

Legislative
Assembly
of Ontario



Assemblée
législative
de l'Ontario

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Review of the Ontario Health Premium

1st Session, 39th Parliament
57 Elizabeth II

Library and Archives Canada Cataloguing in Publication Data

Ontario. Legislative Assembly. Standing Committee on Finance and Economic Affairs
Review of the Ontario Health Premium [electronic resource]

Issued also in French under title : Examen de la Contribution-santé de l'Ontario.

Electronic monograph in PDF format.

Issued also in printed form.

ISBN 978-1-4249-7874-8

1. Insurance, Health—Premiums—Ontario. 2. Insurance, Health—Government policy—
Ontario. 3. Ontario Health Premium. 4. Medical policy—Ontario. I. Title. II. Title: Examen
de la Contribution-santé de l'Ontario.

HG9399.C3625 O57 2008

368.4'2009713

C2008-964033-0

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The Honourable Steve Peters, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Finance and Economic Affairs has the honour to present its Report on its Review of the Ontario Health Premium, and commends it to the House.

Pat Hoy, MPP
Chair

Queen's Park
September 2008

**MEMBERSHIP OF THE
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS**

1st Session, 39th Parliament

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WHO PARTICIPATED IN THE COMMITTEE'S DELIBERATIONS**

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MEMBER OF THE COMMITTEE

INTRODUCTION

On April 9, 2008, the Legislative Assembly passed a motion that the Standing Committee on Finance and Economic Affairs conduct a review of the Ontario Health Premium, as required under section 29.2 of the *Income Tax Act*.¹

In accordance with a motion passed by the Assembly on June 17, 2008, authorizing certain Committees to meet during the summer adjournment, the Standing Committee on Finance and Economic Affairs met on August 5, 2008 to receive submissions concerning the Ontario Health Premium.

Appearing before the Committee were one municipality, one hospital, one foundation, one labour union, and three private citizens. In addition, the Committee received eight written submissions prior to the deadline of 5 p.m. on August 7, 2008.

LEGISLATIVE HISTORY

The Ontario Health Premium was first announced in the 2004 Budget, presented by Finance Minister Greg Sorbara on May 18, 2004:

And so, to shorten wait times, to provide more doctors and nurses, to deliver results for patients, we are proposing an Ontario health premium. The premium would be based on income, and it would be dedicated entirely to health.²

The Minister indicated the premium would range from no payment for those with the lowest incomes to \$900 for the highest earners. Mr. Sorbara also acknowledged that the introduction of the tax was contrary to promises made in the previous election campaign, but explained why the government felt compelled to take this action:

Mr. Speaker, as I said, you know and I know that this is something we promised not to do. But in the context of the

¹ 29.2 (1) A standing or select committee of the Assembly shall be appointed to review the Ontario Health Premium within four years after this section comes into force.

(2) The committee shall begin its review on or after the date specified by the Assembly, which date shall be no earlier than June 30, 2008, and shall report the results of its review to the Assembly no later than December 31, 2008.

² Legislative Assembly of Ontario, *Hansard*, 38th Parliament, 1st Session, May 18, 2004 (pdf file at http://www.ontla.on.ca/house-proceedings/transcripts/files_pdf/2004-05-18_pdfL050.pdf, accessed August 15, 2008), p. 2331.

deficit, to keep our promise to improve health care, to serve a growing and aging population, when wait times are too long and the pressure on public health is greater than ever, it is the right thing to do. It's the fairest way to fund the necessary investments we need.³

Bill 83, the *Budget Measures Act, 2004*

Following the Budget speech, Mr. Sorbara introduced Bill 83, the *Budget Measures Act, 2004*, which included an amendment to the *Taxpayer Protection Act, 1999* that removed a potential impediment to the introduction of the proposed health premium.

Taxpayer Protection Act, 1999

Section 2(1) of the Act prevents the government from introducing a new tax (or increasing an existing tax) without the authorization of Ontario taxpayers:

2. (1) A member of the Executive Council shall not include in a bill a provision that increases, or permits the increase of, a tax rate under a designated tax statute or that establishes a new tax unless,

(a) a referendum concerning the increase or the new tax is held under this Act before the bill is introduced in the Assembly; and

(b) the referendum authorizes the increase or the new tax.

The *Budget Measures Act, 2004* amended the *Taxpayer Protection Act, 1999* by including an exemption from s. 2 (1) for legislation introduced in 2004 containing "a provision to establish a new tax under the *Income Tax Act* to be called the Ontario Health Premium."

Bill 83 received third reading and Royal Assent on June 17, 2004.

Bill 106, the *Budget Measures Act, 2004 (No. 2)*

On June 21, 2004, Finance Minister Sorbara introduced Bill 106, the *Budget Measures Act, 2004 (No.2)*, which included amendments to the *Income Tax Act* establishing the Ontario Health Premium. These changes were described in the Bill's explanatory note as follows:

³ Ibid., p. 2332.

The *Income Tax Act* is amended to impose a tax called the Ontario Health Premium. The new section 2.2 imposes the tax and the new section 3.1 governs how it is calculated. Consequential amendments are made to other sections of the Act.

The new section 29.1 of the Act specifies that the Public Accounts for each fiscal year shall include information about the use of the revenue from the Ontario Health Premium. The new section 29.2 provides for a review of the Ontario Health Premium by a committee of the Assembly.

