



# Behind the numbers

Economic facts, figures and analysis

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## Who's really winning here?

*The real story of the Martin tax cut budget*

*By Hugh MacKenzie*

In the Paul Martin era as Minister of Finance, images of war and of battle have been utilized repeatedly as the Government has worked to build public support for the most draconian budget cuts and the most radical decentralization of financial responsibilities in Canadian history.

Those images persist in the triumphalist rhetoric of this year's Federal Budget, with talk of rewards for years of sacrifice in the battle to get Canada's financial house in order. But a closer look at the 2000-1 Budget makes it clear that, after this war, most of the medals are being handed out to the brass hats at headquarters, leaving very little to those who actually took part in the battle.

### Who paid the price?

Let's look first at who played the role of infantry in the war, and what Martin's and Chretien's dedication to the struggle has cost them.

Right at the top of the list are Canada's unemployed. Without the \$6.5 billion excess of contributions over expenditures in the UI account in 1999-2000, there would have been no surplus. The surplus in the UI account results from changes introduced in the early 1990s that reduced unemployment insurance coverage from 70% of the unemployed to 40% and cut the benefits for those who manage to qualify.

Next is Canada's Medicare system. The Federal Government's withdrawal from its role as a major financier of the health care system dumped huge financial burdens onto provincial governments at the same time as health care need has been ex-

panding with our aging population. Last year, the Federal share reached only 19%, compared with a 25% level of support in 1989.

The budget announces a lump sum contribution to health care and education of \$2.5 billion allocated to the current 1999-2000 fiscal year. What it fails to mention is that this is \$1 billion **less** than the one-time-only increase announced in last year's budget and allocated to the 1998-9 fiscal year. What it also fails to mention is that neither of these amounts has been built into base funding, and both are spread out over a five-year period. **The budget actually allocates none of the 2000-1 budget surplus to health.**

Add post-secondary students to the list. Driven by substantial reductions in Federal Government transfer payments for post-secondary education, college and university tuition has skyrocketed and students are graduating with mortgage-sized burdens of personal debt. Average student debt increased from \$8,000 in 1990 to \$25,000 in 1998 and is still rising. Tuition fees across Canada have increased by an average of 126%. **Education receives no ongoing funding increase from this Budget. Instead, it will receive a share of the budget's lump sum allocation from the 1999-2000 year-end surplus.**

Families with children. Whatever happened to the famous, and long-anticipated "children's budget"? The situation facing families with children in Canada has been well documented. Eleven years after the House of Commons passed its resolution calling for an end to poverty by the year 2000, the gap between rich and poor has grown, and is still

growing. One in five children in Canada live in poverty. We have 463,000 more poor children in Canada today than we did in 1989. **Allocating \$2.5 billion a year by 2004-5 to child tax benefit increases out of a total tax reduction of \$17.6 billion hardly makes this a children's budget.**

### What's the real tax relief target?

To listen to the rhetoric of the Minister of Finance, you would think that the budget was a bonanza for the middle class.

It is true that many of the measures announced in the budget sound as if they're targeted exclusively to the middle class:

- The re-indexation of tax brackets and personal amounts effective January 1, 2000;
- The increase in the personal amounts used in calculating non-refundable tax credits, from their current level of \$6,794 to at least \$8,000 by the end of the five-year planning period as a result of re-indexation; and
- The reduction of the tax rate in the middle tax bracket from 26% to 23%.

The increase in personal amounts will provide a flat benefit of \$205 a year to every taxpayer, regardless of income, as long as his or her taxable income exceeds \$8,000.

At the current top rate threshold of approximately \$60,000, the reduction in the rate for the middle tax bracket from 26% to 23% will cut taxes by a flat \$900 a year for taxpayers with incomes above \$60,000. **It will provide no benefit for taxpayers with incomes below \$30,000.** Taking into account the higher income threshold for the top bracket resulting from re-indexation, the rate reduction will be worth \$1,050 with incomes above \$70,000.

That sounds very democratic, until you consider the fact that more than half of all Canadian taxpayers in 1996 reported incomes below \$30,000.

Others are presented as if they are providing middle-income relief.

- The elimination of the 5% high-income surtax;
- The increase in the income at which the top marginal tax rate applies from \$59,180 to at least \$70,000 as a result of re-indexation;
- The increase in the income at which the middle marginal tax rate applies from \$29,180 to at least \$35,000 as a result of re-indexation;
- The reduction in the capital gains inclusion rate from 75% to 66 2/3%.

On further reflection, however, these latter measures can hardly be characterized as targeted to the middle class.

**The high-income surtax applies only to taxpayers with incomes above \$65,000. In 1996, according to Revenue Canada data, those with incomes above that level constituted only 6% of taxpayers.**

**The increase in the threshold for the top marginal tax rate benefits only taxpayers with incomes above \$60,000 – approximately 8% of taxpayers.**

Finally, in considering the change in the capital gains inclusion rate, it is perhaps worth noting that, in 1996, more than 66% of the total capital gain was reported for income tax purposes by the highest-income 1% of taxpayers.

**Even making allowances for the fact that incomes have grown since 1996, these targeted measures apply to a very exclusive group of individual Canadian taxpayers.**

### Who wins from the Budget's tax cuts?

An analysis of the impact of these changes, taken together, shows a distribution of benefit that is very different from that implied by the middle-class tax break rhetoric.



