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NET WEALTH TAX ON CANADIAN RESIDENT ECONOMIC FAMILIES



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Each economic family's net wealth was reduced by 35 per cent - an estimated behavioural response rate, based on adjusted findings from the IRS. The remaining net wealth above the \$20 million threshold was multiplied by the 1 per cent tax rate to determine gross revenues. Administrative costs were estimated at 2% of gross revenues.

Aggregate Results: PBO estimates 13,800 Canadian economic families would pay the net wealth tax and that the total net revenue of this measure would be \$5.6 billion in 2020-21.

The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario, although fiscal impacts can be expected in subsequent years.

Source of Uncertainty: Historical data on the distribution of family wealth is highly sensitive to the Pareto parameters derived to bridge and calibrate the multiple data sources used to construct HFD. The modelling approach implicitly assumes the distribution of family wealth shares has remained roughly constant since 2016; any increase or reduction in the concentration of wealth among high-net-worth families could impact the cost estimate.

The projected net wealth tax base is also sensitive to uncertainty in the economic outlook including, notably, depressed asset values in 2020-21 induced by the COVID-19 economic recession.

A large behavioural response could be expected, due to avoidance and valuation optimization by high-net-worth families; however, the magnitude of this response is highly uncertain and dependent on the level of enforcement and the asset valuation techniques prescribed by the legislation. The administrative cost estimate is also sensitive to these factors.

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Cost of proposed measure

\$ millions	2020-2021
Total cost	-5,553

Supplementary information

	2020-2021
Cost	-5,666
Administrative costs	113
Total cost after recovery	-5,553

Notes:

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

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost