

 CANADA

INSTITUT ÉCONOMIQUE DE MON-
TRÉAL

Y. Chassin et P. Lemieux, *L'inefficacité des nouvelles taxes internationales pour le développement*, 24 octobre 2013, 54 pages.

Les
« Financements
innovants
pour le dé-
veloppement »
sont-ils de
mauvaises
taxes?

L'aide internationale, contrairement au commerce et à la libre entreprise, a un impact limité sur la lutte contre la pauvreté. Pourtant, les bureaucraties internationales s'évertuent encore à créer de nouvelles taxes pour l'aide au développement. En

2000, le Programme des Nations Unies pour le développement commençait à parler de financements innovants pour le développement (FID), un ensemble complexe de projets de dépenses et d'organisations disparates financés par de nouvelles taxes. Les auteurs de cette étude sont sans équivoque : les taxes FID combinent presque tous les défauts qu'une taxe peut comporter, tant sur le plan politique qu'économique.

M. Krzepkowski, « Policy Forum: Tax Consequences of Income Splitting for Canadian Households », *Revue fiscale canadienne*, vol. 61, no 3, 2013, p. 681-693.

A recurring topic for policy debate has been the extent to which the income of a spouse should be included in determining an individual's tax burden. The current Canadian personal income tax system is

similar to the systems in many OECD countries. Individuals file separate tax returns with tax brackets based on their own income, while the size of transfers and credits is largely based on the total income of the household. During the 2011 federal election, the Conservative Party of Canada proposed a variation of joint taxation in the form of income splitting, allowing couples with a child under the age of 18 to shift up to \$50,000 of income between spouses for tax purposes, and thereby potentially lower the family's total tax burden. The purpose of this article is to consider how income splitting would affect different subsets of the Canadian population. The next section shows how the tax burden of couples most affected by income splitting would change under different proposals, and why these changes may be preferable to an increased reliance on means-tested transfers. The discussion then continues with a look at how these proposals may affect tax equity between households of different sizes. The article concludes with a short comment on issues

Les avantages et
inconvénients de
permettre le
fractionnement
de revenu pour
les familles
canadiennes.

of implementation and intra-family inequality.

FONDATION CANADIENNE DE FISCALITÉ

L. Philipps, « Policy Forum: Real Versus Notional Income Splitting—What Canada Should Learn from the US “Innocent Spouse” Problem », *Revue fiscale canadienne*, vol. 61, no 3, 2013, p. 709-721.

Les effets pervers du fractionnement de revenu : augmentation de l'inégalité des revenus entre les femmes et les hommes.

Canada's individual tax unit historically has allowed a spouse to report only income over which she or he has legal control. Income splitting therefore typically requires transferring ownership of income earning property in some fashion. I refer to this as 'real' income splitting to contrast

it with the purely notional assignment of income to a spouse's tax return, first introduced in 2007 for pension income only. This 'notional' income splitting allowed spouses for the first time to shift income between their individual tax returns to achieve a lower tax rate, without any obligation to share the underlying pension entitlement. The federal government has promised to expand notional income splitting to benefit all couples with dependent children once the federal deficit is eliminated (currently projected for 2015-16). This paper challenges advocates of income splitting to address its differential impact on men and women and argues that notional income splitting worsens gender economic inequality. It highlights the egregious risk that under notional income splitting some individuals, overwhelmingly women, will be targeted for enforcement actions to collect unpaid taxes on income they have never received or controlled. Known in the U.S. as the “innocent spouse” problem it is the most acute, but not the only way in which women are systematically disadvantaged by notional income splitting. Of broader concern are the economic incentives created by notional income splitting for second earners to be financial dependents, rather than income earners or property holders

in their own right. The paper urges Canadian policy makers, if they are intent on liberalizing spousal income splitting, to condition it upon a transfer of legal control over income or property to the lower-earning spouse.

INSTITUT C.D. HOWE

C. Neill, « What you Don't Know Can't Help You: Lessons of Behavioural Economics for Tax-Based Student Aid », *Commentary*, no 393, 2013, 28 pages.

Canada's federal and provincial governments spend a lot of money subsidizing postsecondary students. Tuition and education/textbook tax credits, in particular, cost the federal government

around \$1.6 billion in 2012 – a sum much greater than the net cost of the Canada Student Loan Program. These credits lower dramatically the cost of attending postsecondary education. Unlike other programs that support postsecondary education, there has not been a formal evaluation of the effectiveness of these tax measures, but there is good reason to conclude that they are poor policy. The immediate benefits of the credits go disproportionately to students from relatively well-off families, who are not relatively sensitive to the costs of postsecondary education, with students from lower-income families benefiting from them only after they have finished their education and have enough taxable income to claim the credit. Lessons from economics and from more recent innovations in behavioural economics emphasize that flaws in the design of postsecondary tax credits mean that they are unlikely to have any effect on youths' decisions to undertake or cope with the costs of postsecondary education. A simple change to the tax credits – making them refundable instead of non-refundable – would go a long way to making them more efficient and equitable. Whereas a non-refundable tax credit can't reduce the amount of tax owed to less than zero, a refundable tax credit can reduce your tax below zero and provide a refund. This change would provide a more immediate benefit to students from low-income families who need it most.

