



# New Liberal leader backpedals on party promise to tax the rich

Recent progress made on tax fairness is at risk of being rolled back. During the leadership race, new Liberal Party leader Mark Carney announced he would not go ahead with changes to the capital gains tax announced in the 2024 federal budget. This decision will reduce government revenue at a critical time and make the tax system less fair for workers.

A capital gains tax is a tax on the profit you make when you sell certain types of assets, like stocks, bonds or real estate other than your primary residence. Currently, only 50% of this type of profit is considered taxable income for people and corporations. That is called the capital gains inclusion rate.

In the 2024 federal budget, the Liberal government proposed to raise the capital gains inclusion rate from 50% to 66.7%

for annual capital gains over \$250,000 for individuals and for all capital gains realized by corporations and trusts.

Abandoning the planned increase in the capital gains tax will have a big impact on both federal and provincial revenues, right as we are facing a possible recession due to Trump's tariff threats. This decision will reduce federal revenues by \$6.7 billion in 2024-2025, and by \$19 billion over 5 years.

The tax increase on capital gains would have automatically been applied to most provinces, and so abandoning it will hurt their projected revenues, too. Quebec runs their own income tax system and can decide whether they want to mirror the change in capital gains inclusion rates at the provincial level. Alberta has an independent

system for corporate taxation, so only the individual taxation changes would have applied at the provincial level in Alberta.

Progressive economists have long said that 100% of capital gains should be taxed, so the increase from 50% to 66.7% was already considered a timid move towards increasing tax fairness. Raising the capital gains inclusion rate to 75% would have raised \$10 billion in additional revenue for the federal government, and approximately the same amount across provincial governments.

## Why tax capital gains?

Capital gains are taxed at a lower rate than dividends and a much lower rate than employment income. Comparing how these forms of income are taxed shows us how extreme the capital gains benefit is for the wealthy.

Like capital gains, dividends are income a person gets because of wealth that they own, not work that they do. Capital gains come from the increase in the value of property at the time of sale. Dividends are a portion of a company's profit that is passed on to shareholders. Most countries,

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including the United States, tax capital gains at an equal or higher rate to dividends. Canada is a notable exception.

There is no justification for this favourable tax treatment for capital gains. Capital gains are based only on the increased value of the property. Unlike with dividends, there is no corporate income tax that has already been paid. Those in favour of the lower capital gains inclusion rate will argue that investors should be rewarded for the risk they take in making investments. But research shows that taxing a higher proportion of capital gains does not discourage investment.

In 1966, the Royal Commission on Taxation recommended that

income be taxed at the same rate no matter its source. Chair Kenneth Carter said, “a buck is a buck is a buck.” But, by the time tax reform was implemented in 1972, many of the commission’s recommendations had been watered down, and only half the income from capital gains was made taxable. The proportion of capital gains considered taxable increased to 75% by 1990, but the federal Liberal government cut it back to 50% in 2000.

The chart below shows the average capital gains and taxable dividends for individual income groups. It only includes people who had income from these sources. As this data reveals, income from capital gains is even more unequally

distributed by income level than income from dividends, which implies that there is active tax planning to take advantage of the more favourable tax rate. Academic research estimates that 88% of the benefit of this loophole goes to the top 1% of income earners.

If Mark Carney fails to keep the Liberals’ promise on improving the capital gains inclusion rate, it will cost federal and provincial governments billions of dollars in revenue and primarily benefit the very rich. This revenue is badly needed for investment in underfunded public services and to support a broad economic transition to make the Canadian economy more self-sufficient.

## Average amount of taxable capital gains and dividends by income, 2022



Source: CRA, Individual Income Tax Returns Statistics, Table 2

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# Can removing interprovincial trade barriers protect the economy from Trump's tariffs?

In the face of US President Donald Trump's on-again, off-again tariff threats, Canadian premiers and federal politicians are calling for a reduction of internal trade barriers. Many claim Canada's gross domestic product (GDP) could grow by hundreds of billions of dollars simply by removing regulatory barriers.

Businesses across the provinces and territories conduct a substantial amount of trade with each other, and it's growing. Statistics Canada reports that in 2022, interprovincial trade in manufactured goods was worth \$170.5 billion, a 16.5% increase over 2021. Trade in services between provinces is even larger and represents about 58% of total interprovincial trade.

In fact, a Statistics Canada survey found businesses have more suppliers and customers in other provinces than they do internationally.

These numbers suggest that reports about huge gains in economic growth from removing so-called interprovincial trade barriers might be inflated.

Increasing trade within Canada should be a priority for federal and provincial governments in the wake of Trump's threatened tariffs, but the barriers being discussed for removal often involve protections and regulations that are not equivalent to tariffs. These regulations are meant to safeguard important standards and ensure consumer protection. They include health and safety and environmental protection regulations for instance. It's crucial that the value of these regulations is not overlooked in the rush to promote interprovincial trade.

A 2022 paper for the Macdonald-Laurier Institute, an Ottawa-based market-oriented think tank, argues that mutual recognition of regulations across provinces would boost Canada's GDP by \$100-\$200 billion per year, or 4% to 7% of GDP. But the conclusion is based on faulty assumptions.

The first assumption is that there are two reasons that provinces don't trade with each other: transportation costs and interprovincial trade barriers. The second assumption is that without trade barriers, customers in each province would buy from other provinces proportional to what those provinces produce.

The researchers calculated the gap between current buying habits and this alternative scenario, took transportation costs into account, and said that the difference is how much GDP growth we could expect from removing interprovincial trade barriers.

