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Not a Tax Grab After All

A second look at Ontario's HST

By Ernie Lightman and Andrew Mitchell

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Introduction

On March 26, 2009, Ontario Finance Minister Dwight Duncan tabled the provincial budget, the centrepiece of which was a new 'harmonized' sales tax (HST). This decision meant that the separate provincial (8%) and federal (5%) sales taxes would be combined into a single tax (13%). Beginning July 1, 2010, Ontario will follow the lead of three Atlantic provinces (excluding PEI) and, with slight variation, Quebec. Soon after Duncan's announcement, British Columbia announced that it, too, would be going down this path.

For most of the public, the big news event was that the new harmonized tax would be largely built on the base of the federal GST. The new sales tax would be extended to many items such as services and home heating fuels that had been previously exempt under the old provincial sales tax (PST), increasing the amount of sales tax consumers will pay.

However, Duncan also announced that there would be new property and sales tax credits, analogous to the federal GST credit, intended to offset the effects of the new levy for those with middle and lower incomes. He also introduced a sweeping set of personal income tax (PIT) reductions to further offset the new tax. There was also transitional financial assistance, designed to last three years, to buffer the move to the new system.

Initial responses from many observers, including ourselves, were conditioned by the relationship between sales taxes and people's ability to pay as measured by income. Because lower-income households spend a larger proportion of their income on taxable goods and services than do higher-income households, sales taxes in general are regressive. The effective rate of tax goes down as income increases. On its own, then, the HST transfers resources away from low-income households. And it does so at the worst possible time, on the tail end of a recession.

The provincial government acknowledged that harmonization would produce an overall gain in revenue raised disproportionately from low-income households but asserted that the enhanced tax credits and personal income tax cuts that rounded out the package more than offset that increase for low- and middle-income households and resulted in only relatively modest net increases for everyone else.

The purpose of this paper is to test the validity of the government's claim that the credits and income tax changes offset the increase in revenue resulting from harmonization for low- and middle-income households. This paper measures the impact of the tax mix shift between the personal income tax and the HST. It does not address the issue of tax shifts between business and households in the change from the RST to a value added tax and assumes implicitly that businesses will pass the bulk of these savings on to consumers.

This analysis finds:

1. Families in a wide range of incomes ($30,000–$90,000) should be better off on average by less than $80 or worse off by less than $65 per year — which, given our assumptions and the limitations of the data, amounts to a wash.[14]

2. Low income families and individuals, many members of First Nations and others who do not tend to file tax returns will be significantly worse off as they will derive no benefit from the credits or the PIT cuts.

3. Estimated winners and losers are better or worse off by only modest amounts of money.

4. The negative impact of the HST increases as income rises. Rich people spend more money than do the poor and, as a result, rich Ontarians will pay more sales tax.

5. The sales and property tax credits offset this to a limited extent up to family incomes in the $70,000–$80,000 range.

6. The combined effect of the sales and property tax credits, plus the reductions in personal income tax rates across the board, substantially offset the impact of the HST at all income levels.

7. The net combined effect of all the changes — new HST plus sales/property tax credits plus personal income tax reductions — is very close to neutral, a $27 annual loss in income when averaged over all families in Ontario.

8. Ontario families with the lowest incomes ($10,000–$20,000) will be better off by around $119 on average, while the richest families (with incomes above $100,000 per year) will be worse off by nearly $324 annually (approximately 0.2% of family income).

9. Poor families, those with incomes below the Low Income Cut Off (after-tax), come out ahead by around $200, while non-poor families will lose only about $60 per year on average.

The paper steps through the analysis in three sections. In section 1, we summarize the tax changes announced by the government in the March 2009 Ontario Budget. In section 2, we describe our methodology and assumptions. In section 3, we present the detailed results of our analysis and our conclusions from that analysis.

The Tax Changes[1]

HST

The centrepiece of the tax changes introduced on March 26, 2009 was the new 'harmonized' sales tax or HST, to replace the existing provincial sales tax (PST). The HST would be levied on the same base as the existing federal Goods and Services Tax (GST), meaning that certain items, including all services, that had not previously been subject to the PST would now be liable to the HST. With very few exceptions, this meant that everything currently subject to a 5% GST would, after July 1, 2010, be subject to a 13% HST.[2] Clearly this would entail new tax liability for everyone spending money in Ontario.

Equally — or perhaps, more — significant than the changes in the tax base were the changes in tax philosophy and design. The old PST is a standard *ad valorem* sales tax where a purchaser pays a fixed percentage on all purchases in designated categories. The tax applies at the point of sale for final consumption, whether final consumption takes place at the retail level or at another level in the production process. Each sale for final consumption stands on its own for tax purposes. As a consequence, retail sales tax can apply at several different stages of the production process, as long as the product is transformed in some way before moving on to the next stage. Certain categories of goods are exempt from tax at the retail level. Exemptions for businesses are limited. Goods purchased for re-sale (i.e. sold without having been transformed) are exempt, as are certain categories of machinery and equipment employed in the production process.

In contrast, the HST, like the GST, is a *value-added* tax where manufacturers receive a credit for tax previously paid on inputs and, in effect, only pay taxes on the value added by their contribution to the production process.

Value added taxes are common throughout Europe and the OECD, with the exception of the United States, which continues to embrace the *ad valorem* principle. While an assessment of the economic impact of shifting from a final consumption tax to a value added tax is beyond the scope of this paper, a general assessment of the academic research points to potential gains for Ontario manufacturers and exporters whose costs would go down as taxes on their material inputs are eliminated.

Sales and Property Tax Credits

The modest existing single sales and property tax credits are being replaced by two separate credits: a sales tax credit and a property tax credit.

The new sales tax credit will be valued at up to $260 for each adult and child in low- and middle-income families. It will be reduced by four per cent of adjusted family net income over $20,000 for single people and over $25,000 for families. The sales tax credit will be refundable and paid quarterly, starting July 2010.

