



Tax Expenditures:

Oversight, Growth and Distribution

fao

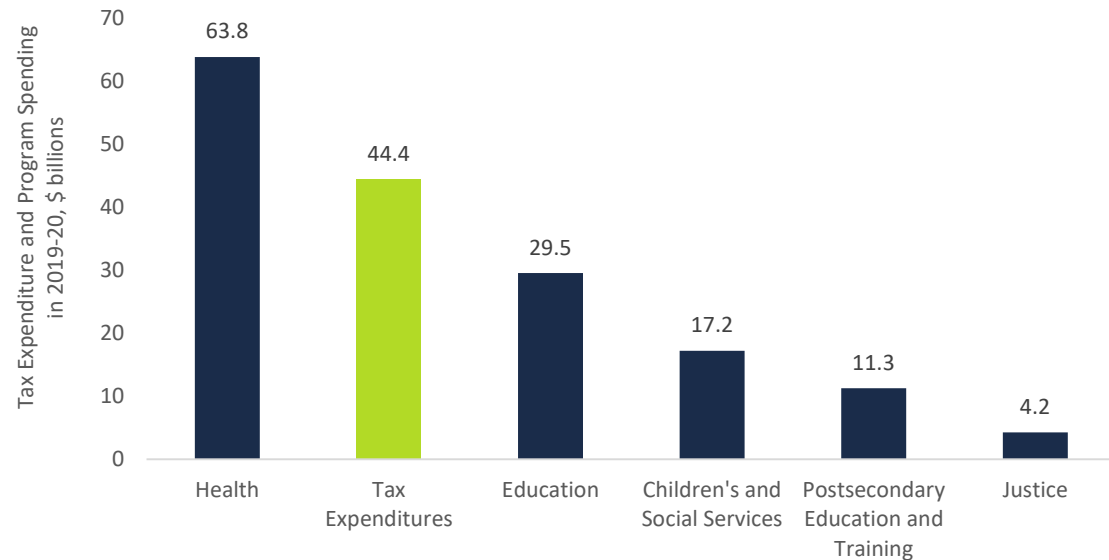
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What are tax expenditures?

- Tax expenditures are benefits provided through the tax system to individuals, businesses and other organizations by reducing the amount of taxes owed or directly transferring money to beneficiaries
- In 2019-20, there are 149 different tax expenditures offered by the Province, including deductions, exemptions and credits

Tax expenditures represent significant cost to government

- Tax expenditures are projected to cost the Province \$44.4 billion in 2019-20
- If compared to the Province's program spending, tax expenditures would be the second highest expense sector



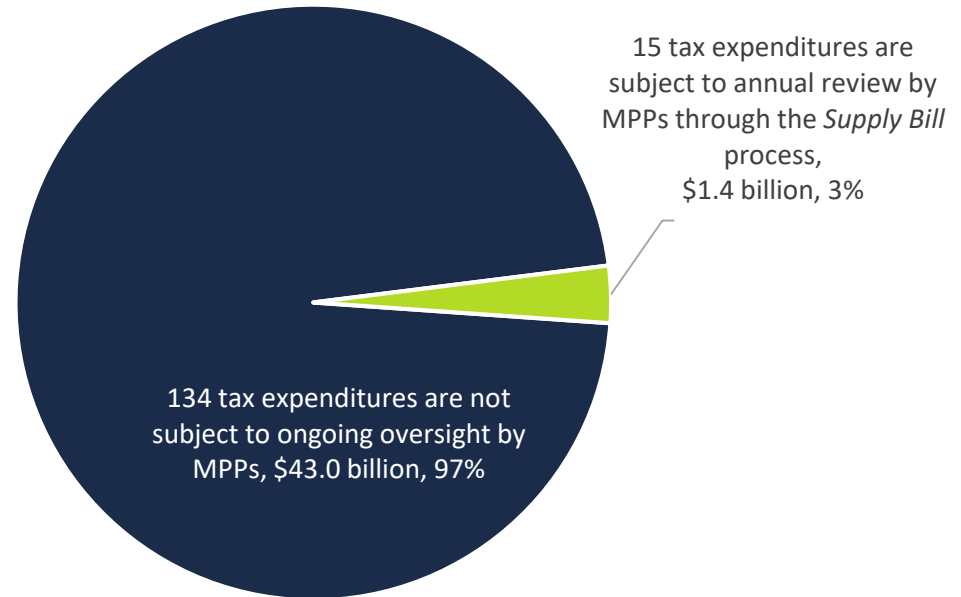
Source: FAO analysis using the Taxation Transparency Report, 2019, the 2019 Ontario Economic Outlook and Fiscal Review and the 2019-20 Expenditure Estimates.