Bill 106 received third reading and Royal Assent on December 16, 2004.

THE ONTARIO HEALTH PREMIUM

Structure

The Ontario Health Premium is essentially a surcharge applied to an individual's taxable income for a taxation year. It is collected through the income tax system, and it has been deducted from pay and pensions as part of income tax since July 1, 2004.⁴

The premium consists of five levels between \$300 and \$900, each of which is "phased in" at a prescribed rate over a prescribed range of income. The first level of the premium is \$300, which is phased in for those with taxable incomes between \$20,000 and \$25,000 at a rate of 6% of taxable income in excess of \$20,000. Everyone with incomes between \$25,000 and \$36,000 pays the same premium of \$300. For those with taxable incomes between \$36,000 and \$38,500, the next premium level, \$450, is phased in at a rate \$300 plus 6% of taxable income in excess of \$36,000.

Table 1 details the complete rate structure for the OHP.

⁴ Section 3.1(4) provides that the amount of the premium for the taxation year ending December 31, 2004 was 50% of the amount otherwise calculated under section 3.1(1).

Table 1: OHP Rate Structure

Taxable Income	Ontario Health Premium	
	Annual	Monthly
\$0 - \$20,000		
\$20,000 - \$25,000	phase-in at 6%	\$0 - \$300
\$25,000 - \$36,000		\$300
\$36,000 - \$38,500	phase-in at 6%	\$300 - \$450
\$38,500 - \$48,000		\$450
\$48,000 - \$48,600	phase-in at 25%	\$450 - \$600
\$48,600 - \$72,000		\$600
\$72,000 - \$72,600	phase-in at 25%	\$600 - \$750
\$72,600 - \$200,000		\$750
\$200,000 - \$200,600	phase-in at 25%	\$750 - 900
\$200,600 and over		\$900

The Committee received several submissions concerning the structure of the OHP. One letter argued that it is unfair to require members of the Canadian Armed Forces stationed in Ontario, who are not covered by the Ontario Health Insurance Plan (OHIP), to pay the Ontario Health Premium. Another letter indicated that couples who take advantage of income-splitting under the federal *Income Tax Act* may end up with a net increase in OHP payments. A representative of Ontario's First Nations urged the province to enter negotiations with the federal government to resolve the conflict between requiring First Nations peoples on reserve to pay the OHP and the tax-exempting provisions of s. 87 of the *Indian Act*.

Recommendations were also received to revise the income chart (above) by splitting the \$48,000 - \$72,000 bracket into two brackets and to reduce OHP levels by 5% to 10% for all income levels.

Several witnesses described the OHP as a regressive tax, particularly onerous for those at the lowest end of the income bracket, or for the middle class. The union representative suggested the province raise its revenues in a more progressive manner, and mitigate the regressive effects of the OHP by requiring employers to pay OHP on behalf of their employees (see below).

The Committee received recommendations from several citizens and a taxpayer advocacy organization that the OHP be eliminated. The latter group suggested this be done over a two-year period during which there

would be a freeze on increases in government expenditures and “corporate welfare” would be eliminated.

Revenue

Table 2 provides data from the *Public Accounts of Ontario* for OHP revenue from fiscal 2004-05 to fiscal 2006-07, as well as interim and projected OHP revenues for subsequent years, as provided in the *2008 Budget*.

Table 2: OHP Revenue
(\$ millions)

Fiscal Year	OHP Revenue	Total Taxation
2004-05	\$ 1,737	\$ 55,975
2005-06	2,350	59,917
2006-07	2,589	64,310
2007-08	2,708 (interim)	68,300
2008-09	2,809*	69,000*
2009-10	2,900*	71,900*
2010-11	3,100*	74,500*

* projected

The Committee received diverging opinions on the significance of the revenue generated by the OHP. On one hand, it was proposed that the elimination of the OHP would provide a strong stimulus to the provincial economy at a time when it is needed. On the other hand, the OHP was described as generating too little revenue to fund important public services in the province.

Similarly opposed views were expressed on the impact of the OHP on the quality of health care in Ontario. While individual citizens who commented seemed unable to identify improvements that they could attribute to OHP revenues, the only health professional to address the Committee, a hospital CEO, identified the OHP as a positive influence in ensuring the health care system is adequately resourced.

Collection

The OHP is collected through the income tax system and has been deducted from pay and pensions as part of income tax since July 2004. It is administered by the Canada Revenue Agency under the existing tax collection agreement between Ontario and the federal government. OHP

revenue, net administration fees charged by the government of Canada,⁵ is deposited into the province's consolidated revenue fund.

Payment By Employers

Prior to January 1, 1990, workers were required to pay OHIP premiums (on an individual or family basis) and employers paid a portion of these premiums on their employees' behalf. Many collective agreements negotiated during that time included language obligating employers to pay the entire cost of their employees' health insurance premiums. Although OHIP premiums were replaced in 1990 with the Employer Health Tax, many collective agreements continued to maintain clauses (worded variously) obligating the employer to cover the cost of (or fees for) their employees' health insurance coverage.

A Ministry of Finance backgrounder released when the legislation to create the OHP was introduced contained the following comments concerning employers' obligations:

Some existing collective agreements refer to coverage of the old OHIP premiums. However, unlike the old OHIP premiums, the new premium would be a tax on individuals under the *Income Tax Act*. Whether the Ontario Health Premium would be captured by those agreements would depend on the interpretation of those agreements.