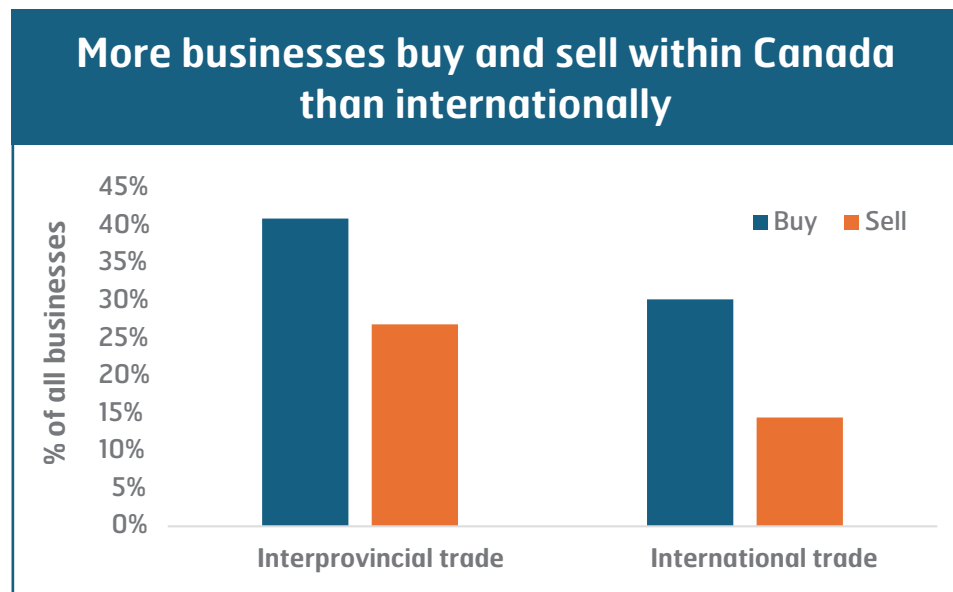
This method does not evaluate the economic or social benefits

of maintaining any of the current regulations or trade barriers. And it does not factor in any other differences, such as regional specialization of production or local preferences, which might contribute to differences in interprovincial purchasing profiles between provinces. The authors do not say why removing existing protections for public services or lowering health and safety regulations would result in a change of trade practices or the economic growth that they predict in their study.

## What could this mean for CUPE members at work?

It is standard practice for trade agreements to have a chapter that allows the parties to exempt specific parts of their economy from some of the rules of the agreement. For example, social services such as child care are exempted from the rules of Canada's current interprovincial trade agreement, the Canadian Free Trade Agreement (CFTA). This is because Canadians

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Source: Statistics Canada, Canadian Survey on Interprovincial Trade, 2023

have a strong belief that decisions about social services should be made in the public interest, not based on financial or market-based priorities.

When policy makers talk about removing trade barriers, they often mean eliminating these exemptions from the trade agreements. There are multiple exemptions in the current CFTA that relate directly to the work of CUPE members across Canada, such as protections for water, energy, social services, and health and safety standards. Once protections are removed, it can be very difficult to get them back, so we should very carefully evaluate any proposals to change or eliminate them.

On February 21, the federal government announced that they were removing 20 exceptions from the CFTA. This approach is short-sighted and counterproductive.

The policy cuts will reduce the federal government's ability to:

- direct infrastructure investments based on national and regional needs,
- approve transportation and transmission on pipelines and power lines, and
- advance a general framework of regional economic development.

This at a time when the most effective counter-tariff strategy would be to do exactly those things.

We need to maintain the public policy space to implement public solutions in key sectors like agriculture, transportation, telecommunications and natural resources, and to diversify markets for Canadian products beyond the United

States. For example, given that the cost and availability of transportation are the largest barriers to interprovincial trade, governments should be focusing on building East-West public transportation infrastructure in order to better stimulate interprovincial trade.

Defending the rights of federal, provincial, and territorial governments to deliver services and build infrastructure in the public interest is an important component of protecting the Canadian social and economic model in response to Donald Trump's tariffs.



## ECONOMIC DIRECTIONS

**Economic growth** – Real gross domestic product (GDP) grew by 2.6% in the last three months of 2024, beating expectations. Growth was driven by higher household and business spending. Economic growth did not keep up with population growth, and per capita GDP fell by 1.4% in 2024. The Bank of Canada currently forecasts that Canadian economic growth will be 1.8% in 2025 and 2026, but there is a lot of uncertainty around this forecast.

**Jobs** – Canada's unemployment rate increased from 5.9% in February 2024 to 6.6% in February 2025. The labour market added jobs in the private sector in December and January, but was flat in February. Uncertainty around Donald Trump's tariffs has already led to layoff announcements, leading economists to expect the unemployment rate will increase in March.

**Wages** – Average hourly wages in February 2025 were \$36.14, an increase of 3.8% compared to a year earlier.

**Inflation** – The consumer price index (CPI), which measures changes in the cost of goods and services, was 1.9% higher in January compared to the previous year. This increase was driven mostly by higher energy prices, which increased by 5.3% in January. Prices for rent also increased faster than overall inflation — on average, rents were 6.0% higher than January last year.

**Interest rates** – The Bank of Canada has cut interest rates seven times in a row, from 5.0% in June 2024 to 2.75% in March 2025. The threat of Trump's tariffs creates the risk of both a recession and the return of inflation. On March 12, the Bank of Canada said they cannot offset the impact of a trade war, but they can take action against tariff induced inflation. This indicates that they may be ready to raise rates again at the first hint of inflation returning, even if Canada is experiencing slowing GDP and job loss from US tariffs. The next interest rate announcements are scheduled for April 16, 2025 and June 4, 2025.