

# Intelligence MEMOS



From: William B.P. Robson  
To: Canadian Taxpayers  
Date: March 27, 2019  
Re: **OTTAWA FLINGS THE BIG BUCKS WHILE GRABBING FOR THE LOOSE CHANGE**

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Our federal fiscal masters are deeply inconsistent. They freely spend billions in revenue windfalls on one hand, but are obsessive about every nickel of tax they might fail to collect on the other – no matter the unfairness or inconvenience to Canadians.

The 2019 budget is a case in point. It features yet another bonanza of handouts, many clearly contrived in haste. That is bad. What is worse is its many proposals to tighten the screws on taxpayers, making compliance harder over amounts of money that are often derisory, and citing the integrity of the tax system in resisting reforms that could do Canadians much good.

Start with the big spending. The 2019 budget started from a fiscal baseline that, over the six-year projection period, was better than anticipated in last fall's update by \$4.6-billion annually. The budget hiked yearly spending by \$4-billion – almost 90 per cent of the windfall gone.

Now to the small “savings.” The budget goes after individual taxpayers, capping stock options, restricting TFSA investments and cracking down on tax deferrals in mutual funds. It goes after businesses, tightening rules around transfer pricing, cross-border borrowing and timing of assessments. Net projected improvement to the bottom line: \$60-million annually. Even before considering the higher compliance costs and more adversarial relations between Canada Revenue Agency and taxpayers, that's a minuscule offset to a very big blowout.

For one specific area where Ottawa flings the big bucks in one direction while grabbing for loose change in the other, consider retirement saving.

The federal government's pensions for its own employees are so generous that a Canadian saving in an RRSP, defined-contribution or individual pension plan would need to make tax-deferred contributions of at least \$55,000 annually to achieve the retirement nest egg enjoyed by the average federal employee.

Meanwhile, the federal government's determination to limit tax-deferred retirement saving for other Canadians means RRSP and DC or IPP savers get about half the contribution room federal employees get. And it pinches additional pennies by restricting access to annuities and forcing people to draw down their RRIFs. So, unlike former public servants with inflation-indexed pensions for life, many Canadian seniors are at risk of outliving their retirement wealth.

The 2019 budget might appear to offer a counterexample: a proposal to make annuities more readily available at age 85. But even this positive move is grudging: the desirability of deferred annuities has been obvious for years, and this late-in-the-day proposal is so limited that the government estimates its annual revenue cost at \$4 million – one one-1,000th of the budget's annual increase in spending. Meanwhile, the budget proposes to ensure that people moving tax-deferred savings from one individual pension plan to another would have to take into income – and pay tax on – roughly half the amount. Estimated revenue gain from this financial disaster for anyone affected: too small to measure.

It is easy to multiply examples of this obsession with tiny amounts of revenue. In the past, Ottawa has backtracked on giving charitable donations of private company shares the same tax treatment as donations of public company shares, for fear of scams it can easily prevent. It went after the retained earnings of small businesses, and retreated with more bruises than dollars. Even as it talks about the hardship of covering drug costs, it maintains an absurdly ungenerous system of tax deductions for medical expenses.

The integrity of Canada's tax system matters, but defending it should not be an excuse for relentless squeezing of taxpayers on every imaginable margin. Especially not when politics have blown away all restraint on spending. Canadians will pay their taxes willingly if they feel Ottawa is a good steward of their money. Finance Canada should ease up on the nickels and obsess about the billions.

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