Tackling inequality means talking taxes.

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TAX FACTS

A Decade of Eroding Tax Fairness in BC

Time for progressive tax reform

MOST BRITISH COLUMBIANS WOULD AGREE THAT EVERYONE should pay their fair share of taxes. And most assume that the wealthy pay more, not only in straight dollars, but also a higher tax rate as a share of their income.

So most would probably be shocked to learn that, in reality, that is no longer how our provincial tax system works.

A 2011 CCPA report, *BC's Regressive Tax Shift: A Decade of Diminishing Tax Fairness, 2000-2010* (upon which this summary is based), examined changes to the provincial tax system over that ten year period. It considered the total provincial tax rate for households at different income levels (the actual tax bill as a share of household income for all personal provincial taxes combined—income, sales, carbon and property taxes, and MSP premiums).
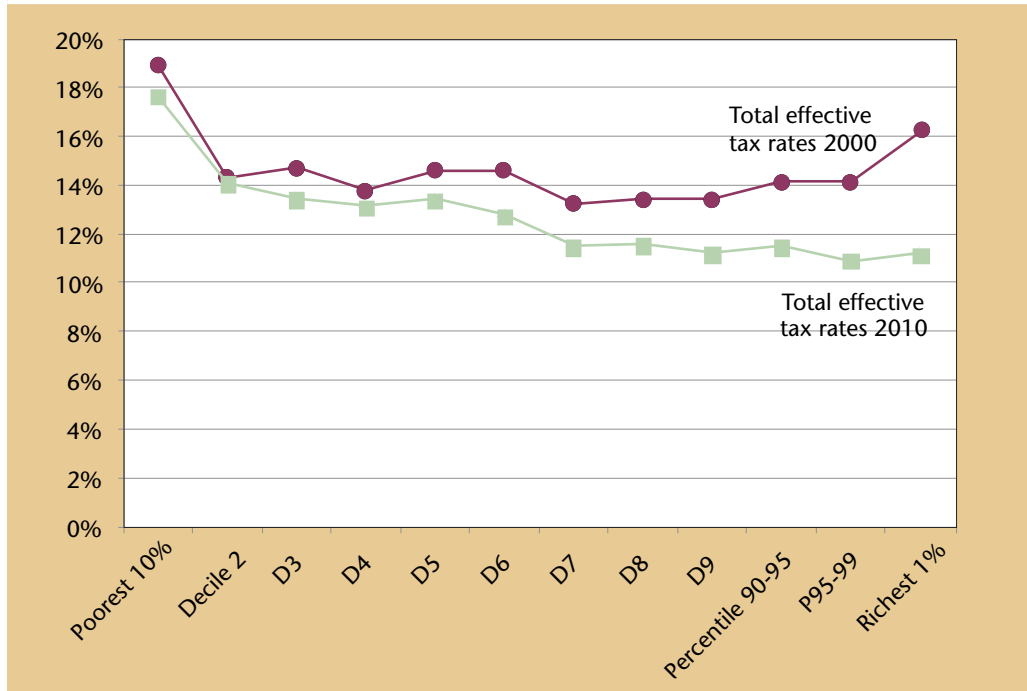
Using a Statistics Canada database that draws on tens of thousands of tax files, it found that BC now has a tax system where the rich pay a lower total provincial tax rate than the rest of us.

In 2000, most BC households paid about the same total tax rate, with the richest 10 per cent paying a little more. By 2010, however, the tax system had become out-and-out regressive—the higher your income in BC, the lower your overall tax rate. The result can be seen in Figure 1 (over).

How did this happen?

The BC personal income tax system remains mildly progressive, meaning as household income rises, so too does the tax rate. The problem, however, is that in the wake of income tax cuts, BC's public treasury is now much less reliant on income taxes, and those tax cuts benefitting primarily upper-income earners. Indeed, the provincial treasury's reliance on income taxes dropped by one third between 2000 and 2010.

Total effective
tax rates 2000

Total effective
tax rates 2010

Poorest 10% · Decile 2 · D3 · D4 · D5 · D6 · D7 · D8 · D9 · Percentile 90-95 · P95-99 · Richest 1%

Amazingly, the provincial treasury now relies more heavily on sales tax income than it does on income tax, and, even more shockingly, collects more from MSP premiums than it does from corporate income taxes.

Between 2000 and 2010, tax cuts delivered a whopping $41,000 to the top one per cent of households.

But other taxes we pay—sales, carbon, property, and MSP premiums—are not progressive, but rather, cost middle- and lower-income households more as a share of their income. Amazingly (as seen in Figure 2 below), the provincial treasury now relies more heavily on sales tax income than it does on income tax, and, even more shockingly, collects more from MSP premiums than it does from corporate income taxes.

The net result is a profoundly regressive tax shift. For example, as of 2010, a household in the bottom 20 per cent of the income spectrum pays total provincial taxes of about 14-15 per cent of their income, a middle-income household pays a total tax rate of about 13 per cent, and the wealthiest 20 per cent pay a total provincial tax rate of about 11 per cent.