The new Property Tax Credit will be based on occupancy cost — property tax paid or 20 per cent of rent paid. A credit will be provided for occupancy cost of up to $250 for non-seniors or $625 for seniors, plus 10 per cent of occupancy cost. The credit will not exceed occupancy cost and would be subject to a maximum of $900 for non-seniors and $1,025 for seniors.

The credit will be adjusted by two per cent of family net income over $20,000 for single people and over $25,000 for families. It will be refundable and claimed on the personal income tax return, beginning with the 2010 return.

Personal Income Tax Changes

The third element in the tax package is a set of changes to the personal income tax (PIT) system in Ontario. The tax rate in the lowest bracket, up to $36,848 of taxable income, is being reduced by one percentage point, from 6.05% to 5.05%, effective January 1, 2010. There is an additional Ontario Tax Reduction in personal income tax of up to $205 per tax filer and $379 per child or disabled or infirm dependant.

Other personal income tax changes include a reduction in the thresholds for income tax surtaxes. The threshold for the first level of the surtax (20%) will fall from $4,257 to $3,978 (of basic Ontario tax) and the threshold for the second level of the surtax will fall from $5,370 to $5,091, lowering the level of provincial income taxes at which surtaxes apply.[3]

In addition, there will be changes to the Ontario dividend tax credit to reduce the rate on dividends from large corporations from 7.4% to 6.4%, and on smaller corporations from 5.13% to 4.5%.[4]

Transitional Benefit

The Ontario government has also provided transitional relief to aid in the adjustment to the new tax regime. Payable in three instalments ending in June 2011, it has a maximum value of $300 for a single individual and $1,000 for single parents or couples. Since this is a finite payment and does not form part of the new continuing tax system in Ontario, we do not explore its impact in our empirical analysis.

Methods and Assumptions[5]

We used publicly available sources of information and data, and conducted the analysis using Statistics Canada's Social Policy Simulation Model and Database (SPSM/D), the most widely used social policy analysis tool in Canada. In our analysis, we made certain simplifying assumptions, which are detailed below, none of which are quantitatively significant. This analysis measures the combined impact of the new HST as announced in the budget, and the offsetting credits and the personal income tax reductions, taken together as a package.

As a cross-check, we compared our results with the three example families cited by the government in the budget last March.

Our model does not take account explicitly of the point-of-sale exemptions that create differences in the tax bases of the HST and GST. With respect to the POS exemptions announced in the 2009 Budget, those exemptions are taken into account implicitly through our focus on overall revenue increases. Post-budget expansions of the POS list will have reduced the overall revenue gain somewhat. Accordingly, the HST amounts in the study are somewhat overstated, particularly among families with children.

In addition, because the analysis takes the government's revenue estimate for the HST as a given and investigates the distribution of that increase, it does not examine any changes that may take place as a result of the removal of RST on business inputs. The analysis implicitly assumes that input tax savings are passed on to consumers.

We looked at both individuals and families as these terms are defined by Statistics Canada: all families are nuclear families.[6] We divided all incomes into $10,000 ranges (with an upper open-ended category of $100,000 and above) so we could see the impacts of changes at specific income levels.

The changes were modelled as follows:

1. *To calculate the HST.* In the interests of simplicity, we used a common tax base for the old GST and the new HST. That is, we assumed that consumption of the goods and services subject to the new HST would have the same distribution by income and family type as the base for the GST. In practice, certain items (as noted above) were previously exempt from PST but subject to GST and will continue their provincial-exempt status in the new system.[7] This resulted in an overestimation of the amount of HST paid by certain families. Those with small children may be most affected by this, as diapers, etc are on the short list of items with point-of-sale exemptions.

2. *To calculate the PIT.* The Personal Income Tax changes modelled here include the reduction in rate in the bottom tax bracket (taxable incomes under $36,848) to 5.05%; the reduction in surtax thresholds; and the dividend tax credit rate reduction.

Only permanent changes to the tax regime were used. The transitional benefit noted above was excluded from our analysis.

We chose to situate our simulations in 2011, the first full year in which the new tax will operate. Income tax parameters were adjusted to reflect projected changes in the consumer price index for Ontario to 2011.

The Results[8]

Our findings are reported in a series of charts, each of which follows roughly the same pattern. On the vertical axis are reported tax savings (recorded as a positive entry, meaning more disposable income for members of the indicated group) or new tax liabilities (recorded as a negative entry, meaning less after-tax income). On the horizontal axis we list the different income ranges with a summary category of "All" presented at the right-hand end of the chart.

For each income range, the charts report four entries, reflected in four distinct graphical bars:

1. The first bar reports the effect of the HST on the relevant income range. A positive bar means members of the group are, on average, better off after the imposition of the new tax; a negative entry means that people in the specified income range on average are worse off. By definition, everyone is worse off with the new tax, as everyone will pay more tax on items and services they purchase.

2. The second bar reports the impact of the new sales and property tax credits. Again, by definition, no one is worse off, as no one will receive fewer credits in future than they do today, though some will receive the same credits (i.e., no enhancement). The credits are tapered towards those with lower incomes and so the value of the credit reaches zero at a certain income range; above this point, there are no sales and property tax credits.

3. The third bar adds the effect of the personal income tax (PIT) reductions to the sales and property tax credits. This bar represents the total package of offsets offered at different income levels. Once again, by definition, this amount will be positive or zero, as no one will pay more income or receive fewer credits than they do now. Reductions in PIT are skewed upwards, meaning that those at higher income levels receive larger net benefits.

4. The fourth bar combines the impact of the HST (first bar) alongside the impact of the offsets (third bar) to see, on a net basis, whether members of particular income groups will, on average, be better or worse off under the total new sales tax/credit/PIT regime. This bar can be positive, meaning members of a group are better off on average, or it can be negative, reflecting increased overall tax liability for those in the specified income range.

We now proceed through the individual charts, as follows. Charts 1 and 2 represent all families in Canada (Chart 1). All families divided into 'poor' and 'non-poor' (Chart 2). We comment on these in some detail. Following this, Charts 3–7 present the impacts for specific groups within the population, such as single parents and senior citizen couples. We comment in less detail on these charts.

