

# The lottery in which everyone wins?

*Assessing the latest Liberal tax cuts*

*By Hugh Mackenzie*

**T**he documents that accompany Finance Minister Paul Martin's much heralded mini-budget present a wealth of information about its impact on (benefits for) taxpayers of various types and incomes.

It is presented as a grand type of lottery, in which everyone wins — especially people just like you (whoever “you” happens to be).

Most people these days have learned to be very skeptical of any lottery in which everyone wins. They should be equally skeptical about Mr. Martin's.

Missing from the reams of numbers and the dozens of examples is any information that would be at all helpful in answering the fundamental questions of political economy raised by the budget.

Who are the really big winners; and who are the not-so-big winners?

What has Mr. Martin's new system done to the personal income tax, and to the tax system as a whole?

And how do the choices the Liberals made square with the hopes and desires of Canadians for the future?

Winners? Granted, everyone wins something in the Martin lottery. But an analysis of the new system

for 2001, compared with what taxes would have been in the year 2001 with the February 2000 Budget, shows that large incomes attract large tax cuts. More than 39% of the additional savings from the Liberals' new tax plan will go to the highest-income 4.8% of individual taxpayers (these figures don't take into account family-income-based programs). This estimate is based on the most recently available taxpayer data, for 1997.

The lowest-income third of taxpayers will get 4% of the tax savings.

The middle-income third of taxpayers will get 13% of the savings.

The top-income third of taxpayers will get 83% of the tax savings

The most egregious of these changes is the reduction in the capital gains inclusion rate to 50%. Unearned windfall income will be taxed at half the rate paid on income from employment. Moreover, most Canadians will not benefit at all from the change. It will only benefit people who have assets other than their home and RRSPs.

The highest-income 4.8% of taxpayers will get fully 75% of the benefit from the capital gains tax change.

So much for that Trudeau-era idea that a buck is a buck, when it comes to taxation.

In relative terms, it is true that taxpayers at the bottom of the income scale will see the largest percentage reductions in their taxes. But through most of the range from middle to upper incomes, the percentage tax reductions are almost identical.

What effect do these changes have on the tax system? At the bottom of the income scale, the percentage reductions go down slightly as income increases. In the middle of the scale, the reductions increase slightly as income increases. And at the top of the range, the reductions decline again as income increases. On balance, then, the changes make the personal income tax slightly less progressive at the bottom of the scale and slightly more progressive in the middle-to-upper income range. On balance, for the personal income tax in isolation, the changes are very nearly neutral in their impact.

However, because these changes reduce significantly the total revenue raised from our only progressive tax, they will make the overall tax system less progressive. The share of total Federal Government revenues contributed by middle-income Canadians will go up; the share paid by those at the top of the scale will go down.

And what do the choices made by the Government in this mini-budget mean for Canadian society generally?

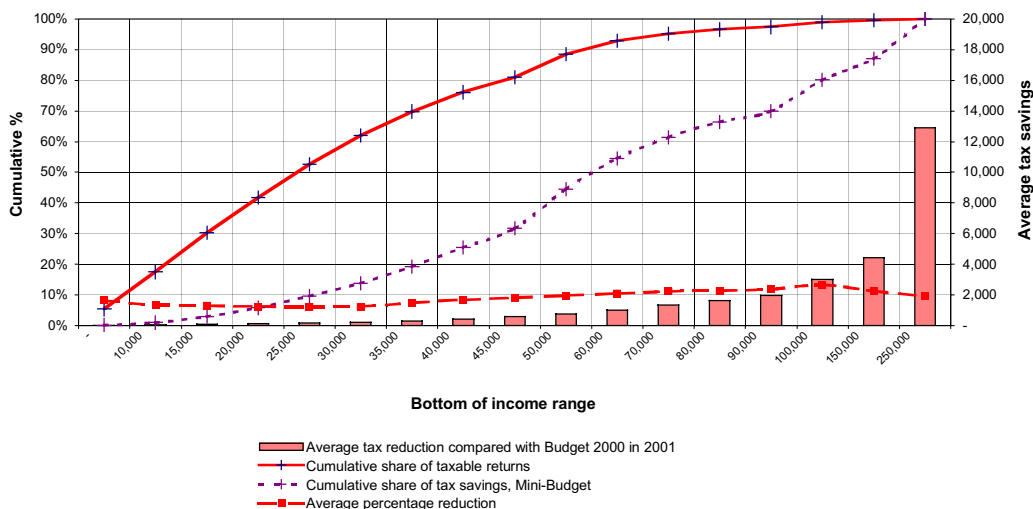
When the Government chose to focus almost exclusively on tax cuts and debt reduction, it also chose to continue its policy, consistently applied since it was first elected in 1993, of shrinking public services in Canada.

Almost buried in the budget statement is the information that the Government will continue to reduce program spending, as a share of Gross Domestic Product, throughout its next term of office. The policy that the Government sold as the only way to beat the deficit is now being maintained through a period of unprecedented burgeoning surpluses.

The Government's 1997 election promise to divide the fiscal dividend 50/50 between new spending and a combination of debt reduction and tax cuts has been revealed to be a sham, and the Government's efforts to prove otherwise a shell game.

Mr. Martin's own figures demonstrate that only 8% of the fiscal dividend in this term of office has

**Impact of tax cut scenarios in 2001, 1997 tax data, Budget 2000 system compared with Mini-Budget**



gone to new program spending; another 15% was needed just to maintain the real value of what already existed in 1997; 34% of the fiscal dividend was spent on tax cuts; and fully 43% went to debt reduction. And even that amount is an understatement, based as it is on the Government's notoriously conservative revenue estimates.

That is a very different set of priorities than those repeatedly stated by Canadians in public opinion survey after public opinion survey in the past four years. Those surveys put tax cuts well behind health care, education, child poverty and environmental quality in the priorities of Canadians, and tax cuts behind debt reduction.

So where do those choices come from. The answer comes from the annual, and always enlightening

work of Ekos Research, which probes the contrast between the priorities of Canadians generally, and those in our economic and political elite. The priorities of the Liberals are the priorities of the elite.

No wonder Canadians are cynical.

*Hugh Mackenzie is Research Director for the United Steelworkers of America and a research associate of the Canadian Centre for Policy Alternatives.*

*For more information or to arrange an interview contact Kerri-Anne Finn at the Canadian Centre for Policy Alternatives, Tel: (613) 563-1341 ext. 306.*

**Canadian Centre for Policy Alternatives — National office**

**410-75 Albert Street, Ottawa, ON K1P 5E7**



**Tel (613) 563-1341 Fax (613) 233-1458  
e-mail [ccpa@policyalternatives.ca](mailto:ccpa@policyalternatives.ca)**

**[www.policyalternatives.ca](http://www.policyalternatives.ca)**