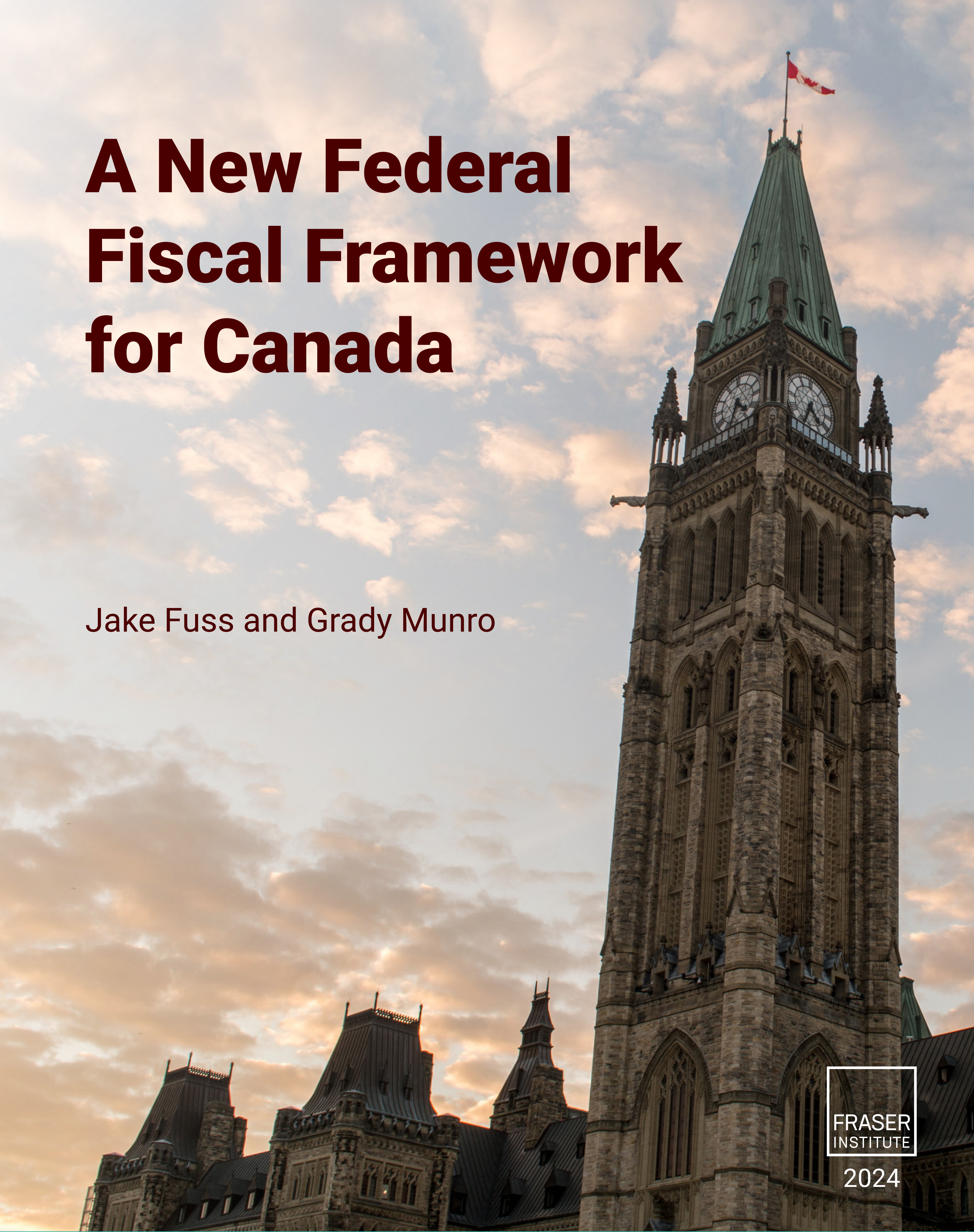
A New Federal Fiscal Framework for Canada

Jake Fuss and Grady Munro



FRASER INSTITUTE
2024

July 2024 • Fraser Institute

A New Federal Fiscal Framework for Canada

By Jake Fuss and Grady Munro

Contents

Executive Summary

- Poor government policy has led to a significant deterioration in Canada's federal finances over the last decade. The introduction of new and expanded government programs has caused federal spending to increase substantially, resulting in persistent deficits and rising debt.
- Canada also maintains markedly uncompetitive personal income taxes relative to many other advanced economy jurisdictions. This hinders Canada's ability to attract and retain highly skilled workers, entrepreneurs, and business owners.
- Canada must make meaningful policy reforms by pursuing reductions in both federal spending and tax rates to address the current fiscal and economic challenges.
- The federal government should eliminate 49 federal PIT tax expenditures and remove the three middle income tax rates of 20.5, 26.0, and 29.0 percent while reducing the top marginal PIT rate from 33.0 to 29.0 percent.
- The federal government can introduce a comprehensive tax reform package and achieve a balanced budget by 2026/27 through reducing nominal annual program spending by 2.3 percent over a two-year period.
- Returning to balanced budgets should be viewed as a starting point rather than the end goal.
- Imposing a Tax and Expenditure Limitation (TEL) rule that caps growth in program spending at the rate of inflation plus population growth would be the next step for federal finances over the long-term.
- This would allow for budget surpluses in subsequent years after achieving the initial balanced budget and ensure discipline in government spending for the foreseeable future.

Introduction

Poor government policy has led to a significant deterioration in Canada's federal finances over the last decade. The introduction of new and expanded government programs has caused federal spending to increase substantially, resulting in persistent deficits, rising debt, and climbing debt servicing payments. Moreover, no change in trajectory is expected in the near future as the latest federal budget projects more of the same for at least the next five fiscal years (Canada, Department of Finance, 2024). Of particular concern, there are minimal fiscal rules that keep spending disciplined and debt manageable.

In addition to significant challenges with regards to federal spending and debt, Canada continues to maintain markedly uncompetitive personal income taxes relative to many other advanced economy jurisdictions, particularly the United States (Fuss and Munro, 2024). The country's relatively high tax rates (federal and provincial combined) discourage individuals from working, investing, saving, and engaging in productive entrepreneurial activity. They also hinder Canada's ability to attract and retain highly skilled workers, entrepreneurs, and business owners.