Tax expenditures are intended to achieve many different policy objectives

Policy Objective	Total Cost in 2019-20 (\$ billions)	Number of Tax Expenditures
Investment and Savings Mostly deductions and exemptions for retirement savings and investment activities.	10.6	14
Business Support Provide financial support to businesses. Includes reduced tax rates, deductions, exemptions and targeted tax credits.	6.1	52
General Tax Relief Reduce the overall personal income tax burden. The Basic Personal Credit accounts for most of this cost.	5.5	6
Support for Low-income Individuals and Families Provide financial support to low-income individuals and families.	4.3	10
Public Bodies Exempt public organizations from taxation, such as municipalities, hospitals and school authorities.	2.6	5
Targeted Supports Incentivize actions, support certain groups or promote other specific policy objectives	15.2	62
Total	44.4	149

Source: FAO analysis using Taxation Transparency Report, 2019 and the 2019-20 Expenditure Estimates

Most tax expenditures are not periodically reviewed by MPPs

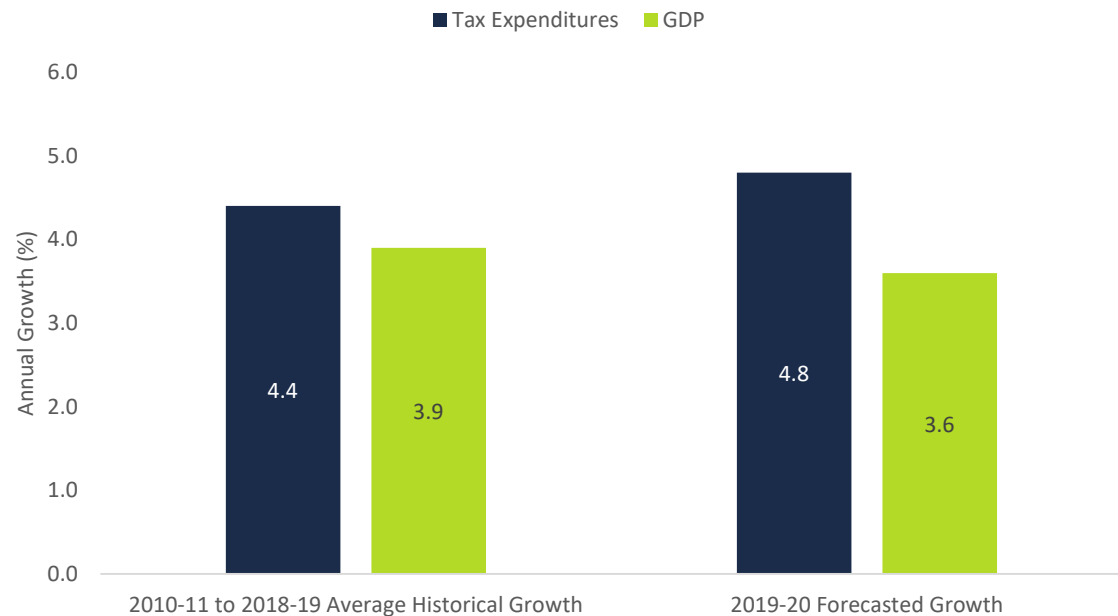


Source: FAO's analysis using the Taxation Transparency Report, 2019 and the 2019-20 Expenditure Estimates.

