

Ontario NDP Tax Increases

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Introduction

Since the New Democratic Party government was elected in Ontario in 1990, Finance Minister Floyd Laughren has brought down three budgets, each containing larger tax hikes than the last and substantially raising the tax burden (Table 1). The 1993 budget featured the largest tax increases ever introduced in a single budget in Ontario. The increases in income taxes since 1990 in Ontario have been higher than in any other province except in fiscally strapped Newfoundland (Table 2). The line on Ontario's eastern border that used to separate the low-tax provinces from the high-tax provinces has moved to Ontario's western border. Ontario has become a high-tax province.

The large tax increases have been introduced to help bring a mushrooming deficit under control. In his first budget in 1991 when the economy was slipping deeper into a recession, the Ontario Finance Minister severely strained provincial finances by allowing expenditures (including public debt interest and capital expenditures) to increase by \$5,762 million or 12.5 per cent at the same time as revenues were declining because of the recession.¹ The increase in the deficit to \$10.9 billion in 1991-92 was justified as necessary to stimulate the economy and create jobs. The result was not a stronger economy, but a downgrade in Ontario's credit rating from triple A to double A. Ever since that fateful day, under pressure from credit rating agencies and international lenders, the Ontario government has been struggling to get the deficit back under control. In the lead-up to the 1993 budget the spectre of an out-of-control deficit of \$17 billion was invoked to set the stage for further tax increases and spending cuts including the social contract. After such a build-up, the projected deficit of \$9.2 billion in the May 19, 1993 provincial budget was greeted

Table 1 Net Revenue Impact of NDP Ontario Budget Measures

(Millions of Dollars)

Budget	First Year	Full Year
April 29, 1991	670	1,045
April 30, 1992	771	1,091
May 19, 1993	1,630	2,047

Source: Ontario Ministry of Finance (1991:28), (1992:39), and (1993: 36).

with much relief in financial markets where interest rates declined and the Canadian dollar strengthened. However, the projected deficit is well above any definition of a sustainable level. In the future, unless the Ontario government is able to cut spending more deeply than it has to date, additional tax hikes are likely.

When a provincial government levies such large tax increases on its citizens, accountability requires that the public be given full information on the cumulative magnitude of the tax increases and on the distribution of the increased tax burden. This article seeks to fill this information gap. More precisely, it provides an analysis of the cumulative distributional impact of the 1991, 1992 and 1993 Ontario NDP budget tax changes, carried out using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), a micro-computer based model designed for analyzing the impact on Canadian families of changes in tax and transfer policy.² This article takes the same approach to the Ontario NDP tax increases as an earlier article did for federal Conservative tax changes since 1984 (Grady, 1992).

Table 2 Provincial Personal Income Tax Rates

1993 Compared to 1990

	Basic Rate (Per cent of federal basic tax)		High Income Surtax		Flat Rate Tax	
	1990	1993	1990	1993	1990	1993
Newfoundland	62.0	69.0	-	-	-	-
Prince Edward Island	57.0	59.5	10	10	-	-
Nova Scotia	59.5	59.5	10	10	-	-
New Brunswick	60.0	62.0	-	8	-	-
Quebec ^a	16/24	16/24		5/10		
Ontario ^b	53.0	58.0	10	17/25	-	-
Manitoba	52.0	52.0	2	2	2	2
Saskatchewan ^c	50.0	50.0	12	15	2	2/10
Alberta	46.5	45.5	8	8	.5	.5
British Columbia	51.5	52.5	-	20/30	-	-

a As Quebec has its own personal income tax system, its bottom and top rate are shown. Between 1990 and 1993, there were increases in exemptions and deductions, but the income brackets were not subject to the same limited indexing as the federal income brackets.

b In 1990 Ontario's surtax was 10 per cent of provincial personal income tax in excess of \$10,000; in 1993 the surtax is 17 per cent of tax between \$5,500 and \$8,000 and 25 per cent over \$8,000.

c In 1993 Saskatchewan has a 10 per cent surtax on its flat tax.

The Approach

The distributional impact of the provincial tax increases are analyzed by comparing provincial tax revenues in Ontario under the 1993 tax structure with the tax revenues that would have been generated if the budget measures in the 1991, 1992 and 1993 budgets had not been introduced. This is done by running the SPSPD/M twice for the 1993 tax year making alternative assumptions. In the base case, the tax parameters reflect the Ontario tax system before the 1991 budget. In the variant case, the tax parameters are those in effect in 1993 following the 1991, 1992 and 1993 budgets. The year 1993 was chosen for purposes of analysis because it is the current year. It does not reflect the full year effect of all the budget measures announced in the May 19, 1993 budget.

