

 **CANADA**

INSTITUT C.D. HOWE

M. Hamilton, « *Evaluating Public-Sector Pensions: Are Federal Public Servants Overpaid?* », 2 avril 2014, 28 pages.

**Le coût du
régime de
pension pour les
employés de la
fonction
publique sous-
estimé par le
gouvernement.**

The federal government appears to believe that pay in the federal public sector should be comparable to pay in the private sector on a total compensation basis. Two recent government reports are generally consistent with this view. To implement this principle, pensions must be valued appropriately. Fair values are the best measure of a pension plan's worth in a transaction where employees provide their labour in exchange for compensation that includes a valuable pension. However, governments appear not to apply fair value principles, preferring instead to use cost estimates developed for the funding of pension plans or for financial reporting in accordance with public-sector accounting standards. While the differences between fair values and funding estimates were not significant in the 1980s and 1990s when interest rates were high, the differences today are exceedingly large. The payroll for members of the federal Public Service Pension Plan was about \$20 billion in 2012, with

pension contributions totaling about \$4 billion. At fair market value, pension contributions would have been about \$8 billion. As a consequence, the federal government underestimated the 2012 compensation of these members by \$4 billion and reached a long list of erroneous conclusions about the cost of its pension plans and the compensation of its employees.

INSTITUT C.D. HOWE

W. Robson et A. Laurin, « *Ottawa's Hidden Deficit: The Widening Gap between Federal Government Pension Liabilities and Assets* », 19 avril 2014, 24 pages.

Since the financial crisis in 2008, controversy has existed over whether governments should use fiscal policy in an attempt to stimulate economic activity, or whether fiscal consolidation is preferred. Those

who call for continued stimulation focus on how slow and incompletely shared our recovery has been, while those favouring austerity argue that postponement of deficit and debt reduction retards business expansion, thereby hurting the recovery. This study evaluates the many strands of this fiscal policy debate, and applies the lessons to the decisions currently facing the federal and Ontario governments.

**Fond de pension
des employés de
la fonction
publique
fédérale : un
fardeau fiscal
méconnu par les
contribuables!**

CANADIAN CENTRE FOR POLICY ALTERNATIVES

D. MacDonald, *Outrageous Fortune - Documenting Canada's Wealth Gap*, 3 avril 2014, 22 pages.

La réduction des écarts de richesse par la fiscalité.

This report examines the details of Statistics Canada's wealth survey and finds that wealth inequality trends have quietly gone unnoticed—and in fact, Canada's wealth gap is bigger than its income gap. The report also provides an analysis of the 86 wealthiest Canadian residents, finding that they held the same amount of wealth in 2012 as the bottom 11.4 million Canadians combined. The paper concludes by examining a few options to help narrow Canada's wealth gap, including reforms to capital gains tax and a higher inclusion rate/higher income taxes at the top of Canada's income spectrum.

FRASER INSTITUTE

P. Cross, *The Reality of Retirement Income in Canada*, 24 avril 2014, 57 pages.

Une réforme des régimes d'épargne-retraite à l'horizon?

The 2008 financial crisis reminded Canadians about the uncertainty of asset values in homes and financial markets, and the vulnerability of pension benefits to insolvency, provoking angst about the adequacy of Canada's retirement income system. Some provinces now want to undertake an expansion of the Canada Pension Plan (CPP) out of concerns that the pension system will not adequately meet the future needs of the middle class. In fact, the Ontario government has pledged to create its own provincial public pension plan, given a lack of federal and provincial consensus on expanding the CPP. However, there is no crisis for the current generation of retirees. Building on the three pillars of Canada's pension system, the current retirement income system serves the vast majority of Canadians very well. The problem of pov-

erty among the elderly, which drove many of the reforms in the 1970s and 1980s, has largely been eliminated. Seniors are living longer, healthier, wealthier, and more productive lives. This is one of our society's great achievements in recent decades. The improved outcomes for older Canadians resulted from far more than government policymaking. Canadians, as individuals, have shown good judgment in managing their retirement, drawing on resources both inside and outside the formal pension system. They are saving much more than is commonly assumed; they are investing more in RRSPs than any other form of pension assets; they are rapidly accumulating assets outside of the formal pension system; and they are radically changing their labor force behavior as they approach retirement. The available evidence suggests that they will be knowledgeable partners, not passive victims, in managing their retirement security in the future. The problems forecast by critics of the current pension system are long-term projections based on shaky foundations. Rather than expanding the Canada Pension Plan as Ontario and other provincial governments propose, governments would better serve Canadians by addressing gaps in the current system of pension support, such as the growing fiscal burden of funding social security and public sector pension plans, and the pockets of poverty among single elderly individuals who never worked.

