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Standing Up For Which Families?

Who Benefits From the Conservative Tax Cut Promises

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WHICH FAMILIES DOES STEPHEN HARPER STAND UP FOR?

The Conservatives came to power promising to "stand up for families." Despite their rhetoric, the Conservatives' campaign platform will benefit some families more than others. To investigate which families the Conservatives really stand up for, this paper examines the Conservative platform's personal income tax and Goods and Services Tax cuts to assess how their benefits are distributed to families in different income groups.

We analyze the impact on families of the Conservatives' tax cut promises because they were the overwhelming focus of the Conservative campaign. The various tax cuts promised in the "stand up for families" section of their platform, together with the promise to reduce the rate of the Goods and Service Tax, were presented as evidence of the Conservatives' commitment to families.

The Conservatives estimate that their tax cuts (personal and corporate) will cost the federal government $44.9 billion over five years. Tax cuts constitute about 74% of the total $60.7 billion net cost of the platform's promises. (The gross cost of the Conservative platform' spending, tax cut and debt repayment promises is almost $90 billion; spending reductions or reallocations of $29.3 billion produce a net cost of $60.7 billion).

In fact, the Conservative Party promised very little in the way of increased program spending for families. The "spending plans" section of their platform lists spending of $30 billion over five years. However, their "spending plans" are almost entirely cancelled out by spending reductions and reallocations elsewhere in the platform. The Conservative platform promises spending "moderation" of $22.5 billion, but no details were provided as to where a Harper government plans to make these spending reductions. The Conservatives also plan to reallocate another $6.8 billion: $4.8 billion realized by dismantling the National Child Care plan and $2 billion taken from the Climate Change Fund. Since a minimum of $29.3 billion is being reduced or reallocated — out of programs such as child care that are directly beneficial to families — Canadians should not hold out great hope that the $30 billion of Conservatives' spending announcements will achieve much by way of "standing up for families." [i]

This paper has two purposes:

1. Section One assesses which families will be the winners and losers from the Conservatives' platform by analyzing the distributive consequences of the major tax proposals that directly impact families; and
2. Section Two presents a re-design of the Conservative package that is much better targeted to low-income families. The improved targeting of our redesigned package enables it to deliver tax reductions while costing much less than the Conservative package. In fact, our redesigned package saves so much money that the government would not have to abandon the National Child Care program or compromise Canada's commitment to the Kyoto Accord by depleting the climate change fund, as the Conservatives indicated they would do in their platform.

Cost of Tax Measures in Conservative Platform (millions of dollars)

Tax Measures	Conservative Party Estimate of Cost Over 5 Years
Personal Income Tax Measures	
Eliminate tax on capital gains if reinvested within 6 months	750
Dividend tax credit changes announced in November 2005	1,600
Textbook tax deduction and raise scholarship income exemption	400
Raise seniors' pension income amount	2,235
Transit pass tax credit	2,000
Tools tax deduction	150
Registration fees paid on sports programs for children up to 16 years of age	650
Exemption of capital gains tax on transfer of fishing assets	150
Elimination of capital gains tax on charitable contributions	250
Jewelry excise tax relief	120
Small business tax measures	1,800
Total Personal Income Tax Measures	**10,105**
Other	
GST rate reduction (to 6% immediately, to 5% over 5 years)	32,300
Corporate Tax Measures	2,500
Total Cost of Conservative Tax Promises	**44,905**

METHODOLOGY

This analysis was conducted using the Social Policy Simulation Database and Model (SPSD/M), a policy analysis tool designed by Statistics Canada to analyze the financial interactions of governments and individuals in Canada.[ii] SPSD/M is designed to assess the cost implications and income redistributive effects of changes in the personal taxation and cash transfer system. The results are reported by census family income.[iii]

Last November, the Liberal government announced its intention to enact several tax changes. Many of these did not materialize before Parliament dissolved in November. However, two measures were put into place for the 2005 tax year: the acceleration of the basic personal exemption amount increases, and the reduction of the taxation rate from 16% to 15% on the lowest income bracket. The Conservatives promised to reverse these tax cuts in the 2006 tax year. Since our results are modelled for the 2007 tax year, the tax cuts proposed in the Economic and Fiscal Update have no bearing on our results.

