



# Submission to the Standing Committee on Finance and Economic Affairs on Bill 83

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Good morning and thank you for the opportunity to address the Standing Committee on Finance and Economic Affairs on Bill 83.

The CTF 's submission will deal exclusively with one section of the Bill, namely, section 17 which brings in the new Health Premium to be collected through the income tax system starting July 1.

This premium, which in the CTF's view is none other than a tax, raises four main concerns which I will address in turn:

**Lack of government accountability**  
**Financial impact on taxpayers**  
**Unreliability as a source of revenue, and**  
**Lack of necessity**

## **LACK OF GOVERNMENT ACCOUNTABILITY**

The first issue is that this health tax is being imposed, in our view, in direct violation of the *Taxpayer Protection Act* and the Taxpayer Protection Promise signed by Premier McGuinty in the last election.

Section 2 of the *Taxpayer Protection Act* clearly states that there can be no increase of an existing tax, or imposition of a new tax, without public approval obtained either through the electoral process or through a referendum.

The budget bill disregards the law and effectively establishes the new tax without any majority support whatsoever. At no time was the tax disclosed to the Chief Elections Officer during the provincial election of 2003. At no time was a referendum held to get taxpayer approval for this new tax. The tax was not even mentioned during Minister Sorbara's public consultation process on which the government spent half a million dollars of taxpayers' money this spring.

Yet as of July 1, the tax will be collected off the paychecks of Ontarians through the income tax system.

I cannot get into more detailed legal issues as the CTF has commenced court proceedings with regard to this matter and full arguments will be made when the case goes to a hearing. Suffice it to say that the *Taxpayer Protection Act* is the last legal line of defence taxpayers have against governments which would raise their taxes without consultation – and it has not been respected in this case.

The other accountability issue before us today is Mr. McGuinty's signed election promise to the CTF not to raise taxes or implement any new taxes.

During the last election Mr. McGuinty made this promise repeatedly, both in his platform and, more importantly, at a well-attended press conference with the CTF where he signed the Taxpayer Protection Promise with great fanfare.

This no-tax promise became a constant and inescapable selling point of Mr. McGuinty's campaign, in advertising, in campaign literature and in speeches. It's worth noting too that even before the election, in the words of his own pre-election fiscal platform, released May 23, 2003, Mr. McGuinty said:

**"Fiscal discipline, holding the line on taxes and balancing our budget, is not only the price of admission for governing at the beginning of the 21<sup>st</sup> century, it is the foundation on which we build the rest of our platform."**

Recently, Ontario taxpayers have been treated to the excuse that because the Conservative government left the Liberals with a \$5.6 billion deficit, the present government had no choice but to raise taxes. Yet during the campaign, on September 5 2003, when questioned as to what he would do if faced with a larger than anticipated deficit, Mr. McGuinty told the Toronto Sun editorial board,

**"I will not break the *Taxpayer Protection Act*, ... What we are saying is if we have to slow down our investments, we will do so ... but we will not raise taxes and we will insist on balancing our budgets."**

In addition, there is evidence that the Liberals knew well before the election that the deficit could be as high as \$5 billion. Comments made on June 4, 2003 by Gerry Phillips, Liberal Finance critic, to this very committee refer to a "5 billion dollar hole" in the budget for that year.

All of the above has contributed to the great sense of distrust and disgust that taxpayers are now feeling toward this government and the new health tax. The latest Ipsos Reid poll shows that 71% of Ontarians think this budget is bad news for them and 61% think that bringing in health care premiums was the wrong thing to do.

To date the CTF has collected over 150,000 signatures on our petition calling on the government not to raise taxes or run deficits. The sense of outrage is growing and shows no sign of abating any time soon, as signatures are being added every day, further confirming the resentment taxpayers are feeling against broken laws and broken promises.

## **FINANCIAL IMPACT ON TAXPAYERS**

The second issue with this tax is its impact on taxpayers.

The tax will impact all Ontarians, but none so severely as low or middle income families.

The average Ontario family of four earns just over \$ 60,000 a year. According to Minister Sorbara, in his budget speech, that family will pay an additional \$50 a month in taxes for health care. That may not sound like a lot. But considering that family is already paying close to half its income in taxes, such as income tax, sales tax, gas tax, and the like, it is.

It represents \$600 a year – or 2% of that family's after-tax income – that will be taken away with no direct benefit. Will that family be any healthier at the end of this year? Will the health system be in any better shape to serve that family? With this government's record on broken promises, it's hard to believe that any of these things will actually change.

All we know is that every year that family will have \$600 less to spend on rent or mortgage payments, on food, or on the education of their children. It will essentially reverse all the income tax gains made by Ontarians since 1999.

For lower income families, the impact is even worse.

A \$72,000-a-year single income family would pay \$600 – or .083% of its before-tax income. A single-earner family making \$48,000 a year would pay \$450 – or .094% of its before-tax income. A single income family earning \$25,000 a year will pay \$300 – or 1.2% of its before-tax income.

So not only is this tax to be imposed without consultation, but it is most onerous on those who can least afford to pay it.

## **UNRELIABILITY AS A SOURCE OF REVENUE**

To add insult to injury, this tax will not prove to be a panacea for health care because it will not bring in the amount of money claimed by the government.

Many taxpayers may actually end up paying twice – for their health premiums and for those of union members. Many contracts with the provinces' two biggest unions, the Canadian Union of Public Employees (CUPE) and the Ontario Public Service Employees Union (OPSEU), provide that should health premiums be imposed, the government must pick up the tab.

