

**Who Really Benefits
from Nova Scotia's Income Tax Cut:
The Distribution of the Nova Scotia Tax Cut by Income**

By John Jacobs

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Contents:

Introduction	1
Distribution of the Tax Cut by Income Group	2
Distributing the \$147 Million "Dividend"	4
The Tax Rebate: A Misleading Introduction to Income Tax Cuts	6

Figures and Tables

Table 1: Nova Scotia 2004 income tax cuts – distribution by income group	3
Figure 1: Distribution of tax cut by income group	4
Figure 2: The 2003 tax rebate and the 2004 income tax cut compared	6



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Introduction

After years of claiming that the Nova Scotia's finances were in a desperate state the Hamm government has decided that the province does not need \$147 million of its current revenues to help pay for public services and to meet its financial obligations. The provincial government claims that the income tax cuts it proposes will put extra funds in the hands of working Nova Scotians. Initial attention has focused on the \$155 tax rebate that has been presented as a 10% tax cut for the remaining 6 months of 2003 that all Nova Scotian taxpayers will receive regardless of their income (as discussed below).¹ However many working Nova Scotians will be disappointed if they expect similarly equal treatment in future years. Low income Nova Scotians will pay more income tax in 2004 than they did in 2003 while upper income Nova Scotians will pay much less.

The Canadian Centre for Policy Alternatives is releasing two papers that examine the impact of the 2004 income tax cuts on households, communities and the provincial economy. The studies use the most recent taxation data from Canada Customs and Revenue Agency (CCRA) to project the distribution of the income tax cuts by income group, by gender and by county. The papers show that rather than benefiting working families and building a strong provincial economy, the income tax cut will increase income, gender and regional inequality.

This paper focuses on the distribution of the income tax cuts by income group and the misleading nature of the tax rebate. A subsequent paper will examine the gendered and regional distribution of the tax cuts in the context of cuts to programs and services, and asks who pays the price for the income tax cut.

Distribution of the Tax Cut by Income Group

The provincial government has promoted the tax cuts as a means of helping “working families.” The reality is that the tax cuts will provide minimal relief for the average worker. Some Nova Scotians will receive a huge windfall while others will receive a pittance (see Table 1). The 16,000 Nova Scotians in greatest need of support (those earning less than \$10,000) will receive on average \$13 in tax relief in 2004. The approximately 100,000 Nova Scotians with taxable incomes of between \$10,000 to \$20,000 will receive an average income tax cut of \$64 for 2004. At the other end of the income spectrum the 1700 or so Nova Scotians earning more than \$250,000 will on average pay \$8,000 less in income taxes in 2004.

Taxpayers with an annual income of between \$1 and \$20,000, make up 27% of taxpayers but will receive only 4.5% of the total tax cut. At the other end of the income scale the top 0.4% of Nova Scotian taxpayers will receive 9.1% of the total tax cut or 23 times their proportionate share of \$147 million (i.e. \$13 million). Taxpayers earning closer to the average income of between \$20,000 to \$30,000 make up 24% of taxpayers

but will receive less than half (11%) their proportionate share of the total tax cut.

While the income tax cuts will provide some benefit for middle and low income employed Nova Scotians, it is clear that they are not the main beneficiaries. The CCRA data show that in 2000 51% of taxpayers had income of less than \$30,000. According to the most recently available

income statistics in 2002 the average employed Nova Scotian earns just over \$30,000 annually.² This is equivalent to working for about \$14.50 an hour, 40 hours a week, 50 weeks per year. Many Nova Scotians make less. Nova Scotians receiving the minimum wage

of \$6 per hour make an annual income of \$12,500 a year — if they can get full-time work (40 hours per week) every week of the year.

The 51% of Nova Scotians with incomes of less than \$30,000 will receive only 16% of the total tax cut (Figure 1). Nova Scotians with income between \$30,000 to \$50,000 will receive 29% of the tax cut. Upper income Nova Scotians fare much better comprising 19% of taxpayers but receiving 56% of the total tax cut.

The 51% of Nova Scotians with incomes of less than \$30,000 will receive only 16% of the total tax cut....the 19% of Nova Scotians with incomes of more than \$50,000 fare much better receiving 56% of the total tax cut.