The federal tax parameters used in both the base and variant case are those that are actu-

ally in effect in 1993 and that will appear on the 1993 tax forms when they are printed. No indexation had to be applied to the actual 1992 federal tax parameters for 1993 since the actual increase in the consumer price index in the twelve months ending Septemeber 1992 was less than the 3 per cent threshold that must be exceeded to trigger indexing.

The analysis fully reflects all of the provincial tax changes introduced in the 1991, 1992 and 1993 budgets directly impacting on the household sector. The measures incorporated are:

- the increase in the Ontario personal income tax rate to 58 per cent of federal basic tax from 53 per cent;
- the increase in the Ontario surtax to 17 per cent of Ontario personal income tax between \$5,500 and \$8,000 and to 25 per cent over \$8,000 from 10 per cent over \$10,000;

- the increase in the basic Ontario Tax Reduction to \$205 from \$167 and the dependent amounts to \$395 from \$200;
- the introduction of the Employer Health Tax on self-employed individuals;
- the net increase in provincial commodity taxes including increases in taxes on gasoline and diesel fuel, increases in taxes on tobacco products, the implementation of a retail sales tax on fuel inefficient vehicles, increases in LCBO profits and LLBO fees, licenses and permits, the modifications to the retail sales tax on used cars, an increase in the volume levy on beer, the increase in the current environmental levy on non-refillable beverage alcohol containers, the introduction of a 8 per cent tax on insurance and 5 per cent on automobile insurance, the application of the retail sales tax to parking, and the elimination of the \$5 tire tax; and
- the decrease in provincial assistance for seniors through the conversion of the property tax and sales tax grants for seniors to tax credits and the introduction of a greater degree of targeting on low-income recipients.

Changes in social assistance are not included in this analysis because they are discretionary and not administered through the tax system. The increase in social assistance payments has benefited many low-income families.

The corporation tax changes introduced in the budgets are not incorporated in the analysis because they do not have a direct impact on the household sector.

The analysis uses the 1988 database of individuals, families, income, spending patterns and taxes. The population was increased to reflect population growth to 1993. All nominal values in the database were scaled up to reflect their estimated growth between 1988 and the 1993 reference year taking into account the relative deterioration in the Ontario economy during the recent recession. It should be stressed that this does not provide an accurate estimate the 1993 database, but it does give a reasonable approximation. Only age/sex population distributions and dollar denominated values have been projected. Family labour force status, household formation and dissolution, increased social assis-

tance and unemployed populations, and shifting household income composition resulting from the recession are not incorporated into the base case. As a result, impacts are not based on the actual situation in 1993, but on a base case reflecting a mix of 1988 and 1993 characteristics with nominal variables denominated in 1993 dollars.

As there is no full commodity tax model in the SPSD/M, the impact of provincial commodity tax changes had to be approximated. This was done by taking the revenue estimates of commodity tax changes from the provincial budgets, adjusting them for the proportion that is on the household sector, and modifying the commodity specific retail sales tax rates in the SPSD/M to allocate the revenue impacts across families based on their expenditure on the particular commodities affected.³

The Results

The total 1993 revenue raised by the provincial tax and transfer changes introduced in the NDP Ontario budgets from 1991 to 1993 as estimated by the SPSD/M is \$2,945 million (Chart 1). This increase is similar to the cumulative revenue impact estimated by the Ontario Ministry of Finance in the three Ontario budgets analyzed.

The increase in gross provincial income tax resulting from the rate increase is estimated to be \$1,304 million. The increase in the provincial surtax is estimated to raise \$609 million. The increase in the provincial tax reduction is estimated to cost \$110 million and the Employer Health Tax on the self-employed is estimated to raise \$35 million. The increase in provincial commodity taxes is \$1,094 million. The decrease in provincial tax assistance for seniors is estimated to be \$16 million.

