

May 2007

Who Gets What from the 2007 BC Tax Cut?

By Stuart Murray

On February 20th, Finance Minister Carole Taylor unveiled a new budget her government spun as a “housing budget.” In reality, the biggest change in policy was a tax cut worth \$1.5 billion over three years. The tax cut is being phased in over the 2007 and 2008 tax years.

The public is becoming increasingly concerned about BC’s unacceptable levels of visible homelessness. Yet, because they pay little or no income tax to begin with, the tax cut is of little value to the poor. It certainly won’t do anything to reduce homelessness.

Those with higher incomes got substantially more from the tax cuts. Table 1 shows the dollar value of the tax cut for different income levels. The annual benefit climbs slowly from a low of zero dollars for those earning \$15,000 and less per year, to \$134 for those earning \$30,000, to \$415 for those earning \$60,000, to a maximum of \$864 for those earning \$100,000 and above.

On a monthly basis, the dollar amounts at lower income levels (in many cases less than \$20) are miniscule compared to the cost of a month’s rent.

Table 2 provides more detail on the value of the tax cuts relative to income. Those earning \$30,000 per year received a tax cut of 0.45 per cent of their income, while those earning \$60,000 per year had their taxes cut by 0.69 per cent of their income, and those earning \$100,000 received a higher tax cut equaling 0.86 per cent of their income.

These figures drive home two key points. First, while the tax cut is cumulatively expensive to the public purse (and deprives the treasury of money that could virtually eliminate homelessness over the next few years), it is worth very little to each individual or household. Second, this tax cut undermines the progressivity of the tax system.

The tax cut does not apply to income earned above \$96,000 (although people making more than this still get the benefit of the tax cut on their first \$96,000 of taxable income). As income goes above and beyond \$96,000 (the highest tax bracket) the benefit becomes smaller as a percentage of income, declining from 0.86 per cent for those earning \$100,000 to 0.58 per cent for those earning \$150,000.

The 2007/08 Tax Cut

The tax cuts will equal a 10% reduction in income tax, up to the top tax bracket of \$96,000, beyond which there is no further reduction in taxes. The four lowest tax bracket rates are reduced by 5% in 2007 and by about 10% in 2008 and subsequent years.

Source: *Budget and Fiscal Plan 2007/08 – 2009/10*. Ministry of Finance, British Columbia. February 20, 2007. pp. 75-76.

As the provincial government is keen to point out, this is not the first income tax cut. Looking at the combined effect of both the 2001/02 tax cuts, the 2005 tax cut, and this latest announcement, it is clear the wealthy have benefited disproportionately. The combined tax cuts between 2000 and 2008 as a percentage of income ranges from 0.37 per cent for those earning \$15,000, to 1.94 per cent for those earning \$30,000, to 2.75 per cent for those earning \$60,000, to 3.90 per cent for those earning \$100,000, to 4.27 per cent for those earning \$150,000.

Taxable Income	Amount of Budget 2007 Tax Cut	Monthly Equivalent of 2007 Tax Cut
\$15,000	\$0	\$0.00
\$20,000	\$82	\$6.83
\$30,000	\$134	\$11.17
\$40,000	\$216	\$18.00
\$50,000	\$315	\$26.25
\$60,000	\$415	\$34.58
\$70,000	\$517	\$43.08
\$80,000	\$639	\$53.25
\$100,000	\$864	\$72.00
\$120,000	\$864	\$72.00
\$150,000	\$864	\$72.00

*Total value of tax cut will be phased in over two years ending in 2008.
Source: BC Budget 2007, Tables 2.3 and 2.4 and author's calculations for monthly equivalent.