One of the obstacles to modelling the Conservatives' personal tax cuts is the lack of transparency in their platform. Since the Conservatives cost their tax measures only as five-year aggregates, and provide no timetable as to when most measures will be implemented, it is impossible to know the yearly cost of their various promises. This obscures important information that would assist Canadians to deduce how the Conservatives intend to structure their tax measures.

Given this lack of transparency, as well as the unpredictability of a minority Parliament, we are obliged to proceed with this analysis on the basis of assumptions. In order to model the cumulative impact of the tax changes, we assume that all tax measures would be implemented in 2007. In the case of the Goods and Services Tax (GST), we assume a reduction in the GST rate of one percentage point in 2007, and that the further one percentage point reduction will take place sometime thereafter.

Given the limitations of SPSD/M,[iv] and/or the lack of precise information in the Conservatives' platform document, we were unable to model several Conservative personal income tax cut promises: 1) the tax credit for monthly transit passes (budgeted by the Conservatives at $2 billion over 5 years); 2) the tax deduction for up to $500 spent on tools ($150 million); 3) the federal tax credit for registration fees paid on sports programs for children up to 16 years of age ($650 million); 4) jewelry excise tax changes ($120 million). Furthermore, we have left three measures that have personal income tax implications out of our analysis: 1) changes in the taxation of small business ($1.8 billion); 2) exemption of some capital gains on family fishing assets ($150 million); and 3) the elimination of capital gains tax on charitable contributions ($250 million).

The cost of all tax measures is calculated as the cost of any change in GST paid, and federal income tax payable plus any change in federal transfers. The interaction of the existing federal tax and transfer system is taken into account in these results.

Results reported are "share of benefits received" (the dollar value of the benefits received by families in a given income group divided by the dollar value of the benefits received by all families) and "average amount received" (the total dollar value received by families in a given income group divided by the number of families in that income group).

More detailed information on our modelling assumptions is found in the annex. Readers should note that all dollar amounts are in 2007 dollars, except in instances where the Conservative Party costing estimates are being cited.

TABLE 1 Percentage Point Reduction in Goods And Services Tax Rate (all families, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	48.6%	23.3%	$128.96
$40,000–100,000	35.8%	39.4%	$295.97
$100,000–150,000	10.2%	19.0%	$500.06
$150,000 +	5.4%	18.3%	$907.33
All Families	100.0%	100.0%	$268.80

Total Cost of GST Rate Reduction on GST Paid by Families in 2007 (millions): $4,204.6
Approximate Total Cost of GST Rate Reduction in 2007 (millions): $5,300

SECTION 1 CONSERVATIVE TAX PROMISES

Goods and Service Tax

The Conservatives promised to reduce the GST [v] by two percentage points by 2010.

We assume that a one percentage point reduction in the GST will be in place by the 2007 tax year. The GST rate is the most costly tax cut of all of the Conservative election promises. The Conservatives indicated that the cost of reducing the GST from 7% to 6%, and ultimately to 5%, would be $32.3 billion over five years.

However, there are indications that the Conservatives have underestimated the costs of their GST cut, as has been argued by Don Drummond in a recent TD Bank publication.[vi] The cost of a one percentage point drop in the GST generated by SPSD/M, before taking into account the impact of the GST credit, is $4.2 billion in 2007. As SPSD/M models the tax and transfer system only for the household sector, this estimate is not the full cost of the reduction in the GST rate (our estimate does not include GST revenues collected from businesses, importers, or others). Using Department of Finance estimates for the total GST revenue, the cost to the federal Treasury of a one percentage point drop in the GST (gross of the GST credit) in 2007 would be in the neighbourhood of $5.3 billion.[vii]

During the election, the reduction in the GST rate was frequently cited as proof that a Conservative government would help low- and moderate-income families. While the distribution of the GST cut is less skewed toward high income earners than some of their other promised tax cuts, the net benefit of the tax cut is disproportionately distributed to high-income families. As Table 1 indicates, the 48.6% of families that earn less than $40,000 receive 23.3% of the value of this tax cut. The 5.4% of families that make more than $150,000 a year receive 18.3% of the value of the GST cut.

