

ALBERTA FACTS

NUMBER 4

Poverty in our Province - *Taxing The Poor*

Published by the Edmonton Social Planning Council

Tax System Not Fair

In theory the tax system in Canada is progressive, that is, the higher your income, the more tax you can and should pay.

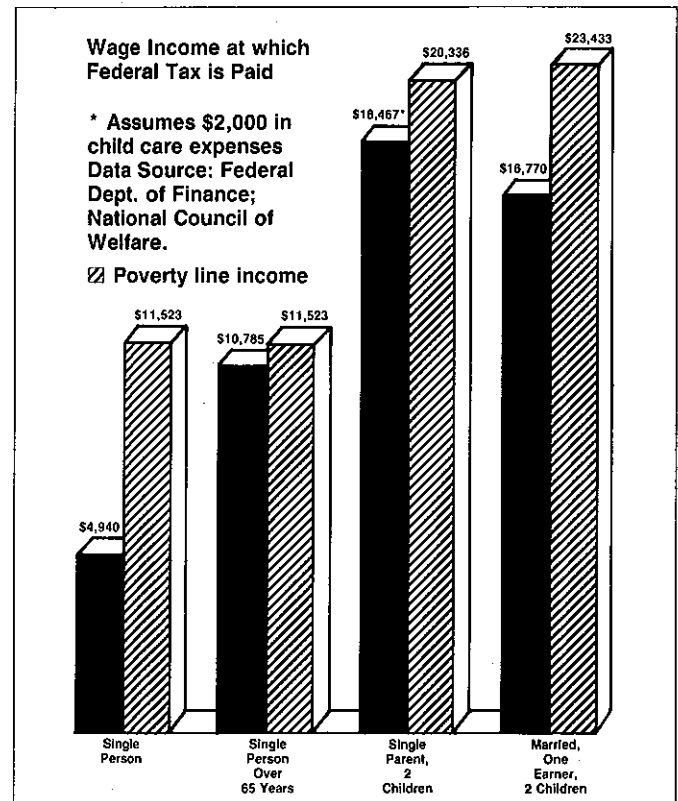
Overall, our entire tax system is not as progressive as we think. Over the years the personal income tax system has become less progressive. A large number of exemptions and deductions have granted tax savings which benefit high income earners. Federal excise and sales taxes (hidden taxes) and municipal property taxes have increased. These taxes are paid by all of us, regardless of our income.

The Poor Pay Their Way

The present income tax system imposes a burden on those least able to pay.

More than 154,000 working Albertans (60% of the poor in this province) are poor because they earn low wages. Many of these people pay income tax even though their incomes are well below the poverty line.

Under the current tax system a single person with an income of \$4,940 will pay income tax in 1988. This despite the fact that such an income would be \$6,583 below the poverty line. A one earner couple with two children would pay income tax on an income of \$16,770 even though that income is \$663 below the poverty line.



The Rich Pay Less

Tax deductions and exemptions reduce the amount of income that is subject to tax. Many low-income and middle-income taxpayers do benefit from personal exemptions and dependent children exemptions. The largest tax

savings go to those with higher income however, even if they claim the same dollar amount for a deduction. Under the existing tax system, the higher the income, the higher the benefit a taxpayer can obtain. For example, a \$1,000 exemption would save a taxpayer in the lowest tax bracket about \$60 in federal taxes. The same \$1,000 exemption would save a taxpayer in the highest tax bracket about \$340 in federal taxes.

The last federal budget bestowed generous tax breaks which further benefit those who have more money than they require for living expenses. The tax deduction limits for contributions to private pension plans and RRSP's have been increased to \$15,500. According to the Canadian Council on Social Development, a taxpayer's annual income would have to be about \$90,000 to take advantage of this maximum limit. A \$100,000 lifetime capital gains (money made from investments) exemption also benefits the wealthy.

Taxes Go Up

Most of us have probably noticed that income taxes seem to be increasing faster than the wages we take home. Both the federal and Alberta governments have imposed various income tax increases in recent years.

Why Your Taxes Are Going Up

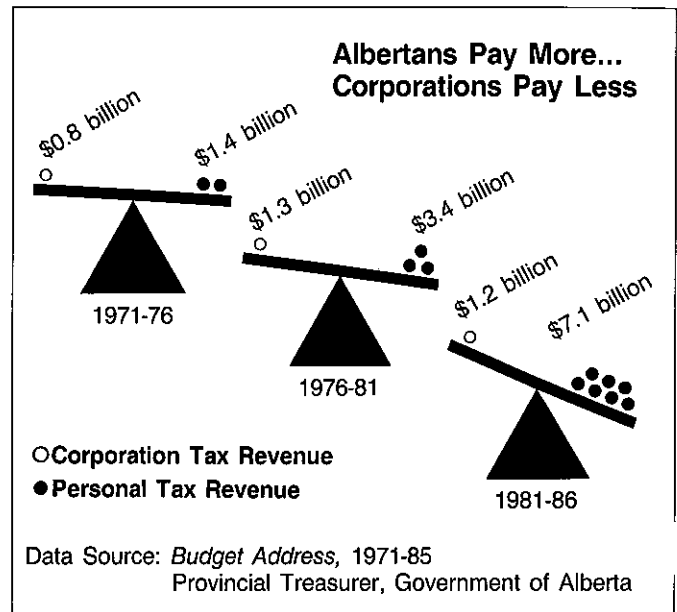
Federal Government

- Elimination of the federal tax reductions in 1983 and 1985
- Partial indexation in 1985
- Surtaxes in 1985 and 1986
- Changes to child benefits in 1985

Alberta Government

- Increase of the basic tax rate in 1987
- "Temporary" flat tax in 1987
- Elimination of renter assistance tax credit

A serious concern not addressed in the Wilson tax proposals is the removal of the full indexation of personal income tax to protect taxpayers from inflation. This was taken away in the May 1985 budget. Unless full indexation is restored, inflation will soon erode any initial gains from the proposed tax reforms. The income at which taxes are paid will become lower and lower.



