Nego Bulletin

Public Finance: Other Choices are Possible! Part 3

This is the third in our series on alternatives to the Couillard government push for Austerity. The Coalition opposée à la tarification et à la privatisation des services publics has proposed a series of measures that would generate $10B in additional revenues and we urge you to consult the full document, 10$ Milliards de Solutions. (http://nonauxhausses.org/outils/alternatives-fiscales-justes-et-equitables-pour-les-finances-publiques/). We will be bringing a motion to the General Assembly this Wednesday, December 17 that will take a stand against Austerity.

Measure #7: Increase the contribution of financial institutions $600M Introduced in 1947 and abolished by Jean Charest's Liberal government, the capital tax was applied to fixed assets – branches, warehouses, goods, etc. – capital stock, long term debts, reserves and surpluses.

It was proposed that the elimination of the capital tax would encourage capital investment and stimulate the economy, which would lead to increased government revenues. This may be a reasonable argument for non-financial industries; but financial companies follow a markedly different investment logic. In many instances, capital investment for banks is not used for technological upgrades to increase internal productivity but directly used to generate more revenue, often abroad. Hence capital investments made in this sector are less likely to generate immediate, local economic benefits such as increased employment and a greater income-tax base.

According to the latest fiscal statistics available, nearly 60% of all the profits generated in Quebec come from financial institutions. Yet they have the lowest total tax rate compared with all other sectors of the economy! In fact, half of them don't pay any taxes at all. Calculations by IRIS show that the larger the financial institution, the lower its taxes: smaller financial institutions have an effective tax rate of 12% while that for the large ones is 5.6%.

If the government decided to reinstitute capital tax on financial institutions, it could increase its revenues by $600M each year. To give an idea of the size of the profits involved, for the first trimester of 2014, Royal Bank earned $2.09B; the six largest Canadian banks earned $8.49B, an 11% increase. In 2013, the net profit of the six banks was over $30B, an increase of 20% when compared to 2011.