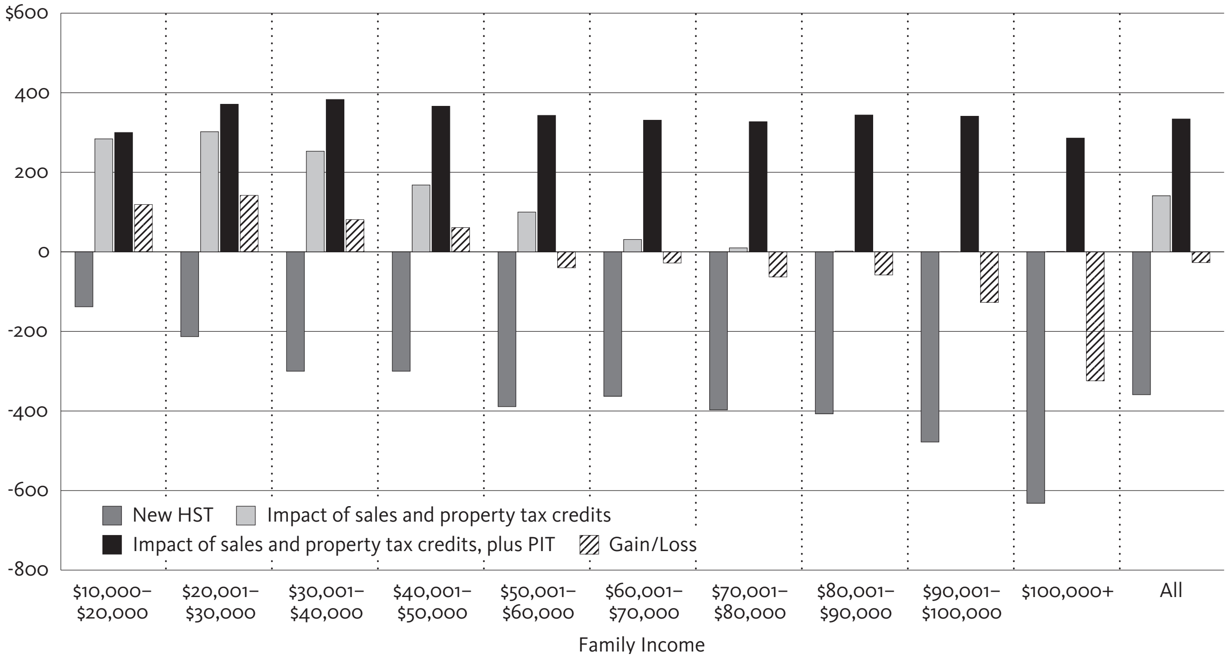
Chart 1: All Families

At each income range, the first bar reflects the impact of the HST. The amounts are negative in all cases — everyone will pay additional sales tax compared to the status quo. The amounts increase with income in an almost linear manner, reflecting the fact that richer people have more income, spend more money and therefore will pay more tax. The poorest families, with incomes under $20,000, will pay $138 more under the HST, while the highest income group, those above the $100,000 mark, will pay on average $632 more in 2011.

The second bar shows the impact of the sales and property tax credits. These rise modestly with income, reaching a maximum of $302 in the $20,000–$30,000 range and then declining to near-zero ($31) in the $60,000–$70,000 range. Above $80,000 income average credits are close to zero. This is as expected, as the credits were consciously designed to buffer against the impact of the HST for those with low and modest incomes.

The third bar adds the PIT reductions to the sales and property tax credits. Reductions in income tax rates are generally skewed to benefit upper income groups, and these measures are no exception. Below the $40,000–$50,000 range, the tax credits are of greater value than the PIT reductions, but beyond this point, the PIT changes are worth more: both the decline

CHART 1 **Impact of HST, sales and property tax credits and PIT changes** All families, Ontario 2011[9,12]



in the credits and the increased net value of the PIT reductions as incomes rise lead to substantial tax savings at upper income levels. At the $90,000–$100,000 income level, the PIT reductions mean a net tax savings of $341 in 2011.

It is worth noting that income tax cuts at high income levels are of far greater value than property and sales tax credits at lower income levels. That is, the rich benefit more from PIT cuts compared to the tax credits received by the middle income and poor taxpayers.

The final bar presents the net impact of the changes — introduction of the HST, property and sales tax credits and personal income tax reductions.[9] Families with incomes up to $50,000 are better off under the new regime, though the amounts are modest, typically a fraction of a percentage point of income. The biggest gainers, in the $20,000–$30,000 bracket, will be better off by $142 on average. In a very wide range, between $30,000 and $90,000 income, the overall gains or losses will be less than $100 for the year. Given the simplifying assumptions of this analysis, we can conclude the overall result will be close to zero for most families in this income range. The lowest income group will be better off by $119 on average while the highest income group, over $100,000, will be worse off by $324.

