



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

# Costing Note

Publication date:	2020-07-08														
Short title:	Net wealth tax on Canadian resident economic families														
Description:	A parliamentarian requested that PBO use its recent publication of a refined family wealth model to estimate the revenues of an annual net wealth tax on Canadian resident economic families equal to 1 per cent of net wealth above \$20 million. All asset and liabilities will be included in the net wealth tax base, except wealth won in lotteries.														
Data sources:	<table><thead><tr><th><u>Variable</u></th><th><u>Source</u></th></tr></thead><tbody><tr><td>Family financial assets, non-financial assets, and liabilities</td><td>PBO's High-net-worth Family Database (HFD)</td></tr><tr><td>Population growth rate</td><td>Statistics Canada Quarterly Demographic Estimates; Statistics Canada Population Projections for Canada, Provinces and Territories</td></tr><tr><td>Family financial assets, non-financial assets, and liabilities growth rates</td><td>Statistics Canada National Balance Sheet Accounts; PBO Economic Model</td></tr><tr><td>Exempted lottery winnings</td><td>Ontario Lottery and Gaming Corporation</td></tr><tr><td>Behavioural response rate</td><td>Internal Revenue Service (US)<sup>1</sup></td></tr><tr><td>Administrative cost ratio</td><td>Inspectorate General of Finances (France)<sup>2</sup></td></tr></tbody></table>	<u>Variable</u>	<u>Source</u>	Family financial assets, non-financial assets, and liabilities	PBO's High-net-worth Family Database (HFD)	Population growth rate	Statistics Canada Quarterly Demographic Estimates; Statistics Canada Population Projections for Canada, Provinces and Territories	Family financial assets, non-financial assets, and liabilities growth rates	Statistics Canada National Balance Sheet Accounts; PBO Economic Model	Exempted lottery winnings	Ontario Lottery and Gaming Corporation	Behavioural response rate	Internal Revenue Service (US) <sup>1</sup>	Administrative cost ratio	Inspectorate General of Finances (France) <sup>2</sup>
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Estimation and projection method:	The net wealth tax base was determined using PBO's High-net-worth Family Database (HFD) as of 2016. <sup>3</sup> Family net wealth was projected in two steps. First, family net wealth was increased by the population growth rate using (a) the Quarterly Demographic Estimates up to April 2020 and (b) the Population Projections thereafter. Second, the financial assets, non-financial assets, and liabilities of each family were increased proportionally and brought in line with the growth rates of their aggregate totals in (a) the NBSA up to year-end 2019 and (b) PBO's Economic Model thereafter. Family net wealth was calculated as the sum of financial assets and non-financial assets, minus liabilities. Lottery winners of over \$20 million were subtracted from the tax base to determine the total number of families and net wealth subject to the tax.														

<sup>1</sup> Johnson, Barry, Brain Raub, and Joseph Newcomb. 2010. "A Comparison of Wealth Estimates for America's Wealthiest Decedents Using Tax Data and Data from the Forbes 400." In *National Tax Association Proceedings of 103<sup>rd</sup> Annual Conference on Taxation*, 128-135.

<sup>2</sup> Inspectorate General of Finances. 2014. "Relatif à la rationalisation du coût de gestion des prélèvements obligatoires." Retrieved from <http://www.igf.finances.gouv.fr/files/live/sites/igf/files/contributed/IGF%20internet/2.RapportsPublics/2014/2014-M-021.pdf>.

<sup>3</sup> The modelling approach used to construct the High-net-worth Family Database is described in PBO's report, "[Estimating the Top Tail of the Family Wealth Distribution in Canada](#)".

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