On average, families earning less than $40,000 will receive under $129 from this tax cut. Families with incomes above $150,000 will receive an average of over $900.

Taxation of Capital Gains

The Conservatives' platform promised to "eliminate the capital gains tax for individuals on the sale of assets when the proceeds are reinvested within six months."

This change in the treatment of capital gains is a campaign promise that faces considerable practical obstacles, as the TD Bank has recently confirmed.[viii] It may be that the Conservative government will modify this campaign promise to make it more workable and more tightly focused

TABLE 2 Change in Capital Gains Taxation (all families, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	48.6%	5.0%	$5.59
$40,000–100,000	35.8%	16.0%	$24.43
$100,000–150,000	10.2%	13.2%	$70.78
$150,000 +	5.4%	65.8%	$660.97
All Families	100.0%	100.0%	$54.53

Total Cost of Measure in 2007 (millions): $852.9

on some subset of realized capital gains. (The TD Bank has made one such proposal.[ix])

However, as the measure is described in the Conservative platform, it is very likely that the impact of this measure will be the *de facto* elimination of taxation on capital gains. The Conservatives' requirement that capital gains be reinvested within six months to avoid taxation is so easily evaded that only the least sophisticated of taxpayers would still pay tax on capital gains. For example, anyone who realizes a capital gain could immediately buy some other investment, such as a Treasury bill. After holding the Treasury bill for a few days, it could be resold with no (or negligible) capital gain. This simple action would thus eliminate any tax liability.

However, despite our belief that the proposal as it stands would virtually eliminate the taxation of capital gains, we have elected to employ a more cautious assumption. We have modelled this measure on the assumption that only half of the capital gains that are currently taxable will escape taxation under the Conservatives' proposal.

As Table 2 shows, this tax cut is targeted very effectively — if the Conservatives are seeking to benefit primarily high-income families. The 5.4% of families with incomes above $150,000 receive 65.8% of the total value of this tax cut; while the 48.6% of families with incomes below $40,000 receive 5% of the total value.

The average impact on families as a result of the removal of the capital gains tax is $54.53. However, the average benefits vary considerably with family income. On average, families earning less than $40,000 will receive under $6 from this tax cut. Families with incomes above $150,000 will receive an average of over $660.

It should be noted that the results above reflect a perverse implication triggered by the capital gains tax cut. Eliminating taxable gains reduces taxable income, thereby increasing the eligibility for transfers. Ironically, families with large capital gains benefit twice: once by paying less tax on capital gains, and a second time by receiving more transfer payments.

Despite Conservative platform rhetoric (in which the sale of the family cottage was invoked to illustrate the sort of capital gain under discussion), it is quite foreseeable that well-off families will be the vastly disproportionate beneficiaries of this tax cut. Most families already incur no tax on capital gains, since they are exempt from capital gains tax on their primary residence. While the Conservative platform emphasized the dilemmas of hard-working Canadians, this tax cut does nothing for those who rely exclusively on wages.

We concur with Don Drummond's recent conclusion that the cost of this measure has been "grossly understated."[x] In their platform, the Conservatives indicated that their promise to

TABLE 3 Change in Taxation of Dividends (all families, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	48.6%	3.2%	$2.22
$40,000–100,000	35.8%	22.6%	$21.04
$100,000–150,000	10.2%	9.8%	$32.25
$150,000 +	5.4%	64.4%	$395.69
All Families	100.0%	100.0%	$33.37

Total Cost of Measure in 2007 (millions): $521.9

change the taxation of capital gains would cost $750 million over five years. Under the cautious assumptions we have employed, we estimate that the cost of this measure would be over $850 million in 2007 alone.

There are reasons to believe that the full costs of this measure will exceed the estimate provided in our analysis. The SPSD/M model does not take into consideration the behavioural changes that will be induced by this alteration of the treatment of capital gains. There are many ways to repackage other types of investment income (such as dividends, interest income, or profit) as capital gains in order to benefit from the preferred tax treatment of capital gains. The federal government will lose tax revenue because of this incentive to make other sources as investment income appear as capital gains for tax purposes.

