

MSP Task Force

Dr. Lindsay Tedds

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February 1, 2018

Honourable Carole James
Minister of Finance and Deputy Premier
Room 153 Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister,

Further to the verbal briefing provided on January 19, 2018 by the Chair of the MSP Task Force, Dr. Lindsay Tedds, now that the consultation period related to the MSP Task Force has ended, we are pleased to provide you with an interim report on the work of the Task Force to date.

Task

The Government of British Columbia has committed to eliminating Medical Services Plan (MSP) premiums within four years. The Government took the first step towards this goal by reducing MSP premiums by 50% effective January 1, 2018.

The MSP Task Force was charged with advising the Minister of Finance on how best to complete the elimination of MSP premiums and replace the foregone revenue from premiums. We were asked to ensure that citizens, businesses, and interested parties were provided with an opportunity to express their views and to consider how other provinces eliminated similar medical premiums. In developing our options, we were asked to assess them according to the principles of fairness, efficiency, competitiveness, simplicity, and revenue stability and ensure that the result is a more progressive tax system for British Columbians.

Process

Citizens, businesses, and interested parties were encouraged to share their ideas on replacing the MSP premium revenue through the MSP Task Force engagement website with a deadline of January 31, 2018.

The Task Force also decided to meet face-to-face with key organizations to discuss specific perspectives and issues, and to receive specific feedback on various options.

To inform our work, the Task Force reviewed the existing tax system in BC within the context of the tax policy environment federally and provincially in Canada, and tax reform in the United States. We also looked at the path followed by other provinces that have eliminated health care premiums, focusing particularly on Ontario, Quebec, and Alberta.

Our work has been informed by consultations undertaken by business competitive commissions in 2012 and 2016 as well as the publicly available Budget 2018 consultation submissions. We are aware of other currently ongoing reviews including the Mobility Pricing Independent

Commission, the Fair Wages Commission, and the Poverty Reduction Advisory Forum, that may also propose changes that will affect individuals and businesses in BC.

We are aware that Budget 2018, which will be delivered February 20, 2018, may include policy changes that affect our final report.

What We Heard

More than 1,500 submissions have been received from individuals and 26 submissions have been received from various stakeholders, including business, labour, public policy groups and various health-care related groups, through the MSP Task Force engagement website. Over 1,400 submissions received in late January were the direct result of a letter writing campaign related to a submission from the BC Health Coalition.

Throughout the month of January 2018, the Task Force met with six groups, representing business, labour, and public policy groups to discuss the issues and receive specific feedback on various options. Four of these groups also provided written submissions to the engagement website.

The most striking theme that arose from consultations was a strong expectation that the MSP revenue would be replaced with a combination of personal income tax and payroll tax, similar to the approach taken by Ontario. While some opposed the use of a payroll tax, even they expected that a combination of income tax and payroll tax would ultimately be implemented by the Government of British Columbia. This was generally based on the observation that individuals and businesses both benefit from publicly-provided health care and therefore, both should make a contribution.

Several groups, comprising a mix of labour, business, and public policy groups, recommended that the needed incremental revenue be split between personal income tax and payroll tax based on the current proportion of MSP premiums paid by individuals and businesses respectively. Most suggested 60% from personal income tax and 40% from payroll tax but some suggested a 50% - 50% split.

Some respondents provided additional detail regarding the implementation of tax measures. For personal income tax, some recommended a separate health levy similar to that which exists in Ontario, whereas others recommended a combination of changes in the statutory personal income tax rates and thresholds. For payroll tax, while most business groups and some public policy groups did not support payroll tax, they all suggested that if implemented, the rate of the payroll tax be kept low to limit negative business competitiveness impacts. Small business groups suggested exempting small business while representatives of larger businesses suggested no exemptions.

