OPINION

The other Canadian anniversary: 100 years of income tax

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As the tax deadline looms, it's worth reviewing a brief history of Canada's federal income tax, to see how far we've come and where we might be going in terms of the income taxes we send to Ottawa.

Along with Confederation's 150th anniversary, 2017 also marks the centennial year for Canada's federal income tax. As a result of the funding demands of the First World War, the federal government brought in personal income and corporate income taxes in 1917, and the federal sales tax in 1921.

The personal income tax marked a shift in federal tax philosophy, as since Confederation, the ethos was that taxing incomes weakened Canada's competitive position. It changed federal public finances and our lives forever.

For[illegible]d Canadians with dependents and an annual income greater tha[illegible]00 (approximately $99,500 in today's dollars), the tax rate ranged from 2 to 22 per cent. However, because of the relatively high exemptions, only between 2 per cent and 8 per cent of individuals filed returns during the initial years of the federal personal income tax. Indeed, federal personal income taxation remained a relatively modest source of federal government revenue until the transformations of the Second World War.

The Second World War dramatically expanded the federal personal income tax with the most notable change being the introduction of high marginal tax rates. For example, the pre-Second World War marginal tax rate on taxable income between $1,000 and $2,000 in the dollars of the day was 4 per cent. By 1942, it had increased to 44 per cent. For taxable income between $10,000 and $15,000, it was 13.7 per cent before the war, but 69 per cent by 1942.

While marginal tax rates came down after the war, they remained substantially higher than they had been before the war. Moreover, the proportion of the population having to file income taxes rose over time. While only 2.3 per cent of the population filed personal income taxes in 1938, by 1975, that number had grown to 52 per cent and currently stands at approximately 75 per cent of Canadians.

Changes occurred in tax rates and brackets over time. By 2015, there were four brackets with rates of 15, 22, 26 and 29 per cent. However, the brackets increased to five in 2016 with rates ranging from 15 per cent to 33 per cent. And there are concerns further changes may be on the way given the increase of spending.

The constant in all of this change is growing revenue from the personal income tax. In terms of per-person federal personal income taxes, the burden has increased from roughly $14 a person in 1918 (in 2016 dollars) to roughly $4,120 in 2017, an almost 300-fold increase. As a share of GDP, it has grown from 0.2 per cent and is expected to be 7.2 per cent in 2017. As a share of total federal revenue, the tax has grown from 2.6 per cent in 1918 and is expected to reach 51 per cent in 2017.

It's ironic that a tax that was anathema to federal politicians during the first 50 years after Confederation and that many believe was introduced as a temporary wartime measure has come to be the dominant source of federal government revenue. Indeed, its creation and most dramatic expansion occurred during periods of war.

While the late 20th century saw a series of reforms that resulted in a reduction in the number brackets, a lowering of rates and a broadening of the base, recent federal tax policy has taken the first steps toward both higher rates and more brackets.

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