- In order to ensure the effectiveness and efficiency of tax expenditures, it is important to regularly review and monitor each tax expenditure

Tax expenditure spending growth compared to Ontario's economy

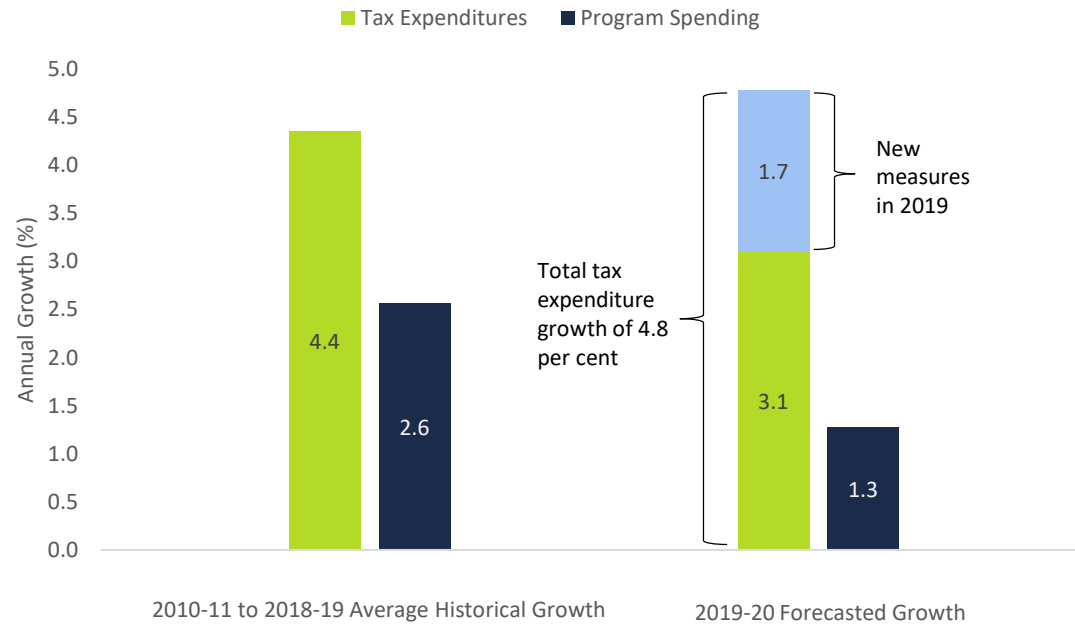
- Higher than average tax expenditure growth in 2019-20 is largely due to the introduction of two new tax expenditures:
 - Childcare Access and Relief from Expenses (CARE) tax credit
 - Low-income Individuals and Families Tax (LIFT) Credit



Source: FAO analysis using the Taxation and Transparency Reports, Public Accounts of Ontario, and the Expenditure Estimates.

Tax expenditure spending is growing faster than program spending

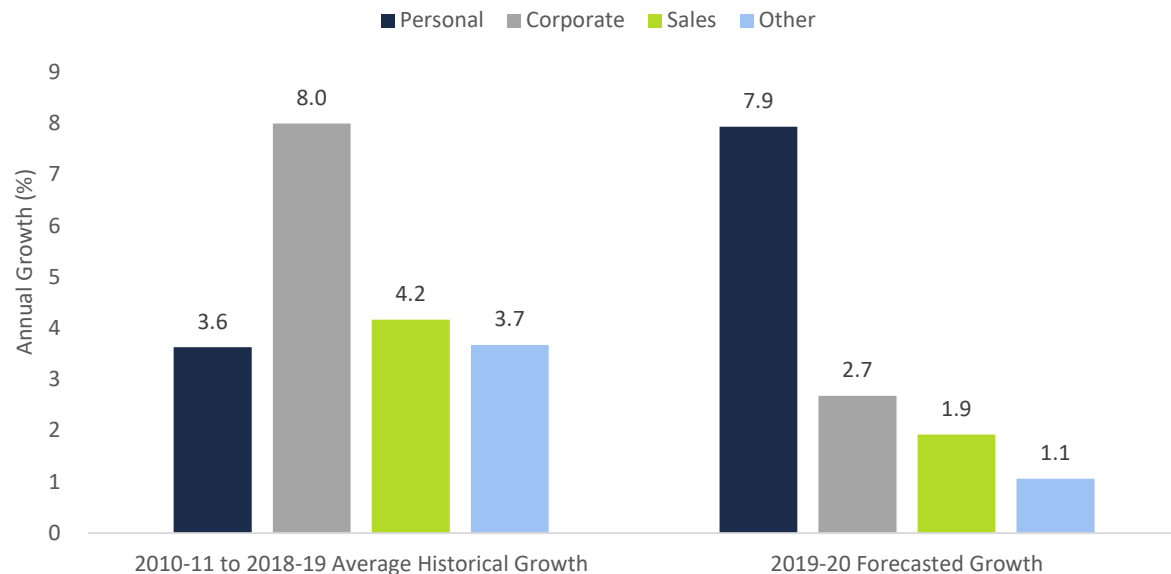
- Since 2010-11, tax expenditure spending growth has significantly outpaced program spending growth



