



# **FAILED POLICIES**

## **SHIFTING RESPONSIBILITY TO AVERAGE FAMILIES**

### **PART 1: CORPORATE INCOME TAXES**

While Canadian corporations are making record before tax profits, BC Liberal government tax policies mean B.C. corporations are contributing billions less in tax revenues for public services each year.



**UNITED WE STAND**  
British Columbia Federation of Labour



# FAILED POLICIES

## EXECUTIVE SUMMARY

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Our new series of issue papers, entitled “Failed Policies,” will demonstrate how BC Liberal policies have harmed the best interests of the people of British Columbia.

In part 1, we show the dramatic impact of BC Liberal cuts to corporate income taxes. While large corporations record massive and historic profits, the services used on a daily basis by British Columbians -- hospitals, schools and universities; roads and highways, social and justice services – have had their budgets starved.

At no time in the last 30 years have corporations contributed less in tax revenue – as a proportion of their earnings -- to British Columbia, even as corporate pre-tax profits reach historic high levels in this province and across Canada.

From 1991 to today, corporation pre-tax profits have risen steadily, quadrupling in the 1990s under an NDP government, and doubling in the 2000s under a BC Liberal government.

In 2008, corporation profits before taxes in B.C. soared to an unprecedented \$23.2 billion — or 11.4 per cent of the province’s gross domestic product (GDP).

Although the financial crisis of the late 2000s caused corporate earnings to dip briefly in 2009, profits have resumed their upward trajectory. In 2011, B.C. corporation profits are expected to reach a new record-high of \$23.7 billion — or 11.3 per cent of provincial GDP.

Corporation profits before taxes are trending even higher in the near future. The most-recent B.C. budget forecasts that corporate earnings will increase in each of the next four years, and reach \$31.3 billion in 2015. That

will mark yet another record-high — as much as 12.3 per cent of British Columbia's forecast GDP.

At the same time as corporate profits soared, the BC Liberal government of the last ten years handed these corporations significant tax cuts. As a result, British Columbia's corporate income tax revenues have not kept pace with corporation profits.

British Columbia's corporation income tax rate was repeatedly cut over the last decade, dropping from 16.5 per cent to 10.0 per cent today.

These on-going tax cuts caused a sharp drop in B.C.'s corporate income tax revenues as a proportion of corporation profits before taxes.

During the two-decade period between 1981 and 2000, Victoria's corporate income tax revenues represented an average of 12.7 per cent of corporation pre-tax profits.

Over the last decade, however, from 2001 to 2010, that proportion plunged to 8.0 per cent.

And over the three-year period from 2011/12 to 2013/14, according to the latest B.C. budget, corporate-income tax revenues are expected to fall even further, to a mere 6.5 per cent of corporate profits.

These tax cuts cost the provincial treasury billions of dollars. Had British Columbia's corporate income tax rate remained unchanged over the last decade, the provincial government would have had an additional \$7.7 billion to \$8.5 billion in revenues.

These numbers don't include an estimated \$500 million annually in cuts to taxes on banks and capital. Factoring these in, the total tax savings to corporations under the BC Liberals to date exceeds \$12 billion.

Looking forward, Victoria may expect to lose an additional \$8.8 billion in Corporation Income Tax revenues over the five-year period from 2011-15.

## 01. INTRODUCTION

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From 1991 to today, corporate profits in Canada and British Columbia have risen in both nominal terms and relative to the size of the economy.

The 1990s were a particularly strong period of growth in B.C., with profits quadrupling in nominal terms, and more than doubling as a per centage of GDP.

During the 2000s, the upward trend in profits in B.C. and across Canada has continued, albeit at a more modest rate.

This growth in profits is in large part because of the global commodity boom that began near the end of the 20th century.

In the last ten years of BC Liberal governance, continued growth in profits has been coupled with provincial tax policies that greatly reduce the contributions of B.C. corporations to B.C.'s tax base.

The BC Liberal government and the corporations who benefit defended these tax cuts as necessary for increased investment in the B.C. economy, more and better paying jobs, and they argued that the tax cuts would pay for themselves through increased economic activity.