The model used in the analysis is based on 1996 Revenue Canada data on personal income tax revenue. These data present income reported and deductions claimed, by income range, in sufficient detail to permit estimates to be made of the impact of changes in tax provisions on taxpayers in each income range. These results do not take into account the impact on the budget of changes linked to family or household incomes, such as the indexation of the GST credit and the improvement in the Child Tax Benefit.

The results of the analysis are presented in Chart 1, below. The solid line represents the percentage of taxpayers whose incomes place them in or below each income range. The dotted line represents the percentage of the total benefit from the Budget's tax changes going to taxpayers with incomes in or below each income range. The percentages appear on the left axis of the chart.

The vertical bars show the average tax savings received by taxpayers in each income range.

For example, the chart shows that 70% of taxpayers reported incomes below \$40,000 in 1996. That 70%

of taxpayers will receive approximately 36% of the total benefit from the tax cuts.

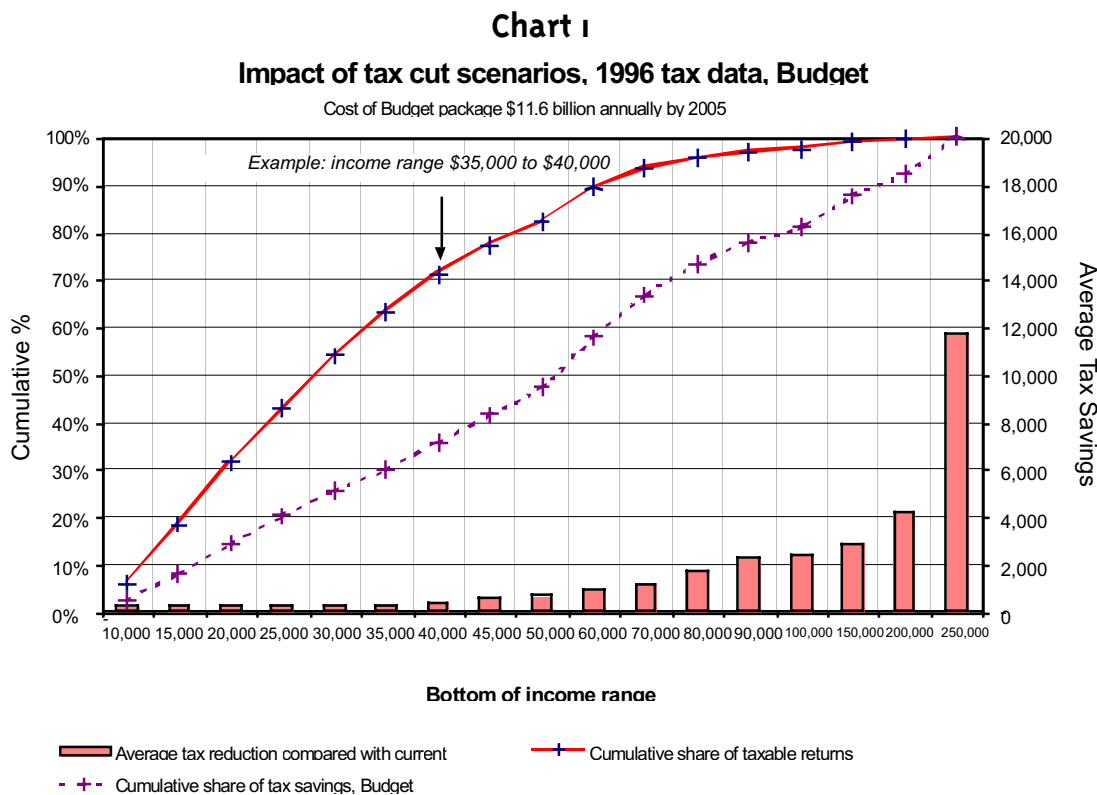
The results call into question the claim that this is a middle income tax cut program. The 39% of taxpayers with incomes between \$25,000 and \$50,000 will receive roughly 27% of the benefit from the tax cut. The 2% of taxpayers with incomes above \$100,000 will receive 19% of the benefit from the tax cut.

The average taxpayer in the \$50,000 to \$60,000 income range will benefit from a tax cut averaging \$849; taxpayers with incomes over \$250,000 will get a tax cut averaging more than \$11,600.

**Approximately 64% of the benefit will go to the highest-income 30% of taxpayers. More than 42% of the benefit will go to the top 10%.**

### Martin's tax cuts in context

The only positive note suggested by the analysis is that, if Martin had opted for any of the suggestions advanced by the Government's critics from the right, the impact would have been worse – even



more heavily tilted towards high-income Canadians.

But that is small comfort for the vast majority of Canadians who ranked action on such issues as health care, education, child poverty and homelessness far above tax cuts on their personal priority lists.

This budget will leave Canadians asking, **what happened to the children's budget?** It will leave Canadians wondering what has to happen to our health care system to get a response from the Government of Canada. It will leave Canadians appalled at the twisted priorities that put more weight on cutting capital gains taxes for the highest-income 1% of taxpayers than on dealing with the crisis of homelessness in all of our major cities.

This budget begs one overriding question about this Government's priorities. Imagine any government creating any program costing \$13 billion,

designed explicitly to deliver 19% of its benefits to individuals with incomes over \$100,000 a year. Inconceivable, you say? Yet that's exactly what this Federal Budget in effect does.

Forget about the rhetoric about giving money back to Canadians who sacrificed to win the battle against the deficit. **This budget gives most of the medals to those who never went near the battlefield.**

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