Table 1: Nova Scotia 2004 Income Tax Cuts – Distribution by Income Group

Income Group	Number of tax returns	Total 2004 tax cut (\$000)	Average tax cut (\$)	Percentage Of taxpayers	Percentage of total tax cut
\$0 taxable income	244,640	\$0	\$0	0	0
Taxable income	434,050	\$147,000		100%	100%
<i>(Bottom half)</i>					
\$1-\$10,000	15,750	206	13	3.6%	0.1%
\$10,000-\$20,000	102,360	6,531	64	23.6%	4.4%
\$20,000-\$30,000	104,940	16,483	157	24.2%	11.2%
\$1-\$30,000	223,050	\$23,219	\$104	51%	15.8%
<i>(Upper-middle 30%)</i>					
\$30,000-\$40,000	73,990	19,494	263	17.0%	13.3%
\$40,000-\$50,000	54,790	22,499	411	12.6%	15.3%
\$30,000-\$50,000	128,780	\$41,993	\$326	30%	28.8%
<i>(Top 20%)</i>					
\$50,000-\$60,000	32,590	17,907	549	7.5%	12.2%
\$60,000-\$70,000	17,250	11,608	673	4.0%	7.9%
\$70,000-\$80,000	9,870	8,057	816	2.3%	5.5%
\$80,000-\$90,000	6,290	6,093	969	1.4%	4.1%
\$90,000-\$100,000	4,120	4,649	1,128	0.9%	3.2%
\$100,000-\$150,000	7,050	10,721	1,521	1.6%	7.3%
\$150,000-\$250,000	3,390	9,415	2,777	0.8%	6.4%
\$250,000+	1,660	13,338	8,035	0.4%	9.1%
Total \$50,000 +	82,220	\$81,789	\$995	19%	55.6%

Note:

1) Estimates for 2004 based on 2000 income tax data.

2) Average tax cuts based on NS Department of Finance projection of total tax cut of \$147 million for 2004 and a 10% tax cut for taxable income of between \$1 to \$30,000, 9.2% for \$30,000 to \$60,000 and 9% for income over \$60,000

Source: Calculations based on Canada Customs and Revenue Agency Income Statistics and Nova Scotia 2003-2004 Budget Bulletin "Tax relief for Nova Scotians."

Distributing the \$147 Million “Dividend”

The provincial government has claimed that the income tax cut is a dividend for Nova Scotians after suffering through the difficult years of cuts to programs and services. But rather than making the long overdue investments in programs that benefit those most effected by the cuts — low-income households, youth and the ill — the provincial government is providing a huge dividend to those least effected. No dividend will be going to the more than 225,000 income tax filers who did not have sufficient income to be taxed provincially.

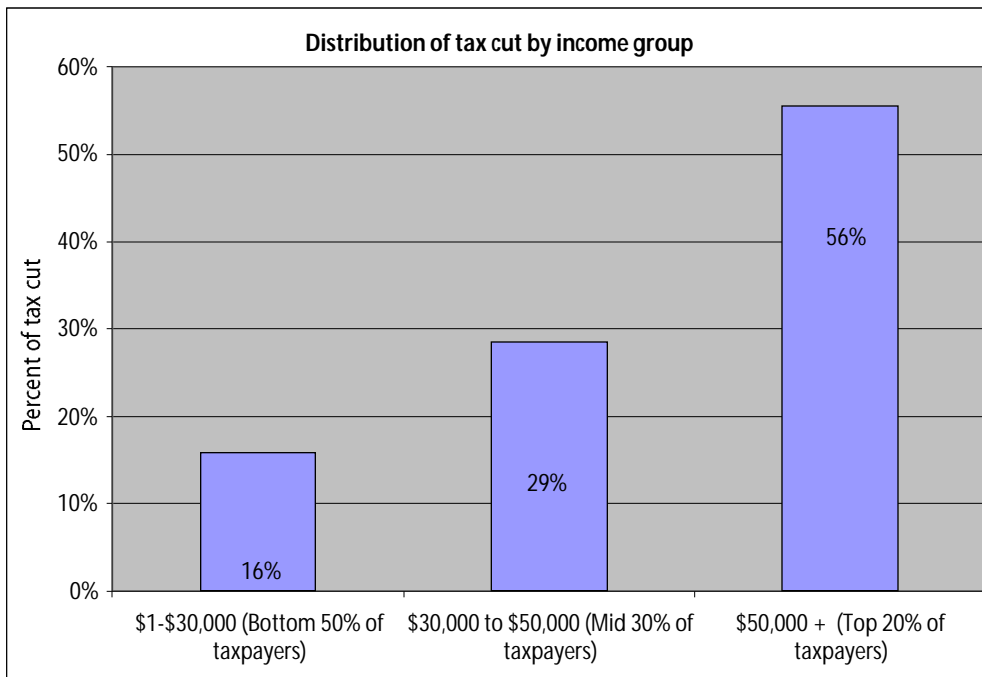
The provincial government has estimated that the tax cuts will cost \$147 million, of that

By providing a disproportionate return to wealthy citizens the tax cuts will increase income inequality.

