Feds' GST Break and Rebate Cheques Proposal Amount to Bad Policy

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Shoppers walk in Ottawa's Rideau Centre mall in a file photo. The Canadian Press/Justin Tang


By Jake Fuss and Grady Munro
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Commentary

On Nov. 28, the House of Commons passed legislation (tabled by the Trudeau government) that would temporarily suspend the federal Goods and Services Tax (GST) on select items from Dec. 14 to Feb. 15 at an estimated cost of $1.6 billion, as part of the government's "more money in your pocket" plan. The legislation now goes to the Senate for approval.

The government has delayed a separate proposal—to give Canadians $250 rebate cheques—in light of NDP demands to expand eligibility to include seniors. The original proposal would have sent cheques to an estimated 18.7 million Canadians (who worked in 2023 and earned $150,000 or less) at a cost of $4.7 billion. While aimed at all Canadians, this proposal is eerily similar to the recent move by Ontario's Ford government, which plans to send $200 cheques to Ontarians. And again, it's just bad policy.

Why?

Consider this. During the recent discussion about increasing Old Age Security payments by 10 percent for seniors aged 65 to 74, former Bank of Canada governor David Dodge said, "The last thing that we need to be spending money on at this point in time is boosting consumption for relatively well-off people." This critique also applies to the federal government's $250 rebate cheques, which would go to many well-off Canadians. Indeed, based on the government's original proposal, a couple earning a combined household income of up to $300,000 could receive these cheques.

Moreover, because onetime payouts and temporary tax breaks don't incentivize people to work and invest, they don't help raise living standards. But permanent tax cuts, such as reducing personal income tax rates or lowering capital gains taxes, would provide a stronger incentive for Canadians to work more and make investments because they get to keep more of the money they earn. That would help drive economic growth, create jobs, and provide more economic opportunities for workers across the income spectrum.

In fact, the government's plan may actually hurt economic growth in the long run. The government is expected to run budget deficits for the foreseeable future, and will likely borrow the billions needed to pay for the GST break and $250 cheques. In other words, this "relief" package will likely increase the federal deficit in 2024 and potentially 2025. By borrowing more money, the government will increase the tax burden on future generations of Canadians who ultimately must pay off today's debt. And just as lower taxes improve economic incentives, this higher future tax burden will worsen incentives and likely stifle economic growth and reduce living standards.

Don't be deceived. While it's nice to get a cheque in the mail and have a couple months free of the GST for some items, the Liberal government's "more money in your pocket" plan is bad policy.

Jake Fuss and Grady Munro are fiscal policy analysts at the Fraser Institute.

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Jake Fuss
Author

Grady Munro
Author

Jake Fuss is a senior economist at the Fraser Institute.

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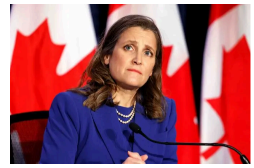

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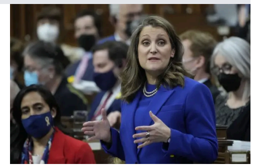

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