



Fast

FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

there is an alternative.

November 9, 2016

Manitoba tax changes need to target wealthy to reduce poverty

Basic Personal Exemption (BPE) increases are being brought in by the new provincial government under the auspices of reducing poverty. The BPE is the floor at which we start paying provincial income taxes.

Not only will these changes do little to help low-income earners, they will bring in less revenue to the provincial purse and undermine the public services that all Manitobans need, especially the poor. Addressing poverty requires more revenue directed at reducing poverty, not less. This is why reducing tax revenue through the BPE in the name of poverty is particularly insidious.

In the Spring 2016 election the Progressive Conservatives promised to bring the Manitoba BPE “towards the national average within our first term”. Manitoba’s BPE is currently middle of the pack – the 4th out of 10 provinces.

Manitoba Finance estimates that an increase of the BPE by \$1,000 represents a loss of \$78 million in provincial revenue. Bringing Manitoba up to the national average of \$11,066 from the current \$9,134 will cost the province over \$150 million annually. There is no plan to replace this lost annual revenue.

Despite the loss of so much revenue, a key platform in the new provincial government’s poverty reduction strategy is increasing the BPE in order to “put more money on the kitchen table”. The current provincial budget consultations highlight the changes to BPE.

As we shall see, increasing the BPE offers little benefit to lower income earners. Upper income earners, on the other hand benefit greatly.

The chart opposite represents the impact of the new government’s promise to bring the BPE to the national average. The chart divides all families in Manitoba into deciles (10 units) by income level. Those at the lowest decile,

Changes to BPE in Manitoba by decile

Decile	Pre-Tax total income	Average BPE tax savings per family
1	Min-14,718	\$17
2	14,719-21,953	\$68
3	21,954-29,974	\$158
4	29,975-40,611	\$199
5	40,612-51,835	\$255
6	51,836-66,598	\$304
7	66,599-84,855	\$369
8	84,856-106,856	\$413
9	106,857-142,824	\$454
9.5	142,825-180,658	\$517
10	180,659-Max	\$553
	All	\$277

Notes:

Changed Basic personal exemption in Manitoba from \$9,134 to ~~cdn prov~~ average of 11,066 all in 2016

Also indexed personal tax brackets by 2% (for inflation) from 31,000 to 31,620 & 67,000 to 68,340

Restricted to Manitoba only. Calculations performed with SPSPD/M 22.1 and done by David Macdonald, Senior Economist, CCPA National.

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whose families earn 0 - \$14,718 per year before taxes, will save on average \$17 from increasing the BPE to the national average. Those at the second lowest decile \$14,719 - \$21,953 will save \$68. Those at the third lowest decile will save \$158, and so forth.

Those at the highest income deciles stand to benefit the most from an increase in the BPE. The top 5% of families will save on average \$553. The next highest 5% will save \$517 and those in the 9th decile will save \$417. Increasing the BPE puts substantially more money in the pockets of Manitoba's wealthy and does little for low to moderate income earners. Increasing the BPE is a blunt instrument that least affects low income Manitobans.

Why is this the case? Manitobans pay 10.8% on the first \$31,000 earned; 12.75% on the next \$36,000 and 17.4% on income over \$67,000. When the BPE goes up, less income across the board makes it to the higher brackets. As the chart indicates this affects all tax brackets. The Manitoba government is also increasing the aforementioned tax brackets to inflation; in these calculations this is estimated at 2%. Indexing the brackets to inflation saves nothing for those earning below \$31,000/ year. Indexing the tax brackets costs Manitoba \$12.8 million in forgone tax revenue in 2016/17.

So far the new government moved forward in Budget 2016 by indexing the BPE to inflation, from \$9,134 up to approximately \$9,292, which will take effect in 2017. The 2,770 low income Manitobans taken off the tax rolls will save only \$16 per year from this change, not even enough for a box of diapers. This change costs Manitoba \$11.6 million in forgone tax revenue in 2016/17.

Minimum Wage

The new government did not increase the minimum wage in 2016, implying somehow that the changes to the BPE are enough. But simply increasing the minimum wage by the rate of inflation would bring home \$400 more for these earners and at least prevent their income from decreasing. Make Poverty

History Manitoba (MPHM), a broad-based coalition that works closely with marginalized Manitobans, recommends increasing the minimum wage to \$15.53/ hour to bring minimum wage workers, currently below the poverty line, out of poverty.

Support for taxes for public services

This government's approach to poverty reduction is curious when research shows that Manitobans support paying taxes for public services. For example, in a poll last year Probe Research found that the majority of Manitobans preferred the government maintain public services rather than reduce taxes. Maintaining public services is important, particularly in Manitoba with our higher than average rates of poverty. Indigenous people in particular are over-represented amongst those struggling with poverty, addressing this injustice is key to reconciliation.

Targeted investments needed to reduce poverty

The comprehensive poverty reduction initiatives identified by Make Poverty History Manitoba are starved of public investment. Based on research and consultation in the *View from Here 2015*, MPHM is calling on the province's new poverty reduction plan to be comprehensive. This means dealing with the multiple complex challenges of poverty; child welfare, income, education, employment, housing and child care are all inter-related. MPHM and Hunger Free Manitoba are calling on the provincial government to increase to the basic needs and food budget for those on social assistance and make this portable for those moving off of assistance to paid work. Currently, single people and people with disabilities experience the deepest poverty; this poverty is costly financially and morally.

The provincial government could look at progressive tax alternatives to raising needed revenue. Currently Manitoba has three tax brackets as described above; adding two more would generate needed revenue to substantially reduce poverty.

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CCPA Manitoba analysis by Errol Black and Shauna MacKinnon found that adding fourth bracket for taxable income above \$94,000 to 18.4 percent, and a fifth bracket for those earning over \$128,800 to 19.4 percent, would see an additional \$50 million in revenue annually. \$50 million is equal to the amount MPHM has calculated is needed to bring singles and people with disabilities on social assistance to 75% of the poverty line.

To maintain public services and reduce poverty, the province should not move forward with the increase to the BPE and instead should introduce these new tax brackets. This would require a change to Manitoba's restrictive balanced budget legislation, which is being opened up for review this legislative session. There is enough wealth in Manitoba and Canada so that no one should have to live in poverty.

Molly McCracken is the director of the Canadian Centre for Policy Alternatives Manitoba Office and a Steering Committee member of Make Poverty History Manitoba.

Provincial budget consultations are open until December 1st. Commentary can be sent to: minfin@leg.gov.mb.ca

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