- \$23 million will go to 223,050 taxpayers with incomes of less than \$30,000;
- \$42 million will go to the 128,780 taxpayers with income between \$30,000 and \$50,000;
 - \$82 million will go to the those who tend to be less effected by cuts to programs and services — the 82,220 taxpayers with incomes of more than \$50,000.

The provincial government has noted in the 2003-2004 Budget that the tax cuts “mean more than 3,500 Nova Scotians will no longer pay provincial income taxes.”³ This is provided as evidence of tax relief for low income Nova Scotians. What we are not told is that the 3,500 taken off of the tax roles only paid a few dollars in provin-

Figure 1



Source: Canada Customs and Revenue Agency, Income Statistics, 2000

cial income taxes before the income tax cuts. A \$3 break from paying income tax can hardly be described as tax relief especially when increases in direct and indirect user fees such as drivers licenses, ambulance and tuition fees are taken in account.

The tax cuts provide little or no benefit to the average working family and to Nova Scotians most in need of support while providing a huge windfall for the wealthy. The province already has among the highest levels of inequality in Canada.⁴

By providing a disproportionate return to wealthy citizens the tax cuts will exacerbate the situation and increase income inequality. When taken in the context of decreased public services due to the decreased revenue and increased user fees (discussed in the second paper in the series), the tax cuts will provide no benefit to middle and lower income Nova Scotians and indeed will leave many of them worse off.

The Tax Rebate: A Misleading Introduction to Income Tax Cuts

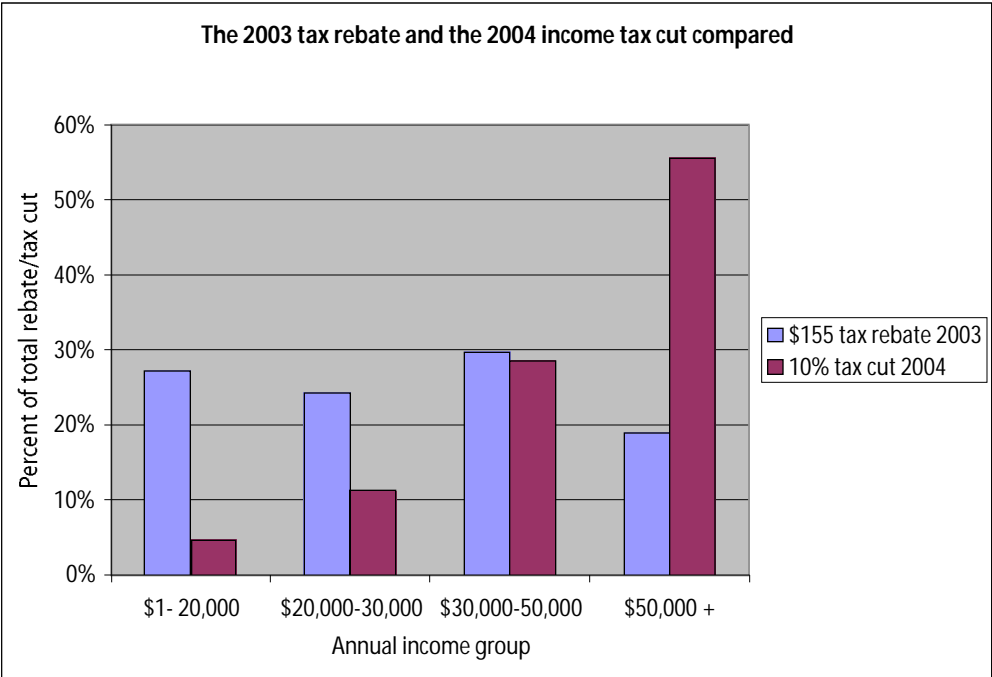
The \$155 rebate in 2003 and the 10% income tax cut in 2004 form the corner stone of the provincial government’s 2003-2004 budget. Much of the public response to the rebate has described the rebate as an “election bribe.” An equally disturbing aspect of the tax rebate is that it obscures the true nature of income tax cuts.