Les crédits d'impôt visant à encourager les études post-secondaires sont inefficaces.

R. Murphy, J. Clemens et N. Veldhuis, *The Economic Costs of Increased Marginal Tax Rates in Canada*, 10 octobre 2013, 51 pages.

Les taux marginaux trop élevés au Canada par rapport aux autres pays du G7.

Economists often focus on marginal tax rates (the extra tax an individual (or firm) will owe to the government for engaging in a little more of the taxed activity) as particularly important for altering economic behaviour. The

marginal tax rate is significant because it indicates the amount of tax a person will pay for an additional dollar earned. An extensive literature documents that taxes—particularly progressive income and capital taxes—reduce economic growth, saving and investment, business formation, and job creation. Superficially, with a top federal personal income tax rate of 29 percent, Canada appears to enjoy the lightest tax burden among the G7 countries and Australia. However, this appearance is deceptive. Canada places a relatively greater emphasis on provincial taxation than do other countries in its peer group. For example, both Quebec and Ontario have steeply progressive income tax codes, with top rates of 24 and 18.97 percent, respectively. Also, the top marginal rate kicks in at different thresholds around the world: in Canada, personal income tax thresholds are typically lower than in the other reference countries. In fact, both the federal top rate and the threshold at which that top rate kicks in are low compared to other countries. Taken together, these two adjustments put Canada's tax rates somewhere in the middle of those in the peer countries, underscoring the need for federal and provincial tax relief and reform if Canada wishes to build on past improvements and its current success. The most obvious solution to the relatively high total burden is income tax reform, particularly at the provincial level. The principles for income tax reform are straightforward: flatten rates and broaden the tax base (by reducing or eliminating tax credits, deductions, etc.).



CENTER ON BUDGET AND POLICY PRIORITIES

R. Kogan et R. Greenstein, *Low-Income Programs Are Not Driving the Nation's Long-Term Fiscal Problem*, 28 octobre 2013, 8 pages.

Low-income programs are not driving the nation's long-term fiscal problems, contrary to the impression that a narrow look at federal spending during the Great Recession might leave. In fact, virtually all of the recent growth in spending

for low-income programs is due to two factors: (1) the economic downturn and (2) rising costs throughout the U.S. health care system, which affect costs for private-sector care as much as for Medicaid and other government health care programs. Lawmakers should bear these facts in mind as they struggle over how to address the nation's long-term fiscal challenges.

Le coût des programmes fédéraux destinés aux personnes à faible revenu décline par rapport au PIB.

CENTER ON BUDGET AND POLICY PRIORITIES

N. Frenzt et C.-C. Huang, *Four Timing Gimmicks That Could Disguise Fiscally Irresponsible Individual Tax Reform*, 30 octobre 2013, 10 pages.

A key goal of tax reform should be to generate revenue to help reduce long-term deficits. Policymakers should not undermine this goal by using budget gimmicks to exaggerate the savings from a proposed

On ne devrait pas recourir à des artifices afin d'exagérer l'impact positif des réformes fiscales sur le déficit.

tax-reform package or, worse, as cover for tax “reforms” that expand deficits. They have used this approach before to enact regressive, deficit-increasing tax cuts. Four common timing gimmicks that could conceal fiscally irresponsible individual income tax reform are: 1) treating as tax increases changes that raise revenues initially but lose as much or more revenues later; 2) ignoring the fact that the revenue gains from some tax changes shrink over time; 3) phasing in costly provisions so their full cost doesn’t show up in the ten-year budget window; and 4) “sun-setting” costly provisions that Congress intends to extend permanently.

TAX POLICY CENTER

B. Harris et B. David, *Residential Property Taxes in the United States*, 18 novembre 2013, 13 pages.

Analyse des
impôts fonciers
prélevés par les
administrations
locales.

This brief presents an overview of residential property taxes in the United States. The brief considers recent trends in aggregate property tax revenues and examines

the property tax at the county level. Property taxes are an important source of revenue for local governments, though effective property tax rates vary substantially by state and region. The counties with the highest property tax burdens tend to be in New York and New Jersey, while the counties with the lowest property tax burdens are located in Alabama and Louisiana. Most counties levy property taxes that are around \$1,000 per homeowner and below 1 percent of house value.



INTERNATIONAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES (OCDE)

OCDE, « Climate and Carbon: Aligning Prices and Policies », *OECD Environ-*

ment Policy Papers, no 1, octobre 2013, 57 pages.

The international community has agreed to limit the average global temperature increase to no more than 2°C above pre-industrial levels. This will require a gradual phase-out of fossil fuel emissions by the second half of this

century. This report brings together lessons learned from OECD analysis on carbon pricing and climate policies. It recommends that governments ensure coherent policies surrounding the gradual phase-out of fossil fuel emissions and consistent signals to consumers, producers and investors alike. A key component of this approach is putting an explicit price on every tonne of CO₂ emitted. Explicit pricing instruments, however, may not cover all sources of emissions and will often need to be complemented by other policies that effectively put an implicit price on emissions. But the policies must be mutually supportive and as cost-effective as possible, both on their own and as a package. In addition, tax exemptions and fossil-fuel subsidies that undermine the transition towards zero carbon solutions must be reformed. Finally, the report highlights the issues of competitiveness, distributional impacts and communication as key elements in implementing climate policy reform.