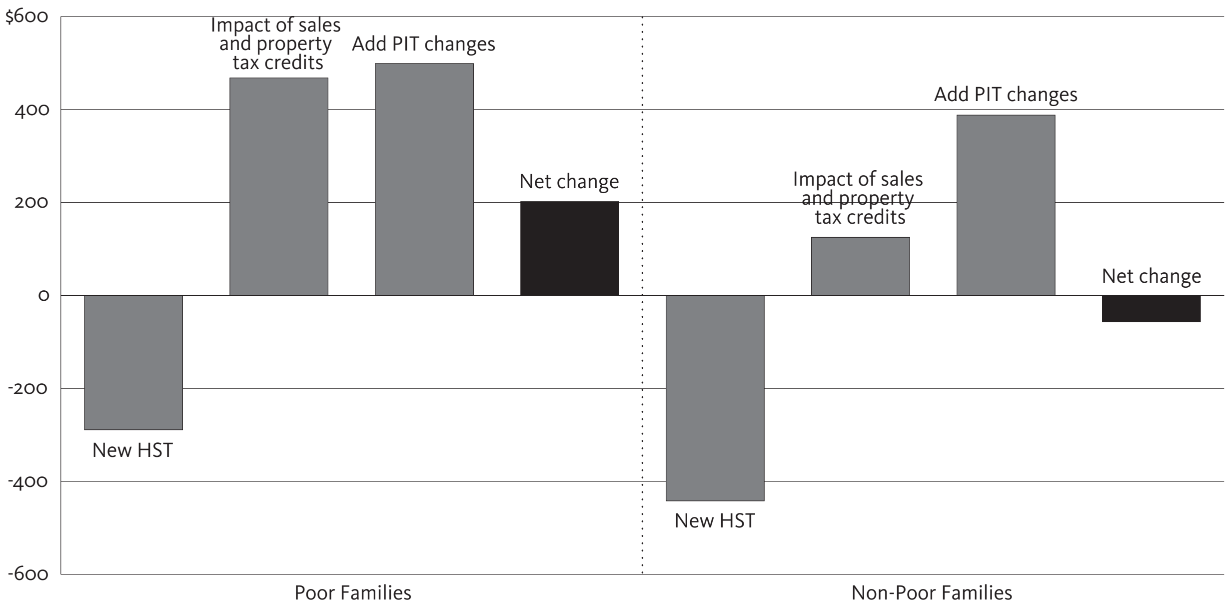
The final set of bars, at the right side of the chart, combine all families and show increased HST liability of $359, offset by sales and property tax credits of $141 with PIT reductions offsetting another $193 for total tax reductions and credits of $334, leading to a net higher taxes of $27 for 2011. In practical terms, this number is effectively zero — no overall net effect.

Chart 2: 'Poor' and 'Non-Poor'

The impact of the new HST on low income people is naturally of great concern. To examine this the population of all families in Ontario was divided into the two categories of "poor' and 'non-poor'.[10] The impact of the HST on each group is shown in Chart 2.

'Poor' families are worse off due to the HST to the tune of $289 on average, while 'non-poor'

CHART 2 **Impact of Ontario HST, sales and property tax credits and PIT changes by poor/non-poor (LICO-AT)** Ontario 2011[10]



families will incur added tax liability of nearly half again that amount, $442. The sales and property tax credits for the poor amount to $468, which increases to $499 when the PIT changes are factored in. The average 'poor' family will be better off by $202 on a net basis.

For the non-poor families, the sales and property tax credits are valued at $125, which increases to $388 when the PIT cuts are included. Again, this shows that non-poor families are the primary beneficiaries of the personal income tax reductions and by much larger amounts. On a net basis, the average non-poor family will be worse off by the modest amount of $60 in 2011 as a result of the three tax changes taken together.

What the chart shows, once again, is that there are no big winners or losers when the package of three tax changes is viewed together. Non-poor families certainly incur greater liability due to the introduction of the HST but this is substantially offset by tax credits and even more by personal income tax cuts which are highly skewed towards upper income Ontarians. For poor families, the impact of the HST is less, and this is more than offset by the improved property and sales tax credits, with little additional benefit from the PIT reductions.

Charts 3–7

The remaining five charts show the impact of the package of tax changes on specific groups within Ontario. Because the trends, in general, are similar to those reported in Charts 1 and 2, the discussion will be abbreviated.

Chart 3 describes the situation of single parent families in 2011. In general, the amount of new tax liability due to HST increases in a relatively linear fashion along with income level: Richer families spend more and, as a result, will pay more HST. The sales and property tax credits increase with income at lower levels, reaching a peak of $770 credit in the $30,000–$40,000 range. Beyond $40,000, the credits decline to under $50 value in the $60,000–$80,000 range at which point they disappear. PIT cuts are of no benefit to single-parent families with incomes

CHART 3 **Impact of HST, tax credits and PIT changes** Single parent families, Ontario 2011

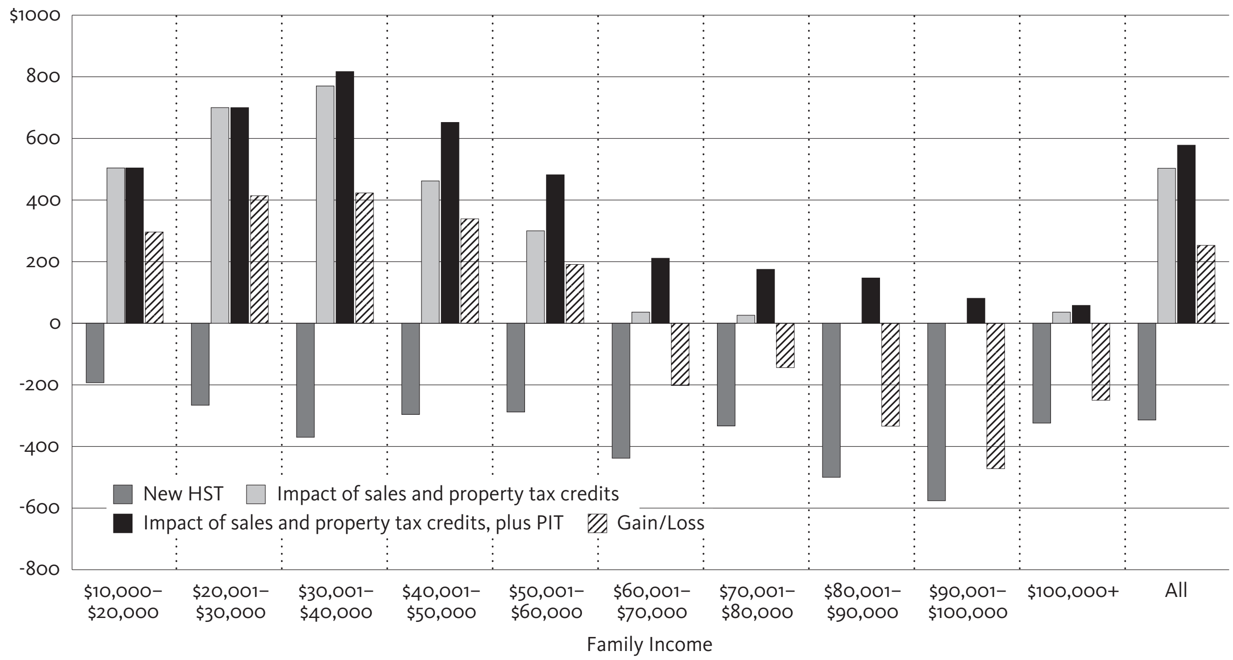


CHART 4 **Impact of HST, sales and property tax credits, and PIT changes**
Two parent families with children, Ontario 2011

