Who Really Benefits from Nova Scotia's Income Tax Cut?

Part 2

The Distribution of the Nova Scotia Tax Cut by Gender and County

By John Jacobs

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Introduction

After years of cuts to programs and services the Hamm government has decided to provide an income tax cut that will cost the province $147 million per year. They claim that the tax cuts will benefit working Nova Scotians and strengthen the provincial economy. 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. These 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, gender and by county. The papers show that the income tax cut will increase income, gender and regional inequality.

The first part of the study examines the distribution of the tax cut between income groups. This paper presents 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.

For more than a decade Nova Scotia has spent less than other provinces on programs and services. This has left the province's programs and infrastructure in a sorry state. The income tax cuts along with increases in user fees signal a continued deterioration of public services and a shift in who pays for public services in Nova Scotia.

Increasing the Inequality Between Women and Men: The Distribution of Tax Cuts by Gender

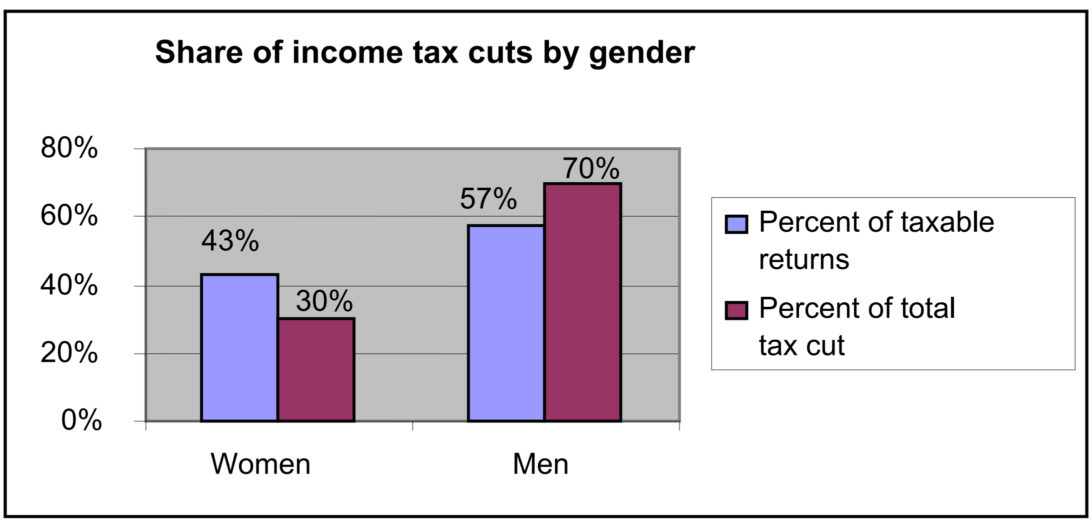
The economic inequality between women and men is well documented. For example, in Nova Scotia in 2000 the average income of female taxpayers was $29,855 whereas for men it was $41,565. Women disproportionately occupy minimum wage jobs and they disproportionately live in poverty. The tax cuts provide no support for struggles to close the income gap between women and men. The CCRA Income Statistics for 2000 show that the tax cuts will increase the inequality. Women make up 43% of taxpayers but they will receive only 30% of the tax cut. Men comprise 57% of taxpayers but they will receive 70% of the tax benefits (Table 1). On average men who pay taxes will receive $412 while women on average will receive $241 in decreased taxes. The government's tax cuts worsen what is already an unacceptable situation for women in Nova Scotia.

Table 1: Income tax cuts - gender shares

	Taxable returns (#)	Percent of total Returns	Percentage of total tax cut	Average tax cut ($)
Women	185,910	43%	30%	241
Men	248,130	57%	70%	412
Total	434,040	100%	100%	

Note: Figures are based on 2000 income tax data. Tax cut calculations are based on 10% tax cut.
Source: Calculations based on "Income Statistics," Canada Customs and Revenue Agency.