Taxation of Dividends

Just prior to the fall of the last government, controversy over income trusts induced the previous Finance Minister to announce a change in the tax treatment of dividends. The stated intention of this measure was “to make the total tax on dividends received from large Canadian corporations more comparable to the tax paid on distributions of income trusts.” [xi] The dividend gross-up will be increased to 45% from 25% and the dividend tax credit to 19% from 13.33% on corporations that are not Canadian-controlled private corporations.[xii] The Conservatives confirmed that they would implement this measure, and costed it at $1.6 billion over five years.

The distributional impact of this proposed change in the tax treatment of dividends is very skewed towards high-income families. The 5.4% of families with incomes above $150,000 receive 64.4% of the total value of the tax cut, while the 48.6% of families with incomes below $40,000 receive 3.2% of the total value. As is the case with the capital gains tax cut, lower-income families do not have sufficient investment income to derive much benefit from these measures. We estimate the cost of this measure at $521.9 million in 2007.

The average level of tax reduction experienced by families as a result of the changes in the taxation of dividends is just over $33. However, the average benefits vary considerably with family income. On average, families earning less than $40,000 will receive just over $2 from this tax cut, while families with incomes above $150,000 will receive an average of over $395.

Taxation Measures Related to Education

The tax credit of $500 for textbooks and an exemption of the first $10,000 in student scholarship or bursary income from taxation are the two education measures modeled in this

TABLE 4 Measures Related to Education (families with one or more eligible students, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	31.9%	28.5%	$21.24
$40,000–100,000	41.2%	44.0%	$25.44
$100,000–150,000	18.0%	14.5%	$19.18
$150,000 +	8.9%	12.9%	$34.47
All Families	100.0%	100.0%	$23.80

Total Cost of Measure in 2007 (millions): $123.3

TABLE 5 Pension Income Amount (families with one or more members over age 65, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	73.8%	46.4%	$51.45
$40,000–100,000	20.9%	45.4%	$177.87
$100,000–150,000	2.5%	5.1%	$168.03
$150,000 +	2.8%	3.1%	$89.23
All Families	100.0%	100.0%	$81.86

Total Cost of Measure in 2007 (millions): $420.2
Total Benefits Received by Senior Families in 2007 (millions): $280.2

paper. Since SPSD/M does not have a specific variable for scholarships/bursary income, a proxy was used (see appendix for details). The Conservative platform indicates that the cost of the textbook tax deduction and the increase in scholarship income exemptions is $400 million over five years.

The distributional impact of the measures relating to scholarship and bursary income and textbooks are shown in Table 4. The total cost of these measures — $123 million in 2007 — provides an average family with one or more students $23.80.

Pension Income Amount

The Conservatives promised to raise the pension income amount, a non-refundable tax credit for tax-filers with pension income. The amount of this tax credit is to increase from $1,000 to $2,000 in 2006, and to $2,500 in five years. For 2007, we assume that the tax credit will be $2,000. The Conservatives budgeted the cost of raising the pension income amount at slightly over $2.2 billion over five years.

The distributional impact of this measure is shown in Table 5.[xiii] Almost three quarters of families with seniors have incomes below $40,000, yet they receive only 46.4% of the benefit from this tax measure. On average these low-income senior families will receive $51.24 from this measure.

Senior families with incomes between $40,000 and $100,000 receive 45.4% of the benefit of this measure. These families receive on average $178.

TABLE 6 All Conservative Tax Measures Modeled (all families, 2007)

Family Income	Share of Families	Share of Benefit Received	Average Amount Received
$0–40,000	48.6%	20.3%	$163
$40,000–100,000	35.8%	35.4%	$386
$100,000–150,000	10.2%	16.5%	$631
$150,000 +	5.4%	27.9%	$2,010
All Families	100.0%	100.0%	$391

Total Cost of Measure in 2007 (millions): $6,115.5

The total cost of this tax measure is $420 million in 2007.

