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Broken Promises: The Persistence of Elevated Personal and Corporate Income Taxes in Ontario

by Ben Eisen, Nathaniel Li, and Steve Lafleur

Summary

- Since 2012, Ontario's top marginal personal income tax rate (PIT) rate has increased by 7.12 percentage points, from 46.41 to 53.53 percent. As a result, Ontario now has the third highest top combined federal/provincial or federal/state top income tax rate in Canada or the United States.

- This increase has been the result of both federal and provincial tax increases.

- Despite repeated promises not to increase taxes, Dalton McGuinty's government (2003-2013) enacted provincial tax increases that raised the province's top PIT. Premier McGuinty also promised the increase was temporary and would later be reversed but neither he nor his successor Premier Wynne (2013-2018) made good on this commitment.

- The Ford government criticized its predecessors for maintaining an uncompetitively high PIT rate in Ontario while in opposition, but has also failed to take action to reduce the rate.

- When running for office in 2018, the Ford government promised to reduce Ontario's general corporate income tax (CIT) rate by one percentage point, but that promise has not been kept.

- High personal and corporate income tax rates reduce economic output over time. As such, the repeated broken promises from different premiers of different political stripes that have contributed to the persistence of high taxes in Ontario have harmed economic growth in the province.

Introduction

Ontario's top combined federal/provincial or federal/state statutory marginal personal income tax (PIT) rate is the third highest in Canada or the United States. Only Newfoundland & Labrador and Nova Scotia have higher top rates and the gap between the three provinces is just 1.27 percentage points. Ontario's top marginal rate is much higher than that of many nearby American states with whom Ontario competes for trade and investment (Hill, Li, and Palacios, 2020).

Ontario's high and uncompetitive tax rates has created a challenge that has been exacerbated in recent years by policy changes at both the federal and provincial levels. In early 2010 following the 2008-09 recession, Dalton McGuinty's provincial government introduced what was then billed as temporary personal income tax increases to address the provincial budget deficit. In 2016, Justin Trudeau's Liberal government created a new top federal income tax bracket of 33 percent (the previous high had been 29 percent.) Combined, these two increases brought Ontario's top marginal tax rate to 53.53 percent.

To varying degrees, the provincial premiers have recently started to recognize the problems brought about by high top marginal personal income taxes; several have committed to making recent increases temporary and to lowering rates from their current levels. However, to date these commitments have not been met.

In addition to broken commitments on top PIT rates, provincial leaders have also broken recent promises to reduce the corporate income tax rate (CIT). As part of his "open for business" platform, Premier Doug Ford committed to reducing Ontario's corporate income tax rate from 11.5 to 10.5 percent. That commitment has also not been fulfilled.

This bulletin will review the recent history of the evolution of Ontario's personal income tax, then discuss either explicit promises or implicit commitments that various officials under successive governments made to reduce PIT rates, but that have been broken. It will also briefly examine commitments made by various Ontario governments to reduce the province's corporate income tax rates—commitments that have also been broken.

There are many reasons why personal income tax rates on higher earning professionals and on businesses in Ontario are uncompetitive. But those reasons all have one thing in common: political leaders' recent commitments to address Ontario's tax competitiveness challenges have been broken.

A brief history of Ontario's rising top personal income tax rates

Since 2010, Ontario's top PIT rate has increased by 7.12 percentage points, from 46.41 to 53.53 percent.[1] These tax policy changes have left Ontario with the third highest top marginal personal income tax rate (PIT) in Canada or the United States, only slightly behind Newfoundland & Labrador and Nova Scotia. High marginal PIT rates weaken incentives for individuals to work, save and invest (Ferede, 2020), so this development has negative implications for Ontario's long-term economic growth prospects.

[1] Technically, Ontario maintains somewhat lower statutory income tax rates, but applies surtaxes to provincial tax bills which have the effect of raising the actual marginal tax rates facing workers. We discuss this quirk of Ontario's tax system below.

Of the 7.12-point increase described above, 4 percentage points were the result of a federal tax change in 2016 that created a new top tax bracket of 33 percent. The remaining 3.12 percentage points are the result of provincial policy choices.

The provincial policy change that increased the PIT rate was the "Deficit Fighting High-Income Tax Bracket" which was enacted in 2012. The tax increase created new tax brackets which had the effect of increasing Ontario's top statutory rate two percentage points over the course of two years.

The actual effect of these increases was larger than the statutory rate increase because of Ontario's complex PIT system which includes a two-tiered surtax on higher incomes. Specifically, for 2022, the surtax requires taxpayers to pay an additional 20 percent on any provincial income tax payable greater than $4,991 and up to $6,387. Where the basic provincial tax payable is greater than $6,387, the surtax on additional payable tax is 36 percent.

