Expert Answers

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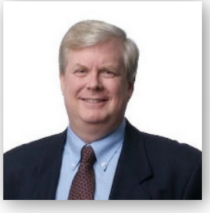
Can Canadians expect to see taxes increase to remedy the costs of COVID relief?

As a recognized authority on tax, Don Scott shares his perspectives on the various options Canada's federal government has to raise taxes as it digs itself out of what has been more than a year of bills and bailouts.

> **"Canada is still stuck in the grips of COVID-19 and the thin ice its economy is still walking on. We should expect the tab will have to be paid and that bill will be satisfied with tax increases."**



Don Scott
Director of Tax Services
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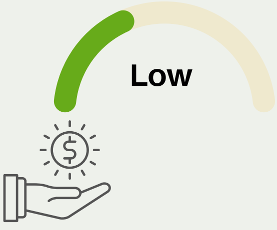
Will personal income taxes increase?

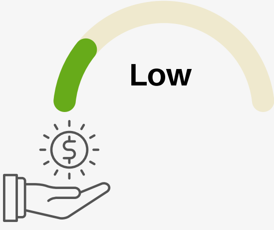
Certainly the current government has made much of protecting the middle class, so any personal tax rate hike would be directed to those who can afford to "pay a little more". The highest combined federal/provincial tax rate now nears or exceeds 50%. Statistics have shown that once that 50% line is crossed, tax revenue generation does not meet expectations – the incentive to avoid paying that rate of tax becomes an issue. Also, higher taxes on higher income taxpayers provides another incentive – move from Canada to a lower tax regime – one thing 2020 has reinforced is the ability to work from anywhere.

Likelihood that Changes are expected in 2021 Budget



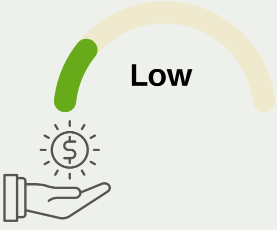
New taxes on the sale of a primary residence?

As of right now, the simple answer is no. Due to the COVID-19 Pandemic, there is the possibility that this could change in the future. A complete elimination of the tax free gain is less likely than perhaps putting a cap on the tax free portion.



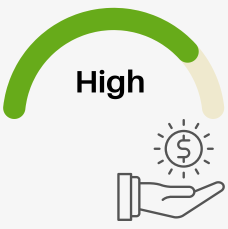
Capital gains tax increases?

This is likely to happen eventually, but probably not in 2021. There would be an impact on capital markets – something that is not good during an economic recovery. The current capital gain tax rate is considerably lower than the tax rate on a dividend, people spend a lot of time planning so that they can realize a capital gain instead of a dividend with respect to remuneration from their business. The simple fix to deter this is to raise the capital gain tax rate to be closer to the dividend tax rate.



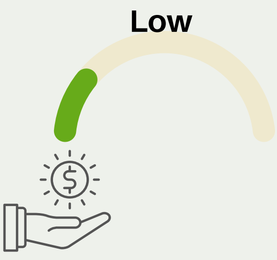
GST Increase?

This is the most likely scenario. The GST is a highly efficient and very stable way to collect government revenue. A 1% or 2% increase in the GST will not dampen that pent up demand and will raise significant tax revenue.



Corporate Tax Increase?

This is not likely to happen. The small business rate has recently been reduced (to 9%) and the big business rate has remained stable for a while (15%). After adding in the provincial/territorial tax rate, the CDN rates are comparable to, if not higher, than current US rates. And the corporate income base is not one that generates a lot of tax revenue, especially during an economic downturn.



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Let's Talk

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