← Maybe you can get a cardboard box for free

← Rent a movie a couple of times a month

← A pricey bottle of wine once a month

← Air fare to Hawaii once a year

Taxable Income	BC Income Tax (\$ Nominal)			BC Income Tax (% of Income)			Tax Cut as a Share of Taxable Income	
	2000	2006	2008	2000	2006	2008	From 2006 to 2008	From 2000 to 2008
\$15,000	\$56	\$0	\$0	0.37%	0.00%	0.00%	0.00%	0.37%
\$20,000	\$823	\$338	\$256	4.12%	1.69%	1.28%	0.41%	2.84%
\$30,000	\$1,606	\$1,157	\$1,023	5.35%	3.86%	3.41%	0.45%	1.94%
\$40,000	\$2,585	\$1,895	\$1,679	6.46%	4.74%	4.20%	0.54%	2.27%
\$50,000	\$3,760	\$2,799	\$2,484	7.52%	5.60%	4.97%	0.63%	2.55%
\$60,000	\$4,950	\$3,714	\$3,299	8.25%	6.19%	5.50%	0.69%	2.75%
\$70,000	\$6,197	\$4,659	\$4,142	8.85%	6.66%	5.92%	0.74%	2.94%
\$80,000	\$7,888	\$5,849	\$5,210	9.86%	7.31%	6.51%	0.80%	3.35%
\$100,000	\$11,669	\$8,630	\$7,766	11.67%	8.63%	7.77%	0.86%	3.90%
\$120,000	\$15,609	\$11,570	\$10,706	13.01%	9.64%	8.92%	0.72%	4.09%
\$150,000	\$21,519	\$15,980	\$15,116	14.35%	10.65%	10.08%	0.58%	4.27%

Source: Author's calculations based on BC Budget 2007, Tables 2.3 and 2.4.

Figure 1: Tax Cut as a Share of Taxable Income

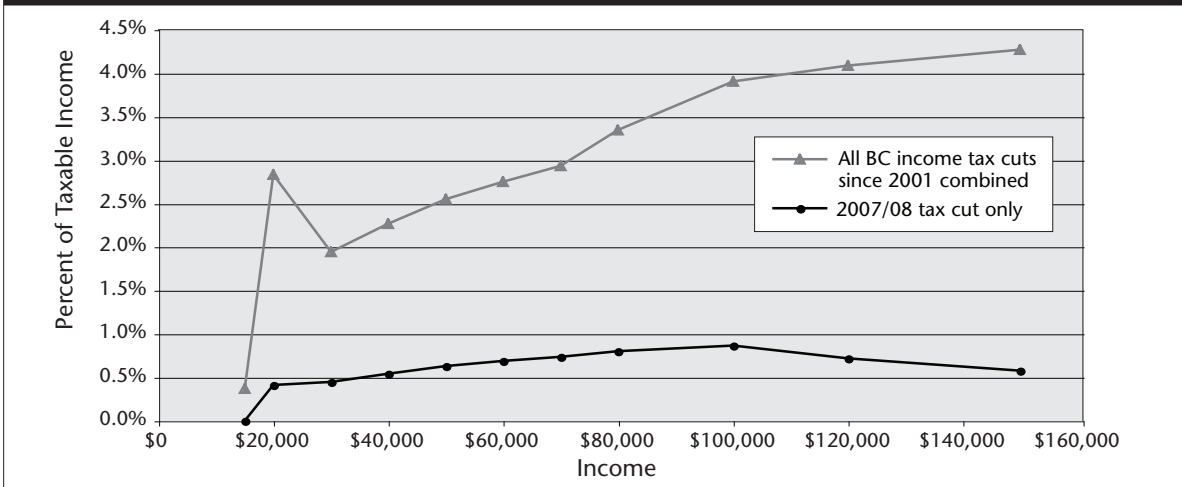


Table 3: The Tax Cut Pie, 2001/02 and 2007/08

Income Category	2001/02			2007/08		
	Percent of Taxpayers	Total Estimated Tax Cut* (\$ millions)	Percent of Estimated Tax Cut	Percent of Taxpayers	Total Estimated Tax Cut* (\$ millions)	Percent of Estimated Tax Cut
\$1 – \$30,000	48.8%	\$180.5	13.4%	54.8%	\$84.0	16.3%
\$30,000 – \$60,000	38.3%	\$456.5	33.9%	26.6%	\$178.9	34.7%
\$60,000 – \$80,000	7.8%	\$237.0	17.6%	7.7%	\$104.9	20.4%
\$80,000 – \$100,000	2.5%	\$101.0	7.5%	2.9%	\$60.0	11.7%
\$100,000 – \$150,000	1.6%	\$104.0	7.7%	2.1%	\$54.9	10.7%
\$150,000 – \$250,000	0.7%	\$78.7	5.8%	0.8%	\$20.3	3.9%
\$250,000 and over	0.4%	\$190.5	14.1%	0.5%	\$12.5	2.4%
Grand Total **	100.0%	\$1348.2	100.0%	100.0%	\$515.0	100.0%

* Estimated tax cut distribution for 2001/02 is based on 1998 tax data. Estimated tax cut distribution for 2007/08 is based on 2004 tax data, scaled upwards to account for population growth and inflation.