Figure 1



Source: Canada Customs and Revenue Agency, Income Statistics, 2000 and author's calculations

Inequitable Distribution Across Counties and Regions

The regions outside Halifax are most in need of economic stimulus. Halifax has benefited most from recent economic growth while other regions have lagged behind. The economy of industrial Cape Breton is still reeling from the effects of the closing of the mines and Sysco. The resource dependent regions have had to deal with the collapse of traditional industries such as the fisheries and cuts to government services and infrastructure in their communities. Rural areas of Nova Scotia have also had their economic development stifled by the lack of investment in transportation. The Hamm government claims the tax cuts will stimulate Nova Scotia's economy. How effective is the tax cut in strengthening the local economy in rural areas? It is not very effective. In fact, the tax cut increases the disparity between Halifax and the rest of the province. Provincial taxation data (Table 2) show the Halifax region will disproportionately benefit from any stimulating effect of the tax cut, not the regions most in need.

Table 2: Income tax cuts - regional shares by county

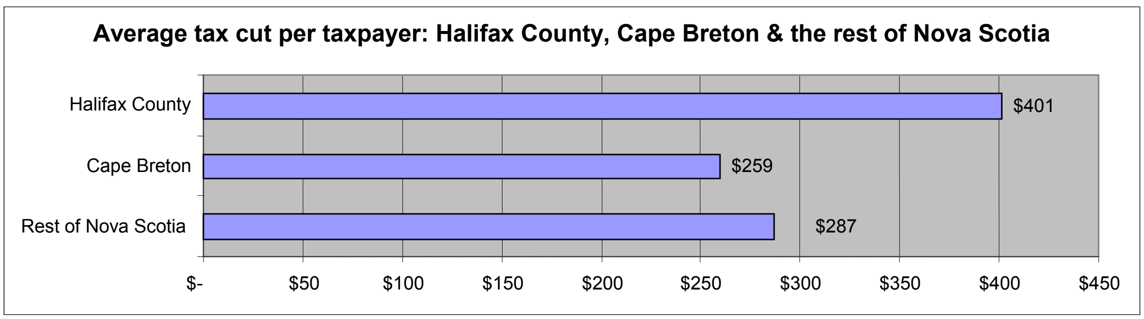
	Taxable Returns (#)	Total Provincial Tax Cut ($000)	Average Tax Cut ($)	Percent of N.S. Taxpayers	Percent of Total Tax Cut
Nova Scotia	444,230	$147,000	$331	100.0%	100.0%
Halifax	187,420	$ 75,159	$401	42.2%	51.1%
Cape Breton Counties					
Inverness	9,300	2,726	293	2.1%	1.9%
Richmond	4,320	1,100	255	1.0%	0.7%
Cape Breton	48,020	12,234	255	10.8%	8.3%
Victoria	3,770	913	242	0.8%	0.6%
Total Cape Breton Island	65,410	$16,973	$259	14.7%	11.5%
Rest of Nova Scotia					
Shelburne	7,910	2,207	279	1.8%	1.5%
Yarmouth	13,040	3,692	283	2.9%	2.5%
Digby	9,070	2,144	236	2.0%	1.5%
Queens	5,530	1,606	290	1.2%	1.1%
Annapolis	8,640	2,011	233	1.9%	1.4%
Lunenburg	21,740	7,115	327	4.9%	4.8%
Kings	28,910	8,416	291	6.5%	5.7%
Hants	21,820	6,156	282	4.9%	4.2%
Colchester	23,660	6,911	292	5.3%	4.7%
Cumberland	15,230	3,654	240	3.4%	2.5%
Pictou	22,580	7,127	316	5.1%	4.8%
Guysborough	4,330	994	230	1.0%	0.7%
Antigonish	8,940	2,836	317	2.0%	1.9%
Total Rest of Nova Scotia	**191,400**	**$ 54,868**	**$ 287**	**43.1%**	**37.3%**

Note: In Table 2, regional shares are based on 2000 income tax data and calculations of tax cuts are based on Nova Scotia Government's projection of costs of tax cut in 2003-2004 Provincial Budget.

