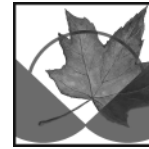


BEHIND THE NUMBERS

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Shifting Costs: An Update on How Tax & Spending Cuts Impact British Columbians

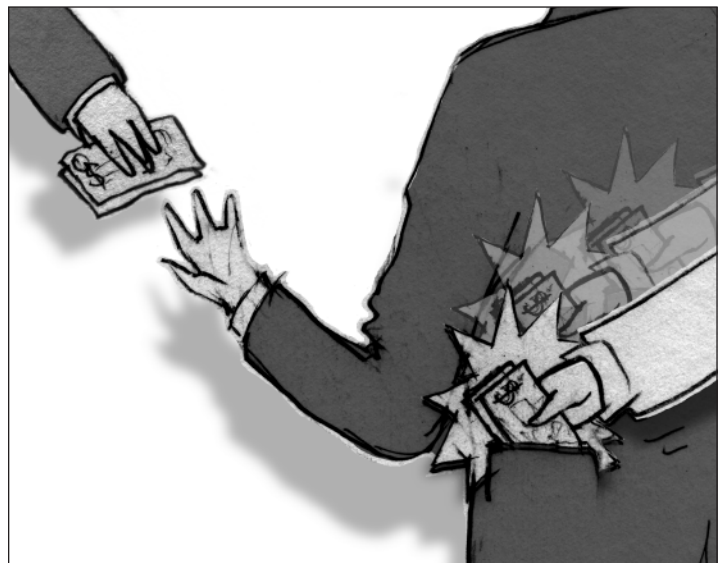
Stuart Murray

In February 2005, the provincial government tabled \$484 million in tax cuts as part of its pre-election budget. About \$270 million, however, merely represented a reversal of the sales tax increase made in 2002 (from 7.5 percent back to 7 percent). The focus of attention was a targeted low-income tax cut worth \$120 million.

While welcome to British Columbians with lower incomes, this tax cut is of minimal benefit, and must be assessed in the larger context of what has happened over the government's full term in office.

First, the initial round of income tax cuts in 2001/02 went disproportionately to high-income earners. Secondly, a number of tax increases have been brought in, and these fall more heavily on people with modest incomes. Finally, there have been large cuts in a number of public service areas and a shifting of costs, through de-listing of services and increases in user fees, from the public purse onto individuals and employers.

The purpose of this *Behind the Numbers* is to provide a more in-depth analysis of these policy changes. We update an earlier CCPA analysis of the distribution of income tax cuts by using more recent data, and account for the new low-income tax cut. We review the changes to other taxes in BC. And we update findings about the nature of cost shifting to assess how much people at various incomes and with various household needs saved in taxes on the one hand, and how much they have to pay out-of-pocket for public services on the other (originally published as



Cost Shift: How British Columbians are Paying for Their Tax Cut, by Sylvia Fuller and Lindsay Stephens).

As this report shows, the tax cuts – even after incorporating those announced in the latest provincial budget – disproportionately benefited higher income earners. Subsequent tax increases, and the additional costs that were passed on to taxpayers, have eaten away the benefits of tax cuts for many British Columbians. The result has been a reduction in the amount of public services available and a major shift in terms of how we pay for those services.

The Distribution of Income Tax Cuts

Table 1 shows how income tax cut dollars were distributed. We include the approximately 25 percent across-the-board income tax cut, phased in over 2001 and 2002, plus the new 2005 low-income tax cut.

In general, the cut disproportionately benefited higher-income earners. The 60.8 percent of tax filers earning less than \$30,000 per year received only 17.2 percent of the tax cut. The 27.8 percent of the population earning between \$30,000 and \$60,000 per year received a relatively equal proportion of the tax cut (28.4 percent). Meanwhile, the 11.4 percent of the population earning more than \$60,000 per year received 54.4 percent of the tax cut. Thus, the income tax cuts move money towards those in higher income brackets.

Particularly telling is the fact that the 0.4 percent of the population earning more than \$250,000 per year received 15.2 percent of the tax cut, which is only slightly less than went to the bottom 60.8 percent of the population.

Table 2 shows the income tax cut at various income levels. Here we find that someone earning \$30,000 got a tax cut of \$430 per year, or 1.4 percent of their income. In contrast, someone earning \$200,000 got a tax cut of \$7,797, or 3.9 percent of their income. At incomes in between \$30,000 and \$200,000 we see that the dollar amount of the tax cut increases with the income level. The tax cut as a *share* of income also increases at higher incomes.

