

Impact of Provincial Tax Changes on British Columbian Families

by Milagros Palacios, Charles Lammam, Brennan Sorge, and Niels Veldhuis



SUMMARY

■ Since assuming power in July 2017, British Columbia's NDP government has enacted or announced several significant tax increases. These include increases in personal income taxes, carbon taxes, and business taxes. In addition, a new payroll health tax has been created in place of the remaining MSP premiums and a variety of residential property taxes have been instituted or raised.

■ Collectively, these tax increases are expected to add a further \$2.45 billion to the tax burden of British Columbians.

■ Once the tax changes are fully implemented, the average family's tax bill will increase by a total of \$959, not including tax increases on residential properties.

■ British Columbia families across the income spectrum can expect to pay more in taxes. Specifically, the increase in total taxes ranges from \$199 for an average family in the \$20,000 to \$50,000 income group (after accounting for the enhancement to BC's climate action tax credit) to \$1,754 for an average family in the \$150,000 to \$250,000 income group. This analysis excludes property tax increases.

Impact of Provincial Tax Changes on BC Families

Introduction

In June 2017, Veldhuis and Palacios (2017) analyzed the impact of proposed tax changes by the British Columbia NDP and Green parties. That analysis was based on policy announcements contained in the power-sharing agreement between the two parties before the NDP officially formed government in July 2017 (see BC NDP Caucus, 2017). Since then, the NDP released a fiscal update in September 2017 (which was effectively a mini-budget) and its first complete budget in February 2018. This bulletin updates Veldhuis and Palacios's analysis to reflect tax changes that have been enacted or announced after one year of an NDP government.

Specifically, the study measures the impact of the tax changes put forth by the NDP 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), it measures the total amount of tax the average British Columbian family would have paid in 2018 if none of the NDP's tax policies had been implemented and compares it to a situation where all of the NDP's proposed tax changes are fully implemented. The bulletin also estimates the impact of the proposed tax changes on BC families at different income levels.

Major tax changes proposed by BC's NDP government

Since coming to power, the BC NDP has enacted or proposed numerous tax changes, which are delineated in turn below. Table 1 summarizes the major tax changes since February 2017. The table also indicates whether the previous Liberal government or the current NDP government are responsible for each change.

Personal and corporate income taxes

With the 2017 September budget update, and after just a few months in office, the NDP government announced tax rate increases on personal and corporate income for the 2018 tax year. On personal income taxes, the NDP implemented a higher tax rate of 16.8 percent on British Columbians earning more than \$150,000, as compared to a rate of 14.7 percent under the previous government. The NDP also increased the general corporate income tax rate from 11 percent to 12 percent, but maintained a Liberal budget pledge to reduce the small business tax rate from 2.5 percent to 2.0 percent.

Carbon taxes

The 2017 September budget update also announced that the carbon tax will increase by \$5 per tonne per year. The first increase occurred on April 1, 2018, making the current carbon tax rate \$35 per tonne. Further increases will take place each year until 2021, at which point the carbon tax will reach \$50 per tonne—a 67 percent increase over the \$30 per tonne rate in place before the NDP took power.

Crucially, the NDP abandoned a commitment to making the carbon tax 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 tax would be revenue neutral (BC Ministry of Finance, 2008).¹ While the Liberals only maintained revenue neutrality to 2013–14 (after which the carbon tax was only partially revenue neutral²), the current policy of the NDP government is to abandon the commitment to revenue neutrality. Part of

¹ See Lammam and Jackson (2017) for an analysis of the revenue neutrality of the BC carbon tax.

² For a detailed discussion, see Lammam and Jackson (2017).