The distributional impact of these changes in provincial taxes paid by Ontario families, broken down by income group and census family type, is given in Tables 3 to 8.⁴

Average Ontario Family

The average additional tax burden in 1993 borne by an Ontario family is \$663 (Table 3). The average Ontario census family has 2.3 members and is projected to have a total in-

**Table 3 The Impact by Total Income Group in 1993
of NDP Ontario Tax Changes Since 1990**

(Dollars)

Total Income Group	Increase in Gross Prov. Income Tax	Increase in Prov. Surtax	Increase in Prov. Tax Reduction (-)	Employer Health Tax on Self-Employed	Increase in Prov. Commodity Taxes	Decrease in Prov. Assistance for Seniors	Increase in Prov. Taxes
10,000 and under	2	0	-4	0	74	-12	59
10,001-15,000	8	0	-4	0	81	-98	-13
15,001-20,000	34	0	-7	0	124	-64	87
20,001-25,000	58	0	-30	0	182	-53	156
25,001-30,000	94	0	-61	0	193	-0	226
30,001-35,000	131	0	-82	0	234	28	311
35,001-40,000	177	0	-60	0	270	59	445
40,001-45,000	218	0	-38	0	284	58	521
45,001-50,000	272	0	-29	1	284	54	581
50,001-60,000	323	2	-22	0	321	50	673
60,001-75,000	425	34	-13	2	375	31	854
75,001-100,000	591	143	-10	6	385	26	1,139
100,001-150,000	901	529	-6	23	426	53	1,924
Over 150,000	2,482	3,575	-2	230	472	55	6,811
All	294	137	-25	8	246	4	663

Note: A positive amount indicates that families pay more money to the provincial government and a negative amount that they either receive money or pay less.

come of \$48,253 in 1993 (Table 5). The increased tax burden is the combined impact of a \$294 increase in gross provincial income tax, \$137 in provincial surtax, \$8 for the Employer Health Tax on the self-employed, \$246 for the increase in provincial commodity taxes, and \$4 for the decrease in provincial assistance to seniors, offset by \$25 for the increase in the provincial tax reduction (Table 3).

Of the 4.4 million census families in Ontario, 3.4 million (or more than 76 per cent) face increases in their provincial taxes net of transfers as a result of tax changes introduced by the NDP since 1990. Only 444 thousand (or 10 per cent) enjoy a reduction in their provincial taxes (Table 4).

Upper-income Families

Upper-income families bear the heaviest tax increases from the Ontario budgets. Of those earning more than \$100,000, virtually all face higher provincial taxes. Those upper-income families earning between \$100,000 and \$150,000 have their taxes increased on average by \$1,924, and those earning over \$150,000 by \$6,811 (Chart 2).

Middle-income Families

Middle-income families in the income subgroups earning in the \$35,000 to \$75,000 range also experience significant and step-wise progressive increases in taxes (Chart 3). Almost every family in this income range experiences tax increases.

**Table 4 The Net Impact by Total Income Group in 1993
of NDP Ontario Tax Changes Since 1990**

Total Income Group	Increase in Prov. Taxes ^a	Increase as Per cent of Consumable Income ^b	Families (000)	Average Family Size	Losers ^c (000)	Gainers ^c (000)
10,000 and under	59	-10.7	350	1.2	168	17
10,001-15,000	-13	0.0	517	1.2	207	166
15,001-20,000	87	0.9	353	1.5	214	66
20,001-25,000	156	1.7	325	1.8	202	74
25,001-30,000	226	1.7	330	1.9	225	43
30,001-35,000	311	1.8	297	2.2	240	30
35,001-40,000	445	2.7	235	2.4	200	14
40,001-45,000	521	2.9	218	2.4	191	8
45,001-50,000	581	2.9	251	2.6	234	4
50,001-60,000	673	3.3	385	2.9	364	7
60,001-75,000	854	3.6	435	3.1	418	6
75,001-100,000	1,139	4.0	394	3.3	384	6
100,001-150,000	1,924	4.9	236	3.3	234	2
Over 150,000	6,811	5.8	115	3.1	115	0
All	663	1.5	4,442	2.3	3,395	444

- a A positive amount indicates that families pay more money to the provincial government and a negative amount that they either receive money or pay less.
b Consumable income is defined as income including all government transfer payments and after direct and commodity taxes.
c A loser is defined to be anyone who experiences an increase in provincial taxes that is greater than \$10; a gainer experiences a reduction greater than \$10.

Low-income Families

The 444 thousand beneficiaries of budget tax changes are concentrated in the low end of the income scale. Of the beneficiaries, 323 thousand or more than 7 out of 10 have income of \$25,000 or less (Table 4). The net benefits from tax changes for low-income earners stem from the greater targeting of provincial property and sales tax assistance for seniors and the increase in the provincial tax reduction. The tax increases for low-income earners take the form of commodity tax hikes.

