

Business leaders blast new health tax as corporate profits surge upward

Last year, for the first time ever, the combined profits of all B.C. businesses powered past the \$30 billion mark.

According to the Ministry of Finance, corporate earnings reached \$32.4 billion in 2017 – up smartly from the \$29.2 billion recorded one year earlier.

Those numbers are not surprising given that corporation profits in recent decades have composed about 10-12 per cent of the province’s nominal gross domestic product.

And as GDP continues to expand – positive growth has been recorded in all but two years (1982 and 2009) over the last four decades – business profitability seems naturally to follow suit.

In 2017, when the provincial-general election put an end to 16 consecutive

years of BC Liberal rule – and set up a minority New Democratic Party government supported by the three-person Green caucus – the economy was measured at \$279.4 billion. Corporation earnings represented 11.6 per cent of that number.

Profits are anticipated to continue growing in the near future in tandem with economic expansion. The Finance department calculates that in 2020 the province’s nominal gross domestic product will hit \$315.3 billion, and in 2021 – when B.C. voters are scheduled to again head to the polls – \$327.7 billion.

In those two years, corporate profits are expected to come in at \$36.5 billion and \$37.7 billion respectively – or 11.6 and 11.5 per cent of GDP.

Could anything over the next several years jeopardize British Columbia’s expanding economy and soaring corporate profits?

Val Litwin, president of the B.C. Chamber of Commerce, certainly thinks so. He’s sounding the alarm over the NDP government’s new Employer Health Tax (EHT), and even claims it “could stall economic growth.”

The new health levy, he declares, is “simply too much for business.”

Due to take effect on January 1, 2019, the EHT is expected to generate \$1.850 billion in 2019/20, and \$1.922 billion in 2020/21 – the latter being the fiscal year that will end mere months before the provincial-general election scheduled for October 2021.

The new EHT will partially replace revenues lost from the NDP government’s planned abolition of Medical Services Plan premiums. The MSP premiums, which British Columbians have paid to the provincial government for the last half-century, are being phased out over a three-year period and will completely disappear by January 1, 2020.

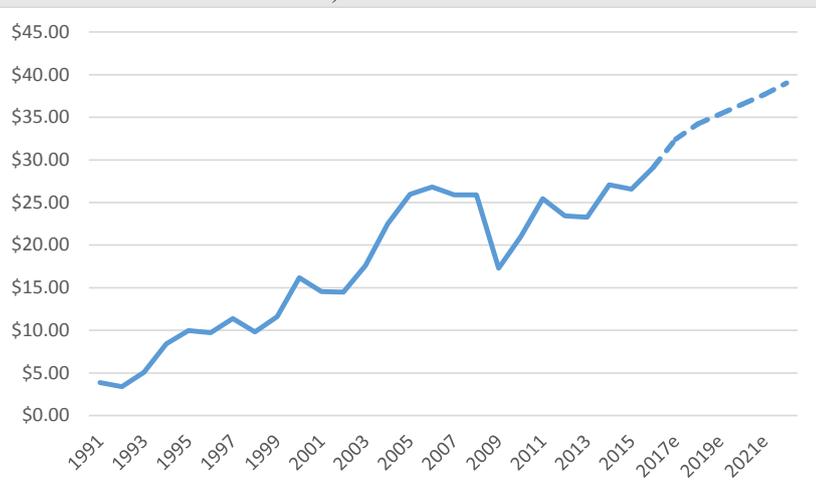
The EHT will make up only some of the monies generated by MSP premiums, with the remainder coming from the provincial government’s Consolidated Revenue Fund – that is, from taxes on people and businesses, federal transfers, natural resources, Crown corporations and a myriad of other levies.

Litwin and the B.C. Chamber of Commerce are not alone in fulminating

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Profits for B.C. corporations march inexorably higher

(\$billions - actual and estimated)



SOURCE - BC Stats and B.C. Budget and Fiscal Plan – 2018/19 to 2020/21.

against the EHT – eight other business groups are asking NDP Premier John Horgan to revoke the new tax.

But Litwin is taking a lead role in the fight and his assertions deserve close examination.

In a column published in *The Province* newspaper on March 22, Litwin wrote: “Businesses already shoulder 40 per cent of the MSP under the current model, but the EHT would have them cover almost 75 per cent.”

The new tax, he added, “will shift roughly \$2 billion of the total \$2.6-billion, annual MSP tab entirely onto employers” by 2020/21.

Simply, the B.C. Chamber of Commerce believes it was fair and equitable when businesses contributed 40 per cent of the total revenues raised by MSP premiums, but economic disaster could befall the province if that portion rises to 75 per cent.

Unfortunately, the Chamber’s numbers – and assertions – cannot withstand close scrutiny.

