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The Impact of Proposed NDP-Green Tax Changes on British Columbian Families

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Main conclusions

- An NDP-Green government in British Columbia would result in a marked shift in tax policy in the province. The new government would impose several significant tax increases including a rise in personal income taxes, carbon taxes, and business taxes. These increases would add a further \$1.4 billion to the tax burden of British Columbians, assuming that the carbon tax increase was fully implemented.
- Under the proposed NDP-Green tax changes, the average family's tax bill would increase by \$594, including a \$482 increase in fuel and carbon taxes.
- BC families across the income spectrum can expect to pay more in taxes. Specifically, the increase in total taxes ranges from \$144 for an average family in the \$20,000 to \$50,000 income group to over \$1,000 for an average family in the \$150,000 to \$250,000 income group. The NDP-Green proposed Climate Action Rebate will likely protect those in the lower income group from some or all of the tax increase though details of the rebate are unknown as of this writing.
- Given the spending initiatives outlined in the NDP-Green Agreement and the billions of dollars of un-costed promises in the NDP election platform, an NDP-Green government would almost certainly institute tax increases beyond those listed above and/or run annual budget deficits (i.e., deferred taxation), neither of which are included in this analysis.

Introduction

The power-sharing agreement recently struck between British Columbia's NDP and Green parties will likely result in the toppling of the province's Liberal government within the next month. While an NDP-Green government would have a razor-thin majority of seats in the legislature (44 of 87),¹ it is proposing a marked shift in a number of policy areas, including tax policy. Some of the changes are outlined in their Confidence and Supply Agreement (henceforth called the NDP-Green Agreement) and some are common to both parties' election platforms.

This analysis empirically measures the impact of the proposed tax changes on the average British Columbian family. Using the Fraser Institute's Canadian Tax Simulator, which is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), this Alert measures the total amount of tax the average British Columbian family would pay in 2017 under the status quo and under the proposed changes. The Alert also estimates the impact of the proposed tax changes on BC families at different income levels.

Major tax changes proposed by BC's NDP and Green parties

The BC NDP-Greens are proposing numerous and substantial tax changes, including two that are explicitly stated in their Agreement and several that are common to both party platforms.

First, the NDP-Green Agreement includes a significant increase to BC's carbon tax and a commitment to eliminate Medical Service Plan (MSP) premiums.

Carbon taxes

On carbon taxes, the NDP-Green Agreement states that an NDP-Green government would implement an increase in the carbon tax by \$5 per tonne per year, beginning April 1, 2018 (BC NDP Caucus, *2017 Confidence and Supply Agreement*, p. 4, sec. 3.2a). While there is no stated limit on the carbon tax in the NDP-Green Agreement, the BC NDP did note in its election platform that it would increase the carbon tax in accordance with the federal government's carbon pricing mandate, which is to reach \$50 per tonne by 2022 (BC NDP, *Platform 2017*: 92). The NDP-Green Agreement also commits to expanding the base for the carbon tax by having the tax apply to "fugitive emissions and to slash-pile burning" (BC NDP Caucus, *2017 Confidence and Supply Agreement*, p. 4, sec. 3.2a).

There is no commitment in the NDP-Green Agreement to make the carbon tax increases revenue neutral. When the BC government (under the Liberals) first introduced the carbon tax in 2008, it made it a requirement by law that the carbon tax would be revenue neutral (BC Ministry of Finance, 2008).² While the Liberals only maintained revenue-neutrality to 2013/14 (after which the carbon tax was only partially revenue-neutral), the NDP-Greens are proposing to move even further away from revenue-neutrality.³ Specifically, the

NDP platform proposes using all new carbon tax revenue to increase spending through rebate cheques and "investing in climate change solutions."⁴

MSP premiums

With respect to MSP premiums, the NDP-Green Agreement also proposes to "eliminate regressive MSP premiums" (BC NDP Caucus, *2017 Confidence and Supply Agreement*, p. 8, sec. 3.4c). It is, however, quite clear that the intent of the NDP is to replace the lost revenue with increases in other taxes (Shaw and Lindsay, 2017, April 21). The BC Greens were even more explicit, noting that they will "roll MSP payments into the payroll tax and personal income tax" (Greens of British Columbia, *Platform 2017*: 20). It is also important to note that in the short term, it will be many businesses, rather than individuals, that will benefit from the elimination of MSP premiums since in many cases, businesses pay MSP premiums on behalf of their employees.