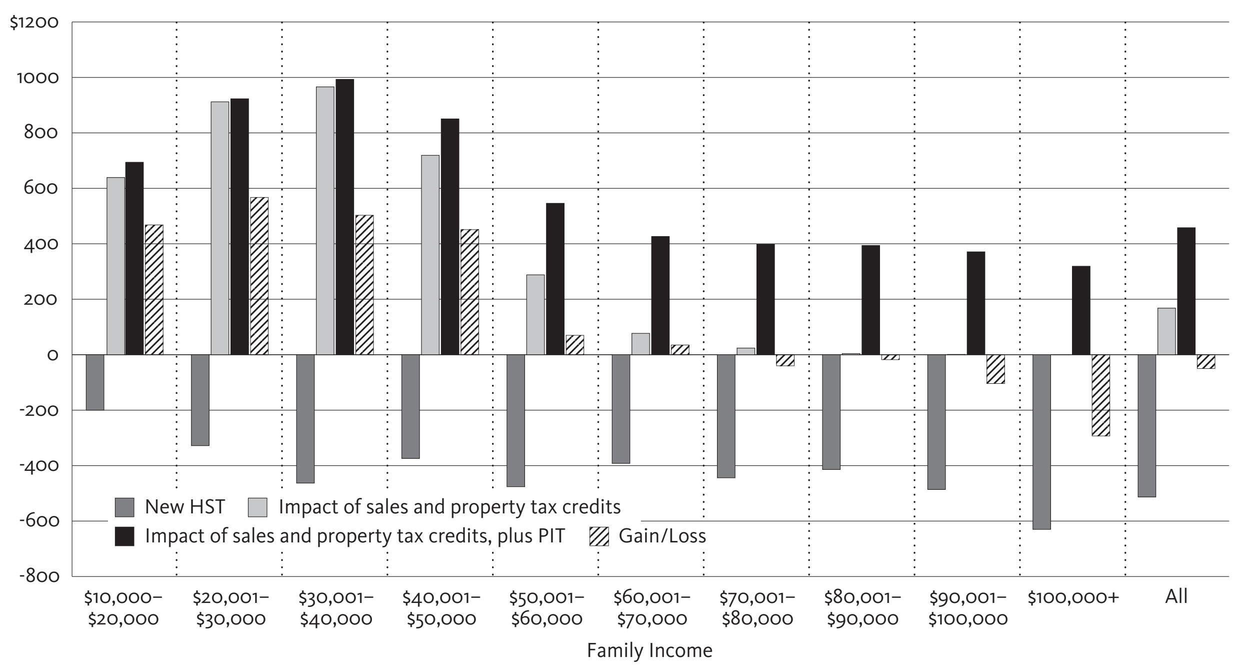
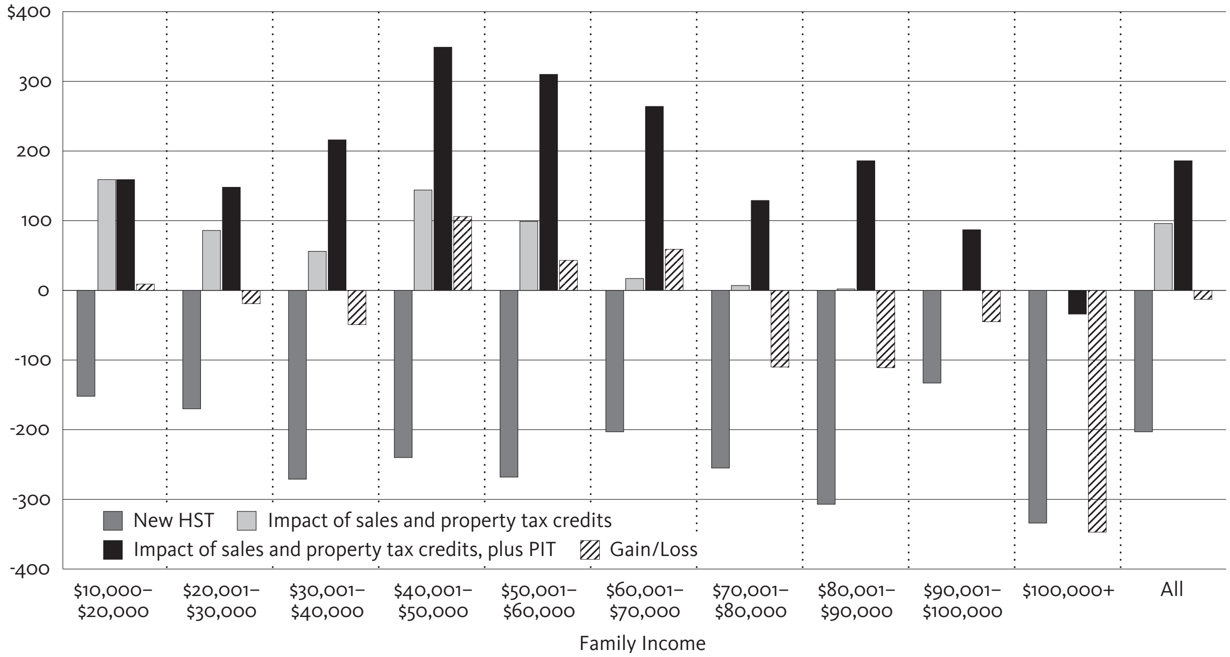


CHART 5 **Impact of HST, sales and property tax credits and PIT changes** Single senior citizen, Ontario 2011



below $30,000. Among single parents with incomes in the $40,000–$80,000 range, they have a value of $150–$200 for the year.