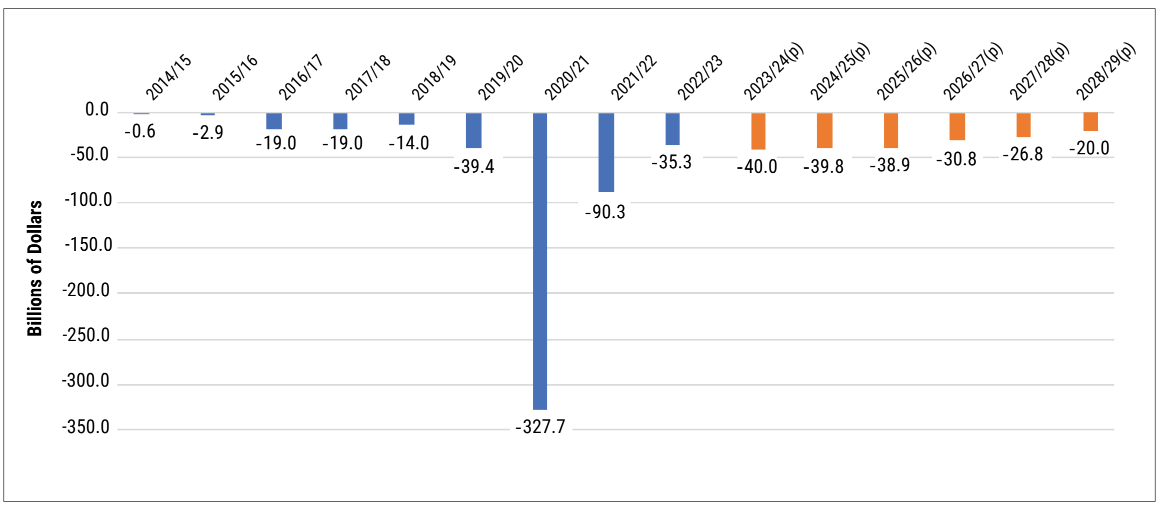
Canada must make meaningful policy reforms by pursuing reductions in both federal spending and tax rates to address the current fiscal and economic challenges. This study calculates the size of spending reductions needed to enable the federal government to balance its budget by 2026/27 while also creating enough fiscal room for impactful tax reductions. The first section will examine the current federal fiscal situation in detail, while the following section will make a case for changes to the personal income tax system. The third section models how the government can achieve a balanced budget within two fiscal years while simultaneously introducing tax relief for Canadians. The final section explores longer-term fiscal rules that should govern federal finances.

Background on the Current Federal Fiscal Situation

The Trudeau government's tenure has been characterized by uninterrupted budgetary deficits and substantial debt accumulation. The size of the federal deficit rose for five consecutive years after the government took office in 2015 (Canada, Department of Finance, 2023a). From 2015/16 to 2019/20, the federal government recorded cumulative deficits amounting to $94.1 billion. During the pandemic, the annual deficit then skyrocketed. The federal government recorded a $327.7 billion deficit in 2020/21 and followed it up with another shortfall of $90.3 billion in 2021/22.

In subsequent years, when the effects of the pandemic had subsided, the government continued to run discretionary deficits equaling $35.3 billion in 2022/23 and $40.0 billion in 2023/24 (Canada, Department of Finance, 2023a; 2024). As shown in figure 1, further annual deficits averaging $31.3 billion are planned until at least 2028/29. These forecasted deficits are about $12.4 billion larger than the annual average recorded in the five years leading up to the pandemic.

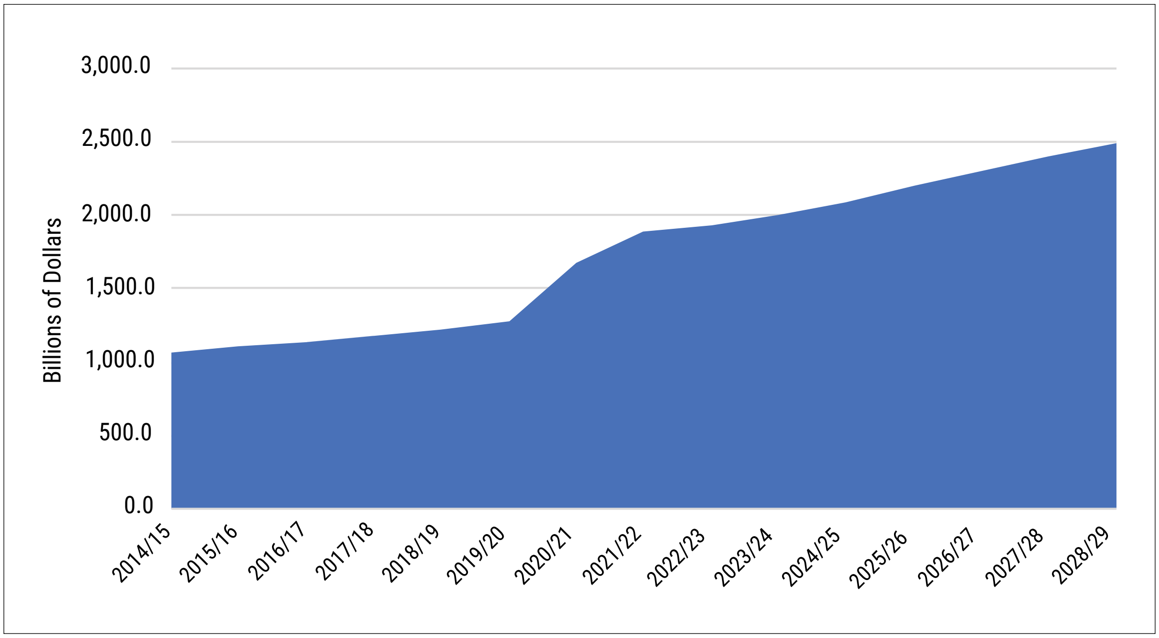
Figure 1: Annual Federal Budgetary Balance, Nominal, 2014/15 to 2028/29



Note: "**(p)**" indicates the data represents planned values as of the 2024 Federal Budget
Sources: Canada, Department of Finance, 2023a, 2024.

Persistent deficits have resulted in significant debt accumulation. Federal gross debt has increased by $946.7 billion, or 89.5 percent, since 2014/15 (Canada, Department of Finance, 2023a; 2024). In 2024/25, federal gross debt is expected to approach $2.1 trillion (figure 2). This rapid pace of debt accumulation imposes substantial costs on Canadians, and those costs will continue to grow. Growing government debt, all else equal, leads to

Figure 2: Actual and Planned Federal Gross Debt, Nominal, 2014/15 to 2028/29



Note: Values from 2024/25 to 2028/29 are projections based on the 2024 Federal Budget.
Sources: Canada, Department of Finance, 2023a, 2024.

increased debt servicing costs, which leaves fewer resources for other important priorities. Elevated interest rates add to the burden. Annual federal debt servicing costs, adjusted for inflation, have grown from $879 per person in 2014/15 to $1,331 per person in 2024/25.