The 2005 tax reduction applies only to those making less than \$26,000 per year. For someone earning \$20,000 per year, the value of the 2005 tax cut is \$216.¹ When we add this \$216 to the \$236 this individual received from the tax cuts in 2001 and 2002, the total value is \$452, or 2.3 percent of income.

While the 2005 tax cut does divert some additional savings to low-income earners, the overall effect of the tax cuts is regressive. On a per-person basis, those with higher incomes generally got much more money, both in dollar terms and as a percent of income. Moreover, because the 2005 tax cut was structured as a non-refundable tax credit, if someone's income is so low that they do not pay income taxes, they receive no benefit at all.

Regressive Taxes Increased

While income taxes have been cut, other taxes have increased:

- Medical Services Plan (MSP) premiums were increased by 50 percent as of May 2002.
- The Provincial Sales Tax was increased from 7 percent to 7.5 percent in February 2002 (a measure that was reversed as of October 2004).

Table 1: The Tax Cut Pie

Income Interval	Percentage of Tax Filers 2000	Total Income Tax Savings from Tax Cuts announced in 2001 and 2005 (\$ millions)	Share of Tax Cut Pie (%)
\$1 - \$30,000	60.8%	\$269.8	17.2%
\$30,000 - \$60,000	27.8%	\$446.9	28.4%
\$60,000 - \$80,000	6.6%	\$267.3	17.0%
\$80,000 - \$100,000	2.3%	\$128.8	8.2%
\$100,000 - \$150,000	1.5%	\$127.1	8.1%
\$150,000 - \$250,000	0.6%	\$93.3	5.9%
\$250,000+	0.4%	\$238.4	15.2%
Total	100.0%	\$1,571.7	100.0%

Note: Figures are based on final sample data for British Columbia for the 2000 tax year, and include adjustments in tax rates in 2001, 2002 and 2005 at different income intervals. Income intervals are based on gross income before deductions. These numbers are not comparable with the CCPA's previous estimates because we switched the sample from 1998 tax payers to 2000 tax filers (which includes people filing returns but paying no tax). Percentages may not sum to exactly 100% due to rounding.

Source: Author's calculations based on Canada Customs and Revenue Agency, Tax Statistics on Individuals, Table 2.

Table 2: BC Personal Income Tax Cuts, 2001-2005

Gross Earnings	BC Income Tax Before Tax Cut		Tax Cuts in 2001 and 2002 plus 2005 Low-Income Tax Cut	BC Income Tax After Tax Cut		Tax Cut as a Percent of Income
	(dollars)	(percent of income)	(dollars)	(dollars)	(percent of income)	
\$20,000	\$843	4.2%	\$452*	\$391	2.0%	2.3%
\$30,000	\$1,536	5.1%	\$430	\$1,106	3.7%	1.4%
\$40,000	\$2,429	6.1%	\$644	\$1,785	4.5%	1.6%
\$50,000	\$3,559	7.1%	\$904	\$2,655	5.3%	1.8%
\$60,000	\$4,642	7.7%	\$1,155	\$3,487	5.8%	1.9%
\$80,000	\$7,517	9.4%	\$1,947	\$5,570	7.0%	2.4%
\$100,000	\$10,989	11.0%	\$2,857	\$8,132	8.1%	2.9%
\$150,000	\$20,603	13.7%	\$5,297	\$15,306	10.2%	3.5%
\$200,000	\$30,453	15.2%	\$7,797	\$22,656	11.3%	3.9%

Source: Author's calculations based on information on the BC Ministry of Finance and Corporate Relations web site.
 Note: *This \$452 dollars represents a \$236 tax cut in 2001 and 2002, plus a \$216 tax cut in 2005.

- Fuel taxes were increased by 3.5 cents per litre.
- Tobacco taxes were increased in each of the 2002, 2003 and 2004 budgets.

Income taxes are progressive taxes, meaning a greater share of income is paid in tax the higher a person's earnings. These other tax increases are all regressive taxes, because the higher your income, the lower the tax is as a percent of your income.

For example, for an individual earning \$24,000 per year, their MSP premiums of \$648 represent 2.7 percent of income. For someone earning \$36,000 per year the same MSP premiums represent 1.8 percent of income, and for someone earning \$100,000, 0.65 percent of income. The government does, however, provide premium assistance for people with low incomes, and this was enhanced at the time that MSP premiums were increased (and is scheduled to be further enhanced as of August 2005).