Source: FAO's analysis using the Taxation Transparency Reports, Public Accounts of Ontario, and the Expenditure Estimates.

Personal tax expenditures growing faster than historical average

- In 2019-20, personal tax expenditure growth is higher than historical average mainly due to the introduction of new tax expenditures
- All other tax expenditures are projected to grow at below average rates due to slowing economy



Source: FAO's analysis using the Taxation Transparency Reports, Public Accounts of Ontario and the 2019-20 Expenditure Estimates.

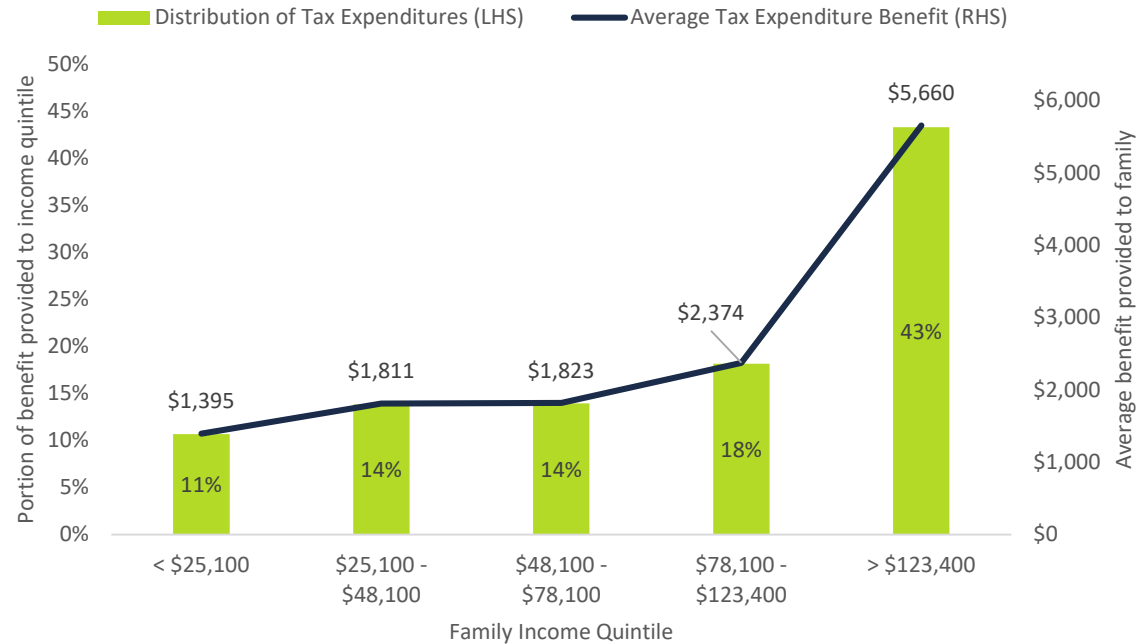
What are the costliest personal tax expenditures?