Although it might be possible for employees to negotiate with their employers to be reimbursed for the premium as part of their compensation, it would be considered a taxable benefit to the employee and would be subject to personal income tax.⁶

Since the introduction of the OHP, a number of cases (recently estimated to be more than 90) have gone to arbitration to determine if employers are liable under the terms of existing collective agreements to cover employees' OHP payments. Appeals brought seven decisions before the Divisional Court, which, in each case, upheld the arbitrators' original rulings.⁷ Six of these cases were subsequently appealed to the Court of Appeal. On December 8, 2007, the Court released its decisions, upholding the original award in each case:

⁵ These fees amounted to more than \$6 million in 2004-05, \$183,639 in 2005-06, and \$44,060 in 2006-07.

⁶ Ontario Ministry of Finance, "Ontario Health Premium: Healthier Ontarians and a Healthier Ontario," *Backgrounder*, June 21, 2004.

⁷ These cases included rulings for the union and rulings for the employer.

The Court of Appeal again emphasized that labour arbitrators are experts at interpreting collective agreement provisions and that their decisions should not be lightly interfered with.⁸

One of the cases before the Court of Appeal involved the Toronto Transit Commission (TTC) and the Amalgamated Transit Union Local 113, a case in which the arbitrator had ruled in favour of the union. The TTC sought leave to appeal the Court of Appeal's ruling to the Supreme Court of Canada. On June 21, 2007 the Supreme Court ruled it would not hear the appeal.

In short, the courts have left this matter to be determined on a case-by-case basis by labour arbitrators. At the time the Committee conducted its review, 86 awards had been made, 19 of which were in favour of the union, requiring the employer to cover employees' OHP payments. Almost two-thirds of these cases involved public sector employers such as municipalities, public utilities and transit commissions. In these circumstances, the Committee was told, taxpayers end up paying for the OHP twice: first, as part of their income tax, and second, through their municipal taxes to cover the costs of the OHP payments of municipal workers.

The Committee was urged to recognize that further action by the government is required to clarify the respective obligations of employers and employees regarding the OHP. Specific amendments to the *Income Tax Act* that would eliminate any liability of employers for their employees' OHP payments were presented. An alternative proposal was that the government reverse its position that the OHP is a tax, and treat it as an actual premium (obliging employers to pay the amount on their employees' behalf).

Reporting

Section 29.1 of the *Income Tax Act* requires that the "Public Accounts for each fiscal year shall include information about the use of the revenue from the Ontario Health Premium." Such information is included in Volume I of the *Public Accounts* as the last item in the section entitled "Details of Revenue." The three annual *Public Accounts* released since the implementation of the OHP have each provided a table expressing OHP revenue "as a share of total health expenditures applied equally across

⁸Geoff Ryans, "Ontario Health Premium Update", online document of Filion Wakely Thorup Angeletti LLP, Management Labour Lawyers, prepared January 2, 2007, accessed August 18, 2008 at <http://www.filion.on.ca/pdf/caselaws/Lapointe.pdf>.

expense areas.” Data for 2004-05, 2005-06, and 2006-07 are collected in Table 3.

Table 3: OHP Revenue as a Share of Health-Related Expenditures
(\$ millions)

Expense Area	2004-05	2005-06	2006-07
Hospitals*	\$ 654	\$ 1,057	\$ 1,171
OHIP	412	493	545
Long-Term Care Homes	140	181	192
Ontario Drug Programs	137	188	204
Home Care, Community and Mental Health Services	120	159	178
Public Health, Ministry of Health Promotion and Other	274	272	299
Total	\$ 1,737	\$ 2,350	\$ 2,589
(% of total health care sector expenditures)	5.5%	7.1%	7.3%

The relationship of the OHP to health-related expenditures has been described by the *Public Accounts* in various ways. The *Public Accounts, 2004-05* noted simply that “the revenue from the premium supported this increase [of \$2,938 million in operating expense in the Ministry of Health and Long-Term Care].”⁹ The following year, the relationship was expressed as follows:

Ontario Health Premium revenue supports expenditures in all areas of the Ministry of Health and Long-Term Care and the Ministry of Health Promotion and is not earmarked by program area.¹⁰

The *Public Accounts, 2006-07* retains this description of the relationship between OHP revenue and health-related expenditures, but begins with the following additional observations:

The introduction of the Ontario Health Premium (OHP) has helped to ensure the government’s ability to make much needed investments in the province’s previously

⁹ Ontario, Ministry of Finance, *Public Accounts, 2004-05*, Volume I, p. 1-7.

¹⁰ Ontario, Ministry of Finance, *Public Accounts, 2005-06*, Volume I, p. 1-7.

ailing health care system. Every penny of the OHP goes toward improving Ontario's health services.¹¹

This language echoes the comments made by Finance Minister Sorbara in the 2004 Budget speech when he noted:

In short, every single cent from this premium will be invested in health care. Every cent of this premium will be used to provide better results in our health care system.¹²

Several citizens expressed concern that the relationship between the OHP and health care expenditures is only "notional."¹³ On the other hand, the Committee heard that the identification of the OHP with health care expenditures may well have increased general expectations of public accountability and transparency by health care providers.