Central bankers in Canada and other advanced economies have indicated that long-term interest rates will likely be higher going forward than in the years before and during the COVID-19 pandemic (Beaudry, 2023). Consequently, governments will face higher debt servicing costs for the foreseeable future. This is another reason why, in the near term, the federal government should pursue fiscal consolidation.

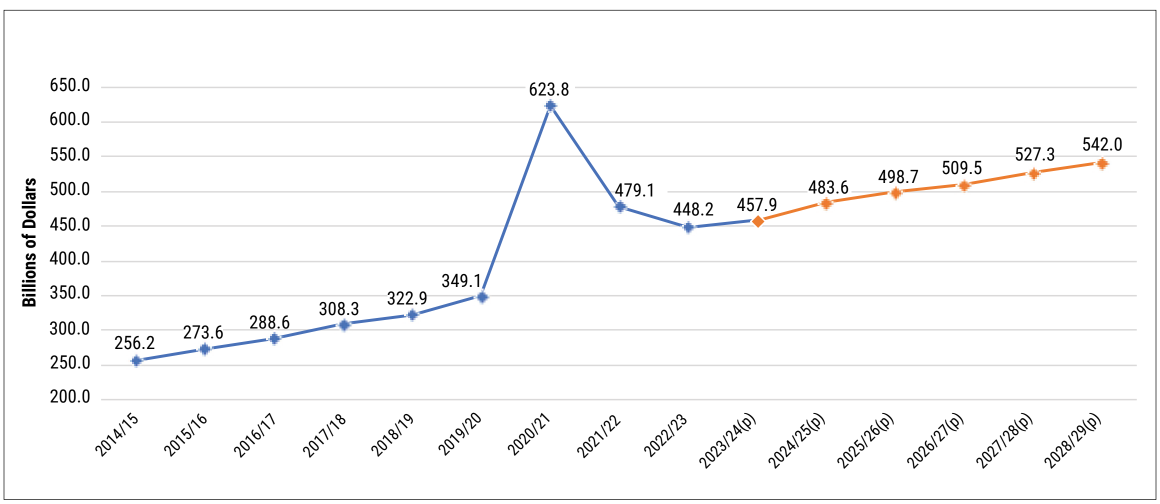
Continued deficits and a substantial run-up in debt have come despite fiscal anchors in place intended to prevent the deterioration of federal finances. Rather than abide by these constraints, the Trudeau government has consistently violated its own fiscal anchors on multiple occasions. Before taking office in 2015, the Trudeau Liberals ran on the promise of modest deficits for three years before balancing the budget in 2019/20 (Liberal Party of Canada, 2015). When the government quickly realized it would not achieve this goal, it shifted to a new fiscal anchor rather than adopt the spending restraint necessary to honour its original commitment.

The new goal was to reduce federal government debt relative to the size of the Canadian economy. Well before the pandemic struck, however, the government violated this new fiscal anchor in the 2019 fall fiscal update (Canada, Department of Finance, 2019). Then, the government spent and borrowed hundreds of billions during COVID, driving debt-to-GDP up significantly. Following COVID, the government re-committed to decrease the debt-to-GDP ratio, but this promise once again was cast aside quickly. The 2023 fall economic statement showed the government was on track to violate its self-imposed anchor again in 2023/24, as debt was projected to grow faster than the economy (Canada, Department of Finance, 2023b).

The underlying cause of the government's chronic fiscal problems has been a failure to restrain program spending. As previous research has shown, deficits have been driven largely by program spending increases that outpace the combined rate of inflation plus population growth (Fuss and Hill, 2022). Figure 3 shows actual and planned program spending from 2014/15 until 2028/29. Nominal program spending rose by 78.7 percent, from $256.2 billion in 2014/15 to $457.9 billion in 2023/24. This was more than double the amount required to keep up with growth in prices and population.

The level of federal spending today is unprecedented. The Trudeau government has recorded the six highest levels of inflation-adjusted per-person program spending in Canadian history, between 2018/19 and 2023/24. While the pandemic boosted spending significantly, real spending per capita was at historically high levels even when all COVID-related spending is excluded from the estimates in 2020/21 and 2021/22 (Fuss, 2023). Furthermore, despite a decline in real per capita spending in 2022/23 and 2023/24, spending still remained above pre-pandemic levels in both years.

Figure 3: Nominal Federal Program Spending, 2014/15 to 2028/29



Note: "(**p**)" indicates the data represents planned values as of the 2024 Federal Budget.
Sources: Canada, Department of Finance, 2023a, 2024.

There are significant problems in the current direction of federal fiscal policy. Continuing to increase program spending from levels that are already elevated is a path that leads to more deficits, higher debt servicing costs, and marked debt accumulation. For instance, the latest federal budget forecasts that annual program spending will grow a further 18.4 percent and reach $542.0 billion by 2028/29 (Canada, Department of Finance, 2024). Deficits are planned for at least the next five years, debt servicing costs are projected to consume more than 10 percent of revenues for the foreseeable future, and gross debt is expected to approach $2.5 trillion by 2028/29.[1] This is not a reasonable path forward for federal finances.

There is a clear need for fiscal reform and consolidation, especially in the context of learning from what happened during the 1990s in Canada. After decades of unrestrained spending and debt, the country faced dire fiscal and economic circumstances in part due to a downgrading of Canadian government debt, high interest payments, and the undermining of monetary policy as a stabilization tool (Clemens et al., 2017). New Zealand's fiscal crisis in the 1980s also offers a cautionary tale for Canada today. Runaway spending and debt led their government to hit a fiscal wall when their debt auctions failed and they were required to make drastic spending cuts to fix the problem (Wilkinson, 2017).

1 Continuing to run sizable deficits in good times and bad also runs the risk of leaving the government with less fiscal capacity to respond to future shocks and recessions.

Tax Reductions to Boost Economic Growth

While federal finances are currently in a precarious position, sluggish economic growth in Canada is perhaps an even bigger concern. A recent study found that per-person economic growth from 2013 to 2022 was at its lowest point since the 1930s (Cross, 2023). Low economic growth results in several negative consequences for Canadians including slower growth in employment, incomes, and living standards.

One policy option that could boost economic growth is to reduce federal personal income tax (PIT) rates while eliminating several tax credits. Meaningful changes to the PIT system have not been made in decades and are long overdue. The last fundamental reform to the system originated in 1987 with the publication of a major White Paper on taxation (Canada, Department of Finance, 1987), and most of the changes that have taken place in the years since have been incremental and ad hoc.