In the context of similar claims made about the HST, we will examine and evaluate these claims.

In this, part one of the series, we examine tax revenues relative to corporate profits and relative to British Columbia's GDP.

***The picture is very clear. Corporate profits are soaring and government revenue from corporations is falling.***

Reductions to the corporate income tax from 1991 to today have cost the province more than \$7.7 billion in revenue.

If the BC Liberals and the corporate beneficiaries of tax cuts were being honest, these new found monies would have been reinvested in our economy.

In parts two and three, we will examine the rates of investment and job creation, income levels over the past decade, and assess the value to British Columbians of this huge tax giveaway, and ask the question: have corporations done as the BC Liberals promised?

## 02. SOARING CORPORATE PROFITS

The 1990s and the early 2000s were especially good for Canada's business interests.

Corporation pre-tax profits in Canada nearly quadrupled between 1991 and 2001, climbing from \$32.9 billion to \$127.1 billion. They nearly doubled again in the next decade, rising to an all-time record of \$217.0 billion in 2008.

Even in the midst of the world-wide economic recession, corporate profits in 2009 totaled \$146.9 billion — or nearly 16

per cent higher than at the beginning of the decade.

As a proportion of Canada's economy, corporate pre-tax profits nearly tripled between 1991 and 2008, rising from 4.8 per cent to 13.6 per cent of the country's GDP.

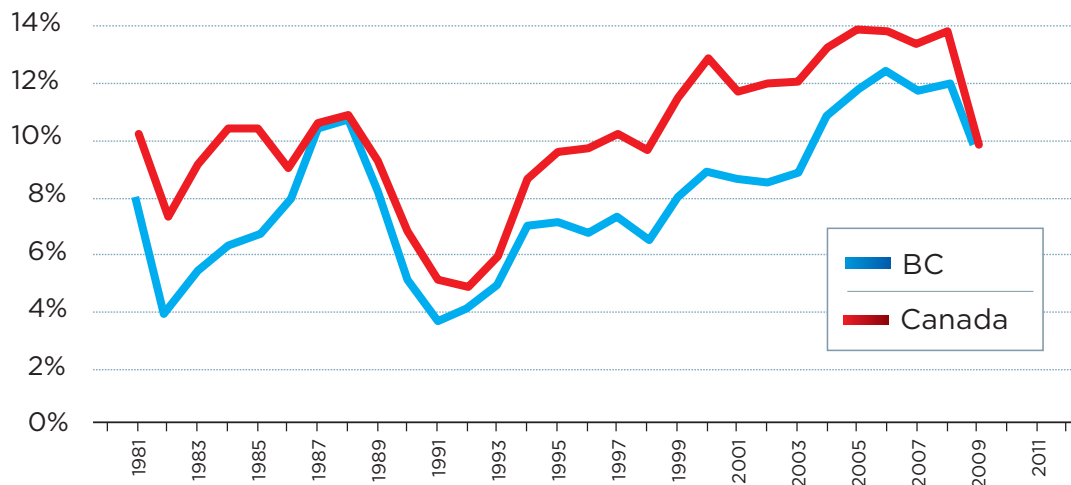
*In 2011, Profits will attain a new record-high of \$23.7 billion.*

British Columbia's business interests fully participated in the two-decade long profit boom, albeit slightly trailing Canadian totals every year since 1981.

Two decades ago, in 1991, pre-tax profits reported by B.C. corporations totaled \$2.9 billion; by 2001 that figure had almost quadrupled, hitting \$11.4 billion.

### 01a. PRE-TAX PROFITS (CANADA AND BC)

Corporate Pre Tax Profits as a Percent of GDP



Growth continued over the next seven years to reach a record \$23.2 billion in 2008, before slumping from the global economic recession in 2009 and 2010.

In the current year, 2011, the B.C. government estimates that corporate profits will regain their pre-recession highs, to attain a new record-high of \$23.7 billion, 11.3 per cent of provincial GDP.

As a proportion of the B.C. economy, corporate earnings nearly tripled between 1991 and 2006, soaring from 3.6 per cent of B.C.'s GDP, to 12.3 per cent.

