

# CUPE BC Policy Paper

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## **TAX FAIRNESS**

British Columbia's tax system is increasingly less fair. That in turn means all levels of government are facing serious revenue problems. Tax cutting and tax shifting, in combination with the economic slowdown, have all reduced revenues sharply. The inevitable result is a reduction in public service quality. Services are being cut, public service positions are being reduced and privatization is encouraged.

The increasing unfairness is in response to an organized and effective lobby by the large corporate sector. They have succeeded in convincing governments to cut corporate taxes and to shift tax off the books of corporations onto the backs of working people.

Meanwhile, municipal governments have limited revenue options and are overly reliant on the property tax. Even though more British Columbians live in cities and towns each year, and even though local governments are downloaded responsibility for an increasing list of service demands (like social housing, transit and childcare), federal and provincial governments refuse to provide new revenue sources other than the property tax.

One result of these policies is that BC has the leanest public sector in the country. According to a recent study by the BC Office of the Canadian Centre for Policy Alternatives, BC has the lowest level of public sector employment of any province. As well, consolidated spending by the provincial government has been steadily falling from 20% of provincial gross domestic product in the early 1990s to 15% in 2008/09.

Working in coalition with those who use and depend on public services, CUPE members need to demand a fairer tax system to help defend the services that make communities strong.

## **BACKGROUND**

### (i) Corporate tax cuts and the provincial revenue problem

The March 2010 Provincial Budget shows \$835 million less in overall taxation revenue than projected only last September. There is a 34.6% decline in corporate income tax revenues alone. Reduced revenue from corporate

income tax is a natural result of several corporate income tax cuts since the Campbell government first came to power in 2001. BC's corporate income tax rate is the second lowest in the country. The combined federal/provincial corporate tax rate of 25% in BC is amongst the lowest in industrialized countries (10 points lower than the United States by 2012). Over just the last two fiscal years (09/10 and 10/11) corporate income tax revenue is down \$330 million. Bad resource economic policies are also resulting in a sharp fall in resource revenue. Over the last two fiscals, forestry revenue is down \$104 million.

(ii) Industrial property tax revolt

The longstanding social contract between industrial operators like pulp and paper mills and the forest dependent communities in which they operate has been completely shattered since re-election of the Liberal government in May of 2009.

Shortly after the re-election of the Campbell government, major pulp and paper companies (led by Catalyst Paper) served notice that they simply refuse to pay the full amount of industrial property tax which they have been legally assessed. In Campbell River, Port Alberni, Powell River and North Cowichan, Catalyst hand delivered cheques worth only 25% of the amounts the mills legally owed and challenged their tax assessments in court. Similar actions were taken by the Celgar mill in Castlegar and the West Fraser mill in Kitimat. Island Cogen and TimberWest piled on in Campbell River with tax challenges of their own.

For the last few years, forest dependent municipalities have been trying to respond to demands from the companies for lower taxes. In Campbell River, industrial rates were reduced 10% prior to the tax revolt but this was not sufficient for the companies.

The four Catalyst communities eventually had the legal validity of their tax assessment upheld in BC Supreme Court, but the company filed an appeal. All the affected municipalities are facing major cash flow problems while the legal challenges are sorted out. The predictable results are service cuts and much higher residential taxes. In Port Alberni, 2010 residential tax rates were increased by 23%.

The provincial government has done little except set up a Task Force to review the industrial property tax issue. The Task Force they chose has some municipal representation but is heavily stacked with representatives of the

companies and the BC Business Council. In 2006, then Forests Minister Rich Coleman summarized the views of the Campbell government when he accused municipalities of “dining out” on the industrial property tax. In response to pressure from industry, the Campbell government has actually floated the idea of giving corporations the right to vote in municipal elections!