While the tax increases have a modest impact on low-income families, there still are 791 thousand census families earning \$25,000 or less that experience a relatively small in-

crease in provincial taxes from the Ontario budgets and 375 thousand census families even face a small increase in provincial taxes though their incomes are less than \$15,000. The main factors behind the increases are the hikes in the Ontario personal tax rate and in commodity taxes.

Progressivity of the Tax Changes

Measuring the degree of progressivity by taking the increase in provincial taxes as a percentage of consumable income (income including transfers after direct and commodity taxes), the tax changes are very progressive, rising from a large decrease for those earning less than \$10,000 to an increase of 1.7 per cent

of consumable income for families earning in the \$20,000 to \$25,000 range, jumping to 2.7 per cent of consumable income for families earning in the \$35,000 to \$40,000 bracket, and then increasing steadily to 5.8 per cent of consumable income for families earning above \$150,000 (Chart 3). The progressive nature of the tax increases is not surprising coming from an NDP government.

Impact by Family Type

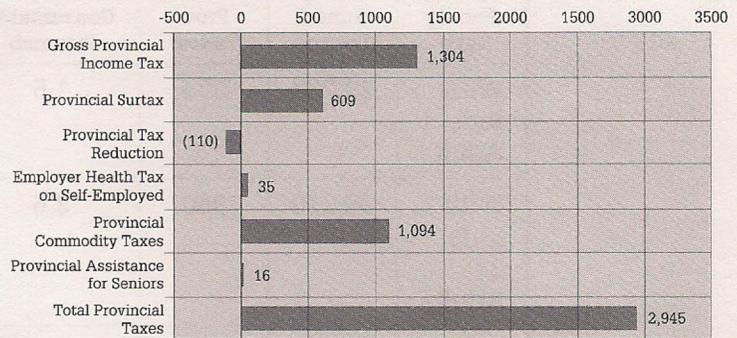
Except at low and high income levels, elderly families (those with persons aged 65 or over) experience higher tax increases than other families without children, reflecting in part the restructuring of provincial property and sales tax assistance for seniors (Table 6). Of the 987 thousand elderly household taxpayers, 492 thousand or almost half experience an increase in their 1993 provincial taxes (Table 5). On the other hand, because of the greater degree of targeting of assistance to low-income seniors and the increase in the provincial tax reduction, the elderly category of families contains the largest proportion of gainers. Of elderly families 348 thousand or 35 per cent actually experience a decrease in provincial taxes. An average elderly family with one adult and earning \$19,735 pays \$70 more tax and an average elderly family with two or more adults earning \$43,548 pays \$597 more tax.

Census families composed of single adults and earning \$26,681 on average experience a tax increase of \$361. Families of two or more adults without children and earning \$71,435 on average experience an increase in taxes of \$1,085.

The tax increases on families with children are on average similar to those for non-elderly families without children. For an average two adult family earning \$68,210, the additional tax burden is \$960. For an average single parent family earning \$29,729, the tax increase is only \$374.

The changes in provincial taxes broken down by household type and total income group reveal that at the very low income levels (\$20,000 and below) elderly singles actually benefit from lower levels of provincial taxes as a result of the conversion of property and sales tax grants into more targeted credits (Table 6). At levels of income from \$40,000 to

Chart 1 The Revenue Impact in 1993 of NDP Ontario Tax Increases
(Millions of Dollars)



Note: A positive sign indicates that families pay more money to the provincial government and a negative sign that they either receive money or pay less. The SPSPD/M revenue estimates shown on this table have been independently rounded so they do not add up exactly to total provincial taxes less transfers. The SPSPD/M figures for the increase in specific provincial commodity taxes has been calibrated to equal the budget estimates.

Chart 2 NDP Ontario Tax Increases by Income Class
(Thousands of Dollars)

