

Keeping Ontario's Tax Cuts on Track

Between 1995 and 1999, Ontario income taxes declined by more than 30%, fulfilling a promise in the **Common Sense Revolution** made by the Harris Conservatives during the 1995 election campaign. In the lead up to the 1999 election, and as part of the 1999 Harris election platform – **Blueprint** – a promise was made to further reduce income taxes by 20% over the course of five years (four years from 2000).

Yet, the challenge in clearly identifying this round of 20% tax reductions stems from the tax on income system introduced in Budget 2000 for the 2000 tax year and subsequent years. This approach to calculating Ontario income taxes moves away from the tax on federal tax payable toward a direct tax on income.

There are many good reasons for moving to this system, but the danger here is in losing track of the government's real tax cutting promises and record. Ontarians have to ask themselves: Am I better off under the new system or the old system? For 2001, the answer is not positive ... question

At \$25,000

- In 2001 Ontario income tax payable is projected to be \$1,090.47, but would have been \$1,035.60 under the old tax on federal tax payable system.

At \$40,000

- In 2001 Ontario income tax payable is projected to be \$2,301.55, but would have been \$2,122.95 under the old tax on federal tax payable system.

At \$85,000

- In 2001 Ontario income tax payable is projected to be \$6,899.42, but would have been \$6,111.95 under the old tax on federal tax payable.

The rates found in the following chart were used to generate these comparisons.

	1994	1999	2000	2001
Old Provincial Rate *	58.000 %	39.500 %	37.600 %	36.800 %
Low **	9.860 %	6.715 %	6.370 %	6.200 %
Middle	15.080 %	10.270 %	9.620 %	9.240 %
Top	16.820 %	11.455 %	11.160 %	11.160 %
New Top	N.A.	N.A.	N.A.	11.160 %

* Rate for 2000 and 2001 is projected if the old tax on tax payable system would have continued.

** Rates for 1994 and 1999 were derived if the tax on income system had been implemented when the PC party formed government in 1995.

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At \$25,000 the old tax rate would have netted \$54.87 in additional tax savings; at \$40,000 the old tax rate would have netted \$178.60 in additional tax savings; at \$85,000, taxpayers would have netted \$787.47 in additional tax savings.

The move to tax on income has also altered the relative tax take vis-à-vis the federal government. For instance in 1994, relative to federal taxes, Ontario income tax was at least 58% of federal tax paid. In 1999, it was 39.5% of federal tax paid, but we are unsure of this ratio for 2000 and 2001. This makes it difficult to establish how well the government is meeting its promises to cut income taxes by an additional 20% by the end of its mandate.

In 2000 Ontario income tax will range from as low as 37.5% of federal tax payable or as high as 38.5% of federal tax. In 2001, the range will be as high as 42.9% of federal tax and as low as 38.8% of federal tax. Although Ontario income taxes have been reduced, for some, parts of their income will be taxed at relative rates not seen since 1998. This is not to diminish the value of tax cuts, but rather to illustrate that the latest cuts are not as equally distributed as the pre-1999 round of tax cuts had been. If the provincial government was intent on reducing tax rates across the board to 36% of federal tax paid this year and to 33% by the end of their mandate then the year 2001 rates would be as follows:

2001 Rates	
Old Provincial Rate	36.000%
Low	5.760%
Middle	7.920%
Top	9.360%
New Top	10.440%

* These rates were arrived at by, multiplying the single tax rate by the various federal tax brackets, namely 16%, 22%, 26% and 29%.

If the goal is to reduce income taxes by 20% using the same method used in the previous mandate then the original rate of 40% of federal tax payable in 1999 should be reduced to at least 33% by 2004. So the Ontario government should reduce Ontario income tax rates to at least the following rates by 2004:

2004 Rates	
Old Provincial Rate	33.000%
Low	5.280%
Middle	7.260%
Top	8.580%
New Top	9.570%

* These rates were arrived at by, multiplying the single tax rate by the various federal tax brackets, namely 16%, 22%, 26% and 29%.