For instance, the top federal PIT rate was increased in 2016 from 29.0 to 33.0 percent (Canada, Department of Finance, 2015). The government also lowered the second-lowest PIT rate from 22.0 to 20.5 percent, while eliminating several tax credits. These changes resulted in 86 percent of Canadian families paying more in taxes than previously (Palacios et al., 2022). Meanwhile, more substantial tax reforms have been avoided or ignored.[2]

Canada has been uncompetitive on tax rates with jurisdictions in the United States for decades, but the federal government's decision to increase its top PIT rate to 33.0 percent in 2016 has caused Canada's tax competitiveness to deteriorate significantly in recent years. In 2023, out of 61 Canadian and American jurisdictions, nine Canadian provinces ranked in the top ten on their top combined marginal PIT rates (Fuss and Munro, 2024). The only remaining province, Saskatchewan, ranked 15th. All ten provinces also have some of the highest combined marginal PIT rates in North America at incomes of CA$75,000 and CA$150,000. Among a broader group of 32 OECD countries, Canada had the fifth highest top combined PIT rate in 2022 (Fuss and Munro, 2024).

Canada's personal income tax system has also become increasingly complex over time and now consumes considerable resources in the form of compliance costs.[3] One main source of this increasing complexity is tax expenditures—the proliferation of credits,

---

2 In the 2024 federal budget, the government also increased the capital gains inclusion rate for realized capital gains above $250,000. This further worsens Canada's competitiveness challenges.

3 Vaillancourt and Li (2024) estimate the total compliance costs associated with filing 2022 Canadian personal income taxes to be $4.2 billion, or 0.15 percent of GDP.

deductions, and other special preferences. The Trudeau government eliminated a number of tax credits in 2016, but 149 federal PIT expenditures remain in place (Canada, Department of Finance, 2023c).

Many of these tax expenditures do little to improve economic incentives and spur growth. The layering of tax expenditures for certain population groups or activities distorts the tax system and creates biases against individuals who are not eligible for these special preferences (Lammam et al., 2015). Fuss and Palacios (2024) identify 49 different federal tax expenditures that could be eliminated and provide the federal government with $32.1 billion to lower marginal PIT rates.

The revenue generated from the removal of these tax expenditures along with a modest reduction in government spending would enable the federal government to remove the three middle income tax rates of 20.5 percent, 26.0 percent, and 29.0 percent. At the same time, the government could reduce the top marginal PIT rate from 33.0 to 29.0 percent.

These changes would establish a new tax landscape with just two federal PIT rates (table 1). Nearly all Canadians would face a marginal tax rate of 15.0 percent, while top earners would pay a marginal tax rate of 29.0 percent. Canadian provinces would be significantly more tax competitive with their counterparts in the United States and provide a much-needed boost to the national economy by improving incentives to work, save, and invest.

Altogether, Fuss and Palacios (2024) estimate this package of tax reductions, fully implemented, would cost $37.7 billion. While the elimination of $32.1 billion in tax expenditures will not cover the entire cost of the package, the remaining $5.6 billion (in 2023 dollars) could be covered by an equivalent amount of federal program spending reductions.

Table 1: Proposed Federal PIT Tax Rates

Income thresholds	Current Tax Rates	New Tax Rates
$15,705–$55,867	15.0%	15.0%
$55,868–$111,733	20.5%	15.0%
$111,734–$173,205	26.0%	15.0%
$173,206–$246,752	29.0%	15.0%
$246,753+	33.0%	29.0%

Sources: Canada Revenue Agency, 2024; calculations by authors.

Balancing the Budget While Reducing Personal Income Taxes

There is no targeted date for a return to balanced budgets in the latest federal budget. Instead, the government plans for at least five more deficits, beginning at $39.8 billion in 2024/25 before gradually reducing over time to $20.0 billion by 2028/29 (Canada, Department of Finance, 2024). The government's projections also include an expected $486.9 billion nominal increase in gross debt over the next five years. Table 2 summarizes the current federal fiscal plan from 2024/25 to 2028/29, which is our baseline scenario in this study.

Table 2: Baseline Scenario for Federal Finances (in billions of dollars)

	2024/25	2025/26	2026/27	2027/28	2028/29
Revenue	497.8	514.6	535.7	561.4	586.3
Program Spending	483.6	498.7	509.5	527.3	542.0
Debt Charges	54.1	54.9	57.0	60.9	64.3
Total Spending	537.7	553.6	566.5	588.2	606.3
Budgetary Balance	-39.8	-38.9	-30.8	-26.8	-20.0
Gross Debt	2,091.3	2,200.0	2,298.0	2,400.1	2,491.4

Source: Canada, Department of Finance, 2024.

Speeding up the timeline to balance the budget would enable Ottawa to accumulate less debt in the years ahead and help slow the growth in debt servicing costs. It would also help create the necessary fiscal room for the comprehensive tax reductions outlined in the previous section. Meeting the dual challenges of improving tax competitiveness and eliminating budget deficits will be a difficult task for the federal government, but it is definitely possible.

This section calculates the scale of spending reductions the federal government needs to make to balance its budget over a two-year period (2026/27) while also creating enough fiscal room for meaningful tax reductions.[4] Our model is based on the framework out-

4 It is beyond the scope of this paper to examine the exact areas to reduce spending. However, Munro and Fuss (2024) provide three examples of potential areas to target: corporate welfare, public sector compensation, and fiscal waste.

lined in Munro and Fuss (2024)[5], but the numbers are updated using the latest budget projections and incorporate the fiscal impact of the tax reductions delineated in Fuss and Palacios (2024).[6] The scenario presented in this study assumes the tax reductions would be implemented in 2025/26.

Past history shows that spending reductions are an effective tool to reverse deteriorating government finances. In the early 1990s, nearly one-third of active federal spending was funded by debt and net debt amounted to 70.9 percent of gross domestic product (GDP) (Clemens et al., 2017). Moreover, debt interest costs as a share of government revenues amounted to over 30 percent in 1993, meaning roughly one in three dollars collected in revenues was spent on debt interest.[7] Federal government debt threatened to spiral out of control, yet through a reexamination of federal spending that resulted in a 9.7 percent reduction[8] over two years along with limited spending growth in the third year, the Chrétien government was able to balance the budget and help usher in a period of strong economic growth and prosperity (Clemens et al., 2017).[9]

Figures 4 and 5 model the spending reductions required to balance the budget by 2026/27 while also implementing a comprehensive package of tax reductions. Figure 4 displays currently planned federal program spending along with adjusted program spending, while Figure 5 shows planned budgetary balances compared with those resulting from the spending reductions.

The figures demonstrate the federal government can introduce a comprehensive tax reform package and achieve a balanced budget by 2026/27 by reducing nominal annual program spending by 2.3 percent over a two-year period. In this scenario, nominal program spending would decline from $483.6 billion in 2024/25 to $472.6 billion in 2026/27.