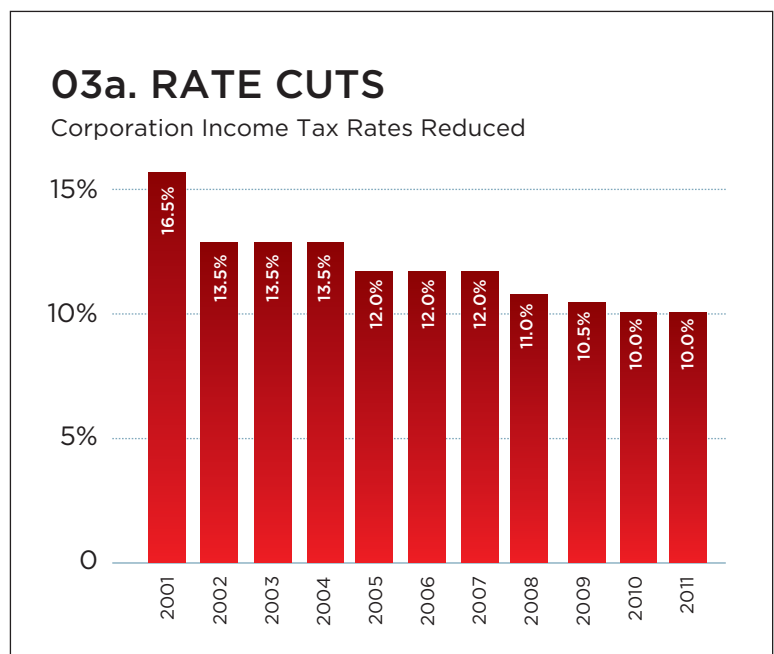
Profits slipped slightly in 2007 and 2008, to 11.4 and 11.7 per cent of GDP, respectively, before falling further to 9.6 per cent in 2009.

British Columbia's latest budget reported that corporate profits in 2010 recovered to \$21.8 billion, or 10.8 per cent of GDP.

The B.C. Budget also forecasts earnings continuing their rise over the next five years, and reaching \$31.3 billion in 2015 — or 12.3 per cent of the province's GDP.

## 03. DIMINISHING GOVERNMENT REVENUES

Despite reaching record highs over the last decade, corporate profits have failed to generate commensurate revenues for the provincial treasury, primarily because of on-going corporate tax cuts.



The BC Liberal government has lowered the corporate income tax rate cut in five stages, from 16.5 per cent in 2001 to 10.0 per cent today. (Chart 03a)

These provincial tax-cuts are in addition to a pattern begun by Canada's federal government in 1988, when the corporate

income tax rate was slashed from 36 per cent to 28 per cent. In 2001 it was cut again, to 21 per cent. By 2010, Ottawa had further reduced the corporate rate to 18 per cent, and in 2011 it fell again, to 16.5 per cent. Next year, in 2012, the federal corporate income tax rate is scheduled to drop further, to 15 per cent.

In B.C., corporate income tax cuts have resulted in a sharp decline in corporate income tax revenues as a proportion of pre-tax corporate profits.

This paper uses two methods to calculate the losses. The true loss will fall between the two numbers.

### HISTORICAL AVERAGES

Between 1981 and 2000, the province's corporate income tax revenues represented an average of 12.7 per cent of pre-tax corporate earnings. The

average in the 1980s was 10.56 per cent; and in the 1990s, 14.07 per cent.

From 2001 to 2010, the cumulative total of pre-tax corporate profits was \$179.167 billion. If those profits had been taxed at the effective rate of 12.74 per cent, the provincial government's receipts would have added up to \$22.826 billion.

Instead, provincial revenues from corporate income taxes represented just 8.02 per cent of the total, and corporate income tax receipts totaled only \$14.371 billion.