According to Sid Ryan, president of CUPE, this will become a bargaining issue for all contracts up for renewal - and he predicts it will cause headaches. He believes about 30 to 40 per cent of CUPE Ontario's approximately 1,000 collective agreements, covering "tens of thousands of workers," still retain 15-year-old clauses stipulating that the employer must pay for health premiums. These clauses were established under the old Ontario Health Insurance Plan.

In British Columbia and Alberta, the only two provinces that currently impose a direct premium on individuals for health care, unions have systematically negotiated contracts that require employers to pick up the costs. We predict that this will also happen here in Ontario. Already, a spokesman for the CBC said the company is examining collective agreements to determine what effect the measure will have. And an official for OPSEU, which represents 100,000 members at hospitals, community colleges and social services, is doing the same, and was quoted as saying, "It's sort of hit and miss all over the place."

In other words, there is a great degree of uncertainty attached to the payment of this new tax. In a labour relations context, uncertainty means two things: protracted negotiations, and if those fail, litigation. And who will pick up the government's legal tab for that? The taxpayer, again.

In the private sector, it is also unclear who will pay the premium. Will the powerful autoworkers unions' seek to have GM and Ford pay these costs? What about thousands of other workers in similar unionized jobs? Employers from a variety of sectors could face additional labour costs, contract negotiations, and court battles. They will hire fewer workers as a result, or simply not give current employees a raise. The result will be less money in the pockets of Ontario workers.

It is also unclear that these funds will actually go to healthcare, as they will flow into general revenue. As NDP leader Howard Hampton ably pointed out in Question Period yesterday, the 2004-2005 budget classifies all sorts of things as health care expenses, including \$113 million earmarked for sewer and water construction. A tax going into general revenues is the worst kind of tax, open to all sorts of abuse, because the funds cannot be tracked once they are collected.

Since the government doesn't know how much it will actually collect, how can it decide how much it can spend - and how can it claim this premium will improve the health care system? It does not know how much money it will collect because it will be footing part of the bill. It does not know who will be footing the other parts of the bill and what the impact on job creation will be. In other words, it did not do its homework before choosing to impose this tax. Had it put these issues before the people in an election or referendum, they would have been aired before and voters could have made an informed choice instead of being saddled with an uncertain and punitive new tax that will not do what it's intended to do.

## LACK OF NECESSITY

Finally, this tax is unnecessary to rebuild Ontario's health care system. Curbing spending in other areas would have been the prudent choice for this government. Both the Canadian Taxpayers Federation, in our prebudget submission to the Finance Minister, and the Fraser Institute, in a recently released post-budget analysis, concluded that the government has a spending problem, not a revenue problem. This problem was inherited from the previous administration which, since 2000, began increasing spending at an unsustainable rate. The present administration did nothing to reverse this trend. It is now spending at a higher level, adjusted for population and inflation, than NDP Premier Bob Rae – to the tune of \$6400 per person per year, according to the Fraser Institute. By failing to get a grip on spending, this government is digging a deeper hole into which it will simply keep shoveling public money instead of tackling its spending problem.

Ontario Per Capita in 2002 Dollars Government Spending – Select Years

Year	Description	Per Capita Spending
1989-1990	Last year of David Peterson Government -- Lib	5,789
1991-1995	<b>Bob Rae Government (4 Year Average) -- NDP</b>	<b>6,097</b>
1995-1996	First year of Harris Government -- PC	6,135
1996-1997	Harris Reforms begin -- PC	5,755
1997-1998	Year 3 -- PC	5,607
1998-1999	Year 4 -- PC	5,610
1999-2000	Election year budget -- PC	5,807
2000-2001	Year 2 -- PC	5,574
2001-2002	Year 3 -- PC	5,724
2002-2003	Year 4 -- PC	5,675
2003-2004 <sup>P</sup>	<b>Last Budget Ernie Eves Government -- PC</b>	<b>6,032</b>
2004-2005	<b>McGuinty Government – CTF and Fraser Institute</b>	<b>6,400</b>
	Ontario PC Government Average	5,723

Source: provincial budget documents 1989-2004

Amounts adjusted for inflation and population change

Another important point is that both the federal Liberals and the federal Tories currently running for election are pledging increased spending on health care. Under a federal Liberal government, next year Ontario would start receiving \$620 million in additional health spending annually until the 2009-2010 fiscal year, for a total of \$8 billion. Under a Conservative administration, payments of just over \$1 billion a year would begin flowing in this fiscal year, and every year thereafter, until 2008-2009, for a total of \$13 billion. These calculations are based on a per capita allocation of spending relative to Ontario's percentage of the population.

Since it is reasonable to assume that one of these parties will form a government, whether minority or majority, unless they follow Mr. McGuinty's lead in breaking promises, Ontario will be getting a substantial infusion of cash earmarked for health care. This coupled with modest spending reductions and the elimination of the \$1.2 billion in "Tory waste" that was also talked about by the Liberals in the last provincial election would eliminate the need for the health care premium altogether.

## **CONCLUSION**

The health care tax contained in section 17 of Bill 83 constitutes an ill-thought-out cash grab that will not deliver the improvements to health care claimed by the government. For reasons of accountability, adverse financial impact on taxpayers, unreliability, and lack of necessity as a revenue source, this tax will hurt, not help, Ontario taxpayers, and will not fix the government's real problem, which is overspending.

The CTF recommends that section 17 be removed from Bill 83, or voted down when the budget bill goes to third reading in the House. If, despite its manifest defects, the government still wishes to impose this tax, it should proceed lawfully by means of a referendum and get the people's consent to do so.

Thank you.