



Canada needs to re-think how and what we tax. We should put our tax policies to work for better, more sustainable communities.

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Making the Tax Shift

CANADIANS PAY TAXES TO PAY FOR CANADA. Taxes support our communities and sustain our lifestyles. We depend on tax dollars everyday for roads, schools, and hospitals; for parks, libraries, and fire halls; for meat inspectors, police officers, and policy analysts; for garbage trucks, Coast Guard helicopters, and community centres; for public broadcasting, climate research, and the arts. Canada, thanks in large part to the taxes we pay, is one of the safest, healthiest, most livable countries in the world.

No doubt, tax revenues are the financial backbone of all three levels of government. How we spend tax money, however, is only one half of the story when it comes to the effects of tax policy on our everyday lives.

The other half is what and how we choose to tax.

It can be argued that in Canada we tax largely the wrong things. All levels of government just want revenues, and only political hot buttons and ease of collection guide how they get them. In general, we tax the 'good things': merchandise, services, income, and property—the fruits of our

hard work. What we don't do in Canada is significantly tax the 'bad things,' the negative byproducts of our economy, things like pollution, over-consumption, waste, and urban sprawl.

"In general, in Canada we tax the 'good things,' like merchandise, services, income, and property, but not the 'bad things,' like pollution, over-consumption, waste, and urban sprawl."

The simple logic of this tax structure is that by failing to tax detrimental processes and outcomes, we implicitly encourage bad behaviours. We tax income but not how that income is generated, nor wealth itself. We tax the buildings on land, but rarely the value of the land itself. This results in an economic engine that promotes negative social outcomes. For instance, it makes more sense, tax-wise, for most Canadian developers to build a strip-mall outside of the city centre than to restore a heritage building.

A Better Way to Tax

Why don't we have a more intuitive tax system?

For years, a leading group of economists and their adherents have advocated for just that. They call it "tax shifting," a revised tax system where we relieve taxes on pro-social and environmental activities and levy additional costs on harmful,

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unsustainable ones. Tax shifters want to use tax policy to improve Canadian communities: curb pollution, ease congestion, halt urban sprawl, and alleviate other social ills by taxing their causes. In the hypothetical tax-shifted world, income and business taxes have been cut back dramatically and replaced with fees and levies on activities we wish to discourage—true-cost pollution taxes, metered water usage, tailpipe tolls, congestion charges.

While tax shifting has its critics—from those who decry the inequity of user fees, to those who charge that changes are just another tax grab—the approach remains an important and viable proposal for how to redesign taxes to align them with sustainability. Canadian communities, large and small, stand to benefit from a more just and equitable system of taxation.

With taxes, as with any government policy, the “devil is in the details.” Taxes will always need to be adjusted to assure fairness, but well designed tax shifts can deliver both greater fairness within society and address the equity gap between generations (one of the most ignored forms of equity in our society). Our current economy will pass a huge debt down to future generations who will be significantly less able to manage the triple-

whammy of failing resource economies, damaged social systems, and a devastated environment than we are today.

More Livable, More Sustainable Communities

If we taxed the activities that harm or put our communities at risk, we double up on the benefit of taxes. Not only would we be spending the money to support and strengthen our communities, we would be deterring negative behaviours. Further, the financial disincentives for harmful, unsustainable activities would not only curb those activities, but the revenues from such taxes would also help pay for their true social and environmental costs.

As a result, over the long-term, tax shifting can lead to positive changes in the economy. For example, stiff taxes on greenhouse gas emissions would likely trigger a ‘green revolution’ in the economy where alternative energy technologies have struggled to emerge in an economic system that still grants huge economic favours to carbon-based energy producers. Further, we could tax inefficient land use, like single-level parking lots and derelict buildings, and target the revenues for social housing, sparking safer, and more vibrant downtowns. In London (UK), the congestion charge for driving in the downtown core has met with great success: traffic is down and the revenues have been poured back into mass transit.

With a little creativity and a commitment to re-thinking how we tax, the possibilities for tax

shifting—and better, more sustainable communities—are virtually limitless.

Making the Shift

Tax shifting isn't an all-or-nothing gambit. Shifts in taxation can be piecemeal and gradual, tailored to suit the unique context of a community.

Municipalities, for instance, can begin with small shifts, like a drop in property taxes in return for improving housing density with secondary suites, or a fee-per-bag garbage pick-up system to discourage waste. Shifts can be ongoing and, if desired, revenue neutral (although the great challenge of many Canadian municipalities is a lack of funding).

Higher-level governments can reward tax shifts with greater authority and tax point rewards, and even foster policy collaboration between levels of government. Taxes are always about a balancing of interests, but our current system is anything but fair. Far from innovative, it creates perverse signals to waste resources and cut jobs. Taxes could be more in-line with the ultimate goal: a more livable, more sustainable Canada.

Tax by Value

While tax shifts may present economic benefits to some jurisdictions, the greatest benefit is that we truly align our tax system with our social values. When we use the tax system to promote positive community outcomes—less pollution, reduced congestion, less waste, reduced sprawl—and 'punish' negative ones, the concept

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of taxes suddenly becomes more transparent. Citizens can see where their tax dollars go. Moreover, developers and progressive businesses will see the incentives for balanced and sustainable development, and benefit accordingly.

In Canada, what we tax and how we view tax revenues is limiting our ability to create better places to live. Policy makers at all levels of government should seriously consider tax shifting as a viable instrument for social change. Politicians need to move beyond the recognition that tax shifting can make a difference and actually work towards making those changes. The public, in turn, has to recognize the value in tax shifting and support such endeavours.

The key to progress on tax shifting is making the public more aware about the role of taxes in creating a more livable Canada. Politicians on the whole are afraid to mess with taxes, therefore those pushing this agenda need more support. Those political leaders capable of supporting tax shifting need our energy—it's hard to make taxes “sexy” in political circles, but it must be done. Progressive government at all levels could lean in and make big, lasting changes, if only we put more of our energy into up-stream solutions like tax shifting.

Perhaps it's time for a real tax shift. ■