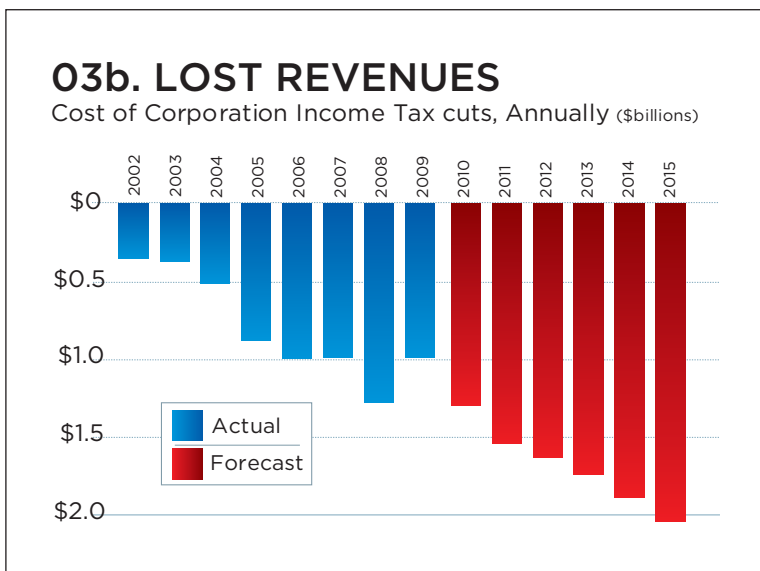
The cumulative loss over the last decade to the provincial treasury under this calculation is \$8.5 billion.

### RATE COMPARISON

Victoria's losses over the last decade may also be calculated by assessing annual revenues had the corporate income tax rate remained at 16.5 per cent, instead of being lowered to 10 per cent.

This method (Chart 03b) puts the cumulative total of annual losses to the provincial treasury at \$7.7 billion.

In calendar year 2002, the provincial treasury's foregone revenues totaled \$341.7 million. By 2006 that figure surpassed \$1 billion, and in 2008 it nearly hit \$1.3 billion. (See Table 4.)





The cumulative total of annual losses over the last decade under this calculation is \$7.684 billion.

### ADDITIONAL LOSSES

It is important to note that the foregoing estimate of corporate tax revenues lost to the provincial treasury over the last decade are minimum figures.

That's because they look only at losses due to cuts to the corporate income tax rate — and do not include other corporate tax breaks brought in by the BC Liberals.

For example, in 2001 B.C.'s corporation capital tax was narrowed considerably (all but large financial institutions were made exempt), and then in 2008 the tax was abolished entirely.

The cost of amending, and then abolishing the capital tax is \$400 million to \$500 million annually.

The provincial government also cut B.C.'s small business tax rate from 4.5 to 2.5 per cent between 2001 and 2008, and the threshold at which the tax was applied lifted from \$300,000 to \$500,000.

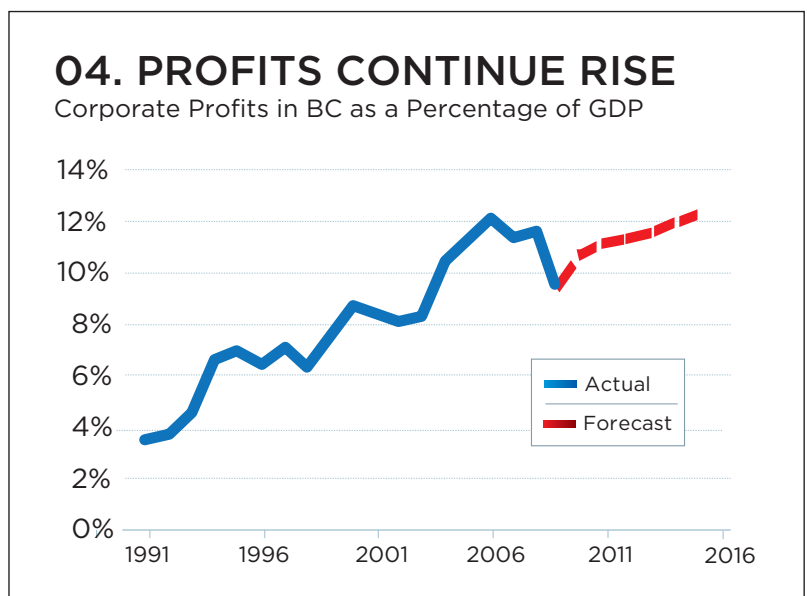
Moreover, the Harmonized Sales Tax (enacted in 2010) will shift an estimated \$2 billion in taxes away from corporations annually, and onto families and individuals.