The net effect is that all single-parent families earning up to $60,000 are better off, with a maximum net benefit of about $400 in the $30,000–$50,000 range. At higher incomes they are worse off overall. Taken as a total group, single-parent families in Ontario will be better off by about $250 net in 2011 as a result of the three tax changes.

Chart 4 shows two-parent families with incomes under $20,000 register an average gain of approximately $470. Between $20,000 and $50,000 in average family income gains are between $450 and $550, declining as income rises and turning modestly negative for two-parent families with incomes above $70,000. Overall, two-parent families with children will face a small loss of around $50.[11]

Chart 5 shows an increase in HST liability for single senior citizens, who will pay an overall average of $13 in new taxes. Interestingly, they benefit relatively little from the new property and sales tax credits, with the largest gain, $160, available only in the lowest income range, below $20,000. The reason for this result is that seniors benefit little from the new tax credits. Prior to the current changes, the property and sales tax credits available to seniors were larger than those offered to others. The changes increase the credits of non-seniors to the levels enjoyed by seniors, so the latter group in general experienced no new net benefits.

As a result, seniors face the full new HST liability. This is offset by very modest sales and property tax credits and expected income tax reductions that increase in value with income. The overall net is that single seniors with incomes over $70,000 will be worse off overall while seniors below $40,000 will see their position left essentially unchanged. On average, single seniors will face a situation that is effectively neutral (worse off by less than $15 on average) when the three tax programs are combined.

CHART 6 **Impact of HST, sales and property tax credit and PIT changes** Senior citizen couples, Ontario 2011

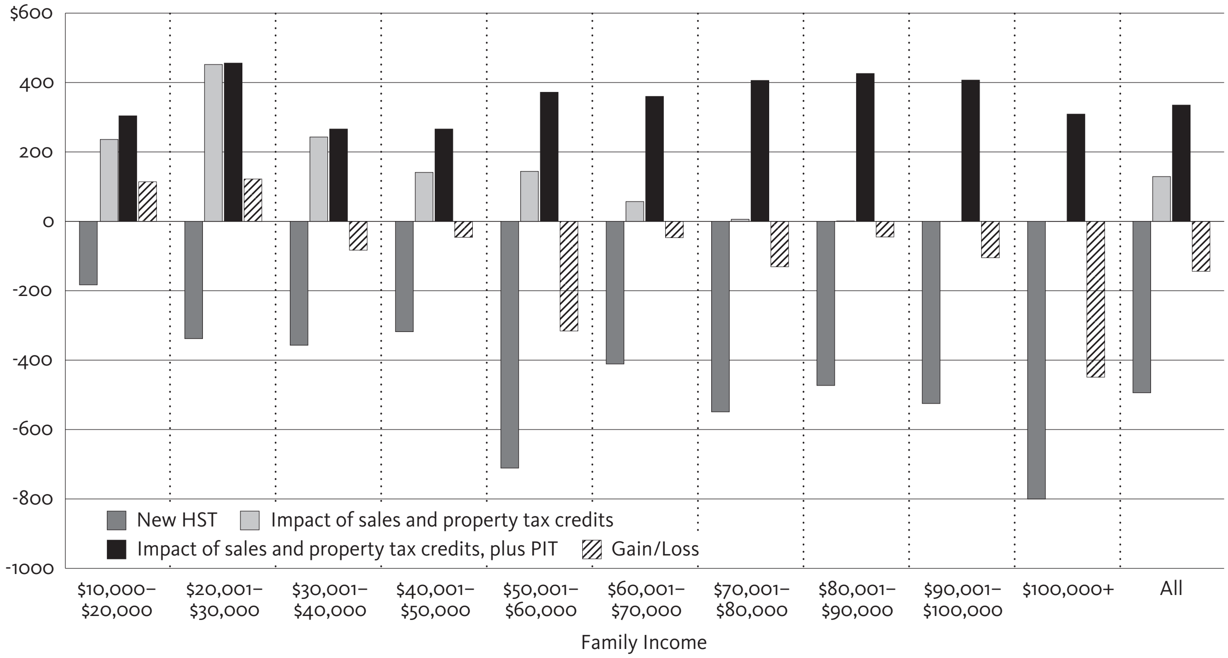


CHART 7 **Impact of HST, sales and property tax credits plus PIT changes** Single adults, Ontario 2011