Impact of Provincial Tax Changes on BC Families

Table 1: Summary of Major Tax Measures Introduced Since February 2017

	Effective date	Liberal	NDP
Increase to the personal income tax rate applicable to individuals earning more than \$150,000 from 14.7% to 16.8%	2018 tax year		X
Increase to the general corporate income tax rate from 11% to 12%	2018 tax year		X
Decrease to the small business tax rate from 2.5% to 2.0%	April 1, 2017	X	
Increase to the carbon tax rate to \$50 per tonne from \$30 per tonne	April 1, 2022		X
New Employer Health Tax	January 1, 2019		X
Reduction of Medical Services Plan (MSP) premiums by 50%	January 1, 2018	X	
Elimination of Medical Service Plan (MSP) premiums	January 1, 2020		X
Increase to property transfer tax rate to 5% from 3% on the value of residential properties above \$3 million	February 21, 2018		X
Increase to additional property transfer tax rate (foreign buyers tax) from 15% to 20% and expanded to more areas of the province	February 21, 2018		X
Increase to school tax on residential property in excess of \$3 million	2019 tax year		X
New "speculation tax" on residential properties	2018 tax year		X
Increase to luxury auto surtax rates on passenger vehicles over \$125,000	April 1, 2018		X

Source: British Columbia, Ministry of Finance (2017 and 2018).

the revenue from the increased carbon tax will be used for new environmental spending initiatives and an augmented rebate cheque for low-income BC families.

Specifically, the NDP government increased the size of the payment of the Low Income Climate Action Tax Credit, which is combined with the GST credit. This credit was modestly increased in the 2017 September fiscal update by the NDP. The details are as follows:

- Rates were increased from \$115.50 to \$135 for individuals, and from \$34.50 to \$40 for children.
- The net income threshold for the benefit has also increased to \$33,993 (from \$33,326)

for individuals and \$39,658 (from \$38,880) for parents.

- The credit is reduced by 2 percent of additional net income after the threshold is passed.
- The rate changes took effect as of April 1, 2018.

Put differently, the amount that lower income British Columbians receive depends on their household size and income. The maximum payment is \$135 per adult and \$40 per child for families with incomes below \$39,658. Notably, however, the average BC family is not eligible for the credit because their incomes are well over the threshold. Future increases to the

Impact of Provincial Tax Changes on BC Families

credit have been promised in the 2018 budget, although the size of these increases has not been stated.

Payroll taxes

In its 2018 budget, the NDP government committed to eliminating Medical Services Plan (MSP) premiums by 2020. The previous Liberal government had already proposed that it would cut MSP premiums in half, a policy that was adopted by the NDP. The NDP will, however, replace the revenue lost from the remaining MSP premiums with a new Employer Health Tax (EHT) starting in 2019 (the net effect once fully implemented is an increase in taxes since the new EHT will generate more revenue than the remaining MSP premiums). The new EHT will be levied on employers with payrolls over \$500,000 with a maximum 1.95 percent tax rate on total payrolls over \$1.5 million.³ While the new EHT will be levied on employers, it will ultimately be paid by workers, primarily in the form of lower wages.⁴ Notably, for 2019 both the MSP premiums and the new EHT will be in force at the same time, creating a double taxation effect.

Property and vehicle taxes

Another aspect of the tax changes that the NDP announced is a series of new tax increases on residential properties, as well as an increased tax on luxury vehicles. Specifically, these include:

³ For details on the new EHT, see <https://www2.gov.bc.ca/assets/gov/taxes/employer-health-tax/notice-2018-001-employer-health-tax.pdf>.

⁴ For economic evidence on the incidence of employer-based payroll taxes, see Ebrahimi and Vaillancourt (2016), Deslaurier et al. (2018), and Gunderson (2008).

■ An expansion of the property transfer tax to 5 percent from its previous rate of 3 percent on the value of any property worth \$3 million and over (effective February 21, 2018).

■ Expansion of the so-called “foreign buyers tax” (effective February 21, 2018), which now applies a 20 percent property transfer tax to a broader range of jurisdictions across BC, rather than the 15 percent rate prior to the increase on properties in a fewer number of areas.

■ A new “speculation tax,” of \$5 per \$1,000 of the value of the property in 2018 (rising to \$20 per \$1,000 in 2019). This tax is intended to target property owners who do not pay income tax in BC, and owners who leave their properties vacant.⁵

■ An increase in the “school tax” will come into effect with the start of the 2019 tax year, affecting properties worth more than \$3 million. The new tax will charge a rate of 0.2 percent for properties worth between \$3 and \$4 million, with a higher rate of 0.4 percent for any portion of a property valued above \$4 million.