Impact of Total Conservative Package

The impact of the implementation of all of the tax measures modeled in 2007 is presented in Table 6. The 5.4% of families with incomes above $150,000 will receive 27.9% of the reduction in taxes, while the 48.6% of families with incomes below $40,000 will receive 20.3%.

The average level of benefit varies widely based on family income. On average, families earning less than $40,000 will receive just over $163, while families with incomes above $100,000 will receive an average of over $2,010.

In 2007, the total costs of the Conservative platform for tax measures that directly impact families is about $6.1 billion. Actual costs of the Conservative tax promises will be higher, given that our estimate does not include costs of measures that apply to entities other than census families (such as tax revenue lost via corporate tax cuts or by the decreased GST paid by entities other than families).

The Conservative government has not promised that it will implement all of the measures by 2007. Thus this estimate of the costs of their promises to families as of 2007 must be adjusted on the basis of which measures they implement and how they implement them (which may differ from the assumptions employed in this paper).

SECTION 2 **REDESIGNING THE CONSERVATIVE TAX CUTS**

This section of the paper presents revisions to those elements of the Conservative tax package analyzed above. Our goal here is not to design policies as though we had a blank slate to implement any measure of our choosing. (On the contrary, if we were free to design our own plans, we would put much greater emphasis on spending for public services. See the forthcoming *Alternative Federal Budget* as an indication of our preferred use of the government's fiscal capacity.)

Rather, our goal is to take the Conservative tax measures analyzed in the first section of this analysis, and adapt them to do a better job of "standing up" for all families. Specifically, we seek to improve the targeting of these measures towards low income families. Because our measures are better targeted, our redesigned package is substantially lower in cost than is the Conservative package.

Our "redesign" of the Conservative tax cuts is constructed as follows: We have eliminated the most regressive tax promises of the Conservative tax program, since no amount of redesign will prevent these measures from inordinately benefiting high income families. We have retained some tax proposals that we believe perform some mildly useful role. The remaining tax measures have been redesigned (or restructured as a transfer) so that they are more accurately targeted to the families that are in most need.

A REDESIGNED CONSERVATIVE TAX PACKAGE

Measures eliminated

The most regressive of all of the Conservative tax promises — the changes to the taxation of capital gains and dividends — have been entirely eliminated from our redesigned Conservative tax package.

Measures retained

Two measures from the original Conservative election platform have been retained: the tax credit for textbooks and the exemption from taxation of the first $10,000 for student scholarships or bursary income. We interpret these measures as a minimal gesture acknowledging the financial burden faced by university and college students (and their families). However, these measures do not address the problem of affordability and accessibility of post-secondary education and training. Pending a comprehensive national solution for post-secondary education and training (which would require substantial expenditures), we have retained these education-related tax cuts as stopgap measures.

Measures redesigned

Pension Income Tax Credit Redirected to Guarantee Income Supplement

The Canada Pension Plan and Old Age Security payments do not qualify for the pension income tax credit. This tax credit is available only to taxpayers who have sufficient private pension or RRSP income, and sufficient tax payable, to make use of this measure.

To target this tax reduction to seniors in the most need, we propose reallocating an amount similar to the estimated $420 million cost of the Conservatives' promise. Rather than increasing the pension income amount, we would increase the Guaranteed Income Supplement (GIS).

The Guaranteed Income Supplement provides additional money, on top of the Old Age Security Pension, to low-income seniors living in Canada. Reallocating about $432.7 million to the GIS would increase GIS payments by 2.8%. (Readers should note that while the GIS is received by individuals 65 years of age or older, the Conservatives' pension amount would be received by some these same seniors as well as individuals between 55 and 65 years of age. Thus the full benefit of the Conservatives measures is not received by senior families.)

Our proposal to provide support via the GIS shows a dramatically different distributional impact than the pension credit increase. Table 7 presents the results for senior families with one or more members over age 65. Under our redesigned plan, almost all of the benefit of the increase in the GIS goes to families with incomes below $40,000. Under the Conservative plan, only 46.4% of the benefit of the increase in the pension amount will be received by senior families with incomes below $40,000.