As a result, each one percentage point increase in the statutory rate enacted in 2012 and 2013 increased the top provincial and top combined PIT rate by 1.56 percentage points. The cumulative effect was an increase of 3.12 percentage points, bringing the top provincial marginal rate to 20.53 percent. Table 1 shows the current structure of Ontario's progressive PIT system with thresholds and rates paid with surtaxes included.

Table 1: Ontario Tax Brackets and Rates Including Surtaxes, 2023

2023 Taxable Income ($)	Marginal Personal Income Tax Rate (%)
First $49,231	5.05
Over $49,231 up to $98,463	9.15
Over $53,359 up to $86,698	10.98
Over $86,698 up to $102,135	13.39
Over $102,135 up to $150,000	17.41
Over $150,000 up to $220,000	18.97
Over $220,000	20.53

Note: The indexation factors, tax brackets, and tax rates for 2023 have not yet been confirmed by the Canada Revenue Agency.

Source: Canada Revenue Agency, 2022.

Figure 1 shows how the province's top personal rate has increased since 2010 due to the introduction of the two-staged, 3.12-percentage-point increase in the top provincial rate from 17.41 percent to 20.54 percent in 2012-13, where it has remained since. Figure 2 shows how Ontario's combined top provincial and federal top marginal PIT rate has shifted from 2010 to 2023 due to the combined effect of both provincial and federal policy changes.

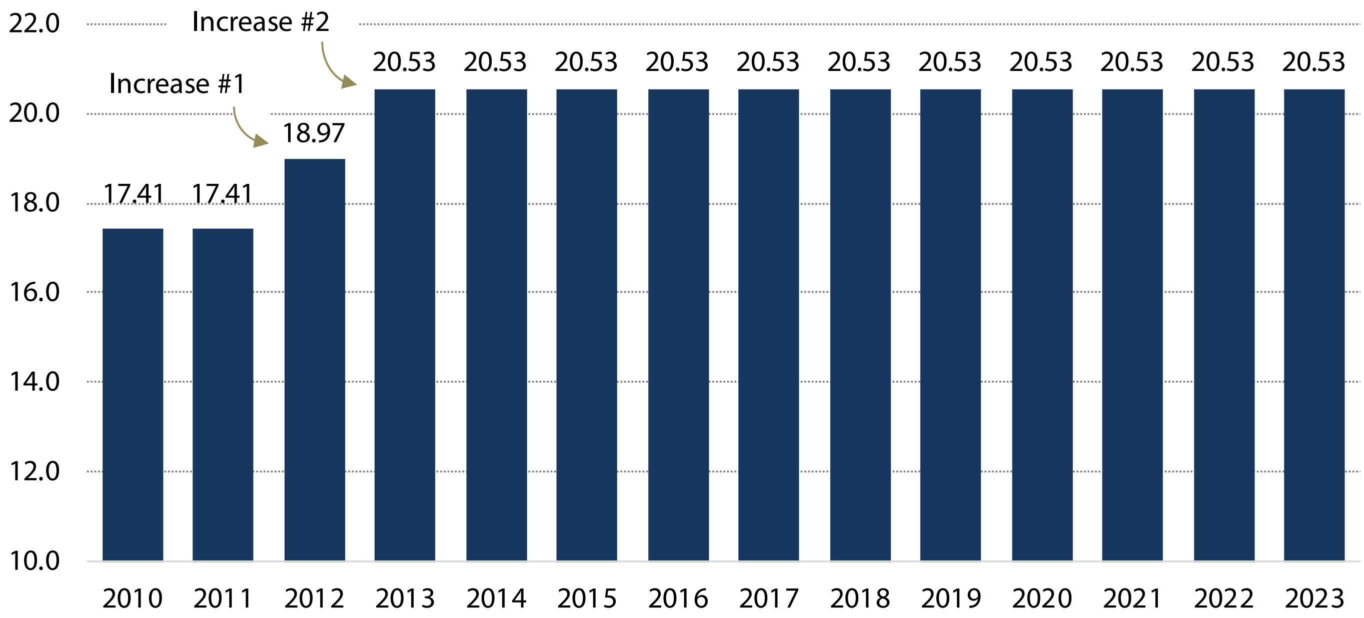
Broken promises: Political rhetoric surrounding PIT changes in Ontario

As we have seen, provincial policy has contributed to the pattern of increasing top marginal tax rates in Ontario over the past decade. This section will compare this policy record to political rhetoric in the province and show that the persistence of high PIT rates represents a broken promise.