FRASER INSTITUTE

M. Palacios, F. Vaillancourt, S. Speer, M. Lugo, *The Cost to Canadians of Complying with Personal Income Taxes*, 30 avril 2014, 53 pages.

The current study builds on previous Fraser Institute research estimating the total compliance costs associated with Canada's tax system. This study aims to estimate the cost of complying with the personal income tax system in 2012. It updates past estimates for the average amount of time and financial resources that Canadians spend to comply

Analyse et solutions en regard des coûts liés à la conformité fiscale des particuliers.

with the system, and then calculates aggregate compliance costs in Canada. The study estimates that Canadians spent between \$5.84 billion and \$6.96 billion complying with the personal income tax system in 2012. To put this in perspective: we estimate that personal tax compliance represents 0.5 percent of total household income in 2012. This is roughly \$501 per year for each Canadian household, or more than what the average household spent on groceries per month in that same year, according to Statistics Canada data. These costs fall disproportionately on lower-income taxpayers who spend a greater share of their income complying with the personal income tax system. We estimate that the ratio of tax compliance costs relative to income ranges from 3.3 percent for the lowest income group, to 0.9 percent for the second lowest, to 0.5 percent for the third lowest, and 0.3 percent for the highest income group. The study also examines the extent to which tax credits, deductions, and other special tax provisions contribute to higher tax compliance costs. The study estimates that the aggregate compliance costs borne by Canadian taxpayers who used at least one of a sample of 10 federal tax expenditures was \$730.4 million (2007 dollars), which provides an illustrative sense of the extent to which tax expenditures can contribute to overall compliance costs. Although lowering tax compliance costs is a not a central goal of this analysis, a number of specific measures that could be taken to reduce them are available to Canadian governments. The most obvious would be to reduce tax policies that add complexity to the personal income tax system, such as tax expenditures.

 **ÉTATS-UNIS****CENTER ON BUDGET AND POLICY PRIORITIES**

R. Greenstein, J. Wancheck et C. Marr, *Reducing Overpayments in the Earned Income Tax Credit*, 7 avril 2014, 9 pages.

Both the debate over the minimum wage and the recent 50th anniversary of President Johnson's War on Poverty have focused more attention on the Earned Income Tax Credit (EITC) for low- and moderate-income workers, which has been shown to increase work, reduce poverty, and low-

er welfare receipt. In addition, some leading experts from across the political spectrum, as well as President Obama, have recommended expanding the EITC for adults not raising children, who currently are eligible for only a very small credit. These developments have brought renewed attention to the EITC's error rate. As policymakers consider whether to improve the EITC for childless workers, they can also take additional steps to reduce the error rate, taking account of these basic facts: EITC errors occur primarily because of the complexity of the rules surrounding the credit. Most of them thus reflect unintentional errors, not fraud. What the Internal Revenue Service (IRS) refers to as the EITC's "improper payment rate" is not a "fraud" rate and shouldn't be characterized as such. IRS studies of EITC overpayments suffer from methodological problems that likely cause them to overstate the actual EITC overpayment rate, as analysis by the IRS National Taxpayer Advocate has shown. As the Treasury Department's Inspector General for Tax Administration has noted, EITC administrative costs are very low, at less than 1 percent of the benefits provided. The Inspector General has commented that "this is quite different from other non-tax benefits in which administrative costs related to determining eligibility can range as high as 20% of program expenditures." Testimony from the IRS National Taxpayer Advocate, Nina Olson, suggests that if EITC payments had been delivered by another agency that spent 20 percent of program expenditures verifying eligibility, little or no net savings would accrue.

CENTER ON BUDGET AND POLICY PRIORITIES

C. Marr, N. Frenz, S. Parrott, A. Sherman et C. Huang, *Lone Group Taxed Into Poverty Should Receive a Larger EITC*, 14 avril 2014, 5 pages.