Source: Author's calculations based on data from Canada Customs and Revenue Agency, Income Statistics, 2000 **.**

Taxpayers in Halifax County will on average receive a tax cut of $401, while taxpayers in Cape Breton will on average receive $259 and the rest of Nova Scotians receive $287 (Figure 2). Taxpayers in Guysborough will receive the lowest average tax cut of $230 in sharp contrast to their neighbouring county Halifax with the highest average tax cut. This is reflected in the distribution of the total tax cut between counties. Forty-two percent (42%) of Nova Scotia taxpayers live in Halifax County but these taxpayers will receive 51% of the total tax cut of $147 million. But the 14.7% percent of taxpayers who live in Cape Breton will receive less then their proportionate share, 11.5 %. The rest of Nova Scotians comprise 43% of taxpayers but receive only 37% of the total tax cut. Overall the 58% of Nova Scotia taxpayers who live outside Halifax County will only receive 49% of the total tax cut.

Figure 2



Source: Author's calculations based on Canada Customs and Revenue Agency, Income Statistics, 2000.

Income tax cuts have not been proven to provide the local economic stimulus that their advocates claim. Most of the income tax cuts go to upper income taxpayers who in turn tend to spend more of their extra income on luxury goods, traveling outside of the local community on holidays, saving funds through RRSPs and investing in the stock market. Relatively little is spent in the local economy. Economic research indicates that getting money into the hands of low-income citizens is the most effective stimulant. If a tax cut must be used, the only type of tax cut that puts more money into hands of lower income citizens is a cut in consumption taxes (i.e., HST). Low-income households tend to spend their extra funds in the domestic economy buying daily essentials.

If a stimulating effect results from the tax cut, it will disproportionately occur in the wealthiest county in Nova Scotia. Halifax will receive $75 million of the $147 total tax cut whereas $71 million will go to the rest of the province. If there is a stimulating effect it will contribute to greater economic inequality between regions.

We need to keep in mind that the tax cuts noted in this paper are averages. Many taxpayers will receive less or more than the average. The CCRA data do not, for example, give a breakdown of Halifax County according to communities within the county. Nor do the CCRA locality data give a breakdown of taxpayers by income group. The statistics provide us with limited insight into the distribution of income and taxation within counties but clearly show that some counties will benefit more than others.

What is of particular concern is the impact the tax cuts will have on our communities and the ability of government to provide quality public services. Rural areas are already hard hit by cuts to services and by out-migration. If the past decade is any indication, it will be rural Nova Scotians who disproportionately pay the price for the income tax cuts.

Who Pays the Price for Income Tax Cuts?

The data show how some groups and regions within Nova Scotia will benefit from the income tax cuts more than others. The other side of the equation provides us with some indication of who pays the price for the tax cuts.

Progressive taxation has been a key component in the development of public services and social programs. Higher income earners are taxed at a higher rate than lower income citizens. It is the basic value of fairness: taxes should reflect the ability to pay of each taxpayer. Progressive taxation is crucial to the distribution of well being in our society. It supports the provision of public services to individuals regardless of income and the provision of services to regions regardless of the prosperity of the local economy. Progressive taxation contributes to the public good, to the development of communities and to socially just public policies.

Shifting the cost of public services

The income tax cut is part of a move to more regressive taxation. It signals a shift in the financial obligation to support the public services and programs to low and middle-income families. Regressive taxes come in the form of user fees and consumption taxes, such as the HST. These taxes are not income sensitive – the same rate is charged for the product or service regardless of the consumer's income. A Nova Scotian earning $100,000 pays the same amount of HST on a product or for a driver's license as someone earning $20,000. Indirect user fees such as university tuition have also increased to stretch the budgets of low and middle-income households. So while the revenue raised through progressive taxation is decreasing, regressive taxes are increasing.

