

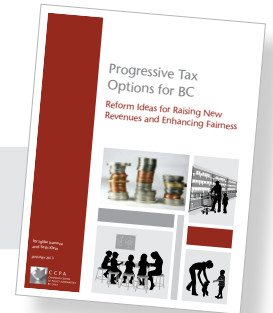


# Progressive Tax Options for BC

## Reform Ideas for Raising New Revenues and Enhancing Fairness

# Summary

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**THE IDEA THAT WE SHOULD DEBATE WHETHER** taxes are ‘good’ or ‘bad’ is old. As most of us understand, taxes are the price we pay for the high quality of life we enjoy in Canada. At their root, taxes come down to a simple question: Which goods and services do we want to pay for together as a society, and which do we want to pay for privately as consumers?

Recently, the CCPA conducted extensive opinion research into what British Columbians think about taxes, including a poll conducted with Environics Research. It turns out we aren’t nearly as divided on these issues as one might think.

The overwhelming majority of British Columbians (90%) think there should be income tax increases for those at the top. As to where those higher taxes should kick in, a clear majority (57%) says at \$100,000 per year of income. A majority (67%) also think major corporations are asked to pay less tax than they should.

Of course it’s easy to say someone else should pay more taxes. But most British Columbians are also willing to consider the idea of paying slightly higher taxes themselves, if it can bring about new or expanded public services, such as greater access to home and community-based health care for seniors. (For more information, see: [www.policyalternatives.ca/bc-tax-opinion](http://www.policyalternatives.ca/bc-tax-opinion).)

These results are hopeful. British Columbians know we face a budget crunch. We know more revenues are required if we are going to tackle the major challenges we face, like growing inequality and persistent poverty, climate change, and the affordability crisis squeezing so many families (in housing and child care in particular). And we know higher revenues are needed to sustain and enhance the public services so vital to our quality of life and the prospects of our children, like health care, education, and environmental protection.

In short, British Columbians are ready for a thoughtful, democratic conversation about how we raise needed revenues and ensure everyone pays a fair share. This report examines the case for tax reform, highlighting the ways in which BC’s tax system has become increasingly unfair. It compares BC taxes to other provinces. And it models various provincial tax policy options, focusing mainly on personal income taxes and corporate taxes. A final section refutes some of the common arguments against tax increases.

The overall finding: There is a clear need to raise more tax revenues. There is considerable room to do so. And the options for doing so are many.

### One of many possible tax reform scenarios...

If the **TOP 6%** of British Columbians (incomes over \$103,000) paid a fair share of taxes, we could raise

**\$930 million**

and



**INCREASE**  
welfare rates to cover basic food and housing needs



**SUPPORT**  
families by properly funding Ministry programs



**RESTORE**  
smaller class sizes in public schools

## THE CASE FOR TAX REFORM

**FISCAL CAPACITY:** BC’s finances are squeezed because a series of cuts to both personal income taxes and business taxes since 2000 have steadily eroded provincial revenues.

- If BC collected today the same amount in tax revenues as a share of the economy (GDP) as we did in 2000, we would have \$3.5 billion more in public funds this year alone. Meaning, no deficit, and the ability to invest in enhanced or even new public services.

**FAIRNESS:** Significant cuts to personal and corporate income taxes, combined with increases to regressive taxes like sales tax and Medical Services Plan (MSP) premiums, have produced a tax system that is much less fair. Taxation has been shifted from corporations to families, and from upper-income families to middle- and modest-income ones.

- Provincial tax cuts since 2000 have delivered the lion’s share of benefits to the richest. The richest 1% of BC households have seen their taxes cut by an average of \$41,000 per year. That’s more than the average income for the poorest 30% of households.
- BC’s overall tax system is now remarkably regressive. When all personal taxes are considered (income, sales, property, carbon, and MSP premiums), the higher your income, the lower your total provincial tax rate.
- MSP premiums increased by 85% between 2000 and 2013. A two-earner family with an average household income of \$60,000 now pays more in MSP (\$1,536) than it does in personal income taxes (\$1,190). The provincial government now collects more money from MSP premiums (BC’s most unfair tax) than it does from corporate income taxes.
- British Columbians now pay more out-of-pocket for a host of public services, through school fundraisers, rising tuition and seniors care fees, etc., which impose a larger burden on lower-income families.

**ECONOMIC PERFORMANCE:** The provincial government is currently inundating the public with ads trumpeting that BC’s taxes are the lowest in the country. But set against underfunded public services and growing inequality, this is nothing to boast about. There is also no evidence that lower taxes have delivered on their economic promise.

- BC’s economic performance, employment rates and business investment levels are all around the middle of the pack compared to other provinces, and no better than when taxes were higher.