**Les crédits
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**Analyse de
l'interaction
entre le Health
Sponsored
Insurance et le
Old Age,
Survivors, and
Disability
Insurance.**

Policymakers have taken important steps in recent decades to prevent the federal tax code from taxing people into or deeper into poverty. This bipartisan effort has helped shape various features of the tax code including the Earned Income Tax Credit (EITC), a tax credit for low- and moderate-income working people. In addition to its other roles, such as serving as a pro-work wage subsidy, the EITC helps keep income and payroll taxes from pushing millions of low-wage workers into poverty. But the commitment to keep the federal tax code from taxing low-income workers into poverty has fallen far short for one group of 7 million people: childless adults. These individuals begin to owe federal income tax while earning less than the poverty line (which is now about \$12,000 for a single worker). The income taxes they pay push them deeper into poverty, as do the substantial payroll taxes they also owe. And, the EITC for which they are eligible is much too low to offset more than a very small share of their income and payroll tax liabilities. In 2012, federal income and payroll taxes pushed 1.2 million childless workers into poverty and another 5.8 million deeper into poverty. Increasing the EITC for childless workers, as the President and many in Congress have proposed, can help address this problem.

**CENTER ON BUDGET AND POLICY
PRIORITIES**

C. Marr, C. Huang et A. Sherman, *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds*, 15 avril 2014, 12 pages.

The Earned Income Tax Credit (EITC), which went to 27.9 million low- and moderate-income working families in 2011, provides work, income, educational, and health benefits to its recipients and their children, a substantial body of research shows. In addition, recent ground-breaking re-

search suggests, the EITC's benefits extend well beyond the limited time during which families typically claim the credit. The research indicates that children of EITC recipients, for instance, do better in school, are likelier to attend college, and earn more as adults. The EITC expansions of the 1990s have contributed as much to the increases in work among single mothers and female heads of households that have occurred since that time as the welfare reforms enacted in that

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period, extensive research has found. Women who benefited from those EITC expansions also experienced higher wage growth in subsequent years than did otherwise similarly situated women. And, by boosting the employment and earnings of working-age women, the EITC boosts the size of the Social Security retirement benefits they ultimately will receive. In addition, the research shows that by boosting the employment of single mothers, the EITC reduces the number of female-headed households receiving cash welfare assistance. The EITC may also improve the health of infants, research indicates. Moreover, income-boosting measures such as the EITC improve educational outcomes for young children in low-income households, recent research finds.

TAX POLICY CENTER

E. Toder et A.D. Viard, *Major Surgery Needed: A Call for Structural Reform of the U.S. Corporate Income Tax*, 4 avril 2014, 52 pages.

A corporate income tax can play a useful role by preventing shareholders from deferring tax on retained corporate profits. The current U.S. corpo-

**Réforme du taux
corporatif
américain :
2 solutions
proposées.**

rate income tax is deeply lawed, however, because it relies on definitions of corporate residence and income sourcing that corporations can easily manipulate, causing economic distortions and erosion of the corporate tax base. Two structural reform options to address these problems are securing international agreement on better ways to allocate the corporate tax base among countries and replacing the corporate income tax with full taxation of American shareholders' dividends and accrued capital gains on stock in publicly traded companies.

TAX POLICY CENTER

K. E. Smith and E. Toder, *Adding Employer Contributions to Health Insurance to Social Security's Earnings and Tax Base*, 1^{er} mai 2014, 48 pages.

Including employer-sponsored health insurance (ESI) in taxable compensation would increase income and payroll tax receipts, but would also increase Old Age, Survivors, and Disability Insurance (OASDI) benefits by adding ESI to the OASDI earnings base. The increased present value of OASDI benefits from including ESI in the wage base in 2014 would offset about 22 percent of increased income and payroll taxes, 57 percent of increased payroll taxes, and 72 percent of increased OASDI taxes. Both taxes and benefits as a share of income would increase between the bottom and middle quintiles and then decline for higher income taxpayers.

POLICY CENTER

D. Marron and E. Todder, *Tax Policy Issues in Designing a Carbon Tax*, 27 mai 2014, 6 pages.

Quelles devraient être les composantes d'une taxe sur le carbone?

A carbon tax is a promising tool for discouraging the greenhouse gas emissions that cause climate change. In principle, a well-designed tax could

reduce the risk of climate change, minimize the cost of emissions reductions, encourage innovation in low-carbon technologies, and raise new

public revenue. But designing a real-world carbon tax poses significant challenges. We analyze those challenges from a public finance perspective, emphasizing three tax policy design issues: setting the tax rate, collecting the tax, and using the resulting revenue. The benefits of a carbon tax will depend on how policymakers address those issues.