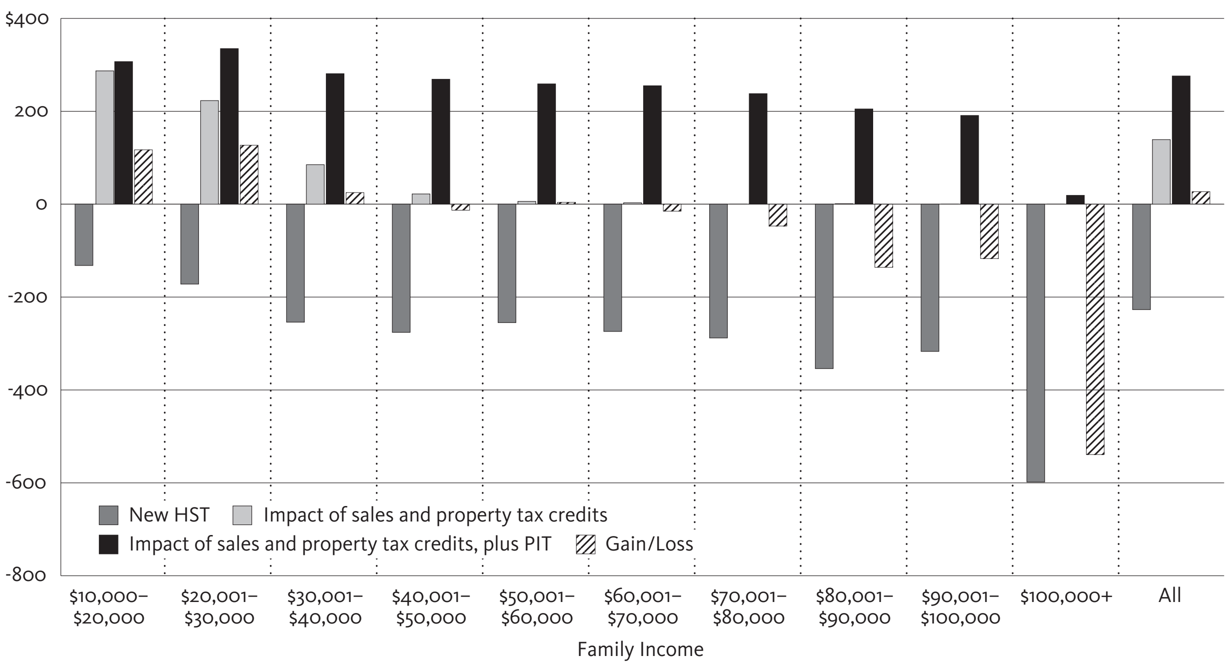


TABLE 1 **Average losses by income group and family type** Ontario, 2011[12]

	Family income					
	$10,000–$20,000	**$20,001–$50,000**	**$50,001–$100,000**	**$100,001–$200,000**	**$200,000+**	**All**
Gainers (% of families)	69.2%	48.9%	30.5%	26.6%	20.8%	41.9%
No change	25.5%	29.8%	25.8%	12.8%	9.2%	24.5%
Losers	5.3%	21.3%	43.7%	60.6%	70%	33.6%
Average gain/loss (all families)	$119	$99	($58)	($227)	($795)	($27)
Median gain/loss (all families)	$71	$44	($47)	($229)	($534)	$0
Median gain (only those with gains)	$225	$322	$285	$309	$645	$287
Median loss (only those with losses)	($176)	($237)	($293)	($461)	($784)	($324)
Percentage of families who are losers						
Single parents	1.8	4.8	52.5	55.9	76.5%	17.3
Two+ adults, with children	0	5.3	44.1	61.9	64.5%	45.4
Single senior citizen	21.2	27.6	36.8	47.4	69.6%	27.9
Senior citizen couple	19.5	41.6	47.8	58.7	80.5%	46.9
Single adult	1.3	17.3	40.2	69.9	73.3%	19.7
Other 2+ adults	1.2	24.9	45.3	59.0	74.0%	46.4

Chart 6 shows senior citizen couples face a similar situation, but slightly worse, than that of single senior citizens. Couples will pay, on average, $494 more in HST in 2011. To offset this they receive modest sales and property tax enhancements (as described above) with a new benefit of $129 per couple, rising to a total offset of $335 when income tax reductions are taken into account. The overall effect of the three tax changes is that most senior citizen couples will be relatively unaffected, with certain income categories a bit better or worse off, but taken as a total group, they will be worse off by less than $150.

Chart 7 refers to single adults in 2011. The same trends are observed: HST liability increases with income level; the tax credits are of greatest value at low incomes ($287 in the $10,000–$20,000 range) and essentially disappear at $50,000 income, while PIT cuts increase with income level. For the entire group of single adults, there is net benefit of $27.

Winners and Losers

We undertook an analysis of who the gainers and losers were in this whole exercise. The results appear in Table 1.[13] Overall about two-thirds of Ontario families will experience gains, or no change as a result of the tax shift evaluated in this report. Approximately one-third of Ontario families will be losers, with the percentage of families experiencing a loss increasing with income, up to the point where more than 60% of families with incomes over $100,000 will experience a loss. In the lowest income group — those with incomes between $10,000 and $20,000, 94% of families will either experience a net gain (69%), or no change (25%). Perhaps surprisingly, even at incomes under $20,000, about 5% of families will experience a loss. Other analysis (not shown here) suggests that these tend to be families whose current consumption is close to, or exceeds, their current income. For example, seniors who support their current consumption by drawing down savings will tend to show losses because their consumption exceeds their current income.

Among families with gains, the median gain will be just under $300. In the lowest income group, the median gain is estimated to be $225. Among those experiencing losses, the median loss will be approximately $325. Overall the median gain or loss is zero.

As one would expect, median gains among the gainers and median losses among the losers are greater, the higher the income of the group. In the lowest income group ($10,000–$20,000), the median loss among those who lose is approximately $175; the median gain among those who gain is $225. In the top income group ($200,000+), the median loss among those who lose is just under $800. Notably, for families with losses, the losses decline as a share of income as income increases. For example, while high-income families experience losses, the losses amount to less than one-half of one percent of income.

Turning to the types of families most likely to experience losses, it appears that single senior citizens and senior citizen couples are most likely to experience losses (at lower income levels). These results suggest that the province may wish to re-examine the new credits and calibrate their design somewhat to account for the possibility of some unintentional losers in vulnerable households.

Conclusions

1. No big winners or losers

The central question of this paper — indeed the question that piqued our original research interest — was what effect the new tax package would have on the poor. More precisely, given that a political decision was made to move to a HST system did the Ontario government design this properly to protect the interests of the poor?

In general, our answer would be in the affirmative.

The interests of the poor are relatively well protected in this set of measures. There are no big winners or big losers and the practical impact should be close to what the government promised.

2. A shift from Personal Income Tax to Sales Tax

In general, we believe that a suitably progressive income tax is preferable to a sales tax. Sales tax is paid only on consumption expenditure, and since the rich tend to spend less than their full incomes, they pay a lower effective sales tax with respect to their total incomes. This makes a sales tax regressive with respect to income.