BC’s low taxes are not a source of strength — instead, they are part of what’s holding us back. Simply put, our province’s taxes are too low, and there is plenty of room to increase taxes without undermining economic “competitiveness.”

The reforms presented are not an exhaustive list, and we are not recommending that the province adopt all these options. Rather, we aim to inform the public debate with a range of possibilities and estimates of the revenues that each could raise.

- If BC collected the same amount of personal income tax (as a share of GDP) as the *average* for other Canadian provinces, we’d have an additional \$2.4 billion in revenues. (This includes BC’s MSP premiums, which no other province uses).
- Last year, the global accounting firm KPMG examined businesses taxes in 55 major cities in 14 countries. Their finding: Vancouver was found to have the second lowest taxes after Chennai, India.

## TAX OPTIONS TO RAISE REVENUES AND REDUCE INEQUALITY

The table on the opposite page outlines a menu of tax policy options that would help create the budgetary room to meet our most pressing needs, and reduce income inequality. To be clear, this is not an exhaustive list and we are not recommending that the province adopt all these options. Rather, we aim to support an informed public debate by highlighting a range of possibilities, with estimates of the revenues each could raise. There is much room for different formulations.

**PERSONAL INCOME TAX REFORM:** We focus primarily on income tax (the most *progressive* element of any tax system) as it represents the best way to ensure all British Columbians pay a fair share of tax. The table below shows BC’s current *income tax brackets*, the *statutory tax rates*, and the percentage of British Columbians impacted by each. (*These terms are explained on page 4.*)

BC’s personal income tax brackets, 2012			
Tax bracket	Applies to taxable income of	Current tax rate	% of BC taxfilers in each tax bracket*
1	Under \$37,013 (with zero tax on the first \$11,354 of income)	5.06%	59%
2	\$37,013 to \$74,028	7.7%	27%
3	\$74,028 to \$84,993	10.5%	4%
4	\$84,993 to \$103,205	12.29%	4.5%
5	Over \$103,205	14.7%	5.5%

\* Based on Canada Revenue Agency taxfiler data for 2009, the most recent data available.

## Summary of Tax Options for BC

<b>Tax change</b> <i>Note these are single changes, not cumulative</i>	<b>Potential provincial revenues raised</b>	<b>Could fund...</b> <i>Note these are merely a selection of possibilities, not specific recommendations</i>
Increase the current top (5th) bracket rate from 14.7% to 17%	\$375 million	Increases to welfare benefit rates of \$200 to \$400 per month
New tax bracket at \$150,000 of income set at 18%	\$400 million	2,000 units of new social housing per year
Two new brackets at the top: 18% on income \$150,000–\$200,000; and 21% on income over \$200,000	\$700 million	2,000 units of new social housing per year plus restore K–12 class sizes, composition, and specialist teacher staffing to levels that prevailed five years ago
Increase the current top (5th) bracket rate to 17%, and add two new upper income brackets: 20% on income \$150,000–\$200,000, and 22% on income over \$200,000	\$930 million	Welfare benefit increases, a major funding increase to the Ministry of Children and Family Development, plus restore K–12 class sizes, composition, and specialist teacher staffing to levels that prevailed five years ago
Two new upper-income brackets (at 20% and 22%) plus increases to the existing top three brackets of 2% of income <i>OR</i> Reintroduce a two-level surtax modeled on Ontario’s surtaxes (an extra tax on one’s provincial tax once certain thresholds are passed)	\$1.1 billion	2,000 units of new social housing per year plus restore K–12 class sizes, composition, and specialist teacher staffing to levels that prevailed five years ago  <i>PLUS</i> the first phase of a comprehensive, publicly funded child care plan
Increase the tax rate in each bracket by 20%,* and add two new upper-income tax brackets (20% on income \$150,000–\$200,000 and 22% on income over \$200,000)	\$2.3 billion	2,000 units/year of new social housing; welfare benefit increases; restore class sizes, composition and specialist teachers to where they were five years ago; first phase of child care plan; needed investments in community health care for seniors and people with disabilities; Ministry of Children and Family Development budget increases; increase in post-secondary education funding; and substantial increase to environmental protection <i>OR</i> Eliminate MSP premiums (in this scenario, even with the income tax increases in column one, a majority of British Columbians would be net beneficiaries)
Reduce personal tax deductions	\$100–500 million	Various poverty reduction initiatives
Return corporate income tax rate to 12%	\$400 million	Investments in public transit and building retrofits
Return corporate income tax rate to 13.5%	\$700 million	A more ambitious Climate Action Plan
Reduce corporate tax deductions	\$300 million	Green industry investments
Increase natural gas royalties	Amount would depend on the rate and production levels	Establish a Heritage Fund from which to pay for future job re-training for energy workers and alternative energy development
Increase forestry stumpage	\$26 million	Forest restoration
Increase the BC carbon tax to \$50 per tonne of CO <sub>2</sub>	\$2.2 billion	\$1.1 billion for an expanded low and middle-income carbon credit (making the bottom half of BC households net beneficiaries even with a high carbon tax) and \$1.1 billion for public transit and/or building retrofits to reduce greenhouse gases

