WEALTH TAX: Will Canada Need It to Pay for the $68 Billion CERB?

Description

It's official: wealth taxes are now part of Canada's national conversation.

After California legislators proposed a 0.4% wealth tax to pay for unprecedented COVID-19 expenses, the *Globe Report on Business* published an article discussing the possibility of similar taxes in Canada. While Justin Trudeau's government has not yet proposed such a tax, it is reportedly being debated in policy circles.

According to *The Globe and Mail*, influential policy makers have been calling for a wealth tax. Just recently, MP Peter Julian pushed a motion introducing a 1% wealth tax on fortunes over $20 million. Claiming that the tax would bring in $5.6 billion in new revenue, it would put a small but significant dent in Canada's projected $343 billion deficit.

The idea of a wealth tax isn't new. Several European countries have attempted them, although the efforts have been largely abandoned. In 2020, it's possible that the sheer scale of Canada's deficit will require such a tax. Here's why:

Why a wealth tax might be needed

As a result of all the COVID-19 benefits rolled out in 2020, Canada's deficit has surged to astronomical proportions. As previously mentioned, it's expected to grow to $343 billion in 2020. And it could go higher. Programs like the CERB are still ongoing, and they could become more expensive.

According to the Canada Revenue Agency, the CERB has cost about $68 billion so far. The total cost is projected to go as high as $80 billion. It's been an unprecedentedly expensive program, and it will need to be paid for somehow. Wealth taxes are one way to do that. While the 1% tax on fortunes over $20 million wouldn't fully pay for the CERB–let alone the deficit–it would be a start. As well, it's a progressive tax that would not hurt the middle class.

How to protect your money

If you're worried about taxes–wealth or otherwise–eating into your wealth, you have a few options available.

One of the best is to invest in a Tax-Free Saving Account (TFSA).

By holding a large portion of your investments in a TFSA, you avoid all the taxes you'd normally pay on those investments. While the current $69,500 maximum TFSA contribution room isn't that much, it could grow over time. And at any rate, every penny you save on taxes counts.

We can illustrate the tax saving effect of a TFSA by imagining that you held $50,000 worth of **Fortis Inc** (TSX:FTS)(NYSE:FTS) in one. As a dividend stock, Fortis produces two possible taxable gains:

- Dividends
- Capital gains

On a $50,000 Fortis position you'd generate about $1,750 in dividends each year. That's based on the stock's current yield of 3.5%. If you had a 33% marginal tax rate, you'd pay $434 in taxes on those dividends. That is, $796 on the dividends ($1,750) grossed up by 38% ($2,450) minus a 15% credit on the grossed up amount ($362.25). As well, if you realized a $10,000 gain on your FTS shares, you'd pay a $1,666 tax on the capital gain (that is, 33% of $5,000, the taxable portion of your $10,000 gain).

By investing in a TFSA, you'd avoid both of these taxes. That would save you a lot of money under today's tax rules, and certainly in the event of a new wealth tax.

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