---

5 The model assumes that debt servicing costs remain consistent with Budget 2024 estimates over the timeframe analyzed. This means our projection is conservative and underestimates the potential scale of debt reduction and reductions in debt servicing costs, while likely overestimating the scale of spending reductions required.

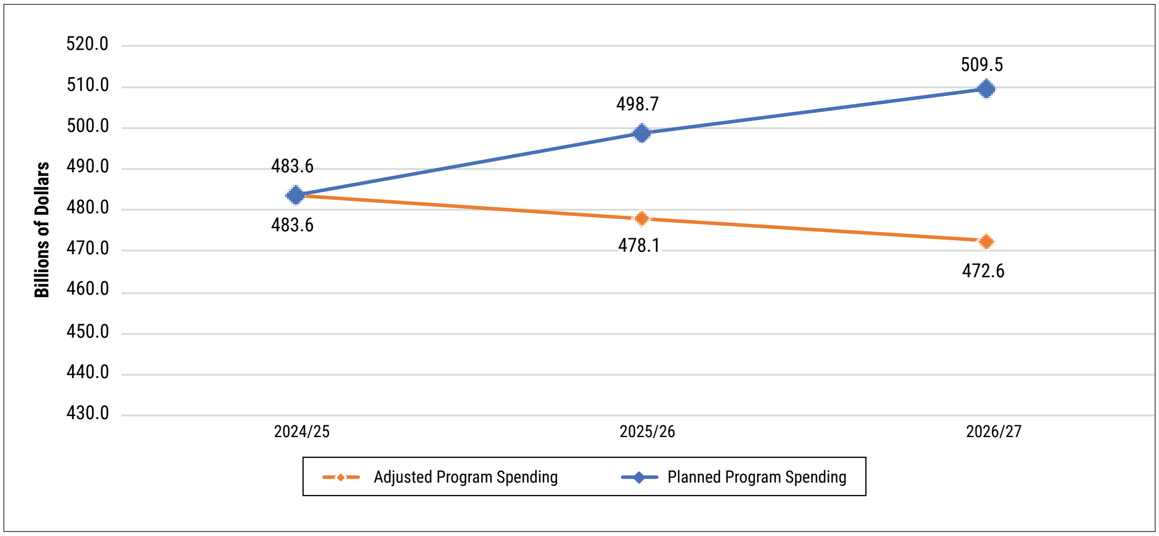
6 The revenue implications of the tax reductions are applied in 2025/26 in the model. Since Fuss and Palacios (2024) calculate the cost of tax reductions in nominal dollars, their estimates are adjusted by projected inflation in both scenarios as well.

7 For perspective, the current net debt-to-GDP ratio is estimated at 45.8 percent, while federal debt interest costs account for 10.9 percent of revenues (Canada, Department of Finance, 2024).

8 It should be noted that the Chrétien government did incorporate some tax increases as part of its fiscal plan, however, spending reductions remained the primary mechanism to achieve deficit reduction. Furthermore, at the same time as the Chrétien government was balancing the federal budget, Alberta's Klein government was successfully balancing its budget while utilizing no tax increases, instead relying solely on spending reform and reductions (Clemens et al., 2017).

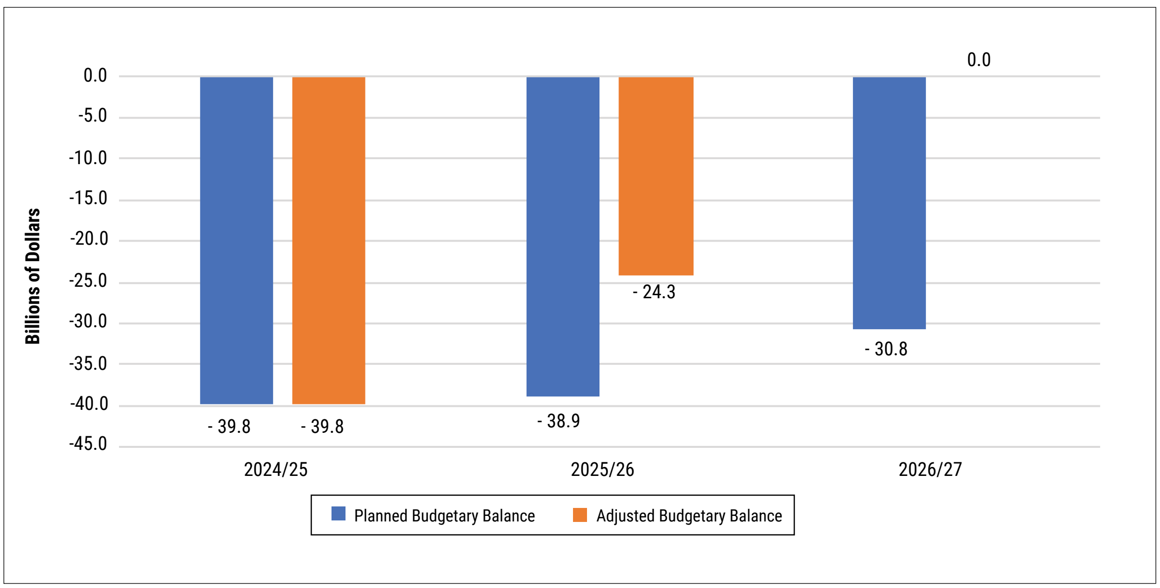
9 Research from Alesina (2012) shows that fiscal consolidations based on spending reductions have positive economic effects and are superior to balancing the budget through tax increases.

Figure 4: Planned Federal Program Spending and Program Spending Adjusted to Achieve a Balanced Budget by 2026/27



Sources: Canada, Department of Finance (2024); calculations by authors

Figure 5: Planned Budget Deficits and Adjusted Budgetary Balances with Return to Balanced Budgets by 2026/27



Sources: Canada, Department of Finance, 2024; calculations by authors.