Tax Expenditure	Cost (\$ millions)	Share of Total (%)	Type
Basic Personal Credit	4,703	22.3	Credit
Registered Retirement Savings Plans (RRSPs) — Deduction for Contributions	2,714	12.9	Deduction
Partial Inclusion of Capital Gains	2,147	10.2	Deduction
Ontario Energy and Property Tax Credit	1,474	7.0	Credit
Ontario Sales Tax Credit	1,401	6.6	Credit
Registered Pension Plans (RPPs) — Deduction for Contributions	1,382	6.5	Deduction
Charitable Donations Credit	758	3.6	Credit
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	652	3.1	Credit
Deduction of Carrying Charges Incurred to Earn Income	510	2.4	Deduction
Low-income Individuals and Families Tax (LIFT) Credit	495	2.3	Credit
Childcare Access and Relief from Expenses (CARE) Tax Credit	434	2.1	Credit
Age Credit	335	1.6	Credit
Total	17,006	80.6	

Source: FAO analysis using SPSDM, Taxation Transparency Report, 2019, and the 2019-20 Expenditure Estimates.

Note: "Share of Total" represents the share of the total cost of all personal tax expenditures in 2019-20.

Share of personal tax expenditure benefits increase with family income

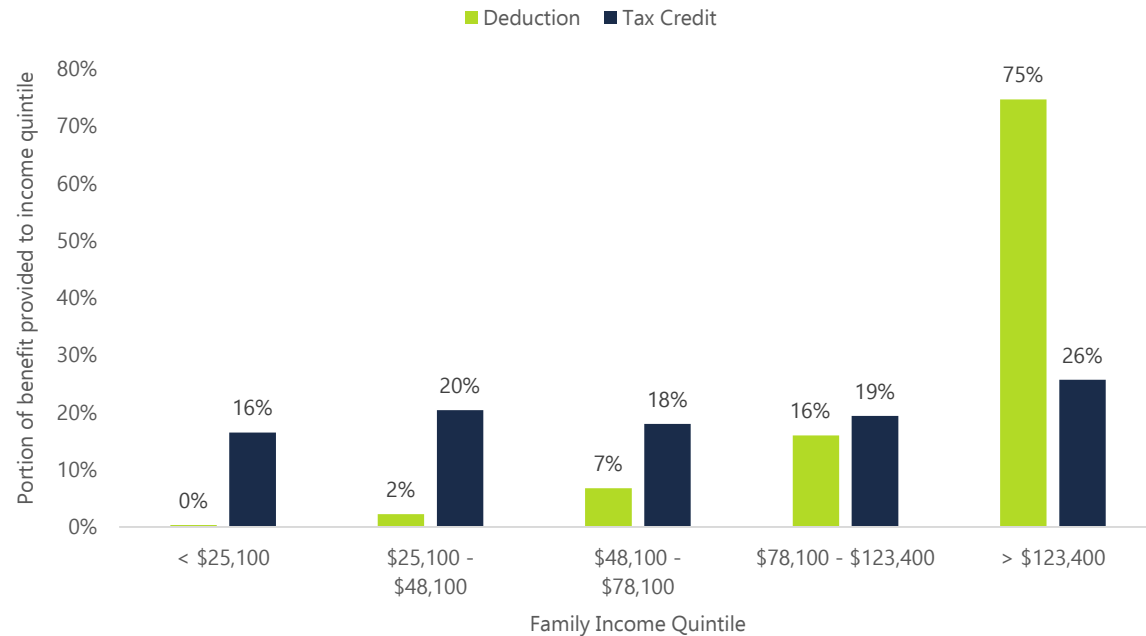


Source: FAO analysis using SPSDM.

Note: based on the 12 selected personal tax expenditures that account for 81 per cent of the value of all personal tax expenditures in 2019-20.