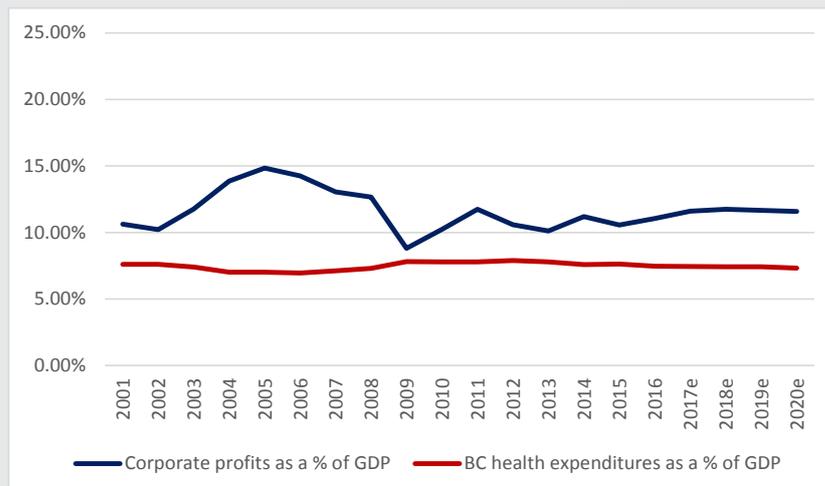
Litwin does get one number right: independent analysts generally agree that employers contributed about 40 per cent of the total monies raised each year by MSP premiums.

So, as MSP receipts soared dramatically under the BC Liberals – skyrocketing from \$955 million to \$2.558 billion between 2001/02 to 2016/17 – the cost to employers rose commensurately.

Over the BC Liberals’ 16-year tenure in government, the annual MSP premium payments made by employers – at least those who paid the premiums on behalf of their workers and their families – exploded from about \$380 million in 2001/02, to more than \$1.0 billion in 2016/17.

But the Chamber wrongly conflates “employers” with “businesses.” Many B.C. employers are in the public sector – including schools, universities, colleges, hospitals and other health facilities, Crown corporations and the provincial government itself – and not private-sector businesses.

Province’s health expenditures hold steady as share of economy - and dwarfed by business profits



SOURCE - Stats BC; B.C. Financial and Economic Review, various years; and B.C. Budget and Fiscal Plan – 2018/19 to 2020/21.)

In 2017, BC Stats pegged the province’s employed labour force at 2,028,600 workers. Of that number – which does not include self-employed workers – nearly 1.6 million were in the private sector (working at businesses) and 438,000 were in the public sector.

Businesses generally employ a little more than three-quarters of B.C. workers, and therefore contribute no more than 75 per cent of the employers’ MSP premium payments – not, as Litwin suggests, 100 per cent.

Viewed in this light, private-sector employers paid, not 40 per cent, but about 30 per cent of total MSP premium revenues.

Which means that from 2001/02 to 2016/17, contributions by B.C.’s business-sector to the Medical Services Plan grew from something less than \$300 million to approximately \$800 million.

Even more importantly, the Chamber is way off the mark with the assertion that businesses will have to cough up “roughly \$2 billion” for the Employer Health Tax in 2020/21.

To repeat a point made earlier, the Ministry of Finance estimates that total EHT receipts in 2020/21 will be \$1.922 billion.

Of that amount, employers obviously will pay 100 per cent, but businesses – which, again, comprise only three-quarters of all employers – will at most contribute little more than \$1.4 billion.

That’s nearly \$600 million less than the amount claimed by the Chamber.

In a nutshell, B.C. businesses paid approximately \$800 million in MSP premiums in 2016/17, and that amount should rise to about \$1.4 billion in 2020/21. The former amount represented about 2.5 per cent of corporate profits in 2017; the latter will be approximately 3.7 per cent of business earnings in 2021.

Is it even remotely possible, as the Chamber contends, that an increase from 2.5 to 3.7 percent of corporate profits in health-care payments “is simply too much for business”?

And whereas business payments under the MSP in 2016/17 represented less than 0.3 per cent of B.C.’s nominal GDP, contributions by the private-sector through the Employer Health Tax in 2020/21 will rise to about 0.43 per cent of the economy.

The view of the B.C. Chamber of Commerce, then, is that this miniscule hike in business costs “could stall economic growth.” Seriously.

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Recall that the Chamber’s claim was the EHT “will shift roughly \$2 billion of the total \$2.6-billion, annual MSP tab” onto businesses by 2020/21.

The \$2 billion estimate is patently false – it’s just over \$1.4 billion – but what about the \$2.6 billion number?

MSP premiums generated \$2.558 billion in 2016/17 – roughly \$2.6 billion. Would that number have remained the same four years later, in 2020/21?

A key reason for the province’s ever-rising MSP premium revenues – along with the BC Liberals’ incessant hikes to premium rates – is B.C.’s relentless population growth.