■ An increase in the tax rate on luxury vehicles. Vehicles worth more than \$125,000 will be taxed at a rate of 15 percent (up from the previous 10 percent rate) and vehicles worth more than \$150,000 will be taxed at 20 percent up from 15 percent.⁶

There is a debate as to what extent the residential property tax changes will affect the average BC family. For instance, one may argue that some families with average incomes are

⁵ Budget 2018 introduced an income tax credit to offset part of the costs of the speculation tax for property owners who pay income tax in BC.

⁶ Notably, the higher tax rates will also now apply to the private sale of vehicles.

Impact of Provincial Tax Changes on BC Families

Table 2: Estimated Revenue Impact of the NDP's Tax Changes (full implementation)

Tax Change	Millions of \$
Increase to personal income tax rate applicable to individuals earning more than \$150,000 from 14.7% to 16.8%	296
Increase to the general corporate income tax rate from 11% to 12% and decrease of small business tax rate from 2.5% to 2.0%	226
Increase to carbon tax rate from \$30 per tonne to \$50 per tonne	850
New Employer Health Tax (fully implemented) minus revenue from remaining MSP premiums	561
Introduction of "speculation tax," increase to school tax on residential properties over \$3 million, increase to property transfer tax on residential properties over \$3 million, and increase and expansion of additional property transfer tax (foreign buyers tax)	516
Net Revenue Impact	2,449

Note: These estimates assume that the tax change is fully implemented in 2018. For example, the full carbon tax increase to \$50 per tonne is treated as being implemented in 2018 despite the fact it will be phased in over three years. Similarly, the Employer Health tax is assumed to be fully implemented in 2018. The projected revenues for the new payroll tax from 2020/21 are used minus the expected MSP premium revenues in 2018/19.

Source: Calculations by authors based on 2018 provincial budget and Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), version 26.1.

unlikely to be subject to the "speculation tax," the increased "school tax" on homes worth more than \$3 million, or the foreign buyers tax. However, there are cases where average BC families will be affected by these tax increases including: situations where families rent property from landlords who pay the increased taxes and raise rents to cover the cost; where families have experienced a substantial appreciation in the value of their home, exposing them to the increased school tax; and where families own a secondary or vacation property that they keep vacant and the proposed tax credit does not fully offset the new "speculation tax." As a result, the estimates in the next section cover two scenarios: 1) where the NDP's residential property tax increases will affect the average BC family and 2) where they will not.

To summarize, BC's NDP government has enacted or announced several significant tax increases since assuming power. These include increases in personal income taxes, businesses taxes, carbon taxes, property taxes, and payroll taxes. Collectively, these tax increases will add a further \$2.45 billion to the tax burden of British Columbians, assuming that the carbon tax increase is fully implemented and the new payroll health tax is in effect after the remaining MSP premiums are eliminated (see table 2).

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

Impact of Provincial Tax Changes on BC Families

Table 3: Impact of the NDP's Tax Changes on the Average British Columbian Family, 2018

	Liberal	NDP (tax policies fully implemented)	Net increase in taxes / rates
Income (\$)	114,809	114,809	
Total tax bill (including all residential property tax changes) (\$)	47,868	49,029	1,161
Total tax rate	41.7%	42.7%	1.0%
Income taxes (\$)	15,333	15,333	0
Payroll & health taxes (\$)	9,379	9,740	360
Property taxes (\$)	4,550	4,752	202
Profit taxes (\$)	4,214	4,301	87
Fuel and carbon taxes (\$)	1,668	2,166	498
Total tax bill (excluding residential property tax changes) (\$)	47,868	48,828	959
Total tax rate	41.7%	42.5%	0.8%

Notes:

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

(2) These estimates assume that the tax change is fully implemented in 2018. For example, the full carbon tax increase to \$50 per tonne is treated as being implemented in 2018 despite the fact it will be phased in over three years. Similarly, the Employer Health tax is assumed to be fully implemented in 2018. The projected revenues for the new payroll tax from 2020/21 are used minus the expected MSP premium revenues in 2018/19.

(3) 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.

(4) The total tax bill includes GST/PST, "sin" taxes, import duties, and a host of other taxes.

