

Note • Motion M-87

Revenue of a Corporate Tax Rate Increase Based on CEO-to-Median Worker Pay Ratio



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Motion M-87, *Corporate Tax Rate Increase and Disclosure of CEO-to-Median-Worker Pay Ratio*, introduced by Member of Parliament Jagmeet Singh, proposes to implement an increase in the corporate income tax rate for large corporate entities that have a disparity in their CEO-to-median worker pay ratio. The increase in the corporate income tax rate would be a 0.5 percentage point increase if the ratio was between 50 and 100. This would incrementally grow to a 5 percentage point increase if the ratio was 500 or more. For the purposes of this motion CEO was defined as the individual with the highest earnings in a corporate entity. Large corporations were defined as all public corporations as well as private corporations with more than 500 employees or more than \$100 million in total revenue. The motion also precludes the use of contractors to bypass disclosing median-worker pay.

The PBO estimates that this measure would raise an additional \$8,911 million over the course of fiscal year 2024-2025 to 2028-2029.

5-Year Cost

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Net Federal Revenue	-1,724	-1,755	-1,756	-1,803	-1,872	-8,911

Detailed 5-Year Cost

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Revenue	-2,131	-2,170	-2,171	-2,229	-2,314	-11,016
Behavioral Cost	51	52	52	54	56	265
Loss in Federal CIT	356	362	363	372	387	1,840
Net Federal Revenue	-1,724	-1,755	-1,756	-1,803	-1,872	-8,911

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.

- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

The Canadian Employer-Employee Dynamics Database created by Statistics Canada was used to estimate the ratio of CEO to median employee compensation on a historic basis (2011 to 2020), and the expected increase in the corporate tax rate and tax revenues. This was then grown using PBO forecasts of corporate income tax to estimate the expected increase in tax revenues on a static basis over the 2024-25 to 2028-29 horizon. A behavioral response to the effective increase in corporate income taxes was then estimated using the elasticity of corporate taxable income to changes in the associated tax rate. Since the additional tax is calculated on the corporation's taxable income, the expected behavioural response would negatively affect the tax base on which corporate income tax (CIT) is calculated, subsequently offsetting some of the additional revenues from this measure.

Sources of Uncertainty

The revenue estimate is based off historic values, which may differ in the future. In the historic data only a small number of firms would have been impacted by the new tax (about 300 each year). The revenue estimate is linked more to the increase in the revenues of these firms rather than an increase in the number of impacted firms. The behavioural response assumes a reduction in taxable income reported, but changes to the compensation of CEOs could reduce the number of entities subject to the additional tax. The magnitude of the behavioral impact may also differ.

Scenario: Low elasticity

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Revenue	-2,131	-2,170	-2,171	-2,229	-2,314	-11,016
Behavioral Cost	12	13	13	13	14	65
Loss in Federal CIT	87	88	88	91	94	448
Net Federal Revenue	-2,032	-2,069	-2,070	-2,126	-2,207	-10,503

Scenario: High elasticity

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Revenue	-2,131	-2,170	-2,171	-2,229	-2,314	-11,016
Behavioral Cost	144	146	146	150	156	743
Loss in Federal CIT	997	1,015	1,016	1,043	1,083	5,154
Net Federal Revenue	-990	-1,008	-1,009	-1,036	-1,076	-5,119

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Data Sources

Firms subject to the tax by CEO-to-median worker pay and their taxable income

Statistics Canada

Corporate income tax revenues

PBO

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