Other taxes

In addition to the tax changes proposed in the NDP-Green Agreement, several common tax changes appeared in both the NDP and Green election platforms, including increases in personal and business income taxes.

In its election platform, the NDP proposed to increase the personal income tax rate on British Columbians earning above \$150,000 (BC NDP, *Platform 2017*: 92). Likewise, in their platform, the BC Greens proposed to increase the *share* of taxation contributed by

Table 1: Estimated Revenue Impact of the Proposed NDP-Green Tax Increases

Tax change	Millions of \$
Increase in personal income tax rate from 14.7% to 16.8% for individuals earning more than \$150,000	310
Increase in the general business income tax rate to 12% from 11% and a decrease in the small business tax rate to 2.0% from 2.5%	255
Increase carbon tax from \$30 per tonne to \$50 per tonne	812
Net revenue increase	1,377

Notes: These estimates assume that the tax change is implemented for the full fiscal year and are fully implemented in 2017. For example, the full carbon tax increase to \$50 per tonne is treated as being implemented in 2017 despite the fact that it will be phased in over four years.

Source: Calculations by authors based on 2017 provincial budget and Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), version 22.3.

those earning over \$108,460 per year 3% by 2020/21 (Greens of British Columbia, *Platform 2017*: 73). This tax increase would occur in addition to other, future personal income tax increases resulting from the commitment by both parties to phase out MSP premiums noted above.

Both parties also proposed increasing the general business tax rate to 12% from 11% (BC NDP, *Platform 2017*: 92; Greens of British Columbia, *Platform 2017*: 73). The NDP platform did propose to keep a Liberal budget pledge to reduce the small business tax rate from 2.5% to 2.0% (BC NDP, *Platform 2017*: 80).

To summarize, an NDP-Green government would likely propose several significant tax increases

including raising income taxes, carbon taxes, and business taxes. These increases would generate an additional \$1.4 billion tax burden on British Columbians, assuming the carbon tax increase is fully implemented in 2017 (see table 1).

Note that this analysis only examines current tax increases and ignores deferred taxes (deficits). Since budget deficits must one day be paid for by taxes, deficits should therefore be considered as deferred taxation. Given the spending initiatives outlined in the NDP-Green Agreement and the billions of dollars of un-costed promises in the NDP election platform, an NDP-Green government would almost certainly institute tax increases beyond those listed above, and/or run annual budget deficits.⁵

Impact of the proposed tax changes on the average British Columbian family

We have used the Fraser Institute's Canadian Tax Simulator (explained further in the Methodology section) to estimate the income and total tax bill of the average family in British Columbia for 2017 under two scenarios: status-quo provincial taxes, and the proposed NDP-Green tax changes delineated in the previous section.

Table 2 presents the income and total tax bill of the average family in British Columbia for 2017 under the two scenarios. In 2017, the average British Columbian family (composed of two or more individuals) is forecasted to earn \$110,376 in income. Under the status-quo provincial tax system, the average family would pay \$46,473 in total federal, provincial, and municipal taxes, which includes income taxes, GST/PST, fuel and carbon taxes, payroll and health taxes, property taxes, liquor, tobacco, amusement and other a host of others. Of the \$46,473 the average family would pay in taxes under the status quo, \$14,378 is for personal income taxes (federal and provincial combined), \$4,558 for profit taxes, and \$1,626 for fuel and carbon taxes. The total tax rate the average British Columbian family would face in 2017 under the status-quo system would be 42.1%.