## 04. LOOKING AHEAD

British Columbia's latest budget — the Budget and Fiscal Plan, 2011/12 - 2013/14 — reported that corporate profits recovered in 2010 (after the global recession) to \$21.8 billion — or 10.8 per cent of GDP.

In the current calendar year, 2011, pre-tax corporation profits are expected to climb again, to \$23.7 billion, and should continue growing in each of the following four years — to \$25.2 billion in 2012; \$26.9 billion in 2013; \$29.0 billion in 2014; and \$31.3 billion in 2015.

As a proportion of the provincial economy, corporate profits also should strengthen — rising from 11.3 per cent of GDP in 2011, to 12.3 per cent in 2015.



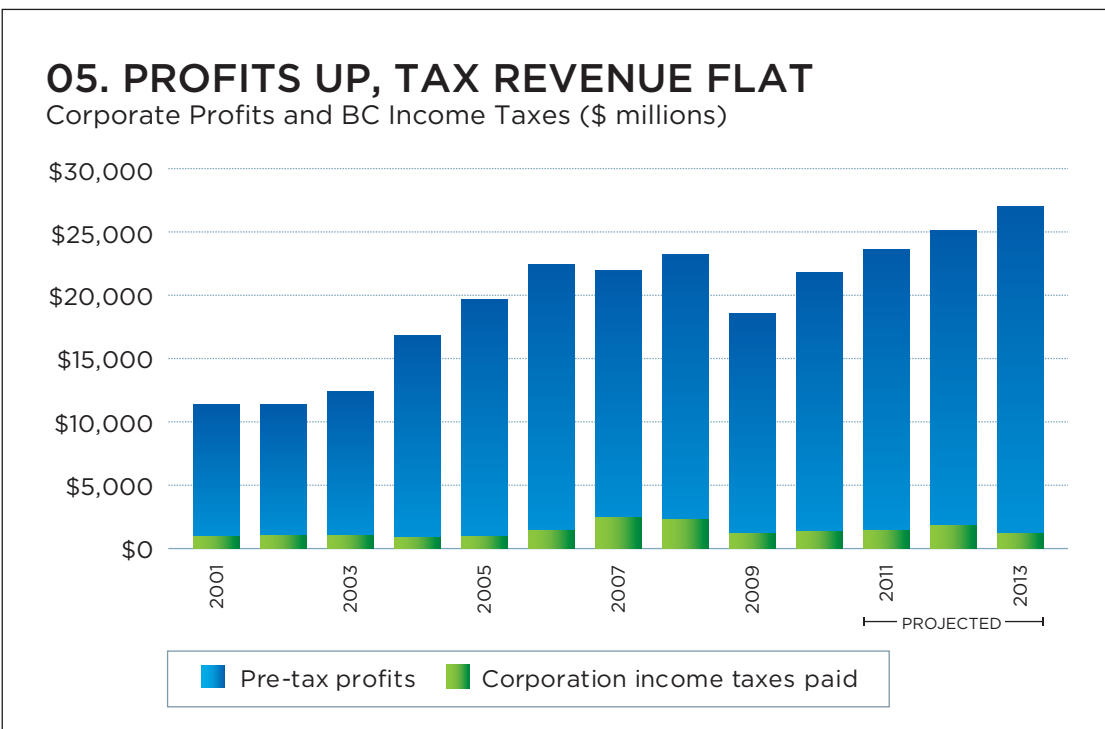
The Budget's three-year fiscal plan shows that corporate income tax receipts will continue to falter over the three-year period from fiscal 2011/12 to 2013/14.

Whereas Victoria's corporate income tax revenues from 1981 to 2000 represented 12.74 per cent of aggregate corporate profits, and between 2001 and 2010 just 8.02 per cent, the comparable figure over the next three years is a mere 6.47 per cent.