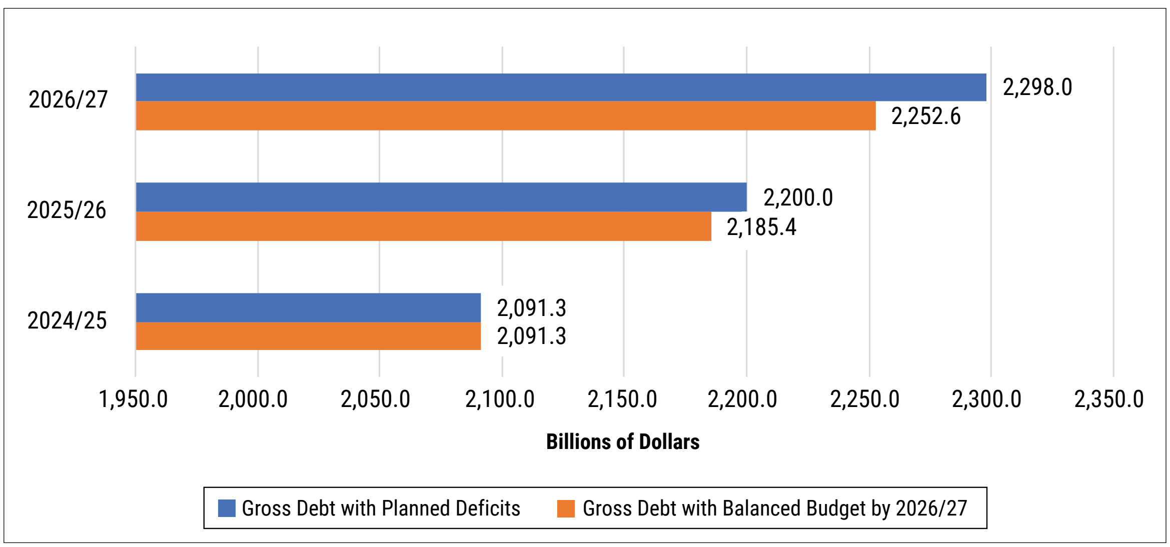
Per-person and adjusted for inflation, the spending reduction becomes more substantial as real per capita spending would fall 8.6 percent from 2024/25 to 2026/27.

By reducing program spending, the federal government would record a budget deficit in 2025/26 that is $14.6 billion smaller than it currently plans to run. The government would also achieve a balanced budget in 2026/27 as opposed to a $30.8 billion deficit.

Following this approach would allow the federal government to achieve a balanced budget in conjunction with significant tax reductions. This outcome is markedly different from the current fiscal plan which does not include a balanced budget at all, while simultaneously failing to provide tax reductions for Canadians.

Through efforts to reduce spending and balance the budget, the federal government would not only be able to provide tax relief to Canadians, but it would also avoid accumulating some of the debt that is currently planned. Figure 6 displays planned gross debt levels from 2024/25 to 2026/27 along with the gross debt that would be accumulated in the scenario presented. By balancing the budget in two years the federal government would accumulate $45.4 billion less debt than currently planned.

Figure 6: Federal Gross Debt Accumulation (in billions $), 2024/25 to 2026/27



Sources: Canada, Department of Finance, 2024; calculations by authors.

Longer-Term Fiscal Rules

Balancing the budget is a necessary short-term step in addressing the federal government's fiscal problems. However, a balanced budget should be viewed as a starting point rather than the end goal. Once the federal government achieves a balanced budget it must remain fiscally disciplined as it will likely face pressure to increase spending using the newfound fiscal room. Without long-term restraints on fiscal policy, history shows that governments are quick to spend away hard-earned (or unexpected) surpluses. This short discussion points out some of the problems that will remain to be considered and solved once the immediate and time-sensitive challenges are overcome.

Past history shows that governments in Canada are often quick to abandon fiscal discipline in response to improving economic conditions. Following the fiscal consolidation of the 1990s, and during a time of strong economic growth in the early 2000s, the federal government began to increase program spending at a rapidly increasing rate (Clemens et al., 2017). From 2000/01 to 2009/10, annual federal program spending increased over $100 billion in nominal terms, and by 2008/09 the federal government was back to running deficits. Though the Harper government eventually slowed spending growth and gradually reduced the deficit—following a ramp up during the 2008 Financial Crisis—the election of the Trudeau government in 2015 marked the end of fiscal restraint from the federal government.

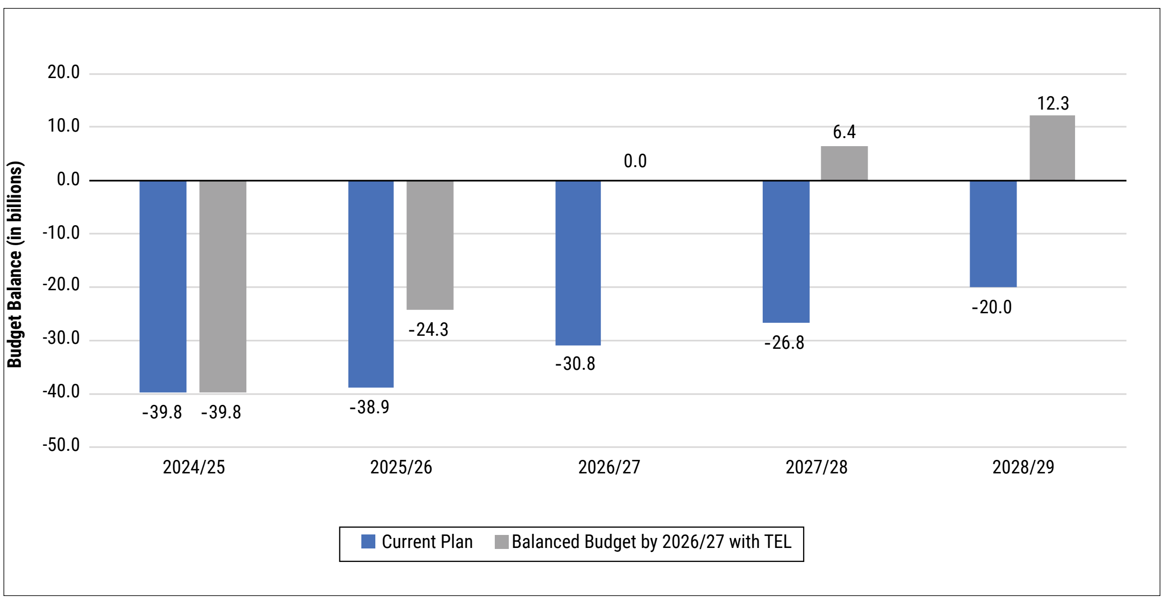
Ottawa's fiscal challenges will not be solved overnight, so given the general lack of fiscal discipline from governments in the long run, the federal government should consider implementing a binding limitation on its ability to grow spending.

One approach is to impose a Tax and Expenditure Limitation (TEL) on the federal government that restricts the pace of spending growth. TELs are rules that restrict the growth of expenditures, for instance, to either a fixed dollar amount or tie them to the growth rate of another economic variable (common variables include population growth plus inflation, personal income growth, or GDP) (Di Matteo, 2021). When designed right, these policies can help constrain government spending during times when there is little political incentive to do so. As of 2020, 33 US states had some kind of TEL in place, with significant variation in the design and effectiveness of these policies (Di Matteo, 2021).