Distribution of benefit differs significantly by the type of tax expenditure

- Tax deductions are concentrated with the highest income earners while tax credits are more evenly distributed

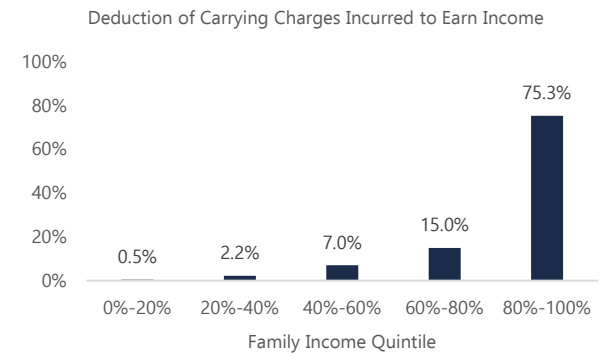
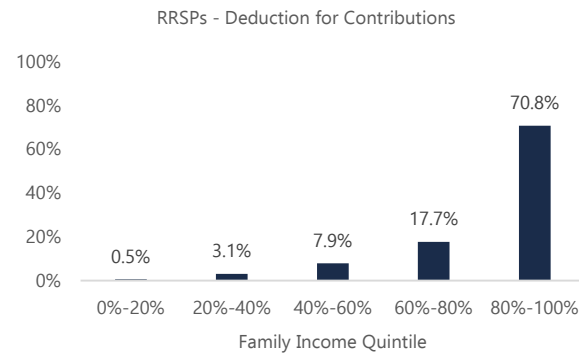
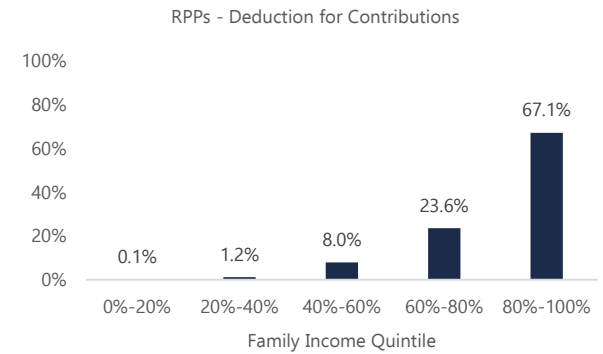
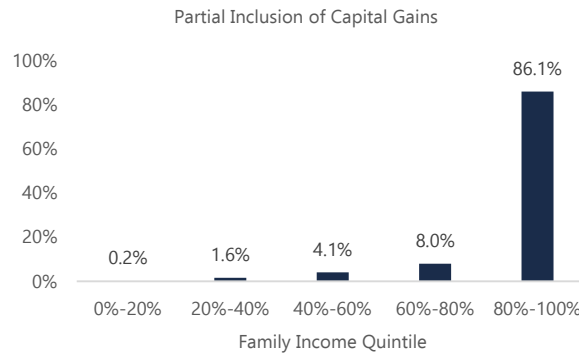


Source: FAO analysis using SPSDM.

Benefit from tax deductions is concentrated among higher income families

- Tax deductions typically target the income sources and activities that are concentrated among high-income families (e.g., capital investment and savings)
- In addition, high-income earners are subject to a higher marginal tax rate so the benefit from tax deductions is greater

