

Cost Estimate of Election Campaign Proposal

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Short title: Net wealth tax

Description: Introducing an annual net wealth tax on Canadian resident economic families equal to 1% of net wealth above \$20 million. All asset and liabilities will be included in the net wealth tax base, except wealth won in lotteries.

Operating line(s): Other revenues

Data sources:	<u>Variable</u>	<u>Source</u>
	Net wealth	Survey of Financial Security Public Use Microdata Files (SFS), Canadian Business Rich 100 List
	Net wealth growth rate	PBO Economic Model; SFS
	Exempted lottery winnings	Ontario Lottery and Gaming Corporation
	Behavioural response rate	Internal Revenue Service (US) ⁱ
	Administrative cost ratio	Inspectorate General of Finances (France) ⁱⁱ

Estimation and projection method: The net wealth tax base was determined using a standard Pareto interpolation technique to create a synthetic dataset bridging net wealth microdata from the SFS and Canadian Business. Lottery winnings over \$20 million were subtracted from the tax base to determine the total net wealth subject to the tax. The net wealth tax base was projected using household asset growth in PBO's baseline projection, adjusted for historical growth in the net wealth tax base in the SFS.

Each economic family's net worth was reduced by a 35% estimated behavioural response rate, based on adjusted findings from the IRS. The remaining net wealth above the \$20 million threshold was multiplied by the 1% tax rate to determine gross revenues. Gross revenues were reduced by an estimated 2% administrative cost ratio to determine net revenues.

Uncertainty assessment: The estimate has high uncertainty. Historical data is based on self-reporting (SFS) and investigative journalism (Canadian Business), and the net wealth tax base is highly sensitive to the Pareto parameters derived to bridge these data sources. Growth of total net wealth is moderately sensitive to uncertainty in the economic outlook. A large behavioural response is expected, due to avoidance and valuation optimization by wealthy families; however, the magnitude of this response is highly uncertain and dependent on the level of enforcement and the asset valuation techniques prescribed by the legislation. The administrative cost estimate is also sensitive to these factors.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-2,135	-5,597	-5,950	-6,332	-6,769	-7,257	-7,781	-8,340	-8,929	-9,544

Supplementary information

Description	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Other revenues	-2,178	-5,712	-6,071	-6,461	-6,907	-7,405	-7,940	-8,511	-9,111	-9,739
Administrative costs	44	114	121	129	138	148	159	170	182	195
Total cost	-2,135	-5,597	-5,950	-6,332	-6,769	-7,257	-7,781	-8,340	-8,929	-9,544

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost

Numbers may not add due to rounding.

We assume the tax is effective on 22 October 2019.

ⁱ Johnson, Barry, Brain Raub, and Joseph Newcomb. 2010. "A Comparison of Wealth Estimates for America's Wealthiest Decedents Using Tax Data and Data from the Forbes 400." In *National Tax Association Proceedings of 103rd Annual Conference on Taxation*, 128-135.

ⁱⁱ Inspectorate General of Finances. 2014. "Relatif à la rationalisation du coût de gestion des prélèvements obligatoires." Retrieved from <http://www.igf.finances.gouv.fr/files/live/sites/igf/files/contributed/IGF%20internet/2.RapportsPublics/2014/2014-M-021.pdf>.