And while total taxes are down for all British Columbians, we have not all benefitted equally. Tax cuts between 2000 and 2010 delivered an average of $9,000 per year to the richest 10 per cent of BC households, and a whopping $41,000 to the top one per cent. In contrast, middle-income households received an average tax cut of about $1,200, and lower-income ones got about $200 per year—savings that are likely wiped out by increases in Hydro and other fees.

A big reason for these huge differences is the growing gap in earnings and income. The wealthiest one per cent of British Columbian households now have an average annual income of about $820,000 (up from about $600,000 ten years earlier), and consequently have benefitted greatly from tax cuts. Our provincial tax system, instead of helping to offset the growing income gap, is now contributing to the divide.

These tax cuts come at a price—foregone government revenues and reduced public services. In short, tax cuts equal service cuts. Between 2000 and 2010, BC's tax revenues fell by 1.7 per cent of GDP. That may sound like a small change, but it's equivalent to $3.4 billion a year—money that is no longer available to reduce the deficit or to spend on needed public services.

FIGURE 2: SHARE OF BC TAX REVENUES BY SOURCE, 2000/01 AND 2010/11
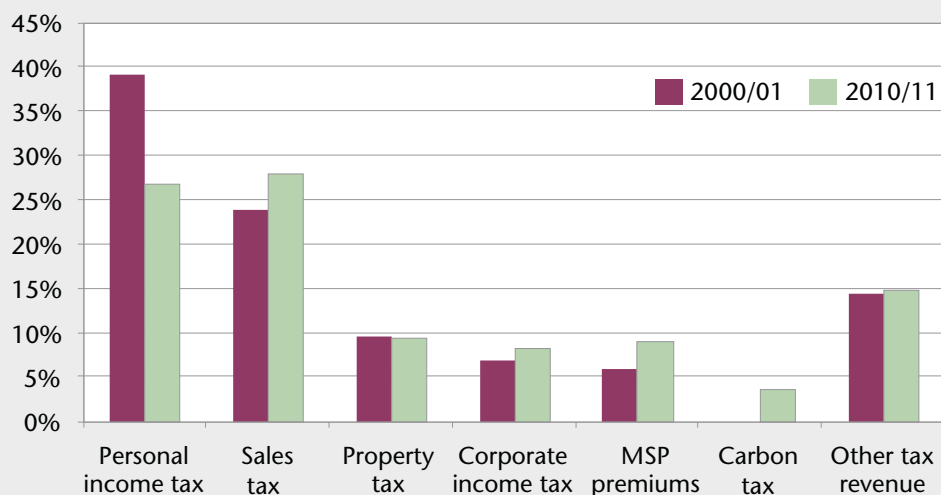
Source: CCPA calculations based on *BC Financial and Economic Review – July 2010*, Table A2.5 and BC Budget 2011, Table A10.

RECOMMENDATIONS

It's time for the provincial government to restore fairness to our tax system. A Fair Tax Commission should be initiated. Such a commission should engage British Columbians in a broad deliberative process (such as occurred with the Conversation on Health, or the Citizens Assembly of Electoral Reform), and examine: a) how much money we need to raise in order to fund the services and infrastructure we want to pay for together; and b) how to raise these revenues in a equitable and efficient manner. We need to look at the system as a whole and figure out how to make it fair.

And if we are serious about addressing inequality, we need to revisit our top tax brackets (given that inequality has been driven by the rise of the one per cent, as the Occupy Movement rightly identified). That's why President Obama has proposed the "Buffet Rule" in the US, and we should do likewise. That said, it's more than just the super rich that should see a modest increase in their taxes.

Currently, BC has five income tax brackets, and the top rate kicks in at about $100K of income. Surely that top bracket merits an increase in its rate, and we should consider a new tax bracket that kicks in at $150K or higher. That's much needed and long overdue.

Most British Columbians would be unaffected by such changes. Only about four per cent of British Columbians make over $100K a year, and only a little more than one per cent make over $150K. A new bracket at $250K of income would impact only about 0.5 per cent of BC taxpayers. Yet such increases could yield some much needed income to the public treasury (the amount would depend on the new rates, but, for example, a new 20 per cent tax rate on incomes over $150K could generate about $400 million in new revenues—enough to build about 2,000 new units of social housing per year, to give but one comparison).

As noted, BC's wealthiest one per cent have been doing extremely well in recent years. Most would be willing to pay somewhat more in taxes, particularly if we could demonstrate that such revenues would help to reduce poverty and homelessness.

If we are serious about addressing inequality, we need to revisit our top tax brackets—given that inequality has been driven by the rise of the one per cent, as the Occupy Movement rightly identified.

But we would argue that the BC government should not restrict itself to adjustments to the top rate alone. There is room to modestly increase the third and fourth brackets as well (which kick in at incomes of about $73K and $84K respectively; again only impacting a small minority of taxpayers). The truth is, for most of us, our BC provincial income taxes are remarkably low, given what we receive in public services, and the scope of unmet social and environmental needs.

If you too think that our upper tax brackets should be increased, we recommend that you let our political leaders know. Too often our leaders are overly cautious, and presume we will not abide such increases. If we really want action on inequality, we need to tell them otherwise.

This article is based on a CCPA report entitled *BC's Regressive Tax Shift: A Decade of Diminishing Tax Fairness, 2000-2010*

Download the full report at policyalternatives.ca/bc-tax-shift

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