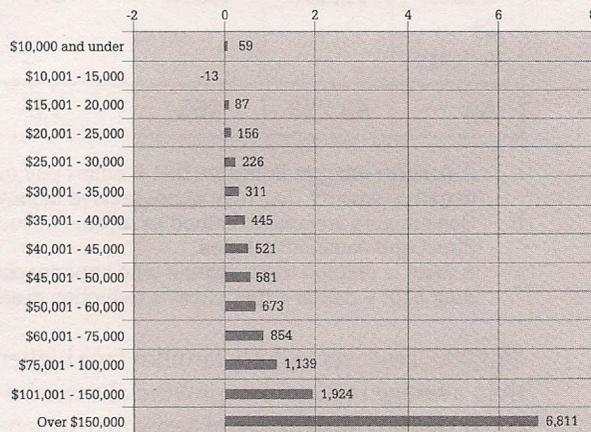
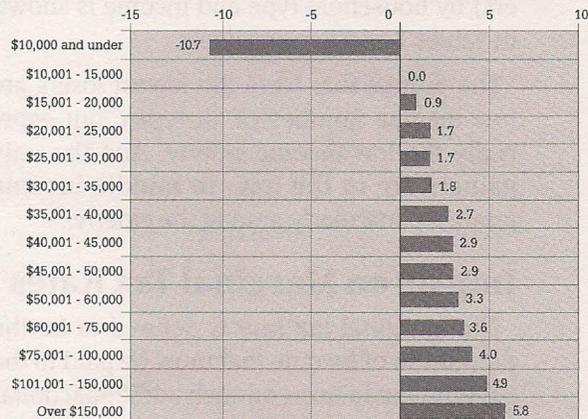


Chart 3 NDP Ontario Tax Increases by Income Class
(Per Cent of Consumable Income)



**Table 5 The Net Impact by Family Type in 1993
of NDP Ontario Tax Changes Since 1990**

Census Family Type	Average Annual Income	Increase in Prov. Taxes ^a	Increase as % of Consumable Income ^b	Families (000)	Average (Family) Size	Losers ^c (000)	Gainers ^c (000)
With Kids, 1 Adult	29,729	374	1.5	211	2.5	159	15
With Kids, 2+ Adults	68,210	960	3.6	1,139	4.0	1,048	68
With Elderly, 1 Adult	19,725	70	-7.3	573	1.0	206	237
With Elderly, 2+ Adults	43,548	597	3.2	414	2.2	286	111
Other, 1 Adult	26,681	361	1.1	1,102	1.0	724	9
Other, 2+ Adults	71,435	1,085	3.7	1,002	2.4	972	3
All	48,253	663	1.5	4,442	2.3	3,395	444

- a A positive amount indicates that families pay more money to the provincial government and a negative amount that they either receive money or pay less.
b Consumable income is defined as income including all government transfer payments and after direct and commodity taxes.
c A loser is defined to be anyone who experiences an increase in provincial taxes that is greater than \$10; a gainer experiences a reduction greater than \$10.

\$60,000, however, elderly families face higher than average increases in provincial taxes because of the restructuring of assistance to seniors.

The percentage of families experiencing increases in taxes (losers) and reductions (gainers) by household type and income is shown in Tables 7 and 8 respectively.

The groups that have the fewest losers are low-income families of all types, but especially the low-income elderly. And the only gainers are in the low- to middle-income groups, particularly among the elderly.

Impact on Marginal Tax Rates

The marginal tax rate is defined to be the proportion of income that must be paid to the government in taxes on each additional dollar of income earned. It is not necessary to be a

supply-sider to believe that the marginal tax rate is important because of its effect on the incentive to work, save and invest. It is obvious on empirical and theoretical grounds that the higher the marginal tax rate, the greater the disincentive posed by the tax system.⁵

The tax changes introduced by the Ontario NDP government have increased the marginal tax rates of single taxpayers with no children earning over \$10,000 and of married taxpayers with two children under 18 years old earning over \$25,000 (Table 9). The particularly large increase in the marginal tax rate for single taxpayers earning \$10,000 and married taxpayers earning \$25,000 stems from the way the Ontario tax reduction for low-income earners is recaptured. The large marginal tax increase for those earning \$75,000 and over, is due to the high-income surtaxes.

Table 6 The Net Impact in 1993 of the NDP Ontario Tax Changes by Census Family Type and Total Income Group
(Per cent of Consumable Income)

Total Income Group	With Kids, 1 Adult	With Kids, 2+Adults	With Elderly, 1 Adult	With Elderly, 2+Adults	Other, 1 Adult	Other, 2+Adults	All
10,000 and under	1.8	33.5	-155.2	37.2	-1.0	3.8	-10.7
10,001-15,000	0.9	2.3	-1.0	1.0	1.4	1.8	0.0
15,001-20,000	2.1	2.6	-0.5	0.0	1.4	2.2	0.9
20,001-25,000	1.9	2.5	0.3	1.2	1.7	4.0	1.7
25,001-30,000	0.8	1.2	1.2	1.7	1.7	3.0	1.7
30,001-35,000	0.5	1.8	2.0	2.4	1.9	1.7	1.8
35,001-40,000	1.9	2.4	2.8	3.3	2.1	3.3	2.7
40,001-45,000	1.9	3.1	3.0	3.6	1.9	3.4	2.9
45,001-50,000	1.9	3.0	2.9	4.4	2.0	3.2	2.9
50,001-60,000	2.2	3.4	2.4	4.8	2.1	3.2	3.3
60,001-75,000	3.1	3.6	2.5	3.1	2.3	4.2	3.6
75,001-100,000	2.8 ^a	4.1	2.5 ^a	4.2	2.8	4.1	4.0
100,001-150,000	4.9 ^a	5.1	3.4	5.6	3.6	4.8	4.9
Over 150,000	5.4 ^a	6.4	1.9 ^a	7.0	3.9	5.8	5.8
All	1.5	3.6	-7.3	3.2	1.1	3.7	1.5

