

Sask. tax cut ensures equity, fosters growth

David McGrane, *Saskatoon StarPhoenix*, October 30th, 2008, A11

Following is the viewpoint of the writer, assistant professor of political studies at St. Thomas More College at the University of Saskatchewan.

The critique by David Seymour of the Frontier Centre last week of the provincial government's recent tax cuts and his suggestion that Saskatchewan follow Alberta's flat tax rate of 10 per cent on personal income for all taxpayers, does not recognize how the tax system can be used to boost economic growth and to spread the benefits of our economic boom to all residents fairly and equally.

While nobody enjoys paying taxes, we all understand that taxes are an essential and inevitable part of modern governance.

The real question is: What is the purpose of taxation?

Taxation can generally serve two purposes. First, taxation that is "progressive" and based on one's ability to pay can create a more equal society, where all can be guaranteed a minimum of financial security. Second, the tax system can be used to sustain economic growth and shape the direction of the economy.

Last week, the provincial government announced that it is increasing the basic personal and spousal exemption by \$4,000 and the exemption that taxpayers receive for each child by \$2,000. Essentially, this policy change increases the income threshold at which Saskatchewan taxpayers start to pay income tax.

For a Saskatchewan family with a dual income of \$50,000 or more and two children, there is now additional \$12,955 of their income on which they pay no personal income tax. That means an extra \$1,320 in their pockets at the end of the year.

The provincial government's tax cuts were "progressive" in the sense that those with the least ability to pay received the largest tax savings.

Look at it this way. Giving \$100 to a person who has a \$1,000 will make a much larger difference in his life than giving \$100 to a person who has \$100,000. The person with \$100,000 will shrug at the \$100 bill while the person with only \$1,000 will leap for joy.

This is exactly what the provincial government has done. A tax savings of \$1,320 represents only 0.9 per cent of the total income of a family that makes \$150,000 but a full 2.6 per cent of the total income of a family that makes \$50,000. Further, those who earn less than \$30,000 and pay

little or no income tax will now get \$600 of what they spent on sales tax returned to them, whereas under the former system they were getting somewhere between \$162 and \$378.

Rich people, who require less help from the government, got a small boost in their total income, while poor and middle-income people, who are struggling with high gas prices and skyrocketing housing costs, got a comparatively much larger boost to their bottom line.

Besides making Saskatchewan a more caring society, there are positive economic benefits of a taxation policy that is aimed at reducing the tax burden of low and middle income earners.

Saskatchewan has a massive labour shortage in hospitality workers, unskilled labourers and skilled tradespeople. These tax cuts could help attract workers from other provinces to take up these types of jobs in Saskatchewan. In time of economic downturn in the world, putting extra money in the pockets of the low- and middle-income earners who will spend it, could help our retail sector and maintain consumer confidence.

Seymour's suggestion that the provincial government should have followed Alberta's lead by instituting a flat tax of 10 per cent on personal income for all taxpayers would give the greatest benefit to high income earners and do little to sustain Saskatchewan's economic growth.

We currently have three personal income tax brackets -- 11 per cent, 13 per cent and 15 per cent that escalate with income. Introducing a flat tax rate would be a massive tax cut for the richest residents of Saskatchewan. Under Seymour's proposal, a person with \$250,000 of taxable income would see her taxes drop by \$9,479 while a person who earns \$40,000 of taxable income would only see her taxes drop by \$400. Clearly, a flat tax would give the richest people in Saskatchewan the lion's share of the benefits of our economic boom.

It is difficult to see how giving our richest citizens large tax breaks would aid Saskatchewan's economy.

Instead of spending this extra cash, this small number of higher income earners would squirrel it away in RRSPs or maybe buy a few extra luxury cars.

In terms of attracting investment to our province, outside companies look foremost at our corporate tax rates, our infrastructure and the level of education of our workforce, while paying only scant attention to personal income tax rates.

The economic boom that we are now experiencing is the best thing that has happened to Saskatchewan in several decades. An equitable tax system is a way to ensure that it benefits all Saskatchewan people and that our economic good fortune continues into the future.