Source: The Fraser Institute's Canadian Tax Simulator, 2018.

total tax bill of the average family in British Columbia for 2018 under two scenarios: 1) if the NDP government had maintained tax rates, thresholds, and structures at their pre-election levels; and 2) if the government fully implemented all of the tax changes it has proposed. Only changes to provincial taxes are included in this analysis; federal and local taxes are kept constant. Table 3 presents the income and total tax bill of the average family in British Columbia

for 2018 under the two scenarios.⁷ In 2018, the average BC family (composed of two or more individuals) is forecasted to earn \$114,809 in in-

⁷ This bulletin presents the total tax bill because an itemized breakdown of the various taxes cannot be readily presented by level of government using the Fraser Institute's Canadian Tax Simulator. Only the aggregate figure by tax category, which includes all government levels, is readily available.

Impact of Provincial Tax Changes on BC Families

Table 4: Distribution of the Average BC Family's Total Tax Burden by Level of Government, 2018

Including all residential property tax changes	Liberal	NDP (tax policies fully implemented)	Percent increase in taxes
Total tax bill	47,868	49,029	2.4%
Federal	26,749	26,749	0.0%
Provincial tax bill	18,338	19,500	6.3%
Local	2,781	2,781	0.0%

Excluding all residential property tax changes	Liberal	NDP (tax policies fully implemented)	Percent increase in taxes
Total tax bill	47,868	48,828	2.0%
Federal	26,749	26,749	0.0%
Provincial tax bill	18,338	19,298	5.2%
Local	2,781	2,781	0.0%

Notes:

- (1) The calculations are based on families with two or more individuals.
- (2) These estimates assume that the tax change is fully implemented in 2018. For example, the full carbon tax increase to \$50 per tonne is treated as being implemented in 2018. Similarly, the Employer Health Tax is treated as being implemented in 2018.
- (3) 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.
- (4) The total tax bill includes GST/PST, "sin" taxes, import duties, and a host of other taxes.

Source: The Fraser Institute's Canadian Tax Simulator, 2018.

come. If the pre-election tax system had been maintained, the average family would have paid \$47,868 in total federal, provincial, and municipal taxes, which includes income taxes, GST/PST, fuel and carbon taxes, payroll and health taxes, property taxes, and a host of other taxes. Of the \$47,868 that the average family would have paid in taxes under the pre-election system, \$15,333 is for personal income taxes (federal and provincial combined), \$9,379 for pay-

roll and health taxes, \$4,550 in property taxes, \$4,214 for profit taxes, and \$1,668 for fuel and carbon taxes. The average British Columbian family would have faced a total tax rate in 2018 under the pre-election system of 41.7 percent.

If we account for all of the NDP's tax changes, the average family's total tax bill would increase by \$1,161 for a total of \$49,029, making the total tax rate 42.7 percent (1.0 percentage point

Impact of Provincial Tax Changes on BC Families

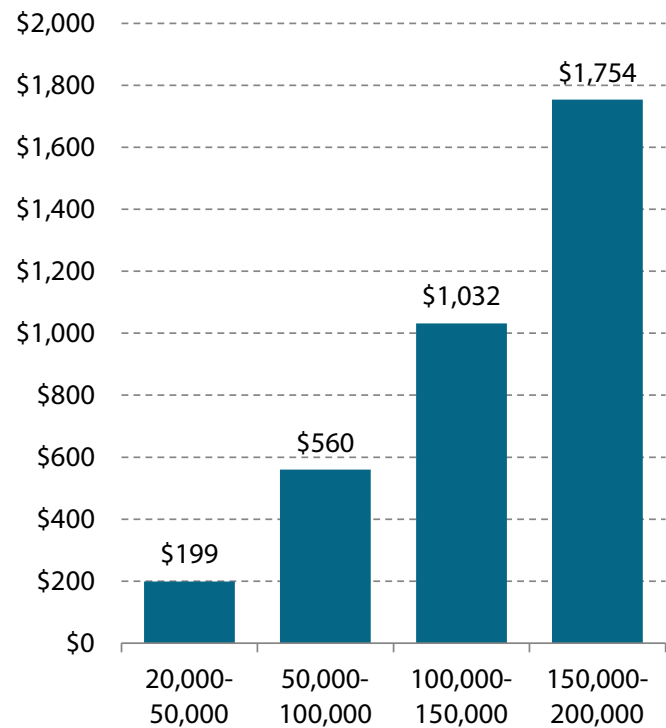
higher than under the previous regime). This increase is led by a \$498 rise in fuel and carbon taxes, followed by a \$360 net increase in payroll and health taxes. It is important to note that the proposed personal income tax changes would not directly affect an average BC family since the tax changes only apply to individual income in excess of \$150,000. If the NDP's tax increases on residential property are excluded from the calculation, the average family's total tax bill would increase by \$959. In this scenario, the total tax rate would be 42.5 percent (0.8 percentage points higher than it was previously).