a The number of observations in these cells based on the Survey of Consumer Finances sample for Ontario is 5 or less so the results may not be representative.

Note: A positive amount indicates that families pay more money to the provincial government and a negative amount that they either receive money or pay less. Consumable income is income after direct and indirect taxes and transfers.

Marginal tax rates will increase further in 1994 as the surtax on personal income tax payable between \$5,500 and \$8,000 is scheduled to increase from 17 per cent in 1993 to 20 per cent and the surtax over \$8,000 to increase from 25 per cent in 1993 to 30 per cent. This will raise the top marginal rate in Ontario to 53.2 per cent in 1994 from the 48.2 per cent it would be in the same year without the NDP tax increases.

In addition to any general negative impact on the incentive to work, save and invest, the increase in top marginal rates will make it more difficult for Ontario to attract and/or re-

tain the mobile high-income professionals and managers that are necessary to keep the Ontario economy competitive. The large gaps in taxes on high income earners between Toronto and U.S. cities in 1991 and the large increases in pay (in the \$16,600 to \$22,700 range for a married taxpayer with two children making \$100,000) necessary to provide the same after-tax earnings was documented in a study by Price Waterhouse (Gimbert, 1992:25-26). These gaps have widened in 1992 and 1993 and will widen further next year.

**Table 7 Losers in 1993 as a Result of NDP Ontario Tax Changes
Since 1990 by Census Family Type**
(Percentage of Total in Category)

Total Income Group	With Kids, 1 Adult	With Kids, 2+Adults	With Elderly, 1 Adult	With Elderly, 2+Adults	Other, 1 Adult	Other, 2+ Adults	All
10,000 and under	59.8	67.1	21.4	43.8	47.6	69.7	47.9
10,001-15,000	78.6	94.6	22.4	39.6	57.1	89.9	40.1
15,001-20,000	85.3	91.0	28.6	31.6	74.4	87.8	60.7
20,001-25,000	65.4	76.7	65.2	30.6	68.2	96.8	62.0
25,001-30,000	61.1	63.6	51.5	65.5	67.2	94.8	68.0
30,001-35,000	70.4	68.2	91.0	89.8	74.6	96.0	80.6
35,001-40,000	98.9	84.1	68.6	87.4	77.9	92.1	85.1
40,001-45,000	88.2	90.5	92.8	88.7	69.7	97.7	87.6
45,001-50,000	100.0	94.7	100.0	92.0	81.7	99.3	93.4
50,001-60,000	100.0	96.6	100.0	92.3	75.2	97.5	94.5
60,001-75,000	100.0	97.5	88.0	88.9	89.7	97.4	96.2
75,001-100,000	65.2 ^a	99.1	100.0 ^a	78.1	87.9	99.6	97.4
100,001-150,000	100.0 ^a	98.5	100.0	98.6	95.8	96.6	99.0
Over 150,000	100.0 ^a	100.0	100.0 ^a	100.0	97.5	100.0	99.8
All	75.5	92.0	36.0	69.1	65.7	97.0	76.4

a The number of observations in these cells based on the Survey of Consumer Finances sample for Ontario is 5 or less so the results may not be representative.

Note: A loser is defined to be anyone who experiences an increase in provincial taxes that is greater than \$10.

Conclusions

The Ontario NDP government has introduced major tax increases since coming to office in 1990. In fact, these tax rises constitutes the largest three-year tax increase ever introduced by an Ontario government. These changes have substantially increased the tax burden on the Ontario household sector by almost \$3 billion, raising the average provincial taxes paid by an Ontario family by \$663. Almost two thirds of this comes from increases in provincial income taxes and slightly more than one third from increases in commodity taxes.

