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Parallel Session 8B: The top of the Distribution

Trends in the Composition of Income and Wealth of High Income Canadians 1982-2006.

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Over the past decade income inequality has risen in Canada (Heisz, 2007). Unlike earlier increases in income inequality, the current upswing would appear to be heavily influenced by a well documented rise of incomes at the upper end of the income distribution. (Murphy Roberts and Wolfson 2007, Saez and Veall 2003). As a result of this recent trend some social policy commentators in Canada have been calling for additional taxes on the rich to reduce income inequality (Jackson, 2007).

With stable incomes throughout the rest of the distribution and a slight loss in income share for the middle class the explanations of earlier increases in income inequality tend not to apply. Some researchers have argued that the recent increase in pay at the top is driven by the removal of social norms regarding pay inequality (Piketty 2006). Others believe that the growth remains consistent with theories of skill biased technological change, superstars, greater scale and their interaction (Kaplan 2007). There is a further question of the ways in which changes in taxation rules have affected the way in which high income Canadians are compensated for their work by their employers or the ways in which the self-employed or investors structure their income.

High income Canadians usually have multiple sources of income as well as an ability to structure that income to minimize taxes. For these people there has been an increase in the share of income from employment at the expense of interest income and capital gains (except for the top 0.01% whose capital gains rose slightly). Recent taxation changes include a significant increase in the threshold of the top federal tax bracket as well as a large reduction in the percentage of capital gains subject to taxation. In 2006 a portion of dividend income became subject to a higher tax rate.

This paper will use both cross-sectional and longitudinal administrative tax data as well as Census data to describe and explore changes in the detailed composition of the high income population and the changes in their patterns of remuneration and taxation. Additionally we will examine changes in the composition of the non-pension wealth of high income Canadians.

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