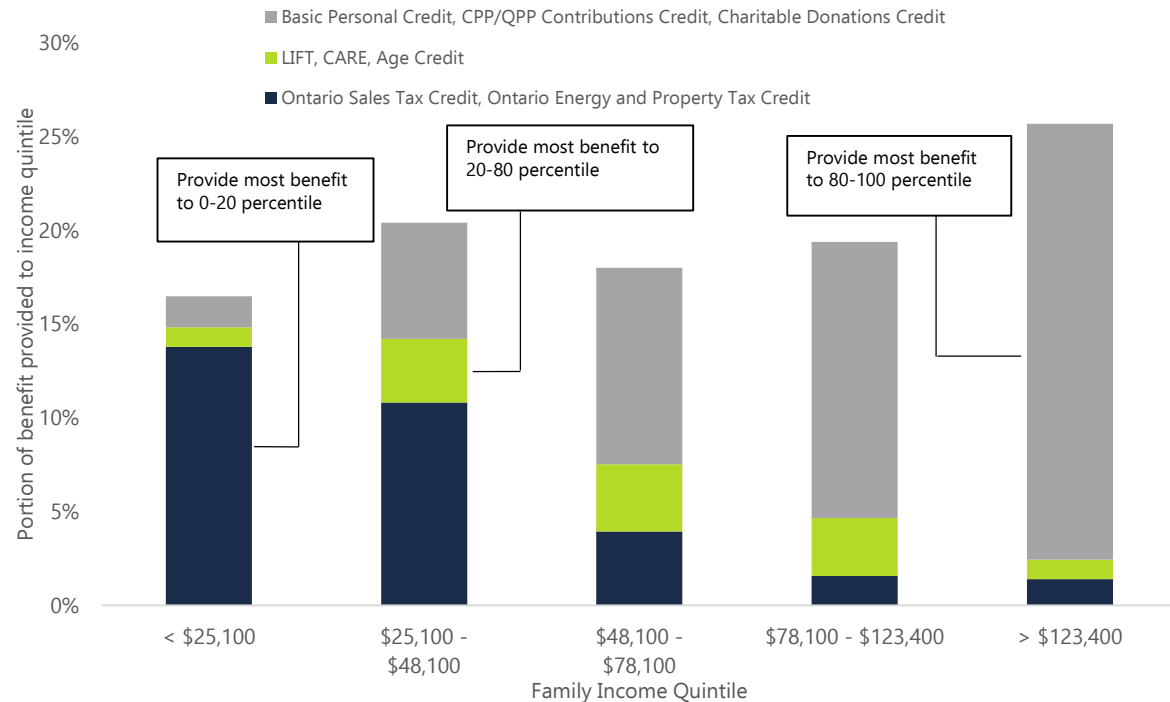
Distribution of tax deductions



Source: FAO analysis using SPSDM.

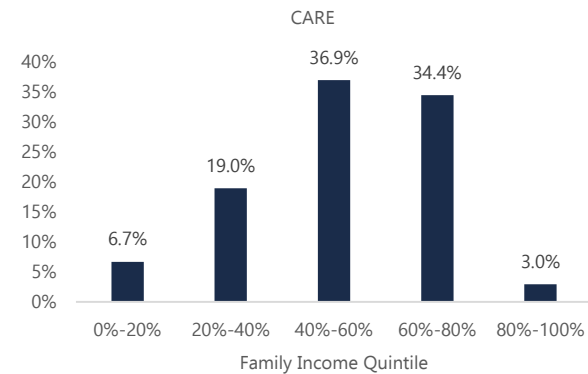
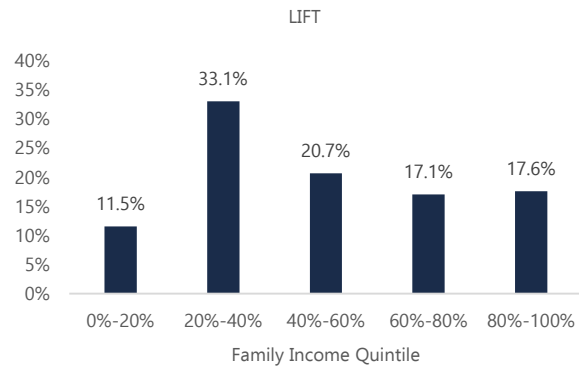
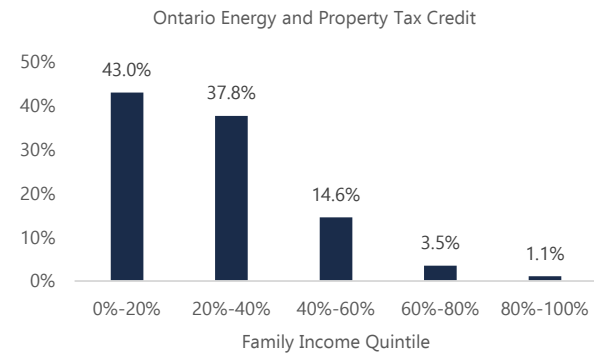
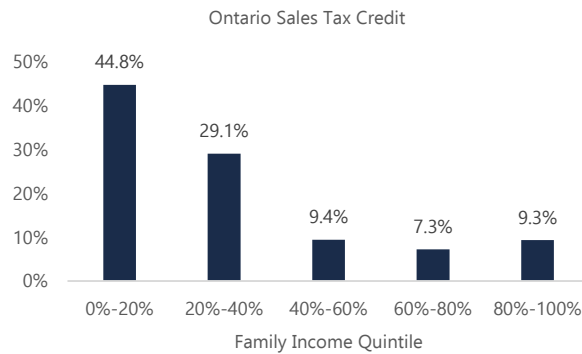
Tax credits target different income groups