Progressive taxation reform

Nova Scotia needs tax reform. Rather than providing income tax cuts the province needs to focus on generating sufficient revenue to support programs and services and on raising this revenue fairly. First steps in tax reform should include decreasing the province's dependence on gaming revenue, lowering the consumption tax (HST) and decreasing user fees.

Efforts must also be made to ensure a fair tax system that taxes based on citizen's ability to pay. This could include reviewing the number of tax brackets where higher rates of taxation are applied and the income at which they apply. The elimination of "bracket creep" is also proposed as a means reforming taxation.[1] But eliminating bracket creep, the adjusting of tax brackets to compensate for inflation, would provide no benefit to those with the highest need, the 50% of taxpayers earning less than $30,000. They earn less than the $29,590 that triggers a higher provincial tax rate. It would provide some benefit to middle income taxpayers and would provide the most benefit to Nova Scotians earning more then $60,000.

Fewer public services

For more than a decade the provincial government has spent less than other provinces on a per capita basis.[2] The consequences of years of insufficient investment in programs are evident. Low-income households in Nova Scotia are among the poorest in Canada and income inequality is increasing. University tuition fees are the highest in Canada, thereby limiting the access of Nova Scotians to educational opportunities. Our schools suffer from underfunding, and infrastructure such as highways and public transport is in desperate need of investment. Years of insufficient investments in programs and services have resulted in an accumulated social debt. The province must bring its programs up to the standard of the other provinces if it is to be a desirable place to live, work and invest.

Part of the price of tax cuts is the government's decreased capacity to invest in programs and services. Rather than initiate a long overdue agenda of social and infrastructure investment, the Hamm government appears intent upon allowing services to deteriorate further. According to the finance minister "restraint will be the order of business in public spending again this year [2003-2004], and likely for years to come. Restraint is about living within your means."[3] **But the provincial government is deliberately reducing the means.** The Hamm government via the income tax cuts has chosen to reduce the province's means of investing in programs and services by more than $147 million over the next year and by more than $700 million over the next 5 years.

The immediate costs for the tax cuts will be borne by Nova Scotians most dependent on government services. Low-income households, youth and the ill pay the price for the tax cuts. In the long term we all pay the price as deteriorated public services and social programs undermine the social and economic development of the province.

Income tax cuts and inequality

Income tax cuts contribute to increased inequality. GPI Atlantic found that inequality between rich and poor in Nova Scotia grew sharply during the 1990s[4]. The richest 20% of Nova Scotians made 6.2 times more than the poorest 20% in 1990. By 1998, that had grown to 8.5 times. While this trend was repeated across the country, the rich-poor gap in Nova Scotia is the largest in the country, except for Alberta. However, Alberta's rich-poor gap has an entirely different cause than in Nova Scotia. Alberta's gap is due to the richness of its rich. Nova Scotia's is due to the poorness of its poor. At the same time as the poorest 60% were dropping in real market incomes, the richest 40% of Nova Scotians increased their real market incomes by about 10% (from 1990 to 1998).

As Part 1 of this study: "The Distribution of the Nova Scotia Tax Cut by Income" shows wealthy Nova Scotians would disproportionately benefit from the tax cut and this will exacerbate an already unacceptable situation in terms of income inequality.[5]

The tax cuts will also add to inequality in another form. Social programs contribute to equality when all citizens regardless of income have equal access to programs. Income assistance programs contribute to equality supporting low-income citizens at the bottom end of income distribution. When the programs are cut or under-funded social and economic inequality increases.

Undermining the province's ability to manage its finances

Of crucial concern is the fact that the provincial government forecasts that the income tax cuts will reduce revenue by $147 million in 2004.[6] For a province that has balanced only one budget in decades and is burdened by a disproportionately large debt, giving away $147 million is fiscally and socially irresponsible. Nova Scotia's fiscal challenges over the past decade are the result of generating insufficient revenue as a portion of the size of the provincial economy (portion of GDP) relative to other provinces.[7] This has resulted in provincial debt that, as a portion of GDP, is among the highest in Canada.