\*Note that a 20% increase sounds like a lot. But the vast majority of British Columbians pay less than 5% of their income in provincial income taxes, and thus such an increase represents less than 1% of income. For most people, a 20% increase amounts to between \$200 and \$800 a year.

Detailed descriptions of all personal income tax reform scenarios discussed in this report are provided in Appendix 2 along with estimates of their distributional impacts by income level.

Source: Authors’ calculations. Tax revenue estimates calculated using Statistics Canada’s Social Policy Simulation Database/Model for 2012.

## Tax Terms

**PROGRESSIVE** taxes are based on the principle of ability to pay — the more you make, the more you pay as a share of income. For example, a progressive income tax system applies higher tax rates to income above a series of thresholds. **REGRESSIVE** taxes, on the other hand, take up a bigger share of income for lower-income people than higher-income people. In practice, taxes that charge everyone the same dollar amount (such as MSP premiums) or the same percentage amount (such as sales taxes) end up being regressive. For example, MSP costs \$768 per year for a single individual. That's a much bigger cost, as a share of income, for someone making \$40,000 per year than it is for someone making \$250,000. Sales taxes end up costing upper-income people less as a share of income, because they are more apt to save and invest their money, which is not subject to sales taxes.

## Tax brackets: Statutory tax rates vs effective tax rates

BC has five tax brackets, or **STATUTORY** tax rates that apply to peoples' taxable income (that is, after deductions like RRSPs, child care fees, and business investment losses). These rates kick in at a series of set thresholds. No one pays any tax on their first \$11,354 of income. A rate of 5.06% applies to taxable income between \$11,354 and \$37,013. A rate of 7.7% applies to taxable income between \$37,013 and \$74,028. And so on. It is a common misconception that once a person's income hits the threshold for the next tax bracket, the higher rate applies to their *entire* taxable income. This is not the case. The higher tax rate applies only to the dollars *above* that threshold. In addition, various refundable and non-refundable tax credits reduce total income tax payable. The **EFFECTIVE** income tax rate is the actual amount of income tax paid as a share of a person's total income. The vast majority of British Columbians pay an effective provincial income tax rate of less than 5%.

Most of the options we have modeled would impact only a minority of upper-income British Columbians. For example, if we increase the tax rates in the current top three brackets, only about 14% of BC tax-filers would be affected. An increase to the current top bracket would impact only the richest 5.5%. A new tax bracket at \$150,000 of income would impact the richest 2%. And a new bracket at \$200,000 of income would impact only BC's top 1%.

These tax increases for higher income British Columbians could raise as much as \$1.1 billion in new revenues. But if we also modestly increase the bottom two brackets — which in practice would mean about the cost of a cup of coffee a day for most of us — we could raise as much as \$2.3 billion a year in new revenues. This would be enough to fund substantial investments in a number of important areas.

**OTHER OPTIONS:** The report examines many other progressive tax reform options, including:

- Closing personal and corporate tax deductions. For example, the federal RRSP program costs the BC treasury almost half a billion dollars in foregone revenues each year. It is also one of the most inequitable social programs in Canada — most high-income people make extensive use of it, while few middle and modest earners can afford to do so.
- Making property taxes more progressive.
- Increasing and expanding the carbon tax, and restructuring the credit to ensure it leaves the bottom half of families better off.
- Increasing corporate taxes (currently the lowest in Canada).
- Reforming resource royalties (for forestry, water and natural gas) to ensure a fair return to the public. For example, natural gas production is at an all-time high in BC, but our royalty revenues are near an all-time low.
- Regulating and taxing cannabis, which could generate \$500 million per year in new revenues.

For most of us, our provincial income taxes are remarkably low, given the high quality of life we enjoy. The scope of unmet social and environmental needs in our province should compel us all to consider pitching in a little bit more to strengthen our communities and build a province we can all be proud of.

Ultimately, what British Columbians deserve is a comprehensive and thoughtful conversation about our overall tax system, such as a deliberative citizen-led decision-making process. The core questions we need to answer as a province are: What are the things we want to pay for together, and how can we raise the money needed in a way that ensures everyone pays a fair share? We hope this report can help kick-start that conversation.

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