Besides service cuts and residential tax increases, the industrial tax revolt is also leading to privatization. In April 2010, the City of Powell River announced a deal with Catalyst whereby Catalyst tax payments will be permanently capped and Catalyst will be paid \$750,000 per year to treat community sewage. CUPE Local 798 will fight this plan to privatize Powell River sewage treatment.

The companies argue they should only pay taxes for the specific services that they use. This is a dangerous concept fundamentally at odds with Canadian values. Catalyst and the other companies want to decide which services they pay for and which they don't. But taxes are meant to provide for services of benefit to the whole community and the priorities for such spending are determined by citizens who are elected to office democratically. Imagine what would happen to public services if each taxpayer could decide which specific services they were willing to pay for.

Industrial operators have long benefitted from the public services, infrastructure and reliable trained workforce in the communities in which they operate. It has been a long time social contract in BC that mills pay their fair share of industrial taxes in exchange for these benefits. That social contract is now badly in need of repair.

### (iii) Shifting Commercial Taxes – Vancouver

In recent years, the City of Vancouver has faced major pressure from business to reduce commercial property taxes. The City has responded with a significant tax shift away from business and towards residential property taxpayers. The current City Council has promised to shift 1 percentage point of property tax away from business and onto residential taxpayers each year of their three year mandate. In 2009, this meant the City froze tax increases for business but increased residential tax rates by 4%.

One result is a shortfall in funds for needed public services. Amongst other results of the 2009 Budget, the Children's Zoo will be closed, the Bloedel Conservatory will either close or be privatized, there will be \$20 million in

general service cutbacks and up to 177 full-time equivalent positions will be cut.

If business taxes had increased at the same rate that residential tax rates increased, none of these cutbacks would have been necessary.

(iv) The Big Tax Shift – H.S.T.

The new BC Harmonized Sales Tax (H.S.T.) is a massive tax shift which will significantly increase sales taxes paid by individuals while sharply reducing taxes paid by corporations.

The H.S.T. combines the provincial sales tax of 7 per cent with the G.S.T. of 5 per cent to create a new 12 per cent sales tax. However, the new tax applies to a much broader range of goods and services than the former provincial sales tax, so many more items will now have an additional 7 per cent tax. There will be rebates for some items (like childcare services), for individuals with incomes less than \$20,000 per year and for local governments. But many goods and services will have a new tax added.

Examples of items which will have this new tax include restaurant food, hydro, natural gas, new houses worth more than \$525,000, home renovations, bicycles, school supplies, safety helmets, life jackets, energy conservation equipment (like solar panels), vitamins, non-prescription medication, home care fees, hair cuts and much more.

Meanwhile, corporations will see their sales tax bill reduced by at least \$2 billion per year since they will be eligible for an “input tax credit” that will reduce their sales tax bill.

In other words, regular British Columbians will pay more so corporations can pay less. And, like other sales taxes, the H.S.T. will be regressive since people with higher incomes are better able to afford them.

The H.S.T. follows introduction of the BC carbon tax in 2008. The carbon tax steadily increases from \$10 per tonne in the first year to \$30 per tonne by 2012.

While putting a price on carbon is one of the policies needed to help reduce greenhouse gas emissions, the form of carbon tax chosen by the Campbell Liberals is regressive. According to a study by the BC office of the C.C.P.A., by 2012 the BC carbon tax will hit lower and middle income British Columbians harder than higher income individuals.

## **CUPE BC POLICY**

In response to the increasing unfairness of the tax system in BC, CUPE BC will:

- Campaign and work with forest dependent communities to ensure assessed industrial property taxes are actually paid and that those communities have the revenues they need to provide the services their citizens require.
- Campaign and work with the BC Federation of Labour and the New Democrat Official Opposition to restore fairness to the provincial income tax system. As a first step, we will work to stop any further corporate tax cuts.
- Work with the Union of BC Municipalities to lobby the federal and provincial governments to diversify the revenue options available to municipalities so they are not so dependent on property taxes
- Participate actively in campaigns to stop the new Harmonized Sales Tax (H.S.T.).