In other words, even after British Columbia's corporate income tax rate

drops to an even 10 per cent, the provincial government anticipates a continuing decline in corporate income tax receipts as a proportion of corporate profits.<sup>1</sup>

Between 2011 and 2015, the revenue lost to the provincial treasury as a result of the decision to cut the corporate income tax rate from 16.5 per cent to 10.0 per cent, will add up to a further loss of more than \$8.8 billion.



1 – Christy Clark's BC Liberal government introduced a motion in the Legislative Assembly on May 25, 2011, promising to temporarily raise the corporation income tax rate from 10 to 12 per cent, and postpone a planned reduction in the small-business corporation income tax rate from 2.5 per cent to zero. Neither measure will take effect before 2012, and only after enabling legislation is enacted.

## 05. CONCLUSION

Pre-tax corporate profits have skyrocketed in British Columbia (and Canada) over the last two decades. Moreover, the provincial government estimates that new record highs will be reached in B.C. in each of the next four years.

Yet, on-going corporate tax cuts have significantly reduced the amount of corporate tax revenues flowing into the provincial treasury.

This paper calculates that corporate tax cuts from 2001 to 2010 cost the provincial treasury between \$7.7 to \$8.5 billion.

This will put the cumulative losses between 2001 and 2015 as a result of corporate income tax cuts at an estimated \$16.5 billion to \$17.3 billion.

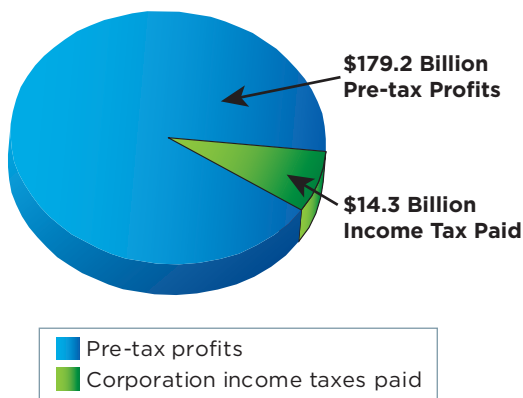
From 1981 to 2000, corporate income taxes represented 12.74 per cent of aggregate corporate profit. With BC Liberal tax cuts, that number fell to just 8.02 per cent between 2001 and today.

***B.C. companies have taken home an extra \$12 billion in after-tax profit in the last ten years.***

The projected figure over the next three years is a mere 6.47 per cent.

### 05b. TAX AS SHARE OF PROFIT

Corporate Income Tax Less Than 10% of Profit (2001-2010)



If we include the additional savings due to the elimination of the corporate capital tax and adjustments to the small business tax threshold and rate, B.C. companies have taken home an extra \$12 billion in after-tax profit in the last ten years, at the expense of average British Columbians and the government provided services they count on, like health care and education.

At no time in modern British

Columbia history have corporations earned so much and contributed so little to public revenue.

Over the five-year period from 2011 to 2015, the revenue lost to the provincial treasury from corporate-income tax cuts will add up to more than \$8.8 billion.

## TABLE 1: CORPORATE PROFITS UP (CANADA)

### CANADA, CORPORATE PRE-TAX PROFITS AND GROSS DOMESTIC PRODUCT (GDP)

YEAR	GDP ACTUAL (\$MILLIONS)	PRE-TAX PROFITS (\$MILLIONS)	PRE-TAX PROFITS AS % OF CANADA'S GDP
1981	360,471	35,831	9.94
1982	379,859	26,697	7.03
1983	411,386	36,730	8.93
1984	449,582	45,686	10.16
1985	485,714	49,728	10.24
1986	512,541	45,217	8.82
1987	558,949	57,888	10.36
1988	613,094	64,891	10.58
1989	657,728	59,661	9.07
1990	679,921	44,936	6.61
1991	685,367	32,920	4.80
1992	700,480	32,648	4.66
1993	727,184	41,102	5.65
1994	770,873	65,464	8.49
1995	810,426	76,270	9.41
1996	836,864	80,335	9.60
1997	882,733	87,932	9.96
1998	914,973	86,132	9.41
1999	982,441	110,769	11.27
2000	1,076,577	135,978	12.63
2001	1,108,048	127,073	11.47
2002	1,152,905	135,229	11.73
2003	1,213,175	144,501	11.91
2004	1,290,906	168,219	13.03
2005	1,373,845	186,585	13.58
2006	1,450,405	197,286	13.60
2007	1,529,589	200,943	13.14
2008	1,599,608	216,970	13.56
2009	1,527,258	146,897	9.62

(SOURCES: Statistics Canada, "Provincial and Territorial Economic Accounts, Data Tables," Catalogue No. 13-018-XWE; B.C. Federation of Labour calculations.)

