



Members of the Standing Committee on Finance and Economic Affairs
Legislature of Ontario
Queen's Park
Toronto, ON

05 August 2008

Dear Committee Members;

**Re: Review of the Ontario Health Premium in Accordance with Section 29.2 of the
Income Tax Act**

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a national, non-partisan not-for-profit organization with 68,000 supporters across the country – 20% of whom are in Ontario. Our mandate is to advocate for lower taxes, less waste and more accountable government.

Eliminate Health Tax: Crutch for Higher Spending

There are many good reasons to eliminate the Health Tax:

1. it represents the government's broken Taxpayer Protection Promise not to raise taxes absent a referendum;
2. calling the tax a premium is an effort to fool Ontarians into believing they are paying for health care. Whereas, the premium goes into general revenue and is merely a tax grab to fund other pet projects;
3. 60% of Ontarians voted in the last election for a party that proposed reducing or eliminating the tax;
4. Ontarians need a tax break, having the second highest personal tax burden in Canada at 44.2%;
5. now that Alberta has eliminated their health tax Ontario and BC are the only provinces with a health tax; and,
6. 54% of Ontario CTF supporters choose tax relief as their first priority for government, ahead of debt reduction at 39%. Only 3% chose increased spending.

The Health Tax represents a key broken promise by this government and it should be eliminated. With the Ontario economy close to a recession, tax relief for individuals,



families and businesses would help spur spending and a return to healthy growth in the economy. This tax relief should begin with the elimination of the Health Tax.

When the government imposed this tax it touted two other provinces as examples to follow, British Columbia and Alberta. If you want to follow the examples of these provinces then follow the Alberta example. They axed the tax in their last budget.

History of the Health Tax

A review of the Ontario Health Tax requires a brief look at the history of its creation, in which the Canadian Taxpayers Federation played a large role.

During the 2003 election, on September, 2003, then Liberal Leader, Dalton McGuinty signed the Taxpayer Protection Pledge promising not to raise taxes absent a referendum. The pledge stated,

“I, Dalton McGuinty, leader of the Liberal Party of Ontario, promise, if my party is elected as the next government, that I will: Not raise taxes or implement any new taxes without the explicit consent of Ontario voters and not run deficits. I promise to abide by the *Taxpayer Protection and Balanced Budget Act*.”

For two months prior to making this promise, Liberal MPPs were stating that the deficit was \$5 billion. At committee Liberal MPPs Monte Kwinter and Finance Critic Gerry Phillips argued in June 2003 and again in August 2003 that the deficit was \$5 billion.

On September 22, 2003, only eleven days after Mr. McGuinty promised not to raise taxes, the Fraser Institute issued a fiscal report about Ontario declaring the deficit was actually \$4.5 billion. An internet search today reveals many stories were carried about the deficit size; including CBC Ontario, Canada Newswire and the Hamilton Spectator, to name only a few.

In his first budget in March 2004, Premier McGuinty broke his promise by imposing the new health tax – the single largest tax hike in the history of Ontario.

Mr. McGuinty would have Ontarians believe the tax was necessary to balance the budget because he didn't know about the size of the deficit despite this report and his own party's MPPs. This simply can't be true.

Taxpayers were understandably upset. Thousands e-mailed and telephoned their MPPs offices, radio stations, and the CTF's office in Toronto. In two short months, two hundred thousand taxpayers signed the CTF petition asking Premier McGuinty not to raise taxes or run deficits. Hundreds rallied at Queen's Park and the CTF launched a lawsuit in an effort to get the government to keep the key promise it had made.



The re-election of the Liberal government should not be taken as a vindication of this broken promise. On the contrary: 60% of Ontarians voted for a political party that proposed either to reduce or eliminate the health tax. Only a minority of 40% voted for a party that proposed the status quo.

A Premium Vs. A Tax - Insurance Vs. Revenue Grab

The so-called Health Care Premium is intentionally mis-named as a 'premium' in an effort to fool Ontarians into believing they are paying for health care. There is no doubt this tax would have been eliminated had it been named the 'bureaucrat salary enhancement levy'. Health care premiums pay for health care no more and no less than does the business tax, insurance tax, gas tax or hotel tax.

By calling the tax 'a premium' the government tries to equate the health premium with an insurance premium, like Ontarians pay for car or home insurance. If this were accurate, the level of premium would fluctuate up and down depending on how much one used. They do not.

Dr. James Smythe, Assistant Professor of Economics, at the University of Alberta commented on the Alberta Health Care Premium and how it was not dedicated to or used for health-care. He said, "the health care premiums...look and sound like a dedicated tax...But ultimately the money that you pay for the Alberta Health Care premiums actually just goes into general pool of government revenue. It doesn't go to the department of health specifically. So although it looks like a specific tax, it's not really." The same is true in Ontario. This tax has nothing to do with health care and everything to do with a revenue grab.

Health care spending in Ontario has grown at a fairly constant rate, despite the imposition of the tax. The tax revenue goes to general revenue and allows this government to fund its pet projects – like corporate welfare subsidies or slush funds, for example. The tax merely serves as a crutch for the government's spending problem.

Spending has grown out of control. Every year it has spent at more than twice the combined rate of inflation and population growth. It has grown the public sector as fast as the private sector, having created one new government job for every new private sector job created.

Growing Government Revenue

To date, the new health tax has taken a total of \$12.2 billion out of the pockets of families, businesses and individuals in Ontario. The tax revenue has already grown from



\$1.7 billion in 2004/05 to a projected \$2.8 billion in 2008/09 – a 65% increase in only five years.

Health Tax Revenue (\$ Billions)	
04/05	1.737
05/06	2.350
06/07	2.589
07/08*	2.730
08/09**	2.809

* Interim

** Plan

Ontarians Need a Tax Break

The Fraser Institute's 2008 'Tax Freedom Day' report shows that Ontario families and unattached individuals pay the second highest total tax rate of all Canadian provinces at 44.2%, only behind Quebec at 45.6% .

Broad-based tax relief like the elimination of the health tax would provide tax relief to the most people in the fairest manner. This is in contrast to 'boutique' tax cuts targeted to certain interest groups which are expensive to administer, complicated for all to understand, and often are used more for media and partisan benefit than real economic benefit. A bicycle helmet PST exemption is a good example of a boutique tax cut.

Finally, and importantly, Ontario supporters of the CTF overwhelmingly support the need for broad-based personal tax relief with 54% making it their first choice, ahead of debt reduction at 29%. Only 3% chose increased spending as their first priority.

Sincerely,

Original Signed By

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