- While the combined benefit from tax credits is distributed relatively evenly across different income groups, the benefit from each tax credit is unevenly distributed



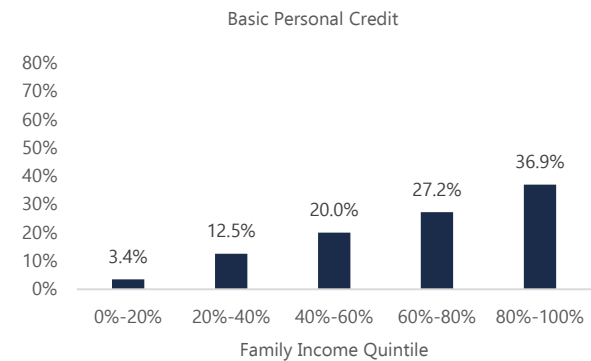
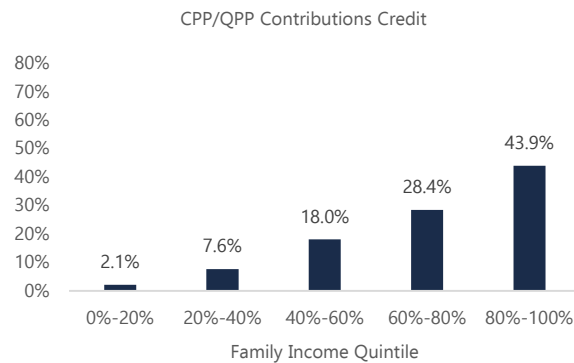
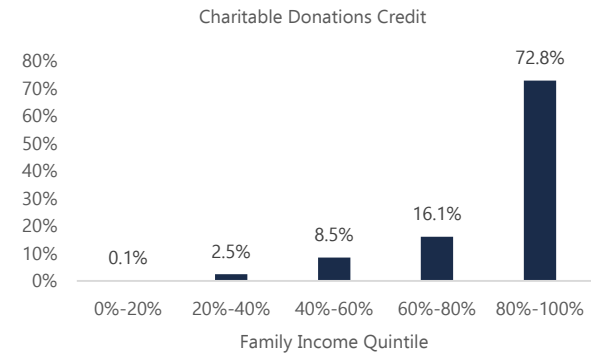
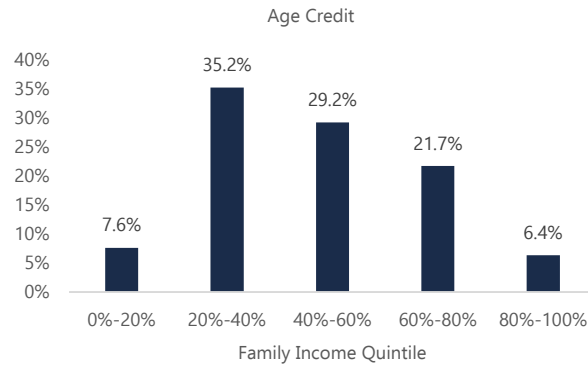
Source: FAO analysis using SPSPDM.

Distribution of tax credits



Source: FAO analysis using SPSPDM.

Distribution of tax credits cont'd



Source: FAO analysis using SPSDM.

Thank you

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