The increases in MSP premiums have another unequal effect. Those with good jobs will tend to have their MSP premiums paid by their employers, while those with part-time and lower-paying jobs will tend to pay for their

premiums on their own. This means that the financial impact is worse for workers who are more vulnerable, and easier for those who are less vulnerable. In those cases where the employer pays MSP premiums, the premium increase is a cost shift onto employers. Thus, the changes to MSP have affected people unequally. Hardest hit are working people with low incomes whose employers do not cover MSP premiums.

Another regressive tax is the Provincial Sales Tax (PST). The province temporarily increased the PST from 7.0 percent to 7.5 percent between February 2002 and October 2004, and it also permanently increased taxes on gas and tobacco. When the provincial government brought in the PST increase, it also enhanced the sales tax credit for low-income earners. To the government's credit, this enhanced sales tax credit remained in place after the PST was reduced to its original level.

Shifting Costs

More insidious than the increase in regressive taxes is the shifting of costs away from the public purse and onto individuals. These policy changes include de-listing of supplemental health services (like physiotherapy) and eye

exams, changes to Pharmacare, tuition fee hikes, and reductions in childcare subsidies. Together, they amount to a de facto privatization of certain public services. Like the case of MSP premiums, many employer-provided benefit plans cover these costs privately, but typically for those with better jobs who are more likely to be able to pay for them out-of-pocket.

Before January 2002, under the provincial Pharmacare program, seniors only paid up to an annual maximum of \$200 in dispensing fees, beyond which drug costs were covered by Pharmacare. As of January 2002 seniors had to pay up to a maximum of \$275, and this maximum included *all* drug costs — not just dispensing fees — increasing the likelihood that someone would pay the maximum.

When the new “Fair Pharmacare” program was created in 2003, the provincial government again increased costs by introducing a deductible for seniors with household incomes over \$35,000. At the same time, however, deductibles for low-income non-seniors were reduced for those with household incomes below \$35,000. Thus, the government did attempt to build some progressivity into the system: the higher your income, the higher your deductible. Nevertheless, overall, the new Pharmacare program shifts part of the cost of drugs onto consumers, disproportionately penalizing those with health problems. Beyond the deductible, seniors now must pay 25 percent of their drug costs up to a maximum. For future seniors (those born after 1939), drug costs will be higher than under the old regime.

For example, consider a senior couple with total family income of \$35,000 per year and a typical drug expenditure of \$1,260 (or \$630 per person). Before the changes to Pharmacare, the only expense for seniors was the \$200 annual dispensing fee maximum (the drugs themselves were fully covered), or \$400 per year for both seniors. After the changes in 2003, the family pays the deductible of \$350, plus 25 percent of the difference (\$228) for a total of \$578. This means an increase of \$178 per year above what the couple would have paid prior to 2002.

The government has also de-listed several supplementary health benefits previously covered by the Medical Services Plan such as eye exams and physiotherapy. According

to estimates by the Ministry of Health Services, the government saved \$68.6 million in 2002/03 (the first year of de-listing) by ending coverage of these services.² According to ministry estimates in 2002, these services will cost those British Columbians who rely on them an additional \$44 per eye exam, \$196 for physical therapy, \$191 for massage therapy, \$150 for non-surgical podiatry, \$213 for chiropractic, and \$202 for naturopathy. These fees were effective 2002, and since then costs have likely risen.

While some people are covered for these services under their employer’s private health care benefits, this shifts the burden of costs onto employers, and shifts health care activity into a private-pay mode. People who are not covered by private health benefits must choose between paying out-of-pocket and going without, thereby reducing preventative health care and increasing pain and suffering.

Tuition fees have also increased dramatically. Since the tuition freeze came to an end in 2002/03, university tuition has gone up by more than \$2,000 per person in real dollar terms as of 2004/05, an increase of 76 percent. From 2001/02 to 2003/04, fees increased by 72 percent at colleges and more than doubled at university-colleges.³

In childcare, changes were made to the subsidy program. Between 2002 and 2005, the BC government decreased the monthly income threshold to qualify for a subsidy for childcare expenses by a net amount of \$185, which significantly reduced the number of people who qualified. Some of those above the threshold still received a partial subsidy, but the amount of that subsidy was also reduced.

