

The issue: Tax cuts and quality public services

Why do we pay taxes? We pay taxes to support the public infrastructure, programs and services that support the common values that define us as a society.

Our tax system is the way we pool our money to collectively provide services to individuals and to our communities. Some services we use everyday (water, roads, mail delivery, etc.) while others work for us everyday (border security, research, food inspection, fire services, environmental protection, the Court system, etc.). Some programs and services ensure that we are taken care of when we face sickness, poverty, unemployment or old age. We can all afford all these services because we pay for them collectively. Our “safety net” is part of our collective wealth that is financed by our taxes.

And there is more. We may all be equal but everyone living in Canada doesn't have equal opportunities. Our tax dollars finance programs and services that aim at leveling disadvantage, such as ensuring accessible public transportation, providing old age income supplements and programs directed at improving conditions for First Nations peoples and women and combatting racism. Our tax dollars also finance the arts and sports, preserve our natural and cultural heritage and provide recreational facilities.

Why is this an issue?

Reducing government revenues reduces our governments' capacity to deliver quality public services.

- ***How does Government spend our tax dollars?***

For the fiscal year 2005-06, your tax dollar was divided up as follows:

Transfer payments: 53 cents.

That 53 cents was broken down into:

- 34 cents that went directly to individuals (old age security payments, employment insurance, Child Tax Credit, etc), and
- 19 cents that went to provinces and territories for health care, post-secondary education, social assistance and other social services.

Operating costs (salaries, benefits, equipment, travel, etc): 25 cents

Interest on the debt: 16 cents

Surplus: 6 cents

Most of government revenues are spent for the administration, design and delivery of quality public services. Reducing government's revenues would have a direct impact on the quality public services we have chosen to support our communities and people who live there.

- ***How does Government raise revenues?***

In the fiscal year 2005-2006, government revenues were as follows with the largest portion coming from individuals through income and consumer taxes:

Personal income tax: 46%

GST: 15%

Employment Insurance Premiums (total employer and employee): 7.4%

Corporations: 14%

Other (such as alcohol, tobacco and customs taxes): 18%

- ***Lowering taxes is not necessarily a solution***

Many of us are working harder and longer hours and still live from pay cheque to pay cheque. Some political parties promise tax cuts to help us. Canadians should be wary of these promises. Tax cuts may cost us more than we save!

Canadians already pay the price of previous tax cuts with the erosion of our public services, programs and infrastructure. As a consequence, we've started paying "hidden taxes" such as higher tuition fees and fees for school supplies, health care user fees, higher public transit fares and fees for library and public recreational facilities. We may have saved a bit on our taxes but instead of having more money in our pockets we end up having to pay out more to cover these "hidden taxes". We also end up bearing the social cost associated with the fact that many of us cannot afford to pay these "hidden taxes".

Tax cuts do not benefit working families. Not only do they reduce government's revenues, thus limiting its ability to spend on quality public services, tax cuts also benefit some more than others. Previous tax cuts have contributed to the growing gap between the rich and the rest of us.

After tax increases in income: 1995-2004

20% of Canadians with lowest income: **\$400**

20% of Canadians with highest income: **\$20,000**

Tax cuts are major contributor to growing inequality. The richest are getting richer. Their percentage of income paid in income tax fell from 25% in 1995 to 22% in 2004!

- ***How do Canadian taxes stack up against those in other countries?***

Those claiming we are paying a higher tax rate than citizens in other countries usually compare us with the U.S. but fail to mention the severe social costs Americans bear for living in one of the lowest-taxed countries.

A recent study by two Canadian tax-law professors shows that the U.S falls near the bottom of 21 industrialized countries when it comes to a large number of social indicators (wage gap, percentage of people living below the poverty line, gender

equality, life expectancy, educational standards, environmental protection, drug use, violence, etc) compared to the Nordic countries who rank at the top of the scale and where tax levels are substantially higher.

The authors of the study concluded that the tax cut lobby has it backwards; not only do government social programs create a healthier society, they also create the conditions for a vibrant and competitive economy.

- ***The erosion of our “progressive” tax system***

Our taxation system is called “progressive”. The principle of a “progressive taxation system” is that people contribute to the collective pot according to their ability to pay. Over time, our system has become less and less progressive.

Tax loopholes benefit a small minority of high-income people, not the vast majority. It means that, on a percentage basis, those with high incomes are now paying less of their income in taxes while many others are paying more. Low-income people shouldn't have to pay income tax at all since they are already paying a higher proportion of their income on sales taxes on goods and services.

- ***Are Corporations paying their fair share?***

Corporations are heavy users of public services. They should pay their fair share. Corporations invest in Canada for the good reasons that they have access to a work force educated in public schools, government-funded Medicare, roads and highways, water, sewer, protection by police and fire departments, and other services, all of which are public services paid by tax dollars.

Corporations are now raking in more money than ever but their profits are not turned into investments that would be turned into jobs. Neither are they distributed among workers. Instead, profits are being invested outside of the country in record amounts or paid out to shareholders. That didn't stop government from reducing corporate tax by another 25% between 2001 and 2005 – a loss of \$10 billion per year in government revenues.

Corporations have to invest here to create jobs or financially support our public services through fair corporate tax. Low corporate tax rate means we lose both ways – we all get hurt by the loss of revenues to finance the public services, programs and infrastructure we need, and we make our country less attractive to corporate investors.

- ***If not tax cuts, then what?***

Revising our tax system is the solution that will maintain quality public services and really help Canadian families.

There are ways to make our tax system fairer:

- The addition of more tax brackets: Today, there are only four federal tax brackets. There were ten before the mid-1980s. Bringing back some higher income brackets would make affluent Canadians pay a higher percentage as their income rises.
- The closure of some of the loopholes and tax breaks that let the more affluent pay very little.
- An increase of taxes on capital gains: If you are an investor, not only does part of your income get a special name - capital gain - you only have to pay taxes on half of it! There is no 50% tax break if you earn a salary!
- An increase in the contribution from corporations.

What will the candidates and parties do about this issue?

Ask your MP and candidates for office:

Is your party in support of publicly-funded and publicly-delivered quality public services that are universally accessible?

What is your party's plan to make our taxation system fairer in order to reduce the growing gap between the rich and the rest of us and to ensure we collectively have enough money to maintain our public services?

What is your party's plan to ensure that corporations invest in Canada to create jobs and contribute their fair share to financially support our quality public services?