

Trudeau Clinches Third Term in Canadian Federal Election

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Canadian Prime Minister Justin Trudeau has locked in the win in a snap federal election, paving the way for the still-minority Liberal government's plan for taxing wealth and tackling tax avoidance.

In the September 20 election he called in August, Trudeau secured the mandate he said his government needed from Canadians on the path to recovery from the pandemic. Polls showed the country's Liberal and Conservative parties in a dead heat going into election day.

"Millions of Canadians have chosen a progressive plan," Trudeau said during his victory speech. Canadians have come together "to end this pandemic, together for real climate action, for \$10-a-day child care, for homes that are in reach for middle-class families, for our shared journey on the path of reconciliation," he said. "As Canadians, you've elected parliamentarians to deliver on all this, and our team — our government — is ready."

While Liberals failed to secure a majority of seats in the House of Commons in a near repeat of the 2019 election, new members include Liberal candidate Sophie Chatel, representing the Quebec riding (election district) of Quebec, replacing fellow Liberal Will Amos, who declined to seek reelection following controversial incidents during virtual House proceedings. Chatel has held posts at Canada's Department of Finance and the Canada Revenue Agency, and she previously was head of the tax treaty unit at the OECD's Centre for Tax Policy and Administration.

The Liberals' campaign-season tax promises included a minimum tax on wealthy Canadians, which is expected to bring in an estimated C \$1.7 billion by fiscal 2025-2026, according to the party's fiscal and costing plan. Those in the top bracket would pay at least 15 percent per year to prevent artificial reductions in tax bills through excessive deductions and credits, the plan says.

The minimum tax builds on provisions targeting the wealthy that the Liberal government introduced in [Budget 2021](#), including a [luxury tax](#) on high-end vehicles, yachts, and private jets. The [budget has been criticized](#) for failing to include an outright wealth tax or pandemic windfall profits tax, though the election outcome might embolden related efforts.

Given that the Liberals will need to rely on at least one other party to get legislation passed, "there's going to be pressure from the [New Democratic Party] to include some kind of tax on high-income earners — a surtax, a wealth tax . . . I think the odds of that happening have

increased as a result of this election,” said Aaron Wudrick of the Macdonald-Laurier Institute. “Proposing tax on higher-income earners is sort of political catnip, but it could have consequences economically if they actually go ahead with it.”

“There is extremely high support for an annual wealth tax across Canada,” said Toby Sanger, executive director of Canadians for Tax Fairness. The New Democratic Party, which is expected to continue to play a key role in support of the Liberals, “has made a strong case for an annual wealth tax on the ultrawealthy on fortunes in excess of [C] \$10 million,” which would generate an estimated C \$10 billion annually, said Sanger, who added that the Bloc Quebecois also included a temporary wealth tax in its platform.

The Liberals promised to aid in the implementation of a global minimum tax on large companies and increased taxes on banks and insurance companies earning over C \$1 billion annually. A 3 percent surtax on those entities would raise roughly C \$5.3 billion over five years, starting in fiscal 2021-2022, the party estimated. It also vowed to revamp its general antiavoidance rule to keep banks, insurance companies, and other federally regulated entities from shifting Canadian profits to low-tax jurisdictions.

The CRA will be armed with up to C \$1 billion per year in increased resources to target aggressive tax planning by the wealthy and close the [tax gap](#), the party said. Budget 2021 proposed investing C \$230 million in the CRA over five years to aid in tax collection, which is expected to produce C \$5 billion in outstanding taxes over the same time period.

The amount of outstanding, collectible tax is hard to estimate, and the projections are optimistic, Wudrick said. The simplest way to crack down on tax avoidance and evasion in the long run “is to just eliminate the loopholes rather than trying to police them, but I don’t know that there’s any appetite for that,” he said.

Both the Conservative Party of Canada and the New Democratic Party responded to the Liberals’ introduction of a 3 percent [digital services tax](#) in Budget 2021, with support for similar proposals during the campaign. New Democrats leader Jagmeet Singh [backed a 3 percent DST](#), and the Conservatives said their 3 percent DST would apply to foreign technology companies that don’t pay corporate income taxes in Canada.

Addressing Canada’s housing affordability crisis was high on the parties’ agendas, with both the Liberals and the Conservatives promising [temporary bans on foreign acquisitions](#). Trudeau’s government, as part of Budget 2021, had already introduced a federal vacant homes tax on foreign owners that is slated to take effect at the beginning of 2022. The Liberals went a step further during the campaign by proposing an expansion of the tax to include urban vacant lots and an anti-flipping tax for residential real estate.

“Housing is a very big deal in Canada right now; housing prices are through the roof,” Wudrick said. There’s a consensus that “if you truly wanted to get housing prices to drop, you would need to introduce something like a home equity tax,” which is controversial, he said. “I still think politically that would be suicidal for a government to consider,” but if prices continue to rise, there will be added pressure to act, he added.

The national foreign buyers tax, unofficially targeted primarily at buyers from Asia, has sparked concern about retaliation from other countries, specifically the United States, Wudrick said. “If it

inadvertently ends up hitting Americans who own property in Canada, it's an open question about whether there will be pressure in Washington to retaliate," he said. There are "a lot of Canadians that own property in Arizona and Florida, and so you could have some unintended consequences there."

"I think this election gives the Liberal government more reason and need to introduce a number of progressive tax policies and measures," Sanger said.

"It's likely the Liberals will need to govern even more to the left than they previously have in order to get [New Democratic Party] support," said Kim Moody of Moodys Tax Law. Some of the simpler Budget 2021 proposals — for example, the luxury tax — are likely to be implemented as proposed, he said, while others, like revamping antiavoidance and transfer pricing rules, might be trickier. Overall, we can expect a broadening of the tax base, more luxury-type taxes, and increased targeted tax rates, Moody said. "For example, it wouldn't surprise me to see capital gains inclusion rates increase soon," he noted.