The Corporate Welfare System

It is literally true that bank tellers often pay more in taxes than the banks which employ them. According to Government of Canada statistics, only one of the six largest banks paid any tax at all in 1986.

Previously unpublished data provided by Statistics Canada to the federal New Democratic Party Task Force on Tax Reform shows that in 1983, 1062 companies, each with more than \$1 million in profits, paid no income tax. This includes 64 companies with profits of more than \$25 million.

Why does this situation exist? The justification for corporate tax breaks is the claim that they create jobs. Not only do these tax breaks cost us millions of dollars in lost revenues, they also fail to accomplish their objectives. The Alberta Stock Savings Plan announced in Alberta in May 1986 is a case in point. The Plan was designed to give tax-breaks to investors who invested in companies that provided new employment. A study carried out by the *Edmonton Journal* shows that \$108.4 million of investment has resulted in 191 jobs. This works out to a cost of about \$141,000 per job for the \$27 million in foregone tax revenue.

Hidden Taxes and Fees

Most people are aware of the fact that they pay income and property tax. Few people are aware of the hidden taxes they pay. These taxes are normally applied when a product is manufactured. Because they are built into the price of goods and services, the final consumer does not see them as a tax. One-third of all goods and services in Canada are covered by the Federal sales and excise taxes and duties.

The last three federal budgets have increased the number of goods and services that are taxed and increased the rate at which they are taxed. These taxes hit the poor the hardest. Although it is true that the rich buy more goods and services and hence pay more sales and excise taxes in dollar terms, the poor pay a larger proportion of their income towards these taxes.

While the federal Minister of Finance brought in a refundable sales tax credit to shield poor Canadians from the most recent tax increases, the credit does not fully offset the tax hikes in the last three budgets. Even with the sales tax credit, a family with earnings of \$10,000 would still pay \$203 more in sales taxes. A family with a \$15,000 income would still pay \$274 in sales taxes.

Passing the Burden

The Alberta government announced increases in its hidden taxes and fees in the March 1987 budget that will raise an additional \$489 million this year. Announced increases included: \$96 annual in health care premiums for families, a 5 cents per litre tax on gasoline, (over \$100 per year), and \$10 per year for motor vehicle registration. These tax measures are regressive, since each Albertan, regardless of income earned, pays the same hidden taxes and fees.

The Alberta budget also announced a 3% cutback in the basic operating grants to educational institutions, active treatment hospitals and municipalities. This kind of cutback usually gets passed onto taxpayers in the form of increased fees and increases in municipal tax rates.

If these revenue sources cannot make up the amount of the cutback, the only alternative is to reduce services. In the end, we all end up paying more for less. Province of Alberta funded hospitals, for example, have responded to the latest cutbacks by laying off hospital staff and temporarily closing down some wards. Universities and colleges have raised tuition fees, and in some cases moved to limit enrollments. Cities and towns have raised property taxes and cut back some services.



"YOU DON'T BELIEVE IN PAYING TAXES!?" WHO DO YOU THINK YOU ARE — A BANKER?"

Tax Reform Proposals

In June 1987 Finance Minister Wilson announced proposed tax reforms. The National Council of Welfare, in a detailed analysis of the tax white paper notes that the proposed reforms will not make the tax system fairer. Although the proposed reforms will reduce income taxes for the majority of Canadian

taxpayers, the rich get most of the breaks. Low and middle income earners get only modest gains. Many Canadians living below the poverty line will still have to pay income tax. The report warns that we may end up with a tax system that is worse than the one we have now if the tax reform proposals are implemented.

Questions for Discussion

1. At what income should people begin paying income tax? Is a poverty line income a fair starting point?
2. What goals should the income tax system be used for (e.g., redistribution of wealth, job creation, investment)?
3. What needs to be reformed in the tax system?
4. What types of things should be taxed?

Recommended Reading

National Council of Welfare. Taxfacts, June 1987.

National Council of Welfare. Testing Tax Reform: A Brief to the Standing Committee on Finance and Economic Affairs, September 1987.

This is one of a series of factsheets on social issues produced by the Edmonton Social Planning Council. They are available for bulk distribution at \$15.00 per 100 plus a small mailing and handling charge. The contents may not be commercially reproduced; reproduction for other uses is encouraged.

This factsheet was sponsored in part by grants from P.L.U.R.A., an inter-church association to promote social justice in Canada, and Church in Society (Edmonton Presbytery) United Church of Canada. We would also like to thank the Social Justice Commission (R.C. Archdiocese of Edmonton), Citizens for Public Justice and C. and S. (Edmonton Presbytery) United Church of Canada for their editorial assistance. Special thanks to the National Council of Welfare for much of the background information.

For more information on Alberta Facts and other publications produced by the Council, please contact:

Edmonton Social Planning Council
#418, 10010-105 Street
Edmonton, Alberta
T5J 1C4
(403) 423-2031