

Taxation

Marwick files and the information has been simplified somewhat for illustrative purposes.

It is assumed in both cases that the individuals have been transferred to Canada by their employers for a period of more than one year and that their families would also reside in Canada. The housing allowance which the employer pays is an amount to compensate the employee for the higher cost of housing in Ontario and other parts of Canada compared to New York, and the agreed amount is received by the employee in addition to his base salary. The two examples are based on certain assumptions—the employee would file a joint return for his non-working spouse in the United States, each individual has two children under 16 at the end of the year, OHIP premiums are paid by the employers, and 1977 tax rates are used. Also, an employer does not compensate the employee for any difference in tax arising from income which is not employment related, and there is no currency adjustment.

Now, if a United States firm transferred an employee from New York to Ontario and he was receiving a base salary in the States of \$19,700, he would need, by way of housing allowance, the amount of \$5,328; \$384 in the form of OHIP assistance, and \$3,968 in tax equalization. He would have to receive a salary of \$29,380 in Canada to equal his \$19,700 salary in the United States. This means the American firm would have to assist him with a payment of an additional \$9,680 in Canada if the employee was transferred here. An American earning \$35,460 working for that same firm, who is transferred to Canada, would have to be subsidized in the amount of \$18,638. Hon. members can see the vast difference between the two countries.

● (1522)

For an employee to obtain a net disposable income of \$15,887 in Canada he would have to be paid \$28,996. To obtain a net disposable income in the United States of the same amount, \$15,887, all a person has to receive is \$19,700. Taxes on that amount in the United States would be \$3,813, and in Canada they would amount to \$7,781, more than double.

In another comparison, an employee in New York State receiving \$19,700 in salary would pay taxes amounting to \$3,813. A person being paid the same amount in Canada would have to pay taxes amounting to \$7,781.

Hon. members can see how serious is the problem. This problem has much to do with the brain drain and the exodus of capital and business from Canada. That is why we presented this motion. We want to call witnesses, do research in a parliamentary committee, and study our whole tax structure.

There are many other examples which I would like to read into the record. This problem was first highlighted by the Royal Commission on Taxation in 1966. In a document entitled "International Tax Comparisons" the commission stated:

For many Canadian workers, the market for their services is continental, not Canadian. This is especially true for highly skilled and professional employees who are increasingly sought by United States and other foreign employers as

well as by employers in Canada. The so-called "brain-drain" from Canada has been widely noted and deplored by many observers. We are anxious that the Canadian tax system should not contribute to that drain.

So are we, Mr. Speaker.

Taxes are not the only factor that affects an individual's decision to emigrate from Canada. For example, the persistently large differential between Canadian and United States mortgage interest rates may be as important a factor as taxes for many individuals.

As is emphasized, differences in tax burdens are probably not as important as differences in salaries, working conditions and living costs. For reasons that need not concern us here, Canadian employers generally do not offer competitive salaries and frequently have not been able to offer work as interesting as that offered by United States employers. We are, however, concerned with reducing Canadian taxes on skilled workers and professionals to the point where there are no major tax incentives for emigration to the United States.

I will provide examples of the difference between the income taxes currently paid by taxpayers in equivalent positions in the United States and Canada. The examples will show, in several different situations, the total income taxes paid to all levels of government by a family with two children, both of whom are assumed to qualify for family allowances, and with an income of \$12,000 earned by the head of the family. Comparisons will be provided for the average taxpayer earning this amount in the United States and in the Canadian provinces with the lowest tax rates, as well as for the average taxpayer residing in the state of New York and in Saskatchewan. In both of the latter cases taxes are substantially above the average for the respective countries.

As can be seen from the data given in my table, income taxes paid by a Canadian family living in the provinces with the lowest tax rates are even higher than those paid by a family residing in New York State. The differential is especially large for a family living in a house it owns because mortgage interest payments and property taxes are deductible in computing taxable income in the United States.

The examples in my table, which I will read from in a moment, show only the higher taxes paid by a Canadian family with two children at one income level. The percentage differences between Canadian and United States income taxes for different taxpayers with different incomes is given in my next table. In all cases the comparison is between United States taxpayers with average state and local income taxes, and Canadian taxpayers in provinces with the lowest income taxes. The data given in the table thus compare average United States income taxes with income taxes in all provinces other than Quebec, Manitoba, and Saskatchewan. Because 13 states in the United States do not levy any state income tax at all, this comparison is somewhat biased in favour of Canada. In spite of this bias it is apparent from my table that middle income taxpayers pay substantially higher taxes in Canada than in the United States. The difference in taxes arises in part from more liberal deductions in the United States, in part from lower tax rates, and in part from the right of husbands and wives in the United States to file joint returns.

The difference is lowest for a single individual with no dependents who does not claim itemized deductions. Such an individual, on the average, pays less income tax in the United States than in Canada if his income is between \$8,000 and