Our redesigned package delivers help to the senior families in greatest need. Under the Conservative package, families with incomes

TABLE 7 GIS vs. Conservatives' Pension Amount
(families with one or more members over age 65, 2007)

		REDESIGNED MEASURE		CONSERVATIVE MEASURE	
Family Income	Share of Families	Share of Benefit Received	Average Change in GIS	Share of Benefit Received	Average Benefit from Pension Amount
$0–40,000	73.8%	98.5%	$168.53	46.4%	$51.45
$40,000–100,000	20.9%	1.5%	$8.80	45.4%	$177.87
$100,000–150,000	2.5%	0%	$2.33	5.1%	$168.03
$150,000+	2.8%	0%	$0.00	3.1%	$89.23
All Families	100.0%	100.0%	$126.23	100.0%	$81.86
Total Cost of Measures in 2007 (millions) [xiv]		**$432.7**		**$420.2**	
Total Benefits Received by Senior Families in 2007 (millions)		**$432.7**		**$280.2**	

under $40,000 receive an average of $51.45, whereas under our plan these same families would receive about $168.53. Our package provides no benefits to high-income families, while on average the Conservatives would provide these families with tax reduction that exceeds the benefits paid to average low-income families.

1 Percentage point reduction in GST redirected to GST Credit

The proposed cuts to the GST are the most costly of the Conservative tax cut promises. This form of tax cut rewards consumption, in that the benefits received from a cut in sales tax increase with the value of purchases made. This is why higher-income families disproportionately receive the benefits of this tax.

If the Conservatives' intent is to help low and modest income families, this is a very poorly designed way to do so. An across-the-board reduction in the tax, rather than a measure which is focused on lower-income consumers, is a very expensive way to deliver benefits to these families.

Our redesigned Conservative package would enrich the GST credit. Because the GST credit is income-tested, it is better targeted then a reduction in the GST rate. Thus we are able to deliver meaningful tax reduction to low-income and modest-income families much more cheaply via the GST credit than via a reduction in the GST rate.

There are two virtues in the way we have changed the GST credit. Because we have increased the amount of the GST credit, low-income people will receive greater support. We have also lowered the reduction rate for the GST credit from 5% to 2.5%. This will extend the benefits of the GST credit to families with incomes over $30,000. Thus our redesigned package both increases the maximum GST credit (for low-income people) and provides more GST credit to people at higher incomes than the current GST credit.

Because of these cost savings, we require only about $2.1 billion to deliver tax reduction via the GST credit, compared with the $4.2 billion cost of the Conservatives' cut in the GST rate. In addition, our redesigned package provides a slightly higher average benefit to families with incomes under $40,000.

TABLE 8 GST Credit vs. Conservatives' Reduction in GST Rate

		REDESIGNED MEASURE		CONSERVATIVE MEASURE	
Family Income	Share of Families	Share of Benefit Received	Average Change in GST Credit	Share of Benefit Received	Average Benefit from 1 Percentage Point Reduction in GST Rate
$0–40,000	48.6%	53.0%	$146.24	23.3%	$128.96
$40,000–100,000	35.8%	42.9%	$160.38	39.4%	$295.97
$100,000–150,000	10.2%	2.5%	$33.26	19.0%	$500.06
$150,000+	5.4%	1.6%	$38.99	18.3%	$907.33
All Families	100.0%	100.0%	$133.97	100.0%	$268.80
Total Cost of Measures in 2007 (millions)		$2095.5		$4,204.6	

We caution readers, however, that we are comparing two aggregate amounts that are different. Table 8 shows the distributional impact of the two measures: 53% of the benefit of the GST credit enhancement is provided to the 48.6% of the families with incomes below $40,000, as compared with 23.3% of the GST cut. Similarly, 1.6% of the benefit of the GST credit enhancement goes to the 5.4% of families with incomes above $150,000, as compared to 18.3% of the GST tax cut that goes to these high income families.

In terms of average benefits, our redesigned plan provides families with an average of $133.97 in benefits. The Conservative plan is double the cost of our plan, and it delivers an average benefit of $268.80. On average, lower-income families do slightly better under our package than they would under the Conservatives' package. Under the Conservative package, families with incomes under $40,000 receive an average of $128.96, while under our plan these same families would receive about $146.24. Of course, our proposal provides more modest benefits to high-income families than does the Conservatives' plan. Our plan provides an average of $38.99 to families with incomes above $150,000, while the Conservatives would provide these families with an average of $907.33.