JOINT COMMITTEE ON TAXATION

The Joint Committee On Taxation, *Overview Of Selected Tax Provisions Relating To The Financing Of Surface Transportation Infrastructure*, 6 mai 2014, 31 pages.

This document, prepared by the staff of the Joint Committee on Taxation, provides a description of present-law provisions relating to the Highway Trust

Propositions pour le financement des infrastructures américaines.

Fund and its dedicated taxes, and an overview of public-private partnerships and related tax considerations, and a description of tax-exempt financing that is available for certain transportation infrastructure. The document also briefly describes tax-credit and direct-pay bonds, a proposal to create a tax-credit bond program for infrastructure, and proposals to create a national infrastructure bank.

INTERNATIONAL

SOCIAL SCIENCE RESEARCH NETWORK

M. J. Graetz, *The Tax Reform Road Not Taken -- Yet*, 1^{er} mai 2014, 23 pages.

Réforme fiscale américaine : pour une croissance économique substantielle.

The United States has traveled a unique tax policy path, avoiding value added taxes (VATs), which have now been adopted by every OECD country and 160 countries worldwide. Moreover, many U.S. consumption tax advocates have insisted on direct personalized taxes that are unlike taxes used anywhere in the world. This article details a tax reform plan that uses revenues from a VAT to substantially reduce and reform our nation's tax system. The plan would (1) enact a destination-based VAT; (2) use the revenue produced by this VAT to finance an income tax exemption of \$100,000 of family income and to lower income tax rates on income above that amount; (3) lower the corporate income tax rate to 15 percent; and (4) protect low and-moderate-income workers from a tax increase through payroll tax credits and expanded refundable child tax credits. This revenue and distributionally neutral plan would stimulate economic growth, free more than 150 million Americans from having to file income tax returns, solve the difficult problems of international income taxation, and remove the temptation for Congress to use tax benefits as if they are solutions to the nation's pressing social and economic problems.

SOCIAL SCIENCE RESEARCH NETWORK

R. Buijze, *Tax Incentives as a Measure to Support the Arts in a Globalizing World*, 28 mai 2014, 15 pages.

Le financement des arts par la fiscalité est-elle l'unique solution?

The notion of common goods or shared goods can help explain the expansion of audiences for arts organizations due to globalization. This expanded audience provides new fundraising opportunities for the arts. Governments, however, often have not anticipated to these new opportunities. In many countries government support for the arts remains a domestic issue. By only granting tax incentives in a domestic situation governments can even discourage their taxpayers to contribute to an arts organization resident abroad, hindering cross-border fundraising activities of arts organizations. This article puts forward the new fundraising opportunity for the arts that occurs

due to globalization, as well as how this opportunity is hindered by tax barriers. An overview is provided of the current existing private- and state solutions to overcome these tax barriers. The solutions are illustrated by means of examples derived from the Netherlands.

OCDE

E. Slack, et R. Bird, *The Political Economy of Property Tax Reform*, 9 avril 2014, 37 pages.

Property taxes are generally considered by economists to be good taxes, and many countries are being advised to in-

Réforme des impôts fonciers : difficultés et pistes de solutions.

crease and improve their property taxes. In practice, however, property tax reform have often proved to be difficult to carry out successfully. This paper discusses why property taxes are particularly challenging to reform and suggests several ways in which efforts to reform this tax may become more successful in the future.

OCDE

N. Brant, *Greening the Property Tax*, 8 avril 2014, 17 pages.

This paper reviews the literature and policy discussions about the role of the property tax for land use. Various externalities of the development of land are not internalised fully by property taxes. The impact of property taxes on land use intensity and sprawl is ambiguous in theory, however, and it depends on tax design. There is evidence suggesting that higher property taxes can limit urban sprawl, in particular when the tax on land is higher than on structures, although effects are small given relatively given a limited price elasticity of land use.

Les impôts fonciers devraient-ils internaliser les externalités?

INSTITUTE FOR FISCAL STUDIES

S. Adam and C. Emmerson, *Inheritance tax: should it be reformed or abolished?*, 22 mai 2014, 5 pages.

Droits de succession : réforme ou abolition?

This article analyzes the effectiveness of inheritance tax and considers possible directions for reform. The authors' paper analyzes the effectiveness of the inheritance tax by considering the inefficiencies of the tax, such as the double taxation issue, the low level of revenues generated by the tax, as well as equality of opportunity concerns.

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