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Vern Krishna discusses how Canadians are taxed and whether or not it is fair to tax higher income individuals more than individuals who earn less. The underlying premise is that higher income individuals have a greater ability to pay taxes and, therefore, it is fair that they pay more tax.

Who pays how much tax?

Date: November 7, 2012

 [Who pays how much tax?](#)

Vern Krishna

People who complain about the tax system fall into two classes: men and women. The Talmud tells us that we should tax a person according to his or her means. Most Canadians agree with this principle that individuals with higher incomes should pay more tax than individuals who earn less. The underlying premise is that higher income individuals have a greater ability to pay taxes and, therefore, it is fair that they pay more tax.

But how much more is “fair?” The difficulty is that many believe that a tax system is fair if it taxes the other person.

No one seriously argues with *the* principle that an individual who earns \$150,000 should pay more tax than an individual who earns \$30,000. However, is it sufficient to pay five times more, or does the principle compel us to inevitably conclude that higher income earners must also pay progressively more than lower income earners? If those with • higher incomes should pay progressively more taxes, what is the appropriate rate of progression?

There are no easy answers to these questions and the debate has no ending.

Canada taxes individuals on a progressive basis. The adjective “progressive” refers not to the quality of our Byzantine tax law, but to the aspect of our system by which the marginal rate of tax increases at various levels of income. For example, in 2012, the four basic federal rates of tax for individuals are: 15 per cent on the first \$42,707; 22 per cent on the next \$42,702; 26 per cent on the next \$46,992; and 29 per cent on income over \$132,406.

A person who earns \$150,000 pays not only more tax in absolute dollars (\$31,222) than an individual who earns \$30,000 and pays \$4,500, but the rate of tax progresses from 15 per cent to 29 per cent as income rises. Hence, the higher income taxpayer, who earns five times as much as the lower income individual, ends up paying seven times the taxes.

We justify progressive taxation on the principle that an individual’s ability (although not enthusiasm) to pay tax increases as his or her income rises. This assumption, however, only starts the debate. One-third of Canadian taxpayers do not pay any income tax at all, but file tax returns primarily to receive benefits paid out as income redistribution under the sales tax and child-tax benefits. That leaves the remaining two-thirds to make up the necessary revenue.

As the figures in the sidebar show, 43 per cent of Ontario residents earn between \$25,000 and \$75,000. Progressivism really kicks in at \$50,000 income level and accelerates thereafter until it peaks at the top federal marginal rate of 29 per cent, which

works out to approximately 46 per cent in combined federal and provincial taxes. In absolute dollar terms, the largest revenue contributors are the middle class, the group between \$50,000 and \$100,000 income.

As we move up the income scale, the numbers of taxpayers drop off dramatically and the percentage of tax collected increases progressively. Contrary to popular belief, Canadian socio-economic demographics are not egalitarian. Only 2.1 per cent of the population, earned more than \$150,000 in 2010. Further up the ladder, less than 1 per cent earned more than \$250,000. This group includes primarily professionals (lawyers, doctors, accountants, dentists, architects and judges). Thus, the 2 per cent super surtax on individuals earning more than \$500,000 is more symbolic than revenue earning.

Contrary to popular opinion, the rich in Canada do actually pay a hefty tax bite. Do Canadians pay their fair share of personal income taxes? I am not a Talmudic scholar, but after thirty-seven years of teaching and practicing tax law, I have yet to meet a man or a woman who can agree on the meaning of what is fair in taxation.

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Breakdown

In 2010 (the latest year which data is available) in Ontario, for example, the income distribution of the population was as follows:

Income (\$000):
\$0–\$5: 8.2 per cent
\$5–\$10: 7.7 per cent
\$10–\$15: 9.9 per cent
\$15–\$20: 10.2 per cent
\$20–\$25: 8.1 per cent
\$25–\$35: 13.3 per cent
\$35–\$50: 15.9 per cent
\$50–\$75: 1.4 per cent
\$75–\$100: 6.5 per cent
\$100–\$150: 6.5 per cent
\$150–\$200: 1.0 per cent
\$200–\$250: 0.4 per cent
\$250+: 0.7 per cent

*Statistics Canada

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