In the present case, according to the government's estimates, the total value of the PIT cuts is slightly higher than the total value of the tax credits ($1.175 billion vs. $1.125 billion in 2011–12). Our own figures, based on calendar year model estimates for 2011, show a slightly greater discrepancy ($1.27 billion vs. $0.937 billion). From a tax fairness perspective, it would have been preferable if the offsets had been weighted more heavily towards tax credits, with their more progressive impact. Devoting more resources to the sales and property tax credits (which are steeply progressive) and less to the generalized PIT reductions (in which the benefits increase as income rises) would have strengthened the overall progressive aspects of the program and de-emphasized those measures that disproportionately benefit the rich.

The PIT reductions could have been less skewed to benefit high income earners, had the government chosen to use refundable income tax credits rather than reductions in tax brackets and rates. The former are typically of fixed value regardless of income level and are relatively more beneficial to those with lower incomes. If refundable, they will be paid even to those with no taxable incomes. Reductions in tax brackets and rates, on the other hand, are of no benefit to those who pay no tax and are inevitably regressive in impact and benefit the rich far more than the poor. Thus, in terms of their design of the income tax cuts, we feel the government's approach leaves much to be desired.

The design of the property and sales tax credits is far better, being targeted to lower-income taxpayers. However, there is concern about the resilience of these credits over time, about protecting the equity in future years. Research on the federal GST tax credit has shown that at times when incomes (and therefore consumption) rose faster than prices and when the credit was linked to increases in prices, the credit offset less of the GST paid and the real value (purchasing power) of the credit declined over time. Although the Ontario government has committed to fully indexing the credit amounts and thresholds to inflation, they have not indicated the indexation methods and we do worry about the real value of these credits over time. Additionally, of course, a future government can eliminate or reduce the indexation with little public visibility, and the progressivity in this package could therefore be at risk.

Finally, and importantly, we must note that the HST offsets are all delivered through the tax system, available only to those people who file tax returns. It is crucial that the government actively embrace an outreach initiative through community-based agencies to ensure maximum coverage for the sales and property tax credits in particular. (Those with incomes too low to pay income tax will not benefit from the reductions in tax brackets and rates).

Many members of First Nations do not file tax returns and will be subject to the full impact of the HST without any of the offsetting benefits. Likewise, other vulnerable groups — illegal immigrants, street people, those living in shelters — also typically do not file tax returns and will be particularly disadvantaged. The government must devise measures to protect these particular groups within the population.

Notes

1 Details of the tax changes are drawn from the Ontario Budget, 2009. http://www.fin.gov.on.ca/en/budget/ontariobudgets/2009/bk_tax.html

2 Books, diapers, children's clothing and footwear, children's car seats and car booster seats, and feminine hygiene products would be exempt from the provincial portion of the single sales tax. In addition, to support new housing, newly constructed homes under $400,000 would not be subject to the new tax. Buyers of new homes valued between $400,000 and $500,000 could also claim a proportional rebate. On Nov 12, 2009, the minister added further exemptions from the Ontario portion of the HST: Fast food costing $4.00 or less, and newspapers. http://www.news.ontario.ca/rev/en/2009/11/ontario-announces-new-hst-exemptions.html

3 Although reductions to the rate of tax in the bottom tax bracket is often touted as benefiting lower income people, in fact most of the benefits of such a change flow to those who are higher income, since everyone who pays income tax has some of their income taxed at the lowest rate. Most people who are low income already pay very little in personal income taxes.

4 2009 Ontario Budget, "Confronting the Challenge, Building Our Economic Future," p.116.

5 This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Ernie Lightman and Andrew Mitchell and the responsibility for the use and interpretation of these data is entirely that of the authors.

6 Statistics Canada's SPSD/M is a static accounting model which does not attempt to model behavioural changes or underlying economic conditions. Future changes in economic growth will also influence outcomes, perhaps raising employment and incomes faster than presently anticipated.

7 A nuclear family is a head of family and spouse (if present) as well as any never-married children under the age of 18. A single person is considered to be a nuclear family consisting of one person.

8 Technically, the provincial portion of the HST on formerly exempt goods and services will be "rebat[ed] at point of sale". This means that retailers will not collect the tax, but will still be able to claim full HST credits on inputs, producing the same result as "zero-rating" in the GST system. In the GST system, "zero-rating" means that the product is tax exempt, but the seller can still claim input credits on purchases. By contrast, "exempt" in the GST system means there is no tax generated by the sale, but also no input credits can be claimed. In effect, for exempt products, the GST embedded in the price to the retailer remains in the final sale price, whereas for "zero-rated" products, the embedded GST is credited.

9 The results presented here exclude families and individuals whose total incomes, according to this sample data, falls below $10,000. While the impact of tax changes on this group remains an important issue, survey data for those with low incomes is problematic and results must be interpreted with caution. This population includes part-year residents, students, those reporting capital losses, people consuming out of capital, as well as those with genuinely low incomes. This tends to produce anomalous relationships between reported income and consumption patterns, and hence reported consumption taxes.

10 'Poor' is defined as below the Low-income cut-off (after tax).

11 Even this small loss is likely exaggerated due to the fact that the HST will exempt items for children such as clothing and shoes.

12 Net gains and losses are calculated in terms of final consumable income, which is defined as total income, less all provincial and federal income and consumption taxes. Because certain Federal and provincial commodity taxes interact with each other, there are other small changes in federal and provincial commodity taxes occurring in the background. Thus changes in provincial retail sales tax and disposable income may not add up exactly to the overall net gain or loss.

13 For this purpose a 'gainer' is defined as a family whose consumable income increases by more than $100 after all the changes are taken into account. A family is considered to have experienced no change if their change in consumable income is less than $100, either gain or loss. If a family's consumable income decreased by more than $100 they are considered to be a loser as a result of the changes.

14 As a result of reviews following the initial release of the paper, technical issues with the analysis were identified and the paper revised. In addition, the paper as initially released suggested certain conclusions that do not flow from the analysis. The central result—that the tax credits and tax cuts have the effect of offsetting the impact of the increased HST revenue for low-income and moderate-income families and of moderating the impact for other families—holds. This is an updated version (7/01/10) of the report first released 14/12/09.

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