Under the proposed NDP-Green tax changes, the average family's tax bill would increase by \$594, led mainly by a \$482 increase in fuel and carbon taxes. It is important to note that the proposed personal

Table 2: Impact of proposed NDP-Green tax changes for the average British Columbian Family, 2017

	Status Quo	With Tax Changes	Net increase/decrease in taxes
Income (2)	110,376	110,376	
Total Tax Bill (3)	46,473	47,068	594
Income Tax	14,378	14,378	—
Profit Taxes	4,558	4,667	109
Fuel and Carbon Taxes	1,626	2,109	482
Average Tax Rate	42.1%	42.6%	

Notes:

(1) The calculations in are based on families with two or more individuals.

(2) The income measure used is “Cash Income” which includes wages and salaries, self-employment income (farm and non-farm), interest, dividends, private and government pension payments, old age pension payments, and other transfers from governments (such as the universal child care benefit).

(3) Includes GST/PST; payroll and health taxes; property taxes; liquor, tobacco, amusement and other excise taxes; import duties; and natural resources levies.

(4) These estimates assume that the tax changes are fully implemented in 2017. For example, the full carbon tax increase to \$50 per tonne is treated as being implemented in 2017.

(5) These estimates do not include the yet-to-be-defined carbon tax “rebates.” While the NDP-Green Agreement proposes to offer Climate Action Rebates for families and the NDP platform specifically highlights low and middle income families, no details are provided. In addition, carbon tax rebates and/or credits are effectively government spending delivered through the tax system, not tax relief favoured by most economists to make carbon taxes revenue neutral.

Source: The Fraser Institute’s Canadian Tax Simulator, 2017.

income tax changes would not actually affect an average family since the tax changes would only apply to individual income in excess of \$150,000.

While the NDP-Green Agreement proposes a Climate Action Rebate for families, and the NDP platform specifically highlights low and middle income families, neither provides many details.⁶ British Columbia currently provides a Low Income Climate Action Tax Credit which is combined with the GST credit into one quarterly payment.⁷

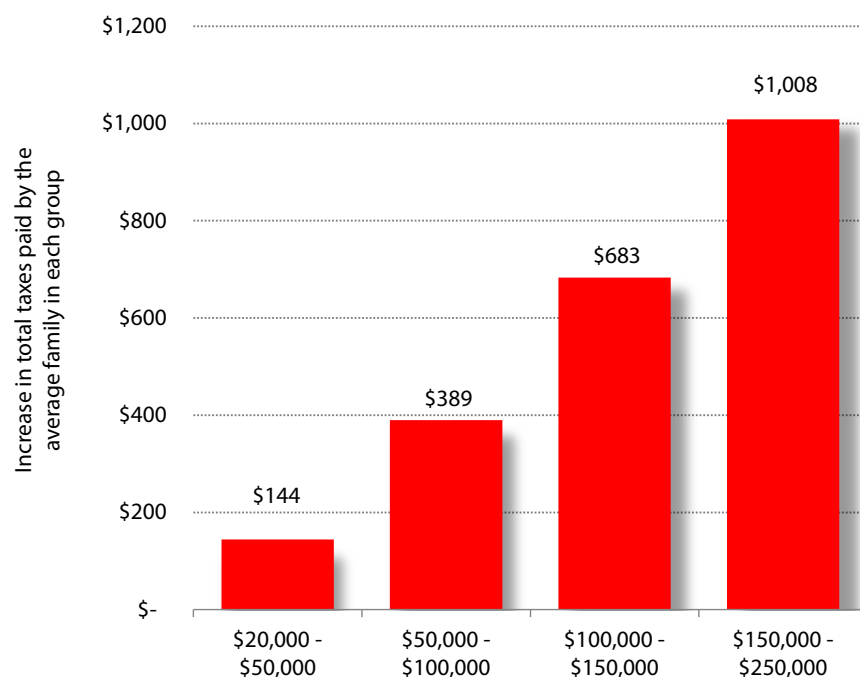
While the amount that British Columbians receive depends on household size and income, the maximum payment is \$115.50 per adult and \$34.50 per child for families with incomes below \$38,880 and is fully phased out for families with incomes above \$53,880 (British Columbia (n.d.)). Even if, for example, the NDP-Greens increased this credit by 67% (the percent increase in carbon tax revenues collected once the increase is fully implemented), it would have no impact on the average BC family because that family is not eligible for the

