Ontario's tax cuts since 1995: The real tally

For the fourth provincial election in a row, tax cuts have moved into a central role in the election campaign of the Ontario Conservative Party. As usual, the political rhetoric is liberally sprinkled with evocative claims:

- Ontario's tax cuts have been directed towards middle-and-lower-income taxpayers;
- Massive benefits delivered through tax cuts to average taxpayers, with no offsetting costs;
- $4.6 billion in future tax increases if the Government is not re-elected;
- Ontario's economic growth in the late 1990s attributable to tax cuts;
- Billions in tax savings delivered at no cost to the provincial treasury.

An analysis of Ontario's tax cut program from 1995 to 2003 and the changes promised and expected in the future, however, reveals a very different reality from the picture painted in the rhetoric. Contrary to the Government's claims:

- The lion's share of Ontario's personal income tax cuts have been delivered to higher-income taxpayers, with the median taxpayer receiving an benefit of $877 at the end of the eight years the Conservatives have been in power; the highest income 5% of Ontarians (those with incomes over $100,000) have received 26% of the benefit from the tax cuts (an average of $7,790); the lowest-income 50% of Ontario taxpayers received less than 17% of the benefit from the cuts (an average of $484);
- Although the cuts have been touted as of benefit to the poor, an employee working at the minimum wage (about $14,000 a year) will have received no benefit from Ontario's tax cuts, as compared with a loss of $2,500 from the failure of the Government to adjust the minimum wage to reflect inflation;
- The benefits from Ontario's personal income tax cuts have been offset by substantial increases in a wide variety of fees other charges levied by municipalities, universities and colleges, school boards and hospitals, as they scramble to cover the cuts in provincial support introduced to offset the costs of the tax cuts;
- Even after taking into account increases in fees and other charges, these numbers understate significantly the costs to Ontario citizens of cuts in other government programs, from child care to schools to health care services to public health and environmental regulation;
- Future promised and projected tax cuts are tilted heavily towards corporations, special interest groups and the highest-income taxpayers.
- There is no evidence to support the Government's claim that Ontario's economic performance is attributable to its tax cuts. Indeed, the evidence points to factors external to Ontario that have nothing to do with Ontario's tax system whatsoever.
- The notion that tax cuts increase revenue was a political invention of Ronald Reagan in the 1980s, and has since been totally discredited. There is also no evidence in the data to support the claim. Comparisons of Federal and Ontario Government revenues from personal income tax in the late 1990s (1995-6 to 1999-2000) show federal personal income tax revenue growing at twice Ontario's, even though Ontario's economy was growing more rapidly than the national average during that period.

Personal income tax cuts from 1995 to the 2003 Magnabudget

The personal income tax cuts implemented by the Conservatives since they were elected in 1995 now cost the Ontario treasury roughly $11.6 billion a year, according to an Ontario Alternative Budget analysis.[1]

The benefits flowing from those cuts have been extremely inequitably distributed. 26% of the savings have gone to the highest-income 5% of the population — taxpayers with incomes over $100,000 a year. Those taxpayers receive an average annual benefit of $7,790. Taxpayers with incomes below the median — the entire bottom half of the income distribution — received less than 17% of the savings. Those taxpayers average a benefit of $484 per year. A taxpayer with the median income of $30,000-$35,000 benefits to the tune of approximately $650 a year. A taxpayer with a moderate income of $50,000 to $60,000 receives total savings at the end of eight years of tax cuts of about $1,900. More than 70% of Ontario taxpayers have incomes below that range.

But these gains do not take into account the costs to Ontario residents of the Tory government's cutbacks that were needed to pay for its tax cuts. They do not account for the increases in fees and other charges levied by hospitals, school boards, colleges and universities and municipalities imposed to pay for the tax cuts. They do not take into account the drug and nursing home co-payments levied by the Government on seniors to pay for the tax cuts. They do not take into account the costs to Ontario residents forced to replace services that used to be provided publicly, or to go without them — services reduced or eliminated to pay for the tax cuts. And they do not take into account the cost to every taxpayer of the interest on the debt the government incurred on our behalf to implement tax cuts before the budget was balanced.

The amounts involved are substantial. College and university tuition fees, for example, have increased by nearly $1 billion between 1995 and 2002. These post-secondary institutions have also increased their revenue from user charges and other fees by $340 million. In total, that comes to an average of $200 per taxpayer across Ontario; $4,500 per post-secondary student. So for a two-income family with average incomes, putting just one child through a four-year university program wipes out 10 years of their tax cut.[2]

Drug plan co-payments are conservatively estimated at $200 million a year.[3] Increases in nursing home co-payments since 1995 amount to $175 million.[4] Together, these payments average $250 for every Ontarian over the age of 65. For the 67,000 Ontarians in nursing homes, these payments average $2,700 a year. These payments by themselves offset a substantial share of the tax savings of all but the most well-off seniors, and puts a different perspective on this election campaign's education property tax.

User fees and other non-tax charges levied by municipalities have also been forced up by provincial funding cuts to local governments. Between 1995 and 2002, municipal revenue in Ontario from fees and other charges increased by 42%, for a total increase of $1.5 billion.[5]

In health and social services, revenue from user fees and other charges increased by $1.26 billion, or 74%.[6]

And that figure doesn't begin to capture the total impact of provincial cuts in social investment. Public support for child care has dropped by $160 million — costs that fall directly back onto parents of young children.[7]

In health care, the Canadian Institute for Health Information reports that private expenditures on health care have increased by $5 billion since 1995.[8] Half of that amount is for drugs, reflecting the gradual weakening of medicare as non-covered services grow relative to covered services. But $733 million is accounted for by hospitals and other health care institutions — much of it directly attributable to issues of funding.