## TABLE 2: CORPORATE PROFITS UP (BC)

### CORPORATE PRE-TAX PROFITS AND GDP

YEAR	GDP ACTUAL (\$MILLIONS)	PRE-TAX PROFITS (\$MILLIONS)	PRE-TAX PROFITS AS % OF BCS GDP
1981	\$44,869	\$3,484	7.76
1982	45,024	1,652	3.67
1983	47,477	2,458	5.18
1984	49,840	3,060	6.14
1985	53,540	3,468	6.48
1986	56,547	4,213	7.45
1987	62,515	6,430	10.29
1988	69,408	7,250	10.45
1989	75,582	5,925	7.84
1990	79,350	3,670	4.63
<b>Totals</b>	<b>\$584,152</b>	<b>\$41,610</b>	<b>7.12</b>
1991	81,849	2,926	3.57
1992	87,242	3,321	3.81
1993	94,077	4,328	4.60
1994	100,512	6,756	6.72
1995	105,670	7,419	7.02
1996	108,865	7,246	6.65
1997	114,383	8,286	7.24
1998	115,641	7,335	6.34
1999	120,921	9,309	7.70
2000	131,333	11,596	8.83
<b>Totals</b>	<b>\$1,060,493</b>	<b>\$68,522</b>	<b>6.46</b>
2001	133,514	11,392	8.53
2002	138,193	11,389	8.24
2003	145,642	12,364	8.49
2004	157,675	16,764	10.63
2005	169,664	19,631	11.57
2006	182,310	22,408	12.29
2007	191,598	21,951	11.43
2008	197,931	23,203	11.73
2009	191,006	18,258	9.56
2010*	201,800	21,807	10.81
<b>Totals</b>	<b>\$1,709,333</b>	<b>\$179,167</b>	<b>10.48</b>

\* Estimates, B.C. Budget and Fiscal Plan, 2011/12 - 13/14

SOURCES: Statistics Canada, "Provincial and Territorial Economic Accounts, Data Tables," Catalogue No. 13-018-XWE; B.C. Budget and Fiscal Plan, 2011/12 - 13/14, pp. 60-61; B.C. Federation of Labour calculations.

## TABLE 3: PROFIT FORECAST

### BRITISH COLUMBIA, FORECAST CORPORATION PROFITS AND GDP

YEAR	BC - GDP ACTUAL (\$MILLIONS)	PRE-TAX PROFITS (\$MILLIONS)	PRE-TAX PROFITS AS % OF BCS GDP
2010	\$201,800	\$21,807	10.81
2011	210,100	23,672	11.27
2012	220,300	25,218	11.45
2013	231,000	26,935	11.66
2014	242,200	29,012	11.98
2015	253,900	31,303	12.33

SOURCES: Budget and Fiscal Plan, 2011/12 - 2013/14, pp. 60-61, B.C. Federation of Labour calculations.