The provincial government has recently reversed its cuts to the subsidy program. However, eligibility and subsidy amounts are harder to figure out, and it is now more difficult to apply and qualify for the subsidy. There are fewer offices to apply to, and there is no face-to-face contact made with a worker. Those who do not read or write English must navigate a less accommodating application process. The length of time it takes to process a claim has doubled, often taking well over a month. As a result of direct funding cuts to childcare services, wages and benefits for many childcare staff were reduced and several childcare programs closed across the province. Overall, the cuts to childcare have reduced many families’ access to licensed childcare services.

Finally, there are a number of smaller changes in fee structures that will hit individuals and families. The cost of driver's licenses increased by \$35. Charges for use of provincial parks have increased. The cap on BC Hydro rates was lifted, and households are facing higher electricity bills. All of these further erode any savings from income tax cuts.

Cost Shift Profiles

To illustrate the net effects of all of the changes mentioned above — income tax cuts, other tax increases, and cost-shifting — we have created a number of “representative households” at different ages and income levels. These are for illustrative purposes only — the net effect will be different based on a household’s particular circumstances and the choices it makes vis-à-vis policy changes (such as whether to go for an eye exam). We have made a series of assumptions about the households, and show the bottom line for each.

Consider three individuals at different income levels. An individual making \$30,000 per year got an income tax cut of \$430 per year. This person is not likely to have private health insurance through an employer (for example, if they are self-employed) and would have to pay higher MSP premiums of \$216. This cuts their initial tax cut in half, but if they needed to have an eye exam and a course of physiotherapy, this would more than consume the remainder of their tax cut and they would end up behind by \$26. It is worth noting that, if this individual has significant prescription drug costs, the new Pharmacare program provides a benefit in terms of reduced deductibles.

Because the benefit of the income tax cuts increases with income, high-income individuals would still have a large net gain. At \$80,000 of income they would be ahead by \$1,535, and at \$150,000 of income they would be ahead by \$4,885. If their employers paid their MSP premiums and supplemental health costs, they would be even further ahead.

Table 3: Cost Shift Profiles

Profiles	Gross Income	Income Tax Cut	MSP	Bottom Line Before Other Items	First Year Grant Eliminated	Increased Tuition	Drug Costs	Eye Exam	Supplementary Health	Bottom Line
Single Individual	\$30,000	\$430	-\$216	\$214				-\$44	-\$196	-\$26
Single Individual	\$80,000	\$1,947	-\$216	\$1,731					-\$196	\$1,535
Single Individual	\$150,000	\$5,297	-\$216	\$5,081					-\$196	\$4,885
Family of Four	\$35,000	\$823	-\$432	\$391				-\$44	-\$196	\$151
Family of Four	\$60,000	\$1,096	-\$432	\$664				-\$44	-\$213	\$407
Family of Four	\$90,000	\$1,548	-\$432	\$1,116				-\$44	-\$191	\$881
UBC Arts Undergraduate	\$13,000	\$201	\$86	\$287	-\$3,536	-\$1,830				-\$5,079
Senior Couple (Current Senior)	\$35,000	\$490	-\$384	\$106			-\$178		-\$150	-\$222
Senior Couple (New Senior)	\$35,000	\$490	-\$384	\$106			-\$678		-\$150	-\$722

Assumptions for Profiles:

1. For the families earning \$35,000 we assume one person earns \$20,000 and the other earns \$15,000. The family earning \$60,000 is assumed to have one spouse earning \$20,000 and the other earning \$40,000. The family earning \$90,000 is assumed to have one spouse earning \$40,000 and the other earning \$50,000.
2. MSP premium data reflects premiums that came into effect in May 2002. Recently-announced changes in premium assistance subsidy thresholds do not come into effect until August 1, 2005.
3. Tax cuts were calculated using a variety of sources, including the Ministry of Provincial Revenue’s web pages regarding tax cuts announced in 2001 and 2005, the CCPA’s cost shift calculator, and tax calculation spreadsheets provided by external experts.

Now consider a family of four at different income levels. A low-income family of four with \$35,000 income would receive a tax cut of \$823, but faces an MSP increase of \$432 if they have no employer-provided coverage. However, if one parent needs an eye exam, and another needs physiotherapy, their tax cut falls to \$151. This family is ahead partly as a result of the low-income tax credit announced in 2005. But other fee increases may still consume the remaining benefit.

For a family of four earning \$60,000, their income tax cut is \$1,096. If this family has to pay MSP premiums, they lose \$432 of their tax cut. And if one parent needs an eye exam, and another needs a full year of chiropractic treatment, they are ahead \$407 overall. At \$90,000 of income, the family is better off. And if these families are covered by employer-provided benefits, they are even further ahead.