In addition to personal income tax and payroll tax, there were several other suggestions raised, including:

- Raising corporate income tax rates,
- Reducing corporate tax expenditures such as film and digital media related tax credits,

- Broadening the Provincial Sales Tax base,
- Replace the Provincial Sales Tax with a value-added tax,
- Introducing new taxes on sugary drinks and “junk” food,
- Increasing taxes on liquor and tobacco,
- Taxing and regulating cannabis,
- Making changes to property taxation, and
- Changing the Home Owner Grant into an income tested program delivered through the income tax system.

Several respondents emphasized the importance to them of a connection between the revenue replacement mechanisms and health care.

Initial Advice

While we have not completed a detailed analysis of the available options or come to firm conclusions related to the preferred options for replacing the revenue, we have three pieces of initial advice.

First, whatever mechanisms are chosen to replace MSP revenue, we feel strongly that there should not be any phase-in of the new measures and phase-out of MSP. Rather, we suggest that MSP be eliminated as at a specific date and that the new revenue measures take effect fully at the same time.

Second, we believe it is important that reasonable notice be given about when the change will take effect. MSP premiums are paid by many employers as an employee benefit, which represents part of the compensation of those employees. Reasonable notice will provide time for employees and employers to agree upon how that compensation will be replaced when MSP premiums are eliminated. For unionized employees where the collective agreement does not already address this issue, that may require collective bargaining, which takes time. We believe that at least one year’s lead time should be allowed.

Third, the amount of revenue to be replaced, approximately \$1.3B, is a sizable amount of money. Our analysis to date of the available options makes it clear that no one option is preferred based on the principles we were asked to assess the options against. All revenue options that have been identified represent trade-offs among the criteria, each having some positive and some negative implications. Therefore, we feel that it is important the revenue be replaced by a combination of measures in order to best mitigate the negative impacts of each.

Measures Under Consideration

Based on the input received, a detailed analysis of the B.C. tax system, a jurisdictional scan of other provinces, and reflecting carefully on the general tax policy environment, we have identified a range of options that could be considered to replace the revenue from MSP premiums. We will discuss these options in detail in our final report, due by March 31, 2018, but it should be no surprise that our range of options includes both personal income taxes and payroll tax.

There are several methods that could be used to generate increased revenue from the personal income tax system. The approach taken in Ontario is a levy collected under the income tax system that is separate from the income tax, but that varies with income up to a cap. Such an approach would effectively be a health premium collected using the income tax system. Other approaches would be to: apply a surtax, change statutory tax rates, or modify statutory tax brackets. We are assessing all of these options.

Raising revenues through personal income tax will create many winners and losers compared to the MSP premiums. Many of those whose premiums are currently paid by an employer will have to pay more. Whether others will pay more or less will depend on their circumstances. MSP premiums are paid for households and premium assistance varies with family income while the personal income tax system taxes individuals, usually without reference to family income. While use of personal income tax would increase the progressivity of the tax system compared to MSP premiums, whether or not a person would pay more or less under any of the personal income tax approaches would vary with many factors in addition to income. These considerations will influence our choice and analysis of personal income tax options.

A payroll tax would have the advantage of raising a portion of the revenue from all businesses, not just those that currently pay employees premiums voluntarily as an employee benefit. A payroll tax would reduce the competitiveness of BC businesses at a time when they are facing several competitiveness challenges including expected increases to the minimum wage, CPP increases, and recent tax reform in the US which improve the competitive position of many US businesses. On the other hand, small businesses in BC are benefiting from both federal and provincial reductions in the small business rate. These considerations will be taken into account as we design a payroll tax option in terms of the quantum of rates, if and how rates vary, and any exemptions or thresholds.

We are also looking in detail at several other promising options, some of which have been raised in consultations and listed above, that we will describe in detail in our final report. In particular, the Task Force is looking closely at taxes on various unhealthy products on the basis that the consumption of unhealthy products often leads to health problems that impose costs on the publicly-funded health care system.

At present, we are leaning towards a combination of a personal income tax surcharge, a small payroll tax, and one or more of the additional ideas we are developing as the best way to replace the \$1.3B revenue from the full elimination of MSP premiums.

Sincerely,



Dr. Lindsay Tedds
Chair



Paul Ramsey



David Duff