credit; it would be left paying for the full carbon tax increase itself.

Impact of the proposed tax changes by family income

How will the proposed NDP-Green tax changes affect families at different income levels? Figure 1 displays the change in the total tax bill that the average British Columbia family in each income group will face as a result of the NDP-Green tax changes.

Figure 1: Increase in taxes paid by income group as a result of the proposed NDP-Green tax changes, 2017



Source: The Fraser Institute's Canadian Tax Simulator, 2017.

In 2017, families in each income group can expect to pay more in taxes. Specifically, the average total tax bill that families with incomes between \$20,000 and \$50,000 will pay increases by \$144 under the proposed NDP-Green tax changes. At the other end of the spectrum, the average total tax that families in the \$150,000 to \$250,000 group will pay increases by over \$1,000. The NDP-Green proposed Climate Action Rebate will likely protect those in the lower income group from some or all of the tax increase though details of the rebate are unknown as of this writing.

Conclusion

An NDP-Green government would likely propose several significant tax increases on British Columbians including an increase in income

taxes, carbon taxes, and business taxes. These increases would burden British Columbians with a \$1.4 billion tax increase, assuming the carbon tax increase is fully implemented in 2017.

Under the proposed NDP-Green tax changes, the average family's tax bill would increase by \$594, led mainly by a \$482 increase in fuel and carbon taxes. The increase in taxes that would be paid ranges from \$144 for an average family in the \$20,000 to \$50,000 income group to over \$1,000 for an average family in the \$150,000 to \$250,000 group.

Methodology

The figures contained in this Alert were calculated using the Fraser Institute's Canadian Tax Simulator (CANTASIM), which is based on

Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), a statistically representative database of individuals in their family contexts, with enough information on each individual to compute taxes paid to and cash transfers received from government. We use the SPSD/M to calculate a distribution series for each specific type of tax and income. For example, we calculate the amounts of provincial personal income tax paid by each family as a share of the total provincial personal income tax collected. We then use the distribution series to distribute 2017 tax revenue figures forecasted in the provincial and federal budgets to the individual families. The assumptions and calculations underlying the SPSD/M simulation results were prepared by the authors and the responsibility for the use and interpretation of these data is entirely that of the authors.

Endnotes

1. If the Speaker of the Legislature comes from the NDP-Green ranks, the seat distribution would be 43-43 and it would then be up to the Speaker to cast tie-breaking votes.
2. For a detailed discussion see Lammam and Jackson (2016).
3. See Lammam and Jackson (2016) for an analysis of the revenue neutrality of the BC Carbon Tax.
4. The NDP-Green Agreement notes that rebate cheques will "ensure a majority of British Columbians are better off financially than under the current carbon tax formula." However, the Agreement provides no details. As we note below, even a doubling of the existing carbon tax credit would have no impact on the average BC family.

5. For example, the Agreement proposes a host of new programs and increased spending including a new Innovation Commission to support businesses, a basic income pilot program, an Emerging Economy Task Force, new hospitals, schools, and other infrastructure, increased spending on health care and education, a new drug program, and a new mental health and addiction strategy, among others.
6. “We will create a new climate action rebate cheque for low and middle-income families” (BC NDP, *Platform 2017*: 18).
7. The eligibility for this credit is determined by household income (couples, single parents, or individuals).

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