COMMITTEE RECOMMENDATION

The Committee recommends that after hearing from a number of Ontarians during the public hearing phase of this review that health care in Ontario is improving because of the government's investments since 2003, the government:

- continue making the significant investments that it has made since 2003 in health care;
- continue to increase investments in health care;
- continue with its plan to invest in public health care:
 - to lower wait times;
 - to improve access; and
 - to promote health and prevent illness; and
- continue with its plan to invest in modernizing health infrastructure.

¹¹ Ontario, Ministry of Finance, *Public Accounts, 2006-07*, Volume I, p. 1-7.

¹² Legislative Assembly of Ontario, *Hansard*, 38th Parliament, 1st Session, May 18, 2004 (pdf file at http://www.ontla.on.ca/house-proceedings/transcripts/files_pdf/2004-05-18_pdfl050.pdf, accessed August 15, 2008), p. 2333.

¹³ In a letter (supplied to the Committee) to First Nations leaders, in December 2005, Finance Minister Dwight Duncan referred to the section in the Public Accounts of Ontario "detailing the specific health care services that are notionally funded by the OHP."

LIST OF WITNESSES AND SUBMISSIONS

Organization / Individual	Date of Appearance	Hansard URL
Mary Lou Ambrogio	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P155_24407
Association of Iroquois and Allied Indians	Written submission	
Anne Bilous	Written submission	
Canadian Taxpayers Federation	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P183_33936
Canadian Urban Transit Association – Ontario Public Transit Association	Written submission	
Rob Cheshire	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P228_46227
City of London	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P113_12127
Andrew Dowie	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P266_54894
Joanne Dumas	Written submission	
Beverley MacDonald	Written submission	
D.D. McMillan, CD	Written submission	
Ray Simms	Written submission	
United Steelworkers	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P355_87104
Windsor Regional Hospital	August 5, 2008	http://www.ontla.on.ca/web/committee-proceedings/committee_transcripts_details.do?locale=en&Date=2008-08-05&ParlCommID=8858&BillID=&Business=Review+of+the+Ontario+health+premium#P314_69658
Paulos Youakim	Written submission	

APPENDIX A

**DISSENTING OPINION OF THE
PROGRESSIVE CONSERVATIVE MEMBERS OF THE COMMITTEE**

Standing Committee on Finance and Economic Affairs

Ontarians Oppose McGuinty's Controversial "Health" Tax: Liberal MPPs Refuse to Listen

Review of the Ontario Health Premium
Official Opposition, Progressive Conservative
Dissenting Opinion

Participating Official Opposition Members:

Ted Arnott (Wellington-Halton Hills PC)
Toby Barrett (Haldimand-Norfolk PC)
Tim Hudak (Niagara West-Glanbrook PC)

"Honour the obligation to consider eliminating this tax if the results of the review are not favourable."

-- Ms. Mary Lou Ambrogio, Ontario citizen, 5 August 2008

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Introduction

"I was very clear to Ontarians...I just can't envision a time at this point in time when we will not need that money for investment in our health-care system. It begs the need for the review itself. The only need for the review at this point in time is a technical one."

-- Dalton McGuinty, December 19, 2007¹

Premier McGuinty broke his signature promise from the 2003 campaign not to raise taxes when he introduced the controversial so-called "health" tax with his very first budget in May 2004. At the same time, in an attempt to mollify taxpayer outrage, Premier McGuinty promised to have the Standing Committee on Finance and Economic Affairs review the need for the tax after four years. Conveniently, this statutory review was to take place after the October 2007 election in order to give taxpayers hope that the tax would be removed or reduced.

Despite unexpected revenues of \$5.6 billion dollars in the last fiscal year, McGuinty said he had no intention of getting rid of the health tax which contributed \$2.7 billion to revenue in 2007-08. Before the Committee began its hearings, Premier McGuinty prejudiced the Committee's work by saying that the so-called "health" tax would stay the same no matter what taxpayers told the Committee.

"If you're looking to me to eliminate your health premium in 2009, don't look to me for that. We need every single penny of that premium."

-- Dalton McGuinty, September 6, 2007²

The P.C. Caucus has consistently opposed the "health" tax because it was a broken promise, a shameful tax grab that has nothing to do with health care and is regressive, hitting low income working families and seniors the hardest. The so-called "health" tax, which flows directly to the Treasury's Consolidated Revenue Fund and not to the Ministry of Health, simply fuels and allows for runaway spending in other areas.

During the Committee hearings, not a single deputation before Committee or written submission supported the so-called "health" tax in its present form. Sadly, the Liberal Members of the Committee were not interested in reflecting the advice of Ontario taxpayers and were determined to write a sham of a report. They rejected all of the advice heard at Committee and rammed through a spurious endorsement of the so-called "health" tax without a single change.

The Opposition Members could no longer dignify the sham process and walked out of the Committee during the writing of the Report. Instead, the Official Opposition is submitting this dissenting opinion to truly reflect the advice to the Committee and highlight the myriad of problems and unfairness of Dalton McGuinty's so-called "health" tax.

¹ The Record, Kitchener, Ont.: December 20, 2007. pg. A4

² "McGuinty won't repeal health tax; critics cry foul over 'bogus' promise." Globe and Mail: September 7, 2007.

McGuinty's Signature Broken Promise

"I, Dalton McGuinty, promise that if my party is elected as the next government I will not raise taxes or implement any new taxes without the explicit consent of Ontario voters."