Clemens et al. (2003) discuss the features of an effective TEL, finding that an optimal TEL is constitutional (making it difficult to change), initiated and approved by citizens, and applies broadly to government spending and revenues. Following these criteria, a TEL would provide binding limits on the federal government's ability to substantially increase program spending and take on debt, which may prove essential for addressing the federal government's long-term fiscal issues. As such, the federal government should consider implementing such a policy in addition to the short-term spending reductions previously discussed.

Implementing a TEL rule that caps growth in program spending at the rate of inflation plus population growth would be an effective strategy for the federal government moving forward.[10] Under such a rule, the federal government would be in a position to run surpluses in the years following their initial return to a balanced budget in 2026/27. Figure 7 uses the balanced budget scenario from the previous section as a starting point to show the projected federal budgetary balance out to 2028/29 if the government caps program spending growth at the rate of inflation plus population growth.[11] This projection is mapped against the current federal fiscal plan outlined in the 2024 federal budget.

Figure 7: Current Plan for Federal Budgetary Balances Compared to Budgetary Balances with a TEL Rule



Sources: Canada, Department of Finance, 2024; calculations by authors.

10 An economic shock, such as a major recession or future pandemic, may require a temporary suspension of the expenditure growth rule. Di Matteo (2021) notes that it is possible to structure a TEL that allows for such a case.

11 Projected rates of inflation come from Budget 2024 (Canada, Department of Finance, 2024) and population growth projections are calculated based on Statistics Canada's M1 scenario (Statistics Canada, 2024).

If the government were to balance the budget by 2026/27 and cap program spending growth at the rate of inflation plus population growth thereafter, it would record projected surpluses of $6.4 billion in 2027/28 and $12.3 billion in 2028/29.[12] This stands in stark contrast to the current fiscal plan to record deficits of $30.8 billion in 2026/27, $26.8 billion in 2027/28, and $20.0 billion in 2028/29.

12 Once again, the model assumes that debt servicing costs remain consistent with Budget 2024 estimates over the timeframe analyzed. This means our projection is conservative and likely underestimates the size of potential surpluses.

Conclusion

Federal finances are currently in a precarious position due to an absence of spending restraint, persistent deficits, and rising debt. Canada also faces weak economic prospects for the future, in part due to waning tax competitiveness with the United States and other advanced economies around the world. In light of these policy issues, it is imperative the federal government returns to balanced budgets and cuts personal income tax rates in the near future.

This study shows the federal government could reduce the top personal income tax rate to 29.0 percent and eliminate the current three middle tax rates of 20.5 percent, 26.0 percent, and 29.0 percent, while simultaneously balancing the budget over a two-year period. Specifically, the government can implement a comprehensive tax reduction package while balancing the budget in 2026/27 if it reduces nominal program spending by 2.3 percent over two years

Implementing a binding TEL rule that caps growth in program spending at the rate of inflation plus population growth would be the next step for federal finances over the long term. This would allow for budget surpluses in subsequent years after achieving the initial balanced budget and ensure discipline in government spending for the foreseeable future.

Overall, the fiscal framework delineated in this study provides a concrete plan for the federal government to pursue balanced budgets and tax reductions. Achieving these two goals concurrently will not be easy, but it can be done if Ottawa is willing to undertake meaningful reductions in federal spending. By following these steps, the government can eliminate its budget deficit, reduce tax rates, and create a fiscally sustainable, pro-growth policy environment.

References

Alesina, Alberto (2012). Fiscal Policy After the Great Recession. *Atlantic Economic Journal* 40, 4 (September): 429-435. <https://scholar.harvard.edu/files/alesina/files/fiscal_policy_after_the_great_recession_atl_econ_j_2012.pdf>, as of May 14, 2024.

Beaudry, Paul (2023). *Economic Progress Report: Are We Entering a New Era of Higher Interest Rates?* Bank of Canada. <https://www.bankofcanada.ca/2023/06/entering-new-era-higher-interest-rates/> as of May 14, 2024.

Canada, Department of Finance (1987). *The White Paper: Tax Reform 1987*. Government of Canada. <https://publications.gc.ca/collections/collection_2016/fin/F2-75-1987-2-eng.pdf>, as of April 22, 2024.

Canada, Department of Finance (2015). Archived- Backgrounder: Middle Class Tax Cut. Government of Canada. <https://www.canada.ca/en/department-finance/news/2015/12/backgrounder-middle-class-tax-cut.html>, as of April 22, 2024.

Canada, Department of Finance (2019). *Economic and Fiscal Update 2019*. Government of Canada. <https://www.budget.canada.ca/efu-meb/2019/docs/statement-enonce/efu-meb-2019-eng.pdf>, as of April 22, 2024.

Canada, Department of Finance (2023a). Fiscal Reference Tables 2023. Government of Canada. <https://www.canada.ca/content/dam/fin/publications/frt-trf/2023/frt-trf-23-eng.pdf>, as of April 22, 2024.

Canada, Department of Finance (2023b). *Fall Economic Statement 2023*. Government of Canada. <https://www.budget.canada.ca/fes-eea/2023/home-accueil-en.html>, as of April 22, 2024.

Canada, Department of Finance (2023c). *Report on Federal Tax Expenditures – Concepts, Estimates and Evaluations 2023*. Government of Canada. <https://www.canada.ca/content/dam/fin/publications/taxexp-depfisc/2023/taxexp-depfisc-23-eng.pdf>, as of April 22, 2024.

Canada, Department of Finance (2024). *Budget 2024: Fairness for Every Generation*. Government of Canada. <https://budget.canada.ca/2024/report-rapport/budget-2024.pdf>, as of April 22, 2024.

Canada Revenue Agency (2024). *Federal Tax for 2024*. Government of Canada. <https://www.canada.ca/en/revenue-agency/services/forms-publications/payroll/t4032-payroll-deductions-tables/t4032on-jan/t4032on-january-general-information.html#_Toc337712797>, as of April 22, 2024.

Clemens, Jason, Todd Fox, Amela Karabegović, Silvia LeRoy, and Niels Veldhuis (2003). *Tax and Expenditure Limitations: The Next Step in Fiscal Discipline*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/TaxandExpenditureLimitations.pdf>, as of April 22, 2024.

Clemens, Jason, Matthew Lau, Milagros Palacios, and Niels Veldhuis (2017). *End of the Chrétien Consensus?* Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/Chretien_Consensus_Book.pdf>, as of April 22, 2024.

