higher profits as a share of the economy, less bargaining power for workers, and less progressive taxes," says Weir, senior economist at the International Trade Union Confederation. "Conservative tax policies will clearly aggravate the problem."

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