-- Signing the Taxpayer Protection Pledge, September 11, 2003

After repeatedly making this promise during the 2003 election campaign, Dalton McGuinty proceeded in his very first budget to impose the single largest tax increase in Ontario's history with his so-called "health" tax.

In order to impose the tax, the McGuinty Liberal Government also shredded the Taxpayer Protection Act by eliminating the legislative requirement to hold a province wide referendum to allow for taxpayers' approval for the new tax.

This tax is a clear, egregious and infamous broken promise. First, Dalton McGuinty broke his promise not to increase taxes. Then compounded this betrayal of voters' confidence by breaking his promise to seek the consent of the people of Ontario via referendum for any new taxes.

"Let me start by saying that no discussion about this health tax can begin without noting the fact that this tax began with a broken promise and will continue to exist only by breaking with the spirit of an obligation."

-- Ms. Mary Lou Ambrogio, citizen of Ontario 5 August 2008

"The health tax represents a key broken promise by this government and should be eliminated."

-- Canadian Taxpayers Federation, Mr. Kevin Gaudet, 5 August 2008

Health Tax was Unjustified

"With that [the SARS outbreak and the blackout in August 2003] we went from a province that had been moving more toward a province that was almost \$6 billion in debt."

-- Former Finance Minister, Greg Sorbara (Toronto Star, March 13, 2008)

In order to justify the tax grab, the McGuinty Government claimed that they were saddled with a \$5.6 billion structural deficit by the Eves Government. They argued that this was not a one-year anomaly in an otherwise healthy fiscal situation, and that it was a structural deficit caused by several years of much faster growth in program spending than in government tax revenues. McGuinty sought to use this contention as political cover to introduce a significant, permanent tax increase—the so-called "health" tax.

To validate his claim, McGuinty hired retired provincial auditor Erik Peters as a consultant to review the 2003-04 fiscal outlook. Peters concluded on October 29, 2003 that there would be a \$5.6 billion deficit for the fiscal year, based strictly on the assumptions given to him by the McGuinty Government.

Peters never said there was a structural deficit. He focused solely on a potential deficit in fiscal year 2003-04 under a very particular set of circumstances. The *Peters Report* primarily spoke to revenue shortfalls in that one very unusual year. Based on the McGuinty government's assumptions, Peters projected that revenue in 2003-04 would be \$4.4 billion less than budgeted, representing the substantial majority of the potential deficit of \$5.6 billion identified.

Most of the circumstances he cited were one-time events including:

- \$961 million in lower crown corporation revenues because of SARS and the blackout;
- \$1.16 billion in lower tax revenues due to SARS and the sudden appreciation in the dollar;
- \$720 million in SARS related health spending; and
- \$130 million in tourism tax breaks after SARS.

Peters also assumed that \$771 million in increased transfers from the federal government would not flow. In reality, a few months later the federal transfers flowed as projected in the Eves Budget. Peters also incorporated the Liberal assumption that none of the estimated \$300 million in year-end savings could be found. Ironically, the McGuinty government has since included at least that much in year-end savings in every subsequent budget. In the 2008-09 Budget year-end savings account for \$1.1 billion.

Cumulatively, the one-time issues Peters identifies amount to \$2.97 billion. Together with the \$771 million CHST transfers that actually materialized and the \$300 million in year-end-savings, \$4.04 billion of the \$5.6 billion deficit Peters forecasted was accounted for. The only significant hole in the 2003-04 budget was the \$1.8 billion in asset sales, which had yet to be specified at the time the writ was dropped for the election.

**Ontarians Oppose McGuinty's Controversial "Health" Tax:
Liberal MPPs Refuse to Listen**

You can agree or disagree with the Eves's decision to plan asset sales to balance the budget in that very difficult year of SARS and the North American energy blackout; the bottom line is it doesn't justify McGuinty's broken tax promise for two reasons.

First, McGuinty knew about the \$1.8 billion asset sales when he made his promise not to raise taxes. He complained about these asset sales in Question Period on May 5, 2003.³ If he thought it meant he had to raise taxes in order to forego these asset sales, then he had no business making the commitment in the first place. He certainly could not claim that he was taken by surprise after the election and had to change his plan. Finally, even if the \$1.8 billion number was a source of concern in 2003-04, the facts show that revenue growth more than made up for it in subsequent years.

There is no question that the election year, fiscal year 2003-04, was a challenging year with one-time revenue shortfalls from events like SARS and the electricity blackout. But there was no permanent or "structural" deficit. **The only reason Dalton McGuinty needed to break his tax promise is because he also broke his spending promise.** Dalton McGuinty has played the blame game for years, but he can't escape the facts in his government's own public accounts. In short, the real reason for the so-called "health" tax was to fuel the McGuinty government's runaway spending in other program areas.

³ Hansard.

Health Tax is Regressive

"It is, in fact, the middle class that is hit the hardest by this tax, since it is a regressive tax."

-- Ms. Mary Lou Ambrogio, citizen of Ontario, 5 August 2008

The "health" tax is highly regressive and hits modest income working families and seniors the hardest. It is simply unaffordable to many Ontario families and seniors who already have trouble making ends meet in Dalton McGuinty's Ontario.

Because the lowest income taxpayers subject to the "health" tax pay the highest proportion of their income, the "health" tax is regressive in nature.