COMPARISON OF TOTAL PACKAGES

While the full cost of the Conservative tax cuts modeled in this paper is $6.1 billion, our redesigned package costs only $2.7 billion.

Families with incomes under $40,000 receive a much higher share of the benefit of our redesigned tax package than they would under the Conservatives' package. The "redesigned" plan provides these lower-income families with 59.4% of the total benefits. (Since families with incomes under $40,000 constitute about 48.6% of the population, these families would be receiving benefits more than proportionate to their share of total Canadian families.) The Conservative package delivers only 21.0% of its benefits to these families.

The Conservative package is much more directed toward high-income families than is our redesigned package. While our package directs only 1.8% of its benefits toward families with

TABLE 9 Redesigned Measures vs. Conservative Measures

		REDESIGNED MEASURES		ALL CONSERVATIVE MEASURES MODELLED	
Family Income	Share of Families	Share of Benefit Received	Average Impact	Share of Benefit Received	Average Change in Benefits Received
$0–40,000	48.6%	59.4%	$207.60	21.0%	$163.29
$40,000–100,000	35.8%	36.1%	$171.13	38.3%	$386.10
$100,000–150,000	10.2%	2.7%	$44.61	17.0%	$631.45
$150,000+	5.4%	1.8%	$57.25	23.7%	$2,010.17
All Families	100.0%	100.0%	$169.79	100.0%	$390.97
Total Cost of Measures in 2007 (millions)		$2,655.80		$6,115.5	

incomes above $150,000, the Conservatives direct 23.7% of their benefits to this affluent group.

CONCLUSION

This paper provides an analysis of many of the prominent tax measures outlined in the Conservatives' electoral platform. It also "redesigns" these Conservative tax cuts. This redesign does not reflect our preferred plan of action (our preferences would emphasize spending on public services rather than tax cuts). Rather the purpose of our redesign is to demonstrate that better targeted measures can deliver more support to low income families at a much lower cost than does the Conservative platform.

When modelled according to the assumptions specified above, we estimate that the full cost of the Conservatives' measures modelled in this paper (personal income tax cuts and GST cuts) to be $6.1 billion. Our redesigned package is estimated to cost $2.7 billion, or less then half the cost of the Conservatives' tax cuts modelled in this paper.

The Conservative package showed a disproportionate 23.7% of the benefits flowing to the 5.4% of families with incomes about $150,000, and only 21% flowing to the almost 50% of families with incomes below $40,000. We modelled a redesigned Conservative package that saw 1.8% of the benefits flowing to the 5.4% of families with incomes about $150,000, and 59.4% flowing to the almost 50% of families with incomes below $40,000.

Since our approach is more precisely targeted, our redesigned package does a better job of helping the families. By reducing the proportion of the benefits of the Conservatives' tax package that would flow to the highest-income families, our tax package is both more fair and less expensive.

Given the greater cost-effectiveness of our redesigned Conservative package, we are optimistic that it would not be necessary to cancel the National Child Care Program or reallocate money out of the Climate Change Fund. Reversing previous commitments to these priorities was advertised in the Conservative platform as saving $4.8 billion over five years.

Since we estimate that our package would save $3.5 billion in 2007 alone, these savings would enable the government to move forward with both of these important priorities. (Our package saves a total of $4.6 billion when we include GST revenues from other entities such as importers.) These savings also enable the government to afford other important priorities that are likely on the chopping block as part of the Conservative government's massive attempt to "moderate" a further $22.5 billion in government spending.

The true losers from tax cuts are those who would have benefited a great deal had that money been spent on public services. Under the Conservatives' plan, low-income people get a disproportionately small share of the benefits, yet they might have benefited a great deal if the money from badly targeted tax cuts was redeployed to fund the National Child Care Program and other public services.