## TABLE 4: LOST REVENUES

### BRITISH COLUMBIA, CORPORATE INCOME TAX CUTS AND LOST PROVINCIAL REVENUES

YEAR	PRE-TAX PROFITS (\$MILLIONS)	CORPORATE TAX RATE %	DIFFERENCE FROM 2000 TAX RATE %	LOST TAX REVENUE (\$MILLIONS)
2000	\$11,596	16.5	--	--
2001	11,392	16.5	--	--
2002	11,389	13.5	3.0	\$341.67
2003	12,364	13.5	3.0	370.92
2004	16,764	13.5	3.0	502.92
2005	19,631	12.0	4.5	883.40
2006	22,408	12.0	4.5	1,008.36
2007	21,951	12.0	4.5	987.80
2008	23,203	11.0	5.5	1,276.17
2009	18,258	11.0	5.5	1,004.19
2010	21,807	10.5	6.0	1,308.42
<b>TOTAL TO DATE</b>				<b>\$7,683.85</b>
<i>2011</i>	<i>23,672</i>	<i>10.0</i>	<i>6.5</i>	<i>1,538.68</i>
<i>2012</i>	<i>25,218</i>	<i>10.0</i>	<i>6.5</i>	<i>1,639.17</i>
<i>2013</i>	<i>26,935</i>	<i>10.0</i>	<i>6.5</i>	<i>1,750.78</i>
<i>2014</i>	<i>29,012</i>	<i>10.0</i>	<i>6.5</i>	<i>1,885.78</i>
<i>2015</i>	<i>31,303</i>	<i>10.0</i>	<i>6.5</i>	<i>2,034.70</i>

SOURCES: Statistics Canada, "Provincial and Territorial Economic Accounts, Data Tables," Catalogue No. 13-018-XWE; B.C. Budget and Fiscal Plan, 2011/12 - 13/14, p. 61; B.C. Financial and Economic Review, various years; B.C. Federation of Labour calculations. Forecasts are presented in italics.

## TABLE 5: THE GAP HAS WIDENED

### CORPORATION PROFITS AND INCOME TAX REVENUES (BC)

YEAR	PRE-TAX PROFITS (\$MILLIONS)	CORP INCOME TAX REVENUES	CORP INCOME TAX REVS AS % OF PROFIT
1981	\$3,484	\$580	16.65
1982	1,652	189	11.44
1983	2,458	309	12.57
1984	3,060	366	11.96
1985	3,468	323	9.31
1986	4,213	281	6.67
1987	6,430	473	7.36
1988	7,250	600	8.28
1989	5,925	666	11.24
1990	3,670	608	16.57
1991	2,926	577	19.72
1992	3,321	545	16.41
1993	4,328	719	16.61
1994	6,756	998	14.77
1995	7,419	1,225	16.51
1996	7,246	1,347	18.59
1997	8,286	1,138	13.73
1998	7,335	1,098	14.97
1999	9,309	939	10.09
2000	11,596	1,054	9.09
2001	11,392	1,522	13.36
2002	11,389	612	5.37
2003	12,364	775	6.27
2004	16,764	1,255	7.49
2005	19,631	1,426	7.26
2006	22,408	1,538	6.86
2007	21,951	2,250	10.25
2008	23,203	2,038	8.78
2009	18,258	1,317	7.21
2010	21,807	1,638	7.51
<b>TOTALS</b>			
2001 to 2010	\$179,167	\$14,371	8.02

SOURCES: Statistics Canada, "Provincial and Territorial Economic Accounts, Data Tables," Catalogue No. 13-018-XWE; B.C. Budget and Fiscal Plan, 2011/12 - 13/14, p. 61; B.C. Financial and Economic Review, various years; B.C. Federation of Labour calculations.

## TABLE 6 - THE GAP WILL WIDEN FURTHER

### BRITISH COLUMBIA, CORPORATION PROFITS AND CORPORATE INCOME TAX REVENUES

YEAR	PRE-TAX PROFITS (\$MILLIONS)	CORP INCOME TAX REVENUES	CORP INCOME TAX REVS AS % OF PROFIT
2011	\$23,672	\$1,571	6.64
2012	25,218	1,872	7.42
2013	26,935	1,462	5.43
2014	29,012	n/a	n/a
2015	31,303	n/a	n/a
<b>TOTALS</b>			
2001-2010	\$179,167	\$14,371	8.02
2011-2015	75,825	4,905	6.47

SOURCES: Statistics Canada, "Provincial and Territorial Economic Accounts, Data Tables," Catalogue No. 13-018-XWE; B.C. Budget and Fiscal Plan, 2011/12 - 13/14, p. 61; B.C. Financial and Economic Review, various years; B.C. Federation of Labour calculations.







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