For example, a person with a taxable income of \$25,000 has to pay 1.2% of her income for the "health" tax; a person earning \$72,000 pays just over 1%; a person earning \$200,000 pays 0.45%; and a person with a \$1-million income pays only 0.09% of her income for the "health" tax (see Table 1). On an income of \$25,000 per year, \$300 is a significant chunk of disposable income grabbed by the McGuinty government. Ironically, the "health" tax is even more regressive than the flat tax that Liberals claim to abhor.

Dalton McGuinty's "health" tax is a middle-class tax, plain and simple.

Table 1. Structure of the Ontario Health Premium

Income Start	Size of Income Window	Total Tax	Additional Tax	% of Income
\$ -	\$ 20,000	\$ -		
\$ 20,000	\$ 16,000	\$ 300	\$ 300	1.50%
\$ 36,000	\$ 12,000	\$ 450	\$ 150	1.25%
\$ 48,000	\$ 24,000	\$ 600	\$ 150	1.25%
\$ 72,000	\$ 128,000	\$ 750	\$ 150	1.04%
\$ 200,000		\$ 900	\$ 150	0.45%
\$ 1,000,000		\$ 900	\$ -	0.09%

"We cannot meet increasing health care costs by raising taxes on individuals particularly with a tax that is regressive and punitive to those at the low end of the income bracket."

-- Mr. Andrew Dowie, resident of Tecumseh, Ontario, 5 August 2008

"Ontario should raise money in a progressive manner."

-- United Steelworkers, Mr. Erin Weir, 5 August 2008

Health Tax Fuels Runaway Spending

"The Ontario Health Premium tax merely serves as a crutch for the government's spending problem."

-- Canadian Taxpayers Federation, Mr. Kevin Gaudet, 5 August 2008

As we have demonstrated, Dalton McGuinty broke his promise not to raise taxes because he also shattered his promise of spending restraint. Not only is the so-called "health" tax unfair and a broken promise, it was clearly unnecessary and simply fuels runaway and wasteful spending in other areas. Since McGuinty came to office there has been remarkable revenue growth—even without the new tax.

"To date, the new health tax has taken out of the economy a combined \$12.2 billion out of the pockets of families, businesses and individuals in Ontario. The tax revenue has grown from \$1.7 billion in 2004-05 to a projected \$2.8 billion in 2008-09. That's a 65% increase in the tax revenue from the health tax in only five years."

-- Canadian Taxpayers Federation, Mr. Kevin Gaudet, 5 August 2008

In May 2003, the McGuinty Liberals released their campaign platform, *The Plan For Change*, which included revenue and expenditures assumptions.⁴ This Liberal financial plan for the province of Ontario was verified by two independent analysts and deemed reasonable. The *Plan For Change* outlined how the Liberals could finance their campaign promises without increasing taxes, while maintaining balanced budgets and at least a \$1 billion reserve in every year.

According to this plan the Liberals would raise spending to \$81.1 billion by the end of their mandate in fiscal year 2006-07, and revenue would be \$83.4 billion, leaving a \$2.3 billion surplus (see Table 2). In reality, revenues in 2006-07 were \$90.4 billion, \$7 billion more than McGuinty counted on in the 2003 election. McGuinty's middle-class "health" tax, which of course was not in his election plan, accounted for \$2.6 billion of that. However, without the "health" tax, revenue was still \$4.4 billion more than McGuinty accounted for in his election promises.

If the McGuinty Government had been true to its spending commitments contained in their 2003 election document, the government would have had a \$6.7 billion surplus in 2006-07 even without the so-called "health" tax.

But McGuinty did not keep his spending promise any more than he kept his tax promise.

Government revenues have increased by \$28 billion or 41% from \$69 billion in 2002/03, the last full year of a PC government, to \$97 billion today. The McGuinty government has increased total spending by \$27 billion or 40% from \$69 billion in 2002/03, the last full year of a PC government, to \$96 billion today. Similarly, taking interest costs out of the equation, the McGuinty government has increased program spending by \$28 billion

⁴ The Ontario Liberal Financial Plan, May 2003.

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or 48% from \$59 billion in 2002/03, the last full year of a PC government, to \$87 billion today.

Ontario hasn't witnessed runaway spending like this since the 1980s when the Peterson Liberals were in government. In five short years the Peterson government increased total spending by a whopping 45%. Even Bob Rae's NDP government could not match that and increased spending by only 21% in a similar five year period. In seven years however the PC government under the leadership of Mike Harris increased total spending by only 20%. The so-called "health" tax is simply helping to increase irresponsible and record breaking spending in other areas.

Table 2. Actual Results versus Liberal Election Promises

(\$ Billions)	2003-04	2004-05	2005-06	2006-07
Liberal Election Platform				
Total Revenue	71.6	75.4	79.2	83.4
Total Operating and Capital Spending	61.9	65.7	69.6	72.6
Public Debt Interest	8.7	8.7	8.6	8.5
Surplus/Deficit(-)	1.0	1.0	1.0	2.3
Actual				
Total Revenue	68.4	77.8	84.2	90.4
Total Operating and Capital Spending	64.3	70.0	74.9	79.3
Public Debt Interest	9.6	9.4	9.0	8.8
Surplus/Deficit(-)	-5.5	-1.6	0.3	2.3
Actual versus Election Promises				
Total Revenue	-3.2	2.4	5.0	7
Total Operating and Capital Spending	2.4	4.3	5.3	6.7
Public Debt Interest	0.9	0.7	0.4	0.3
Surplus/Deficit(-)	-6.5	-2.6	-0.7	0

Health Tax Goes Down the Drain

"We have no verifiable proof that the money is being spent on health care."