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ANNEX

MODELLING DETAILS

The tax promises contained in the Conservative platform were specified in the following manner:

1. The reduction of the GST by a percentage point cannot be directly modelled using SPSD/M. To estimate the value of GST cuts, SPSD/M estimates of the GST paid by census families in the relevant income groups in 2007 were used to generate the value of a one percentage point reduction for these income groups.
2. The change in the tax treatment of capital gains was modelled by cutting the inclusion rate for capital gains into taxable income from 50% to 25%.
3. To model the change in dividend tax treatment prompted by the income trust issues, the federal dividend gross-up rate was increased to 1.45 from 1.25, and the dividend tax credit was increased from 13.33% to 19%.
4. The tax credit on books was modelled by increasing education amounts for full and part-time students by $500 per year.
5. The exemption for up to $10,000 of scholarship and bursary income was modelled in the following manner. SPSD/ M variable "other taxable income" includes: lump-sum payments from pensions and deferred profit-sharing plans, retiring allowances such as an amount paid as severance pay, scholarships, fellowships, and bursaries (amounts over $500), death benefits other than CPP or QPP death benefits. The income of full-time students in this variable was assumed to be scholarship or bursary income, and up to $10,000 of this income was deductible from students' taxable incomes.

6 The pension income amount was increased from $1,000 to $2,000.

Our redesigned Conservative platform was modelled as follows:

7 The basic GIS payment for single and married individuals was increased by 2.8%.

8 The GST tax credit changes were modelled in the following manner: The reduction rate for the credit was reduced from 5% to 2.5%; but the threshold was left unchanged. The amounts for the filer, spouse, dependants, and additional credit were increased by 35%.

NOTES

i See the forthcoming *Alternative Federal Budget* for an explanation of why spending restraint implied in the Conservative platform is likely to exceed $29.3 billion over 5 years.

ii 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 Sheila Block, Ellen Russell and Andrew Mitchell and the responsibility for the use and interpretation of these data is entirely that of the authors.

iii SPSD/M defines a census family as a head, their spouse (if there is one), and their children under the age of 25 (including their guardian children), living together in the same dwelling. Unattached individuals are included as census families of size 1.

iv The SPSD/M relies on data from the Survey of Family Spending, which does not all the information that would be required to analyze some tax measures proposed in the Conservative platform.

v or the HST in New Brunswick, Newfoundland and Labrador, and Nova Scotia.

vi "Peering into the Conservative's Fiscal Plan: More Spending Restraint Required Than You Might Think" TD Economics Special Report, February 28, 2006, www.td.com/economics.

vii Based on unpublished information from the Department of Finance and the 2005 Economic and Fiscal Update.

viii "First, the proposal to allow the deferral of capital gains taxes if he proceeds are reinvested within six months time is more complicated than it looks on the surface. The policy will take considerable time to design and the costs would likely far exceed the estimate in the Conservative fiscal plan. IT will also be difficult to administer." (Craig Alexander, Outlook for Federal Fiscal Policy TD Economics Special Report. February 15, 2006. www.td.com/economics.)

ix Craig Alexander, Outlook for Federal Fiscal Policy TD Economics Special Report. February 15, 2006. www.td.com/economics.

x "Peering into the Conservative's Fiscal Plan: More Spending Restraint Required Than You Might Think" TD Economics Special Report, February 28, 2006, www.td.com/economics

xi http://www.fin.gc.ca/news05/05-082e.html

xii To prevent the so-called double taxation of dividends (once as corporate profits and once as income to individuals) a somewhat complicated mechanism has been developed in the personal income tax system. Dividends are paid out of corporate profits (which are taxable). When individuals receive dividends, this is a form of personal income (which is also taxable). To ensure that tax is not collected twice on the dividend, the following process has been devised: taxpayers "gross-up" this dividend income (they multiply their dividend income by some number greater than one, as a way of approximating the pre-corporate tax value of the dividend) and then taxpayers receive a dividend tax credit representing the amount of corporate tax paid.

xiii One third of the benefit of this change in tax treatment is received by non-senior families. However, given that this is a small subset of all families reporting the results on this basis would underestimate the positive impact of this measure on senior families.

xiv About $280 million of the cost of this measure is received by seniors, while the remainder is received by individuals between 55 and 65 years of age.

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