

# NEWS RELEASE

## Raising an extra dollar of personal income tax revenue costs the Canadian economy \$2.86

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**VANCOUVER**—For an additional (\$1) dollar of personal income tax revenue collected by the federal government, \$2.86 is lost in economic activity because of less investment, less entrepreneurship, less spending and other behavioural changes that shrink the tax base, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

The same is true for corporate taxes, with an additional (\$1) dollar of corporate income tax raised by the federal government costing Canadians more than double that amount in lost economic activity (\$2.02).

“When governments raise tax rates, they affect the behaviour of workers, businesses, entrepreneurs, and investors. Specifically, higher tax rates distort the decisions related to starting a business, saving and investing, work effort, and expanding an existing business, all of which impose costs on the economy in the form of foregone prosperity. So when a government raises tax rates, the actual cost to the economy is much higher,” explained Bev Dahlby, senior fellow at the Fraser Institute and co-author of *What Are the Economic Costs of Raising Revenue by the Canadian Federal Government?*

The study finds that since tax increases adversely affect the private sector’s decisions related to saving, labour supply, and investment, society loses more than what the government collects in actual tax revenue.

In fact, for an additional dollar in personal income tax that the federal government collects, the actual cost to Canadians—because of those behavioural changes—is \$2.86, and \$2.02 for an additional dollar in corporate income tax that’s collected.

“When the federal government raises taxes, the cost to Canadians is not simply higher taxes, it means less investment, less entrepreneurship, and less business activity and ultimately a smaller tax base, which imposes unseen costs on Canadians,” Dahlby said.

“Policymakers need to be aware of the true costs of raising taxes because this can inform cost-benefit analysis of government programs, tax reforms and designing federal transfers to the provinces.”

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