-- Ms. Mary Lou Ambrogio, Forest City Institute, 5 August 2008

"Health care premiums pay for health care no more and no less than do the business tax, the insurance tax, the gas tax, the hotel tax, the electronics tax or your new paint tax, for example."

-- Canadian Taxpayers Federation, Mr. Kevin Gaudet, 5 August 2008

Dalton McGuinty's "health" tax is a misnomer. It flows into the consolidated revenue fund (general revenue) NOT directly to health care.

On June 21st, 2004 Dalton McGuinty told us that "every single penny that is going to be generated by this new health care premium will be invested in new health care services for the people of Ontario. It's a very simple matter."⁵

Just a few months before this comment, the McGuinty Liberal Government stretched the truth to give the appearance that every dollar raised by the "health" tax would be spent on health care. The 2004-05 Budget listed programs that received funding from the "health" tax. These programs included sewer projects as well as Ministry of Tourism and Recreation ads to encourage exercise.⁶ Since this embarrassing claim, the Government no longer lists specific programs that benefit from the "health" tax.

Dalton McGuinty asks Ontarians to trust that he directs the "health" tax revenue to health care. It's just as accurate to claim that the "health" tax paid for the Ontario Trillium redesign or removing the C from the OLG logo as it is to claim that it paid for a knee replacement or an MRI.

"If the Health Premium were to be kept separate and spent only on health care it would make this tax more transparent and fair."

-- Ms. Anne Bilous, written submission

⁵ Hansard: McGuinty, June 21st, 2004

⁶ 2004 Budget Papers, page 44

Paying the Health Tax Twice

"If there is some uncertainty connected with this matter and we have to act, then we will do so, to make it perfectly clear that this is something that is to be paid by taxpayers."

-- Dalton McGuinty, Question Period, October 27, 2004

When Dalton McGuinty broke his solemn promise not to raise taxes by introducing the so-called "health" tax, he not only betrayed our trust; he also placed an unacceptable burden on lower and middle-income taxpayers and cost Ontario jobs.

As if breaking his promise was not bad enough, the misguided tax also forces many Ontario taxpayers to pay the "health" tax twice through higher transit fares, hydro bills and property taxes. The cities of Toronto, Ottawa and London are three of 19 public and private sector employers that have lost grievances filed by their unions that will force them to pay for their employees' health premiums. Arbitrators across the province have fielded 86 similar grievances on a case-by-case basis since the tax came into.

Aware that he was breaking his promise not to raise taxes, Dalton McGuinty attempted to disguise it with the name 'Health Premium' as if to imply that this was not a tax. By calling it a premium, McGuinty clumsily breathed new life into an old clause in many union contracts that referenced the old OHIP premium. The clause, retained by unions even after the disappearance of the OHIP premium, required employers to pay the levy on behalf of their employees. Faced with the ire of municipalities and agencies now burdened with paying this extra fee, McGuinty changed his tune; insisting that this was indeed a tax and not like the old OHIP premium at all.

The consequence of the posturing efforts by the McGuinty government was a series of legal cases where unions faced off against employers in decisions as to who was responsible for paying for the new 'premium'. The jurisdictions that lost are now essentially experiencing spending downloads from the provincial government. As a result, citizens of the affected areas will either see their City's ability to spend on services decrease or the City pass along the budgetary burden to them through property taxes. As a result, transit riders in Ottawa and Toronto are paying more and electricity costs have increased in areas where the Power Workers Union won appeals against employers. In a twist of irony, the Ontario Government will actually end up paying the health tax for its employees at the Workers Health and Safety Centre. At a time when Ontario's economy is unstable and unpredictable, Dalton McGuinty is forcing Ontario's taxpayers to pay for his mistakes.

"Adopt legislation to clearly state the Ontario Health Premium is an employee responsibility and not the responsibility of employers."

-- City of London, Ms. Anne Marie Decicco-Best, Mayor, 5 August 2008

"For the benefit of workers in Ontario, revise the position that the OHP is a tax and recharacterize it as premium."

-- United Steelworkers, Mr. Erin Weir, 5 August 2008

Paying More, Getting Less

"One can be forgiven for asking, where is the value for hard-working Ontarians' money?"

-- Mr. Andrew Dowie, resident of Tecumseh, Ontario, 5 August 2008

"There has been no evidence of improvement in health care in the Windsor area."

-- Mr. Rob Cheshire, resident of Windsor, Ontario, 5 August 2008

The reality is that the so-called Health Tax does not go to health care. It flows directly to the Ontario Treasury's Consolidated Revenue Fund. Nonetheless, even if we were to believe Dalton McGuinty that every penny of the health tax does flow into health care, let's examine their record.

The McGuinty government's health tax has taken \$12.2 billion out of the pockets of hardworking families; for it they are getting less in health care services.

Doctor Shortage

- In 2003, there were 122 communities designated as underserved for family doctors in Ontario. In 2008 that number has increased to 139.
- In 2003, the percentage of doctors accepting new patients was 20.2%. In 2008 the percentage of doctors accepting new patients is 10%, a decrease of 50% since Dalton McGuinty took office.