Another hidden offsetting cost from the tax cut program is in the provincial debt. By cutting taxes before the provincial budget was balanced, the Harris-Eves governments incurred additional public debts of $14.5 billion directly attributable to the foregone revenue. The interest on that tax cut debt costs us another $800 million every year.[9]

There are a number of general observations that can be made about these offsetting costs.

First, the offsetting costs that can be attributed to Ontario's tax cuts are substantial, in total. Taken together, the direct offsetting costs (not including increased private expenditure on health care) amount to $4.25 billion, or an average of $655 per taxpayer.

Second, because they appear in literally thousands of different charges and user fees, they are largely invisible.

Third, the distribution of the offsetting costs against the tax cuts is quite different from the distribution of the tax savings. In general, the offsetting charges have a substantially disproportionate impact on low- and middle-income families. As a result, even though the total direct offset is much less than the total value of the income tax cuts, a substantial proportion of Ontario taxpayers have had their tax savings more than wiped out by offsetting cost increases.

Fourth, while many of the offsetting costs are fairly broadly distributed through the population, others are highly concentrated in certain demographic groups. As noted above, co-payment fees levied against seniors amount to $58 per taxpayer, but $250 for every taxpayer over the age of 65 and $2,700 for every senior in a nursing home. Many seniors will lose more from these additional charges than they will ever gain from the tax cuts.

Likewise, the impact on post-secondary students and their families of tuition and fee increases has been dramatic, even though the average across the all taxpayers is relatively modest. For many young families, the interest on the student loans they needed to cover tuition and fee increases will exceed by far any benefit they will receive from partial deductibility of mortgage interest.

Election 2003 and beyond — the tax cut future

The three tax cuts that the government has talked about — the seniors education property tax credit ($450 million on a full-year basis); partial deductibility of mortgage interest ($700 million when fully phased in); and the private school tuition credit ($350 million) — are highly targeted.

Taken together, these three cuts amount to $1.5 billion per year — barely one third of the total tax cut announced for the Tories' third term.

To begin with, the Government has already announced future corporate tax cuts with an annual revenue impact of over $2.5 billion. That makes the high-profile targeted cuts $1.5 billion of a total announced cut of $4 billion.

The biggest cut that's on the way, however, has been kept under wraps in this campaign. The Government has made it clear that it intends to eliminate the second stage of the personal income surtax — the so-called Fair Share Health Levy.

This year's budget eliminated the first stage of the levy, a move that the government estimates has an annual revenue impact of $105 million.

The plan to phase out the second stage will have a much more substantial revenue impact.

Ontario Alternative Budget estimates show a projected annual revenue loss from eliminating the remaining surtax at more than $2.8.

More significant, our analysis shows that this change will be by far the most regressive of all the personal income tax changes introduced by the Harris-Eves governments.

More than 90% of the tax savings from eliminating the surtax would go to the 5% of taxpayers with incomes over $100,000. 62% of the savings would go to the tiny minority of Ontario taxpayers (less than 1%) whose incomes exceed $250,000 per year.

No taxpayer with an income below $70,000 would realize any savings at all.

For all but a tiny minority of Ontarians, the Harris-Eves tax cut party is over and they're faced with cleaning up the mess left behind.

For a tiny minority, the real fun is just about to begin.

For most of the province, it never was much of a party in the first place.

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Endnotes

1. All data on the impact of Ontario's tax changes are produced by the Ontario Alternative Budget personal income tax model, based on CCRA taxation statistics.
2. Statistics Canada CANSIM Table 385-0007: University and college revenue and expenditures; Ontario; Tuition fees [D471136] and University and college revenue and expenditures; Ontario; Other sales of goods and services [D471137]
3. The 1996 estimate was $179 million. No new data are currently available, but given the growth in both the numbers and average ages of seniors in Ontario, an increase of 10% to $200 million would be conservative.
4. Co-payments have increased by $400 million since 1995. However, $225 million of that amount is attributable to growth in the number of beds to which the co-payments apply. $175 million is attributable to the increase in co-payment rates. Source: Armine Yalnizyan, based on data provided by the Ontario Ministry of Health.
5. CANSIM Table 385-0004: Local general government revenue and expenditure; Ontario; Other licences and permits [D659345]; Local general government revenue and expenditure; Ontario; Water [D659350]; Local general government revenue and expenditure; Ontario; Rentals [D659351]; Local general government revenue and expenditure; Ontario; Concessions and franchises [D659352]; Local general government revenue and expenditure; Ontario; Other sales of goods and services [D659353]; Local general government revenue and expenditure; Ontario; Other fines and penalties [D659360]; Local general government revenue and expenditure; Ontario; Miscellaneous revenue from own sources [D659361]
6. Table 385-0008: Health and social service institutions revenue and expenditures; Ontario; Sales of goods and services [D471367]; Health and social service institutions revenue and expenditures; Ontario; Other revenue from own sources [D471369]
7. Investing in Quality Child Care, Behind the Issues: Ontario 2003, Canadian Centre for Policy Alternatives, p. 1.
8. CIHI Health Care Statistics, 2003
9. Ontario Alternative Budget calculation — tax cut debt is cumulative total of deficits attributable to tax cuts prior to budget coming into balance, plus interest. Interest costs calculated at average cost of borrowing for Ontario.

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