The province's forecast for tax cuts and balanced budgets is also premised on optimistic rates of economic growth. The Hamm government's fiscal plans face a number of challenges. A tax cut at this time puts the Province in a vulnerable situation in the midst of economic uncertainty that characterizes the late stages of the business cycle, the uncertainty in the US economy, the fallout from recent world events, and rise in the Canadian dollar. Prudent fiscal planning would anticipate a period of slower growth, but this is not shown in the most recent provincial budget.

Income tax cuts + balanced budget legislation = cuts in essential services

Nova Scotians are left to wonder how the provincial government plans to pay for the tax cuts if there is slower economic growth. A foreshadowing of this can already be seen in the Province's debt management plan, which acknowledges that "lower revenues would ultimately affect the government's ability to deliver programs and services to the public."[8] The plan states, "government must continue to deliver balanced budgets as required by the Provincial Finance Act."

How will the Hamm government meet its legislated need to adhere to balanced budgets when revenues decline? It is unlikely that the government will resort to increasing income tax to cover a potential deficit, given the ideology that informs its agenda and the fact that it is politically much easier to cut taxes than raise them. The most likely scenario is that they will resort to cutting the level of real expenditure (that is, not providing departments the funds to cover increased costs due to inflation) and by cutting programs and services. Another tack also used in the past by the Hamm government is to increase user fees.

Conclusion

The income tax cuts introduced in the 2003-2004 budget will provide minimal benefit for middle and low-income households while providing a substantial windfall for upper income Nova Scotians. The tax cuts will increase inequality between wealthy and low and middle income Nova Scotians, between men and women and between Halifax county and the rest of the province. The tax cuts exacerbate the province's fiscal problems and undermine the government's ability to make the much-needed investments in programs, services and infrastructure.

Nova Scotians are indeed in need of tax reform – reforms that ensure the provincial government sufficient revenue and ensure that revenue is raised through progressive taxation. Any tax reform should be proceeded by and be based on a thorough review of taxation. A failure to reform taxation will undermine the province's social and economic development.

Endnotes

[1] "Bracket Creep" describes the situation in which income tax brackets are not adjusted for inflation. For example if someone earning $29,590 (the threshold for the bottom bracket) received a wage increase that kept pace with inflation, they would pay a higher rate of tax on the amount of their raise (because it put them over the $29,590). Their tax rate would increase although in real terms (inflation adjusted) their salary had not increased. The adjustment for inflation of the tax brackets (so that the thresholds keep pace with inflation and bracket creep is eliminated) would ensure that the rate would stay the same if the salary increase simply kept pace with inflation.

[2] Nova Scotia Alternative Provincial Budget 2003-2004. CCPA-NS: Halifax. http://www.policyalternatives.ca/ns/index.html, accessed June 17, 2003.

[3] Neil LeBlanc, NS Finance Minister, March 4, 2003 http://www.gov.ns.ca/finance/speeches/antigonishspeech.asp accessed March 24, 2003.

[4] GPI Atlantic (2001) *Income Distribution in Nova Scotia*. GPI Atlantic: Halifax.

[5] "The Distribution of the Nova Scotia Tax Cut by Income" Part 1 of Who Really Benefits from Nova Scotia's Income Tax Cut. John Jacobs; Halifax; Canadian Centre for Policy Alternatives – Nova Scotia. July 2003.

[6] LeBlanc, Neil J. (2003) Nova Scotia Budget 2003-2004 Halifax: Nova Scotia Department of Finance, (p.10).

[7] Nova Scotia Alternative Provincial Budget 2003-2004, Halifax: CCPA. (page 6 and Appendix A).

[8] "A Balanced Approach to Surplus and Debt Management" Halifax: Nova Scotia Department of Finance: 2003. http://www.gov.ns.ca/finance/debtplan/ accessed July 10, 2003.