Leaving aside for a moment the impact on programs and services of reducing revenue, the tax rebate is a primarily neutral form of tax cut (although it obviously did not go to the more than 200,000 Nova Scotians whose income was so low that they paid no taxes). It provides all Nova Scotian taxpayers, regardless of income, the same amount of rebate. A taxpayer with income of \$10,000 and taxpayer with income of \$200,000 both receive \$155. From a socio-economic perspective the best that can be said about the rebate is that it is distributed in proportion to the number of taxpayers in each income group.

Many Nova Scotians will be disappointed if they expect similarly equal treatment in 2004. Low income Nova Scotians will in fact pay more income tax in 2004 than they did in 2003, while upper income Nova Scotians will pay much less. Nova Scotians with incomes of between \$10,000 and \$20,000 will in 2004 receive an average income tax cut of \$64 — less than half of the rebate they received in 2003. Twenty-five percent of Nova Scotian taxpayers, specifically those with income of less than \$20,000 (see Table 1), will receive less than the \$155 they received in 2003 or, put another way, they will pay more income tax in 2004 than they did in 2003.

On the other hand, upper income Nova Scotians will be very pleased with the increased tax cut they receive in 2004. For example, those with incomes of between \$100,000 and \$150,000 will receive an average tax cut of \$1,521 — almost 10 times the rebate they received in 2003.

Figure 2



The tax rebate is budgeted by the provincial government to cost \$68 million. Roughly half of Nova Scotians have a taxable income of less than \$30,000. The income group earning less than \$30,000 receive half of the tax rebate — \$34 million. This is in sharp contrast with the income tax cut for 2004. In 2004 the same income group, the 51% of tax payers with incomes below \$30,000, will receive less than 16% of the total tax cut (Figure 2 and Table 1).

The tax cuts are far from the best way to stimulate an economy but insofar as they do, the rebate stimulates the local economy in proportion to the number of tax payers residing there, regardless of the income of the taxpayer. The income tax cut for 2004 will disproportionately stimulate wealthier communities in Nova Scotia.⁵

The tax rebate is misleading in another sense. Had the tax rebate been processed in the same way that the 2004 income tax cut will be, the rebate would have had little impact on the pay cheques of most Nova Scotians. An annual income tax cut of \$155 would result in \$3.00 per

week in increased take home pay. For many Nova Scotians the 2004 income tax cut will come in the form of pocket change and will have little impact on their livelihoods.

Taxpayers have been told that the tax rebate cheque is for half a year, leading the recipient of the rebate cheque to assume that the tax cut will result in a larger tax cut benefit in 2004. The provincial government has

noted that the tax rebate totaling \$68 million covers the six month period of July to December of 2003. Many taxpayers will be surprised to find that rather than receiving a tax

Comparing the rebate with 2004 tax cut, low income Nova Scotians will pay more income tax in 2004 than they did in 2003, while upper income Nova Scotians will pay less.

break of \$310 for 2004 they will end up with less than the \$155 they received in 2003. More than 50% of taxpayers will receive less than the \$310 tax cut they are being led to believe they will receive for the full year's 10% tax cut. A taxpayer with income of between \$20,000 and \$30,000 will receive on average a income tax decrease of about \$160, while someone with an income of between \$30,000 to \$40,000 will on average pay about \$260 less in taxes for 2004.

Endnotes

- ¹ In this paper the 2003 tax rebate will be referred to as the rebate and the 2004 income tax cut will be referred to as the tax cut or income tax cut.
- ² The average weekly income is \$585 (wages and salaries), Nova Scotia Department of Finance (May 2003) Nova Scotia/Canada Economic Indicators, page 4. <http://www.gov.ns.ca/finance/publish/ei/ei0305.pdf>; accessed July 10, 2003.
- ³ Tax relief for Nova Scotians, Nova Scotia: Let's Keep Growing; 2003 — 2004 Budget Bulletin, Nova Scotia Dept. of Finance.
- ⁴ GPI Atlantic (2001) *Income Distribution in Nova Scotia*. GPI Atlantic: Halifax.
- ⁵ For more on the limits of income tax cuts as a means of economic stimulus see “Nova Scotia Alternative Provincial Budget 2003-2004” CCPA-NS, Halifax: CCPA-NS. For more on the distribution of the tax cut by region see the 2nd CCPA-NS paper in this series, Who Really Benefits from Nova Scotia's Income Tax Cut, “The Distribution of the Nova Scotia Income Tax Cut by Gender and Region” (forthcoming July 2003).