Cross, Philip (2023). *What is Behind Canada's Growth Crisis?* Fraser Institute. <http://fraserinstitute.org/studies/what-is-behind-canadas-growth-crisis>, as of April 22, 2024.

Di Matteo, Livio (2021). *Tax and Expenditure Limitations for Canada's Federal Government: A Primer*. Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/tax-and-expenditure-limitations-for-canadas-federal-government.pdf>, as of April 22, 2024.

Fuss, Jake, and Tegan Hill (2022). *Ottawa's Pattern of Excessive Spending and Persistent Deficits*. Fraser Institute. <https://www.fraserinstitute.org/studies/ottawas-pattern-of-excessive-spending-and-persistent-deficits>, as of April 22, 2024.

Fuss, Jake (2023). *Prime Ministers and Government Spending: 2023 Edition*. Fraser Institute. <https://www.fraserinstitute.org/studies/prime-ministers-and-government-spending-2023-edition>, as of April 22, 2024.

Fuss, Jake, and Grady Munro (2024). *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness, 2024*. Fraser Institute. <https://fraserinstitute.org/studies/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness-2024>, as of April 22, 2024.

Fuss, Jake, and Milagros Palacios (2024). *Enhancing Economic Growth Through Federal Personal Income Tax Reform*. Fraser Institute. <https://fraserinstitute.org/studies/enhancing-economic-growth-through-federal-personal-income-tax-reform>, as of April 22, 2024.

Lammam, Charles, Joel Emes, Jason Clemens, and Niels Veldhuis (2015). *Reforming Federal Personal Income Taxes: A Pro-Growth Plan for Canada*. Fraser Institute. <https://www.fraserinstitute.org/studies/reforming-federal-personal-income-taxes-a-pro-growth-plan-for-canada>, as of April 22, 2024.

Liberal Party of Canada (2015). *A New Plan for a Strong Middle Class*. <https://liberal.ca/wp-content/uploads/sites/292/2020/09/New-plan-for-a-strong-middle-class.pdf>, as of April 22, 2024.

Munro, Grady, and Jake Fuss (2024). *A Case for Spending Restraint in Canada: How the Federal Government Can Balance the Budget*. Fraser Institute. <https://www.fraserinstitute.org/studies/case-for-spending-restraint-in-canada>, as of April 22, 2024.

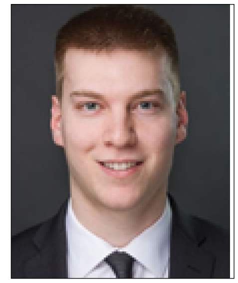
Palacios, Milagros, Nathaniel Li, Jason Clemens, and Jake Fuss (2022). *Measuring the Impact of Federal Personal Income Tax Changes on Middle Income Canadian Families since 2015*. Fraser Institute. <https://www.fraserinstitute.org/studies/measuring-the-impact-of-federal-personal-income-tax-changes-on-middle-income-canadian-families-since-2015>, as of April 22, 2024.

Statistics Canada (2024). Projected Population, by projection scenario, age and sex, as of July 1 (x 1,000). Table 17-10-0057-01. Government of Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710005701>, as of April 22, 2024.

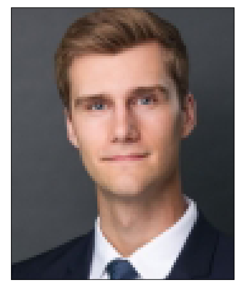
Vaillancourt, François, and Nathaniel Li (2024). *Personal Income Tax Compliance for Canadians: How and at What Cost?* Fraser Institute. <https://www.fraserinstitute.org/sites/default/files/personal-income-tax-compliance-for-canadians.pdf>, as of May 15, 2024.

Wilkinson, Bryce (2017). *New Zealand's Fiscal Reforms 1984–1996*. Macdonald-Laurier Institute. <https://macdonaldlaurier.ca/files/pdf/MLI-Anglosphere-NZPaper_Web_F.pdf>, as of May 14, 2024.

About the Authors



Jake Fuss is Director of Fiscal Policy at the Fraser Institute. He holds a Bachelor of Commerce and a Master's Degree in Public Policy from the University of Calgary. Mr. Fuss has written commentaries appearing in major Canadian newspapers including the *Globe and Mail*, *Toronto Sun*, and *National Post*. His research covers a wide range of policy issues including government spending, debt, taxation, labour policy, and charitable giving.



Grady Munro is a Policy Analyst at the Fraser Institute. He holds a Bachelor of Arts in Economics from Macalester College in Minnesota, and a Master's Degree in Public Policy at the University of Calgary. Mr. Munro's commentaries have appeared in the Toronto Sun, Halifax Chronicle Herald, and Vancouver Province. His research focuses on government spending, debt, and taxation.

Acknowledgments

The authors are grateful to the anonymous reviewers for their helpful input. Any remaining errors or omissions are the sole responsibility of the author. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

Publishing Information

Distribution

Our publications are available from <http://www.fraserinstitute.org> in Portable Document Format (PDF) and can be read with Adobe Acrobat® or Adobe Reader®, versions 8 or later. Adobe Reader® DC, the most recent version, is available free of charge from Adobe Systems Inc. at <http://get.adobe.com/reader/>. Readers having trouble viewing or printing our PDF files using applications from other manufacturers (e.g., Apple's Preview) should use Reader® or Acrobat®.

Ordering publications

To order printed publications from the Fraser Institute, please contact:
- e-mail: sales@fraserinstitute.org
- telephone: 604.688.0221 ext. 580 or, toll free, 1.800.665.3558 ext. 580
- fax: 604.688.8539.

Media

For media enquiries, please contact our Communications Department:
- 604.714.4582
- e-mail: communications@fraserinstitute.org.

Copyright

Date of issue

July 2024

ISBN

978-0-88975-789-9

Citation

Jake Fuss and Grady Munro (2024).
A New Federal Framework for Canada.
<http://www.fraserinstitute.org>

About the Fraser Institute

Our mission is to improve the quality of life for Canadians, their families, and future generations by studying, measuring, and broadly communicating the effects of government policies, entrepreneurship, and choice on their well-being.

Notre mission consiste à améliorer la qualité de vie des Canadiens et des générations à venir en étudiant, en mesurant et en diffusant les effets des politiques gouvernementales, de l'entrepreneuriat et des choix sur leur bien-être.

Peer review—validating the accuracy of our research

The Fraser Institute maintains a rigorous peer review process for its research. New research, major research projects, and substantively modified research conducted by the Fraser Institute are reviewed by experts with a recognized expertise in the topic area being addressed. Whenever possible, external review is a blind process. Updates to previously reviewed research or new editions of previously reviewed research are not reviewed unless the update includes substantive or material changes in the methodology.

The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.