

Spell tax-grab relief by ending bracket creep

JASON KENNEY
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Bracket creep, a tax grab implemented by the Mulroney government, has been embraced by the Liberal government. Also called de-indexation, it is costing Canadian taxpayers billions of dollars every year.

Bracket creep is the effect that inflation has on taxes whenever the income tax system operates with two or more brackets. In Canada there are four income brackets for the purpose of calculating a taxpayer's bill.

The effects of bracket creep are twofold. First, inflation generally causes taxable income to increase at a faster pace than real income. For example, Canadians earning less than about \$6,500 are exempt from paying federal taxes because of the existence of the Basic Personal Credit, a tax-free threshold that must be crossed before any federal taxes are owed.

Consider the example of a taxpayer named Joe who earns \$6,500 this year from his part-time job. In 1996, Joe would pay no taxes since he has not crossed the tax-free threshold yet. But because Joe's salary increases with inflation, the result would be that Joe moves into a taxpaying bracket. In effect, Joe's nominal income increases, but his real income stays the same. The result is that Joe's purchasing power is reduced, and he must hand over \$50 to the taxman.

For the period 1988 to 1992, Department of Finance figures show that the effect of bracket creep has been to move 884,000 Canadians from tax-free status to a tax bracket of 17 per cent. This is the main reason there are more than 2.5 million Canadians earning less than \$15,000 a year and still paying close to \$2 billion a year in taxes.

The second effect of bracket creep is the way it pushes middle-income earners into higher and higher tax brackets, as their real incomes remain the same. For example, let us consider Cathy, who earns \$29,500 a year and pays about \$5,500 a year in federal and provincial taxes. Cathy's boss raises her salary to keep pace with inflation, inflation of three per cent in 1997, two per cent in 1998, and two-and-a-half per cent in 1999, meaning that Cathy earns \$31,768 by the end of the third year. Because Cathy's salary increase has moved into a higher tax bracket, her salary is now subject to the 26 per cent rate. Cathy's tax bill is now \$6,440, a \$940 increase even though after inflation is taken into account, her income has not increased.

There is a social cost to de-indexation which cannot be ignored. For the lowest income group of Canadians, i.e., those earning less than 10,000 a year, bracket creep causes a loss of 2.4 per cent of real, after-tax income.

For low and middle income families, bracket creep can suck enough money from the family budget to cause serious financial hardship. In fact, a recent study by Canadian economists found that the upward drift in effective tax rates since 1986 resulting from de-indexation has meant a 14-per-cent increase in the effective tax rate for a single taxpayer earning \$30,000 in 1986, a 7.4-per-cent increase for a taxpayer earning \$60,000.

The Liberal government has repeatedly raised taxes despite claims to the contrary. Bracket creep adds to the negative economic effect of the 36 measures that the Liberals have used to increase revenues since assuming office.

There can be no doubt that Canadians are working harder yet are taking home less. In fact, when inflation is factored, bracket creep has resulted in a cumulative tax increase of \$13.4 billion since 1993, without debate in the House of Commons. In 1997 alone, Canadian taxpayers will pay \$4.3 billion more than they would have had the system been indexed in 1993.

Families and individual Canadians should keep more of their money. The Reform Party believes that this goal can be achieved by an across-the-board reduction in high income and payroll taxes which stifle the economy and kill jobs.

An interim step towards broad applied tax relief would be to end the hidden and regressive tax grab of bracket creep.



In the second of a four-part Herald Comment series examining the role of government and its revenue, Jason Kenney, Member of Parliament for Calgary Southeast and Official Opposition Critic for National Revenue, argues that the federal government has guaranteed the tax burden on individual Canadians will silently continue to mount year after year.

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