From 2001 to 2017, the province added 740,000 new residents, an annual average of more than 46,000.

That pace has quickened in recent years and is expected to average 71,500 annually between 2016 and 2020, when the province’s total population is forecast to reach 5,044,000.

So, even if Medical Services Plan premiums and rates were to remain in place and constant over the coming years – rather than being replaced by the EHT – total revenues still would have risen in concert with B.C.’s population growth.

How to calculate the future receipts

from MSP premiums had they continued on their upward trajectory – instead of being phased out over a three-year period by Horgan’s NDP?

Under the BC Liberals between 2001/02 and 2016/17, MSP premium revenues grew by an annual average of 11.2 per cent. Had that rate continued through to 2020/21, receipts would approach \$4.0 billion.

From 2010/11 to 2016/17, when Christy Clark was Premier, the yearly average slowed slightly to 7.5 per cent. A continuation of that rate would drive MSP revenues to nearly \$3.5 billion in 2020/21.

Even if the new Horgan government had frozen MSP premium rates, the total of revenues generated by health-premiums would have climbed along with British Columbia’s growing population and expanding economy.

Over 2015/16 and 2016/17, provincial revenues from MSP premium receipts represented 0.97 per cent of nominal GDP.

Which means that had MSP rates remained static through to 2020 and 2021 – when the B.C. economy is expected to grow to \$315.3 and \$327.7 billion – health-care premium revenues would be \$3.1 to \$3.2 billion.

So, whereastheChamberassertsthatthe

soon-to-arrive Employers Health Tax will cover part of the “total \$2.6-billion, annual MSP tab,” the actual tab in 2020/21 – had MSP premiums been kept in place – would have been at least \$500-\$600 million higher.

Viewed in this light, the charge that businesses will pay “almost 75 per cent” of the revenues lost through abolition of MSP premiums – \$2 billion out of \$2.6 billion – is absurd.

In fact, businesses in 2020/21 will pay about \$1.4 billion to partially cover the loss of at least \$3.1 billion – 45 per cent – in foregone MSP premium receipts.

Businesses, then, will see their share of the soon-to-be-extinct health premiums rise, not from 40 to 75 per cent, but from 30 to 45 per cent – from under one-third to less than one-half.

At about 30 per cent of \$3.1-\$3.2 billion, MSP premium payments by the business sector in 2020/21 – had the health-premiums been retained – would be around \$950 million.

Instead, with the New Democrats’ abolition of MSP premiums, businesses in 2020/21 should expect to pay about \$1.4 billion through the new Employer Health Tax.

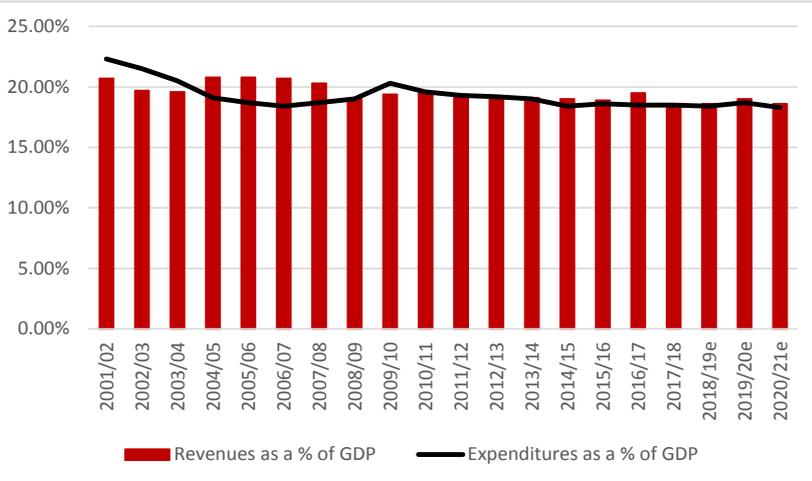
The total cost-increase for B.C. businesses in 2021 will be in the neighbourhood of \$450 million – from \$950 million to \$1.4 billion – which represents roughly 1.2 per cent of expected corporate profits.

It is truly possible that the province’s private sector is so exceptionally fragile that a 1.2 per cent reduction in profits – \$37.7 billion minus \$450 million is more than \$37.2 billion – will be “simply too much for business” to manage?

Finally, the Chamber also is miffed about a hike in the carbon tax, a small increase in the corporation income tax, and so on. Yet consider that government revenues over Clark’s six-plus years as Premier were about 19.1 per cent of nominal GDP.

In the current year now getting under way – 2018/19 – the NDP’s first full-year Budget forecasts revenues at only 18.6 per cent.

Horgan government keeps revenues and expenditures in line with previous administrations



SOURCES - B.C. Financial and Economic Review, various years, and B.C. Budget and Fiscal Plan – 2018/19 to 2020/21.)