Taken together, the McGuinty government and Kathleen Wynne's successor government broke promises both in advance of and following the introduction of the tax increases.

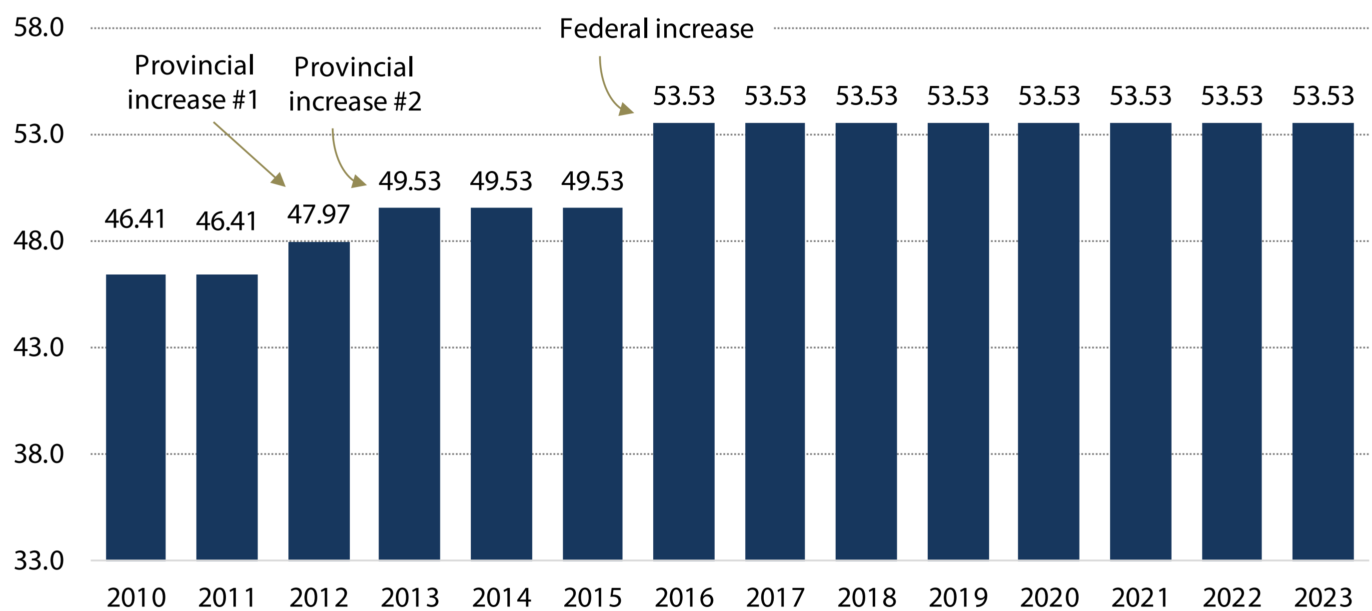
During multiple election campaigns, Dalton McGuinty promised not to increase taxes on

Figure 1: Top Provincial Statutory Personal Income Tax Rates in Ontario, 2010-2023



Source: Canada Revenue Agency, 2022.

Figure 2: Top Provincial and Federal Statutory Personal Income Tax Rates in Ontario, 2010-2023



Source: Canada Revenue Agency, 2022.

Ontarians, and repeatedly failed to honour that commitment. During the 2003 campaign, then-candidate McGuinty signed the Canadian Taxpayer Federation's "Taxpayer Protection Pledge," which was a commitment not to increase taxes if he were to form a government (Bliss, 2007). Nevertheless, upon taking office his government almost immediately introduced a new heath care levy.

Following the 2008/09 recession and a spike in provincial spending, Ontario was facing a large deficit. During the 2012 campaign, Premier McGuinty made another blunt commitment not to increase taxes. When asked by a reporter whether taxes would be increased to address the provincial deficit, he replied simply, "nope." Finance Minister Dwight Duncan further confirmed there would be no tax increases to address the deficit (*The Record*, 2012).

Clearly the McGuinty government broke these promises: the tax increases described above were in fact enacted.

In the process of enacting the 2012-13 tax increase, the McGuinty government committed to making the increases temporary. A budget backgrounder spelled out explicitly that the new tax brackets would be phased out by 2017/18, committing that "the new tax bracket would be eliminated once the budget is balanced by 2017-18" (Ontario Ministry of Finance, 2012).

In the spring of 2017-18, Kathleen Wynne's government did table a balanced budget (although the province failed to achieve balance over the course of that fiscal year), but the 2017/18 budget did not eliminate the new top tax brackets as had been promised.