Nurse Shortages

- In 2003, 18.1 percent of Registered Nurses reported employment outside of Ontario, in 2007 that number had increased to 25.8 percent,⁷ its no wonder in January 2005 the McGuinty government spent \$91 million to eliminate 757 nursing positions.
- Over the past five months we have seen various reports which have indicated that nursing positions are slated to be slashed at various hospitals, as they attempt to balance their budgets.

Hospital Budgets

- We still don't know how many of the provinces hospitals are struggling to balance their budgets, however what we do know is that former Health Minister George Smitherman says that they will not bail hospitals out.

⁷ College of Nurses of Ontario, Membership Statistics Report 2007

Cuts to Public Health Care

- Chiropractic Services
- Physiotherapy
- Optometric services

"Little or no effect or benefit within health care: The wait times at emergency rooms here in Windsor have not decreased as MPPs and the health care minister said...The waits are up to six hours."

-- Mr. Rob Cheshire, resident of Windsor, Ontario, 5 August 2008

Conclusion

The Ontario PC Party has consistently opposed the so-called "health" tax, for it represents a signature broken promise of the McGuinty Liberal government. A shameful tax grab that has nothing to do with health care, Dalton McGuinty's "health" tax is regressive and therefore hits low income working families and seniors the hardest. The funds, which flow to general revenue and not the Ministry of Health, simply fuel and allow for runaway spending in other areas.

On August 5, 2008, the Standing Committee on Finance and Economic Affairs held public hearings to review the so-called "health" tax. The purpose of this review in theory was to report back honestly to the Legislature regarding what was said about the "health" tax, and to make recommendations to the Minister of Finance, accordingly.

Instead, the Liberal MPPs endorsed the so-called "health" tax unequivocally, despite the fact that not one single deputation before committee spoke favourably about the tax in its current form. What possible justification could there be for this Liberal endorsement of a tax that clearly no one supports? Perhaps it was the fact that Premier Dalton McGuinty prejudiced the Committee's work from the beginning by stating unequivocally that the "health" tax is here to stay no matter what the hearings concluded.

During the 2007 provincial election the Ontario PC Party had proposed a plan to phase out the so-called "health" tax responsibly over four years. However, the McGuinty government won another majority and since then made it clear the "health" tax is here to stay. If the McGuinty government is so intent on keeping the "health" tax in place, then at the very least the government should consider some of the following changes or targeted reductions advanced by Ontarians at Committee:

"Ontario should raise money in a more progressive manner."
-- United Steelworkers, Mr. Erin Weir, 5 August 2008

"Make a reduction of 5% to 10% in the OHP for all levels of income."
-- Mr. Paulos Youakim, written submission

"Adopt legislation to clearly state that the Ontario Health Premium is an employee responsibility and not the responsibility of employers."
-- City of London, Ms. Anne Marie DeCicco-Best, Mayor, 5 August 2008

"End the unfair situation that requires members of the Canadian Armed Forces, who are not covered by OHIP, to pay for the OHP."
-- Captain D.D. McMillan, CD, written submission

"Consider the anomaly that married seniors who take advantage of a recent change in the federal *Income Tax Act* that allows them to split income may end up paying more OHP than they would have without splitting their income(s)."
-- Mr. Ray Simms, written submission

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"If the Health Premium were to be kept separate and spent only on health care it would make this tax more transparent and fair."

-- Ms. Anne Bilous, written submission

In an effort to accurately reflect what was said during Committee hearings, the Official Opposition, P.C. Caucus is submitting this dissenting report and hopes MPPs will pressure the McGuinty government to listen to taxpayers, as this process was meant to.

APPENDIX B

**DISSENTING OPINION OF THE
NEW DEMOCRATIC PARTY MEMBER OF THE COMMITTEE**

Health Premium Review
Submission to the Standing Committee on Finance and Economic Affairs
by the Ontario NDP
August 20, 2008

As several economists have pointed out, the health premium is a regressive form of taxation. That is, the fraction of an individual's income going to the health tax falls with income, rather than rises. To illustrate:

- A bank teller making \$26,000 annually pays 1.2% of his taxable income in health tax while a lawyer making \$150,000 pays only 0.5% of her income.
- An autoworker making \$45,000 pays 1% of her income in health tax while a CEO making \$500,000 pays only 0.2% of his income.
- An accounting clerk making \$30,000 pays a shocking 24% more in income tax while an insurance executive making \$200,000 pays only 3% more.

The Harris-Eves Conservative governments tabled 8 years of tax cuts and public service cuts. These tax cuts largely benefited upper income Ontarians. After all, 26 per cent of tax savings went to the top 5 per cent highest income earners. Rather than reversing course, the McGuinty Liberals maintained the Conservative tradition of regressive taxation, hitting low and middle income people with the Health Premium.

The NDP Plan

In the 2007 campaign, the NDP proposed a change to the Health Premium that would put money back in the pockets of 75 per cent of working families by providing a Health Premium Rebate of up to \$450 per person and \$900 per two-income family.

The NDP proposal phased in the elimination of the unfair and regressive McGuinty Health Premium for 1.5 million workers earning under \$48,000 and put \$450 back into the pockets of individuals earning between \$48,000 and \$80,000.

Unlike the Conservatives' scheme, the NDP plan is a balanced approach that only puts money in the pockets of lower- and moderate-income Ontarians who need it the most, while protecting health services by ensuring that banks, insurance companies and the well-off pay their fair share.