** Note: Figures may not add to an amount equal to the grand total due to rounding.

Sources: *BC Budget 2007*, and Canada Revenue Agency, *Tax Statistics on Individuals, British Columbia*, Table 2A. Based on 1998 and 2004 tax years.

In Figure 1 we show the last two columns from Table 2 in graphic form. As we can see, the tax cut as a share of income increases as income rises. There are two exceptions to this rule. As discussed, the most recent tax cut diminishes as a share of income above \$100,000. However, when combined with the 2001/02 and 2005 tax cuts, we see that those with higher incomes are generally further ahead, even considering their limited gains from the last cut. The second exception is that those with an income of around \$20,000 got more from earlier tax cuts (as a percentage of income), particularly the 2005 pre-election tax cut. However, in dollar terms people at lower income brackets got less from the tax cut.

In Table 3 we show that the percentage of the total tax cut pie going to upper-income individuals is far out of proportion to their share of the population, for both the 2001/02 tax cuts and the tax cuts being phased in over 2007/08. While those earning less than \$30,000 per year make up a majority of taxpayers, these people only get 16.3 per cent of the latest (2007) tax cut in dollar terms. Those earning \$80,000–\$100,000 per year make up 2.9 per cent of taxpayers, but they get 11.7 per cent of the latest tax cut. Those earning over \$250,000 make up only 0.5 per cent of taxpayers but they still get a disproportionate 2.4 per cent of the latest tax cut pie.

Looking at the cash dollars given to different income levels, we see that those making over \$80,000 got \$147.6 million from the latest tax cut, even though they don't really need it. Meanwhile a much smaller amount of money, \$84 million, went to lower income people earning under \$30,000. Put another way, the 6.3 per cent of taxpayers making over \$80,000 per year got a larger share than the 54.8 per cent making less than \$30,000.

Comparing the distribution of the three rounds of tax cuts, we find that at the top end and bottom end, the most recent round of tax cuts are less regressive than the tax cuts of 2001/02. Those earning less than \$30,000 per year will get 16.3 per cent of the tax cut in 2007/08, compared to 13.4 per cent of the tax cut in 2001/02. Those earning over \$250,000 will get 2.4 per cent of the tax cut in 2007/08, compared to 14.1 per cent of the tax cut in 2001/02.

Had the government chosen to spend this money on housing instead of a tax cut, it could have made a serious dent in homelessness in BC. For example, the CCPA-BC's *Solutions Budget 2007* noted that building 2,000 new units of social housing per year would cost \$400 million a year in capital cost, plus an additional \$8 million a year in operating costs to subsidize rents. This \$408 million per year is \$107 million cheaper than the \$515 million annualized cost of the latest provincial tax cut.

ABOUT THE AUTHOR

Stuart Murray is the Public Interest Researcher at the Canadian Centre for Policy Alternatives BC Office. He has a Bachelor of Arts in Economics from UBC and a Master of Industrial Relations from Queen's University.

ACKNOWLEDGEMENTS

The author would like to thank Shannon Daub, Seth Klein, and Marc Lee for their feedback on various drafts of this report.

Opinions and any errors in this paper are those of the authors, and do not necessarily reflect the views of the Canadian Centre for Policy Alternatives.

This publication is available under limited copyright protection. You may download, distribute, photocopy, cite or excerpt this document provided it is properly and fully credited and not used for commercial purposes. The permission of the CCPA is required for all other uses. For more information, visit www.creativecommons.org.

Please make a donation... Help us continue to offer our publications free on-line.

Layout: Avi Goldberg

ISBN: 978-0-88627-534-1



CCPA

CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

The Canadian Centre for Policy Alternatives is an independent, non-partisan research institute concerned with issues of social and economic justice. The CCPA works to enrich democratic dialogue and ensure Canadians know there are practical and hopeful solutions to the policy issues we face.

The Centre offers analysis and policy ideas to the media, general public, social justice and labour organizations, academia and government.

Canadian Centre for Policy Alternatives – BC Office

1400 – 207 West Hastings Street

Vancouver, BC V6B 1H7

tel: 604 801 5121

fax: 604 801 5122

ccpabc@policyalternatives.ca

www.policyalternatives.ca