The tax increases are progressive up the income scale. Upper-income families bear the

heaviest tax increases. Nevertheless, the vast majority of Ontarians, including even many low and particularly middle income earners, face substantial tax increases. The only group sheltered from the NDP tax increases is the low-income single elderly who benefit from the greater targeting of property and sales tax assistance for seniors. (Families on social assistance have also benefited substantially from increased rates, but this was not considered in this article).

Marginal tax rates have increased substantially on upper-income taxpayers under the Ontario NDP. This will probably have an impact on Ontario's ability to attract and retain high-quality professionals and managers. More generally, increases in marginal tax

**Table 8 Gainers in 1993 as a Result of NDP Ontario Tax Changes
Since 1990 by Census Family Type**
(Percentage of Total in Category)

Total Income Group	With Kids, 1 Adult	With Kids, 2+Adults	With Elderly, 1 Adult	With Elderly, 2+Adults	Other, 1 Adult	Other, 2+Adults	All
10,000 and under	0.0	0.0	49.3	56.2	0.4	0.0	5.0
10,001-15,000	0.0	0.0	52.8	41.7	3.5	0.0	32.1
15,001-20,000	3.8	0.0	43.0	60.5	2.3	0.0	18.6
20,001-25,000	9.4	15.6	26.8	64.7	0.0	1.5	22.9
25,001-30,000	22.2	26.0	19.8	26.0	0.0	0.0	12.9
30,001-35,000	21.6	29.9	5.1	8.0	0.0	1.0	10.1
35,001-40,000	1.1	14.5	5.2	10.7	0.0	0.0	6.0
40,001-45,000	8.2	7.7	1.2	7.6	0.0	0.9	3.8
45,001-50,000	0.0	3.3	0.0	3.6	0.0	0.6	1.6
50,001-60,000	0.0	2.4	0.0	7.7	0.0	0.0	1.8
60,001-75,000	0.0	1.7	0.0	9.7	0.0	0.1	1.5
75,001-100,000	0.0	0.7	0.0	19.1	0.0	0.3	1.6
100,001-150,000	0.0	1.5	0.0	1.4	0.0	0.2	0.8
Over 150,000	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All	7.3	6.0	41.4	26.7	0.8	0.3	10.0

a The number of observations in these cells based on the Survey of Consumer Finances sample for Ontario is 5 or less so the results may not be representative.

Note: A loser is defined to be anyone who experiences an increase in provincial taxes that is greater than \$10.

rates can undermine the incentive to work, save and invest.

In choosing between the objectives of equity and efficiency, the NDP government has, in my opinion, clearly chosen to emphasize equity. Efficiency and promoting growth in output and employment would require that the government cut spending more and not burden the economy with such heavy tax increases.

To the degree that the recent deterioration in the economic performance of the Ontario economy represents a structural, rather than cyclical, phenomenon and a strong recovery

does not eventually buoy revenues sufficiently, it will be difficult to bring the deficit down without sharp cuts to government spending on goods and services and transfer payments. The provincial government cannot expect to take a larger share of the provincial pie through increased taxes without reducing its size.

And in spite of the large tax increases, the deficit remains huge. The longer the deficit stays high and the greater the buildup of debt and public debt charges, the harder it will be for the Ontario NDP government to resist the pressures for future tax increases.

Table 9 The Impact of Ontario NDP Tax Changes Since 1990 on the Total Marginal Personal Income Tax Rates in Ontario in 1993

(Marginal Rate as Percentage of Incremental Income)

SINGLE TAXPAYER WITH NO CHILDREN UNDER 18		
Income	Without Ont. Tax Changes	With Ont. Tax Changes
\$7,500	16.5	16.5
10,000	23.1	32.2
15,000	25.1	25.9
20,000	25.0	25.9
25,000	25.1	25.8
30,000	44.2	45.4
40,000	40.6	41.9
50,000	40.6	41.9
75,000	46.7	52.4
100,000	48.2	52.4
150,000	48.2	52.4

MARRIED TAXPAYER WITH 2 CHILDREN UNDER 18		
Income	Without Ont. Tax Changes	With Ont. Tax Changes
\$7,500	6.0	6.0
10,000	2.0	2.0
15,000	18.6	18.6
20,000	42.1	16.5
25,000	35.1	54.5
30,000	49.1	50.4
40,000	45.6	46.8
50,000	45.6	46.8
75,000	46.7	52.4
100,000	48.2	52.4
150,000	48.2	52.4

Note: These marginal rates are based on federal rates in effect in 1993 and only reflect changes resulting from Ontario NDP tax changes since 1990.