The Ford government has also left the supposedly temporary top bracket in place since taking office in 2018. On the campaign trail and since it took office the Ford government has clearly asserted that taxes need to be lower in Ontario. In fact, the Premier has gone as far as to say, "the worst place you can hand your money over is to the government" (Crawley, 2021). On the specific issue of Ontario's elevated PIT rates, while in opposition the Ford government's first finance minister, Vic Fedeli, frequently criticized the Liberal governments of the day for Ontario's high personal income tax rates. In his "Focus on Finance" book series, Fedeli was frequently sharply critical of Ontario tax policy on the grounds that the top rate was uncompetitive with other provinces and American states as well as other OECD jurisdictions (Fedeli, 2018).

The introduction of the 2012-13 PIT increases in Ontario represented a broken commitment on the part of Premier McGuinty not to increase taxes in response to Ontario's large deficit. His successor's failure to eliminate the new tax brackets 2017/18, essentially making the temporary brackets permanent, represented another broken promise. The Ford government has continued its predecessors' policy on the province's top marginal PIT rate despite sharply criticizing that policy while in opposition.

Corporate tax increases in Ontario—More broken promises

The broken promises aren't limited to personal income tax increases. Ontario's government has also broken its promises on corporate tax increases. In an effort to help attract investment and spur economic growth, Dalton McGuinty's government announced a plan to gradually reduce Ontario's general corporate income tax (which had been amongst the highest in Canada) from 14.0 percent in 2009 to 10.0 percent in 2013.

The McGuinty government almost immediately changed course on this commitment. In its 2012 budget, his government froze the CIT at 11.5 percent rather than proceeding with the continued reductions to 10.0 percent (McGuinty, 2015).

In 2017/18, when it tabled a projected balanced budget for the year, Kathleen Wynne's government did not follow through on her predecessor's promise to resume CIT reductions. As in the case of the PIT, Ontario's failure to reduce its CIT rate is a combination of two broken promises over the course of a multi-year period by the McGuinty and Wynne governments.

The Ford government, also, has broken explicit promises it made about the CIT. On the campaign trail, the then-opposition PCs committed to reducing the general CIT by one percentage point from 11.5 to 10.5 percent (Jeffords, 2018). Ford asserted that doing so would "enable businesses to create good paying jobs and attract businesses back to Ontario." However, in office, Premier Ford has not made good on this commitment and has confirmed his predecessors' decision to not continue the process of reducing Ontario's general CIT.

Discussion and conclusion

Premier Ford and his Liberal predecessors have all broken important promises they made about the taxation of income—business and personal—in Ontario. This has likely been to the detriment of Ontario's economy. All else equal, lower taxes are growth promoting (Romer and Romer, 2010). The Canadian evidence suggests that maintaining higher tax rates on corporate income and top marginal PIT rates has been particularly harmful for Canada.

When discussing the costs of various tax categories, economists often estimate the marginal cost of public funds, "a measure of the loss incurred by a society in raising an additional dollar of tax revenue" (Ferede and Dahlby, 2016). Canadian research suggests that the CIT is amongst the most economically harmful components of Canada's tax mix per dollar raised (Ferede and Dahlby, 2016).

PIT rates as high as those that prevail in Ontario can be similarly economically harmful. Ontario's high personal income tax rates are so damaging that Ferede and Dahlby (2016) and Dalby and Ferede (2022) estimated that the next dollar of tax raised through personal income taxes was even more damaging than corporate taxes in 2013 and 2020. In fact, Ferede (2020) estimated that eliminating Ontario's top income tax bracket (the "Deficit-Fighting High-Income Tax Bracket" referred to above would nearly pay for itself, since doing so would spur economic activity in the province.

For these reasons, keeping their promises to maintain a lower top PIT rate than currently prevails and to reduce the province's CIT rate would have helped contribute to economic growth in Ontario. In short, the broken tax relief promises of recent premiers have reduced the province's prospects for robust growth.

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Ben Eisen *is a senior fellow in Fiscal and Provincial Prosperity Studies at the Fraser Institute. He holds a BA from the University of Toronto and an MPP from the University of Toronto's School of Public Policy and Governance.*

Nathaniel Li *is an Economist at the Fraser Institute. He holds a BA from the Fudan University in China and a PhD in Food, Agricultural and Resource Economics from the University of Guelph.*

Steve Lafleur *is a former Senior Policy Analyst at the Fraser Institute. He holds an MA in Political Science from Wilfrid Laurier University and a BA from Laurentian University where he studied political science and economics.*

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