Table 4 breaks down how the average BC family's total tax burden is distributed by level of government (federal, provincial, and local), both under the pre-election provincial tax system and under the system proposed by the NDP, assuming full implementation of the proposed tax changes. We present scenarios including and excluding changes to residential property taxes. For 2018, the average BC family's provincial tax bill would have been \$18,338 under the pre-election tax system. With full implementation of the NDP's tax changes, the provincial tax bill of the average BC family increases by 6.3 percent to \$19,500 if the residential property tax changes are included, and by 5.2 percent to \$19,298 if they are excluded. The average BC family's federal and local tax bills are unchanged in both scenarios.

Impact of the proposed tax changes by family income

How will the NDP government's 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 tax changes, excluding property taxes increases. This analysis includes four income groups: \$20,000

Figure 1: Average Increase in Taxes Paid by Income Group as a Result of Full Implementation of NDP Tax Changes, 2018



Note: This distribution analysis excludes property taxes.

Source: The Fraser Institute's Canadian Tax Simulator, 2018.

to \$50,000, \$50,000 to \$100,000, \$100,000 to \$150,000, and \$150,000 to \$200,000. The estimates incorporate the tax increases on residential property and the augmented Low Income Climate Action Tax Credit.

In 2018, families in each income group can expect to pay more in taxes after the NDP's tax changes. Specifically, the average total tax bill that families with incomes between \$20,000 and \$50,000 will pay increases by \$199, an increase to their provincial tax bill of 5.6 per-

Impact of Provincial Tax Changes on BC Families

cent. 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 \$1,754, an increase in their provincial tax bill of 6.2 percent.

Conclusion

BC's NDP government has enacted or announced several significant tax increases. These include increases in personal income taxes, carbon taxes, and business taxes. In addition, a new payroll health tax has been created in place of the remaining MSP premiums and a variety of residential property taxes have been instituted or raised. Collectively, these tax increases would add a further \$2.45 billion to the tax burden of British Columbians, assuming that the carbon tax increase is fully implemented and the new payroll health tax is in effect after the remaining MSP premiums are eliminated.

Under the proposed tax changes, the average family's tax bill would increase by \$1,161 if the residential tax increases are included in the calculation, and by \$959 if they are not. A primary contributor to this increased tax bill is the \$498 increase in fuel and carbon taxes, followed by a \$360 net increase in payroll and health taxes. The increase in total taxes that would be paid ranges from \$199 for an average family in the \$20,000 to \$50,000 income group to \$1,754 for an average family in the \$150,000 to \$200,000 group.

Methodology

The figures contained in this bulletin 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 rep-

resentative 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 SPSPD/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 2018 tax revenue figures forecasted in the provincial and federal budgets to the individual families. The assumptions and calculations underlying the SPSPD/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.

References

- British Columbia (n.d.). *Low Income Climate Action Tax Credit*. Web page. Government of British Columbia. <<http://www2.gov.bc.ca/gov/content/taxes/income-taxes/personal/credits/climate-action>>, as of June 20, 2018.
- British Columbia, Ministry of Finance (2008). *Budget and Fiscal Plan*. Government of British Columbia.
- BC NDP (2017). *2017 BC NDP Platform: Working for You. Our Commitments to Build a Better BC*. <<https://action.bcndp.ca/page/-/bcndp/docs/BC-NDP-Platform-2017.pdf>>, as of June 5, 2017.
- British Columbia, Ministry of Finance (2017). *BC Budget 2017 September Update*. Government of British Columbia. <http://bcbudget.gov.bc.ca/2017_Sept_Update/bfp/2017_Sept_Update_Budget_and_Fiscal_Plan.pdf>, as of June 20, 2018.