Note that if a family has a child in university, they would have to pay an additional \$1,830 per year in tuition, which would eliminate any benefit of the tax cut.

As with single individuals, lower income families get less from the tax break than those with higher incomes. But the cost of indirect taxes remain generally the same. This means that lower income families get little new money (or end up further behind) while higher income families get substantially more.

The scenario is different when a family requires childcare. In 2002 the childcare subsidies were reduced, but since then the subsidies have been reinstated. It is difficult to determine the current value of the subsidy for a family, because of the increased complexity of the system.

A first year UBC arts undergraduate with \$13,000 per year in income is now significantly worse off. This individual was paying very little income tax in the first place, and although their taxes are reduced to zero this only represents a \$201 tax cut. However, with the elimination of the first year grant this person loses a \$3,536 benefit, and an 84 percent tuition fee increase costs an additional \$1,830 per year. In total, this person is \$5,079 behind, a substantial setback for someone with an income of \$13,000 per year.

A senior couple with a combined income of \$35,000 gets a \$490 tax cut, which evaporates as a result of several other fee increases. MSP premium increases cost this couple \$384 more, and if one of them needs non-surgical podiatry it costs an additional \$150. If the couple was born in 1939 or earlier, they pay an additional \$178 in drug costs, and their bottom line including all taxes and costs result in a net loss of \$222 per year. If the couple was born after 1939, the couple pays \$678 more in drug costs, and they are \$722 behind.

If the senior couple needs continuing care services, such as home visits by a nurse, and they cannot access publicly-subsidized care, they may have to resort to private-pay home care. Even if they pay out-of-pocket for a Registered Nurse at the lowest rate of \$37.50 per hour⁴, at one hour per week this adds up to \$1,950 per year. Because of reduced access to publicly subsidized care, a senior couple will either be significantly worse off financially, or they will have to go without.

The bottom line is that while many are better off financially, students, seniors and many with lower incomes are not.

Conclusion

Overall, those with higher incomes and fewer needs have benefited most from changes made under the current government. Everyone has taken on additional indirect taxes and health care costs, however these additional costs are mostly the same across income levels. If your tax cut is small, you must spend the additional money on MSP premiums or supplementary health expenses. If your tax cut is large, you will have extra money left over. We also find that those with additional needs are vulnerable. Students are vulnerable to tuition fee increases and seniors are vulnerable to increasing costs for drugs and continuing care services.

The government is making partial attempts to ensure its policies are more progressive, by bringing in an additional tax credit for low-income earners in 2005, increasing MSP premium assistance, and using a means-tested Pharmacare program. However, the fact remains that the most significant measure — the 25 percent income tax cut — gives most of the money to the highest earners.

This report provides a “nuts and bolts” summary of the changing finances of different households under the current government’s policies. While we were able to capture much of the financial costs of policy changes, there are many additional items that we have not incorporated.

In health care, thousands of hospital and residential care beds have been closed. In education, we have seen school closures and increasing class sizes. Social assistance benefits have been cut. Cuts to legal aid have made it more difficult for those with low incomes to have fair access to justice, particularly women in need of legal support for family law cases. The human rights commission has been eliminated. Environmental laws have been weakened and enforcement reduced.

Public services should be viewed as a collective form of insurance against hardship. As the government makes cuts to public services, we are exposed to more risk. As we have seen, this approach can work for those who can afford to pay their way, but does not for those who have lower incomes or who are more vulnerable. Even wealthy people may feel that the tax cuts were not worth the price paid by society at-large.

Tax cuts are not a cure-all for society’s ills. Taxes pay for services that everyone values, and if we reduce taxes we have to either cut services or shift costs onto individuals. As we have seen, the effects of the tax cut have been unequal. We have moved money away from the vulnerable and towards those who are doing well.

Notes

- ¹ BC Budget and Fiscal Plan, 2005/06-2007/08, p. 88.
- ² BC Ministry of Health Services, BC Ministry of Health Planning, 2002, “2002/03-2004/05 Budget Overview.” Unpublished document, Government of British Columbia
- ³ Marc Lee and John Malcolmson, *Financing Higher Learning: Post-secondary Education Funding in BC*, Canadian Centre for Policy Alternatives – BC Office, November 2004
- ⁴ Marcy Cohen et al., *Continuing Care Renewal or Retreat? BC Residential and Home Health Care Restructuring 2001-2004*, Canadian Centre for Policy Alternatives – BC Office, April 2005

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