Politiques de
contrôle des
émissions de
carbone : il faut
fixer un prix
pour chaque
tonne de CO₂.

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES (OCDE)

Cournède, B., A. Goujard et Á. Pina, « How to Achieve Growth- and Equity-friendly Fiscal Consolidation?: A Proposed Methodology for Instrument Choice with an Illustrative Application to OECD Countries », *OECD Economics Department Working Papers*, No. 1088, 2013, 111 pages.

Une méthode pour faire des choix éclairés de réduction des dépenses budgétaires et de hausse des recettes fiscales.

Malgré les efforts importants qu'ils ont fournis au cours des dernières années pour réduire les déficits, une majorité des pays de l'OCDE continue de faire face à de larges besoins d'assainissement budgétaire. Les choix effectués s'agissant de la nature des

dépenses à réduire et des impôts à augmenter auront des conséquences pour l'activité à court terme, pour la croissance à long terme aussi bien que pour l'équité et le compte courant. Ce document propose une méthode permettant de choisir les instruments de l'assainissement de telle sorte qu'ils soient aussi compatibles que possible avec les objectifs de promouvoir l'activité à court terme, la croissance à long terme, l'équité et le rééquilibrage économique mondial. La méthode proposée est illustrée par une série de simulations détaillées couvrant 31 pays de l'OCDE qui sont accompagnées d'une vaste gamme de scénarios alternatifs afin de vérifier la robustesse des résultats. Les simulations soulignent que la moitié des pays de l'OCDE peuvent réduire leur excès de dette principalement au moyen d'instruments (tels que les subventions, les pensions ou les taxes foncières) qui ont au plus des effets secondaires limités sur les autres objectifs de politique publique. Elles montrent aussi qu'un plus petit nombre de pays de l'OCDE sont confrontés à un choix plus difficile, ayant soit à fournir des efforts plus importants dans les domaines où la réduction des dépenses ou la hausse des taxes sont les moins dommageables, soit à s'appuyer fortement sur les instruments d'assainissement entraînant de notables effets secondaires. Ces arbitrages difficiles peuvent être atténués au moyen de réformes structurelles permettant d'améliorer l'efficacité de la dépense publique et du système fiscal.



DIVERS

SOCIAL SCIENCE RESEARCH NETWORK

S. Garufi, *Border Tax Adjustments and Environmental Protection: The Role of*

Taxes and the GATT Limits, 26 novembre 2013, 31 pages.

In recent decades environmental protection and more generally global warming have attracted great political concern. In this respect taxes can be some valid governmental tools to pursue specific environmental purposes,

as well as to create incentives to change unsustainable patterns of production and consumption into "green" ones. This paper first discusses about the role that taxes can play as a political instrument to stimulate responsible behaviours and illustrates some internationally shared principles regarding environmental policies. Then it provides for a definition of "Border Tax Adjustments" ("BTA") in order to focus on whether the application of BTA with a view to implement some friendly-environment policies may be in contravention with international trade law, as provided for in the GATT. The analysis concludes that even if BTA are generally admitted, under the destination principle, in the WTO context, there still remain some difficult issues to be solved. Adjustments imposed by States in order to pursue environmental goals should comply with all the requirements set forth in the GATT, but the lack of clear definitions and the case-by-case approach taken by the WTO case-law cannot give a clear answer to the question as to whether BTA for environmental purposes are consistent with international trade law. A solution to the problem might therefore reside in a case-by-case approach, in a broader international cooperation and in more enhanced market solutions (i.e. consumers should prefer environmental-friendly products to polluting ones).

Taxes environnementales : les limites imposées aux États membres par l'OMC.

SOCIAL SCIENCE RESEARCH NETWORK

J. L. Pomeranz, « Taxing Food and Beverage Products: A Public Health Perspective and a New Strategy for Prevention », *University of Michigan Journal of Law Reform*, vol. 46, no 3, 2013, p. 999-1027.

**Imposer une
taxe aux
manufacturiers
de produits
alimentaires
hautement
transformés,
afin de réduire
l'obésité.**

The power to tax and spend is considered a primary government power, and the use thereof is associated with great public health achievements. The greatest public health challenge at present stems from the increase in obesity and chronic diseases due to poor

nutrition. Several taxation strategies have emerged in the health and economic literature to raise revenue, deter consumption, and address food prices and obesity directly. These proposals include taxing obese individuals, taxing problematic food products, and instituting a tax based on certain food components. This article weighs each proposal's value and disadvantages and concludes by proposing a new tax and spend strategy: a manufacturers' excise tax on all highly processed food and beverage products. This tax would be instituted to raise revenue and provide conditional funding to states and locales to directly alter their food environment. It avoids the pitfalls inherent in the other tax strategies and is a viable method to address public health and the food environment more broadly.

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