Impact of Provincial Tax Changes on BC Families

British Columbia, Ministry of Finance (2018). *BC Budget 2018*. Government of British Columbia. <http://bcbudget.gov.bc.ca/2018/bfp/2018_Budget_and_Fiscal_Plan.pdf>, as of June 20, 2018.

BC NDP Caucus (2017). 2017 Confidence and Supply Agreement between the BC Green Caucus and the BC New Democrat Caucus. <http://bcndpcaucus.ca/wp-content/uploads/sites/5/2017/05/BC-Green-BC-NDP-Agreement_vf-May-29th-2017.pdf>, as of August 21, 2018.

Deslaurier, Jonathan, Benoit Dostie, Robert Gagné, and Jonathan Paré (2018). *Estimating the Impacts of Payroll Taxes: Evidence from Canadian Employer–Employee Tax Data*. IZA Institute of Labor Economics. <<http://ftp.iza.org/dp11598.pdf>>, as of August 21, 2018.

Ebrahimi, Pouya, and François Vaillancourt (2016). *The Effect of Corporate Income and Payroll Taxes on the Wages of Canadian Work-*

ers. The Fraser Institute. <<https://www.fraserinstitute.org/sites/default/files/effect-of-corporate-income-and-payroll-taxes-on-wages-of-canadian-workers.pdf>>, as of August 21, 2018.

Gunderson, Morley (2008). *Payroll Taxes: Killers of Jobs, Killers of Wages*. Commentary. Atlantic Institute for Market Studies. <<http://aims.wpengine.com/site/media/aims/LabourSeries2.pdf>>, as of August 21, 2018.

Lammam, Charles, and Taylor Jackson (2017). *Examining the Revenue Neutrality of British Columbia’s Carbon Tax*. Fraser Institute. <<https://www.fraserinstitute.org/sites/default/files/examining-the-revenue-neutrality-of-bcs-carbon-tax.pdf>>, as of August 21, 2018.

Veldhuis, Niels, and Milagros Palacios (2018). *The Impact of Proposed NDP–Green Tax Changes on British Columbian Families*. Fraser Alert (June). Fraser Institute. <<https://www.fraserinstitute.org/sites/default/files/impact-of-proposed-ndp-green-tax-changes-on-BC-families.pdf>>, as of August 21, 2018.

Copyright © 2018 by the Fraser Institute. All rights reserved. Without written permission, only brief passages may be quoted in critical articles and reviews.

ISSN 2291-8620

Media queries: For media enquiries, please contact our communications department via e-mail: communications@fraserinstitute.org; telephone: 604.714.4582. In Toronto, contact our media specialist via telephone at 416.363.6575, ext. 238.

Support the Institute: call 1.800.665.3558, ext. 574 or e-mail: development@fraserinstitute.org

Visit our **website**: www.fraserinstitute.org

Acknowledgments

The authors would like to thank the anonymous reviewers for their suggestions and feedback. Any remaining errors or oversights are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

Impact of Provincial Tax Changes on BC Families



Milagros Palacios is the Associate Director of the Addington Centre for Measurement at the Fraser Institute. She holds a BSc in Industrial Engineering from the Pontifical Catholic University of Peru and an MSc in Economics from the University of Concepción, Chile. She has published or co-published over 100 research studies and over 80 commentaries on a wide range of public policy issues.



Brennan Sorge works with the Fraser Institute's Fiscal Studies department on a variety of topics, including tax and minimum wage policies. He is in the process of completing a Bachelor of Business Administration from Thomson Rivers University. Brennan has written on economics since 2013, publishing in community papers as well as the **Canadian Student Review**.



Charles Lammam is the former Director of Fiscal Studies at the Fraser Institute.



Niels Veldhuis is President of the Fraser Institute. He has written six books and more than 50 peer-reviewed studies on a wide range of economic topics. He holds a Bachelor's Degree in Business Administration, with joint majors in business and economics, and a Master's Degree in Economics from Simon Fraser University. In 2010 he was named one of Vancouver's Top 40 under 40 by **Business in Vancouver**.