

behind the numbers

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Marc Lee can be reached for interviews/commentary at 604-801-6920.



**Canadian Centre for
Policy Alternatives
BC Office**

1400-207 W. Hastings St

Vancouver, BC V6B 1H7

Tel: 604-801-5121

Fax: 604-801-5122

info@bccpolicyalternatives.org

www.policyalternatives.ca

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Let Them Eat Cake

The Anniversary of BC's Tax Cuts is No Reason to Celebrate
by Marc Lee

One year ago (June 6, 2001), with great fanfare, the new BC government introduced the largest tax cut in Canadian history on its first day in office. This was the culmination of an election campaign in which tax cuts, and their seemingly miraculous powers to fix the provincial economy, were the number one issue. The election promise from the Liberals was that tax cuts would be for low and middle income earners, i.e. the bottom two tax brackets. And that tax cuts would pay for themselves—that is, they would stimulate so much economic growth that the additional taxes paid on this new growth would offset the costs of the initial tax cuts. No pain, all gain.

On the anniversary of the tax cuts, it is worth a look at who actually benefited from BC's tax cuts, and whether tax cuts have made good on their promise.

The more you earn, the more you saved in taxes relative to your income.

While the tax cuts were spun as benefiting all equally, those with higher incomes received a much larger benefit, as the upper three tax brackets were cut by more than the bottom two brackets. At an income of \$20,000, the value of the fully phased-in 2002 tax cut is \$236, or 1.2% of income. As income rises so does the value of the tax cut, in both straight dollar terms and as a percentage of income. By \$200,000 of income, the tax cut amounts to about \$7,800, or 3.9% of income. (See *BC Personal Income Tax Cuts 2002* table below.)

The total tax cut pie is sliced very unequally.

The delivery of large tax cuts for upper income earners was a move that caught most

BC Personal Income Tax Cuts 2002						
Gross Earnings	BC Income Tax before Tax Cut		Tax Cut in 2002	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%	\$236	\$607	3.0%	1.2%
\$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: BC Ministry of Finance and Corporate Relations.

analysts by surprise. The tax cut will give 8,190 people in BC with incomes over \$250,000 (a mere 0.4% of taxpayers) a total savings of about \$191 million. In contrast, the 916,400 of taxpayers with incomes below \$30,000 (about 49% of taxpayers) will get a bit less, \$181 million in tax cuts. Over half the total tax cut pie went to people earning more than \$60,000 (13% of taxpayers). (See table *The Tax Cut Pie*, below)

Tax cuts exacerbate the gender divide.

Because women earn less than men to begin with, they received less benefit from the tax cuts. The median female taxpayer (half of women earned more, half earned less) saved \$373 in taxes, while the median male taxpayer saved \$569 in taxes—a difference of \$196. Meanwhile, spending cuts to child care, women’s centers and legal aid adversely affect women, while spending cuts in general increase the amount of women’s unpaid work needed to pick up the pieces.

Tax cuts have not paid for themselves.

While most economists considered the argument that tax cuts would pay for themselves to be nonsense, it made for shrewd election year politics and was endorsed by corporate BC. Instead of paying for themselves, personal and corporate tax cuts have led to the largest deficits, and the highest debt-to-GDP ratio, in BC’s history. Meanwhile, the economy continues to sputter, with projected GDP growth for 2002 of 1.5%, and BC forecast to trail the national average for the next few years.

Spending cuts are the other shoe dropping.

Having painted itself into a fiscal corner, spending cuts, announced in January 2002, reveal how the tax cuts are to be paid for. Outside of health care and education, already lean Ministries took an average 25% budget cut, affecting public services all over BC. Many people will use up their tax cuts paying out-of-pocket for services previously delivered publicly, and those that cannot afford it must simply go without, paying instead in pain and suffering, and lost opportunities.

Increases in regressive taxes are also filling the gap.

Rather than roll back the surprise tax cuts for upper income earners, the government decided instead to increase MSP premiums by 50% and raise the provincial sales tax half a percentage point to 7.5%—moves that disproportionately affect low and middle income people. The net result of income tax cuts and tax increases in other areas is a shift in the tax load from those with high incomes to those with low and middle incomes.

BC is a more unequal place in 2002.

The combined tax and spending cuts are a dream come true for corporate BC: a structural adjustment for BC’s public sector in the direction of “small government.” The problem with small government is that it greatly increases inequality, which is already unacceptably high in BC. While tax cuts benefit those with high incomes, the brunt of spending cuts is borne by low and middle income people.

The Tax Cut Pie			
Income Interval	Percentage of BC Taxpayers	Total Income Tax Savings in 2002 (millions of dollars)	Share of Tax Cut Pie (%)
\$1-\$30,000	48.8%	\$180.5	13.4%
\$30,000-\$60,000	38.3%	\$456.5	33.9%
\$60,000-\$80,000	7.8%	\$237.0	17.6%
\$80,000-\$100,000	2.5%	\$101.0	7.5%
\$100,000-\$150,000	1.6%	\$104.0	7.7%
\$150,000-\$250,000	0.7%	\$78.7	5.8%
\$250,000+	0.4%	\$190.5	14.1%
Total	100.0%	\$1,348.2	100.0%

Note: Figures have been calculated based on 1998 tax data (most recent year). Percentages may not sum to exactly 100% due to rounding. Income intervals are based on gross income before deductions.
Source: Canada Customs and Revenue Agency, Tax Statistics on Individuals, British Columbia, Table 2A

It did not have to be this way.

The tragedy is that these plans were driven by an ideological faith in “small government” to deliver a higher standard of living for British Columbians, not to mention the demands of corporate BC. The evidence suggests that this agenda cannot deliver the goods. British Columbians are being told to accept a lower standard of living today, while the government gambles that this will increase our standard of living in the future. All pain, no gain.