NOTES

* Although the analysis in this article is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), the author alone is responsible for the assumptions made and the interpretations of the data. I am grateful for the help I received in using the SPSP/M from Steve Gribble and Grant Cameron of Statistics Canada. I would also like to thank Mario Albert for providing information on provincial taxes in 1993 and two anonymous referees for their most useful comments and suggestions.

1. Cutbacks in federal transfer payments since 1990-91 also contributed significantly to the increase in the deficit. The Ontario government estimates that the 5 per cent limit on the growth of Canada Assistance Plan Payments to Ontario increased the deficit by \$1.8 billion in 1992-93 and the reductions in Established Program Financing boosted the deficit by \$790 million in 1992-93 over 1990-91 (Ontario Ministry of Finance, 1992:103-107). Since the Ontario government knew about these changes in advance of the budget year, fiscal action could have been taken to offset their impact on the deficit.
2. The SPSP/M is a computer program built around a database, covering the demographic and socio-economic characteristics of about 63 thousand Canadian families. The database is taken from the Survey of Consumer Finance, the Green Book tax sample, the Family Expenditure Survey, and the Unemployment Insurance administrative file. The model's several hundred demographic and socioeconomic variables includes age, province, income, expenditure, household composition, and work history. The model incorporates detailed algorithms portraying the workings of the current federal and provincial tax and transfer systems. Commodity taxes are also included based on the Input-Output model. The SPSP/M is the best tool currently available for analyzing the distributional impact of changes in federal and provincial budgets and other changes in the Canadian tax and transfer system. A good overview of the SPSP/M by its builders is provided in Michael J. Bordt, Grant J. Cameron, Stephen F. Gribble, Brian B. Murphy, Geoff T. Rowe, and Michael C. Wolfson (1990). Version 5.1 of the SPSP/M was used for this analysis.
3. Taking the full year revenue effects of commodity tax changes from the 1991 and 1992 and the first year effects from the 1993 budget, yielded net revenue increases from commodity taxes of \$1,515 million in 1993. This can be broken down as follows: alcohol \$160 million; tobacco \$240 million; automobiles \$140 million; tires \$25 million decrease; gas and fuel \$500 million; insurance \$475 million; and parking \$25 million. The proportion of this expenditure allocated to consumer expenditures was: 100 per cent for alcohol and tobacco; 64.9 per cent for automobiles, auto parts and parking; 50.9 per cent for gasoline and fuel; and 67.7 per cent for insurance. The insurance tax increase was allocated half to imputed and paid rent and half to personal and business services. These calculations resulted in the following changes to the Ontario retail sales tax rates

for the SPSPD/M family expenditure category indicated: fxio1, alcohol, +.08934; fxio2, tobacco, +.26578; fxio6&7, gross imputed and paid rent, +.003175; fxio23, new and used automobiles, +.01214; fxio24, auto repairs and parts, -.00726; fxio25, gasoline and fuel, +.10164; fxio26, other auto related services, +.06381; fxio37, personal and business services, +.01114. These changes in retail sales tax rates were calculated by perturbing the SPSPD/M rates by .1 and scaling the results by the desired revenue change by commodity. The aggregate revenue increase of \$1,094 million obtained by using these rates is close enough to the desired calculated amount of \$1,083 million obtained by applying the consumer expenditure proportions to the budget revenue estimates that it was accepted as a reasonable approximation for the purpose of this analysis.

4. The tables provide results for census families. A census family is defined as "a head, spouse if present, and never-married children of any age sharing a dwelling." Adults are persons aged 18 or over (including elderly), and elderly are persons aged 65 or over. Children are persons aged under 18. A census family can be made up of one or more taxpayers.
5. A good general discussion of the impact of the tax system on the incentive to work, save and invest is provided in Boadway and Kitchen (1984:41-51). The Royal Commission on Economic Union and Development Prospects for Canada, which also considered the issue, concluded that personal income taxes "drive a wedge between the value of output produced by a factor of production and the net return received by the owner" and that "consequently, less of a factor may be supplied than is desirable" (1985:206-207). The federal Department of Finance's analysis of the positive economic impacts on the incentive to work, save and invest of the 1987 tax reform are provided in Canada, Department of Finance (1987:3-5). Hamilton and Whalley (1989) estimated that the reduction in marginal tax rates as a result of tax reform resulted in a 0.2 per cent increase in the labour force. These same arguments about the impact of reductions in marginal tax rates apply in reverse for increases.

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