

Tax Incentives for Better Living

**The Canadian Medical Association's 2007
pre-budget consultation brief to the
Standing Committee on Finance**

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A healthy population...a vibrant medical profession
Une population en santé...une profession médicale dynamique

“The first wealth is health.”

—Emerson

The Canadian Medical Association (CMA) is the national voice of Canadian physicians. Founded in 1867, CMA’s mission is to serve and unite the physicians of Canada and be the national advocate, in partnership with the people of Canada, for the highest standards of health and health care.

On behalf of its more than 65,000 members and the Canadian public, CMA performs a wide variety of functions, such as advocating health promotion and disease/injury prevention policies and strategies, advocating for access to quality health care, facilitating change within the medical profession, and providing leadership and guidance to physicians to help them influence, manage and adapt to changes in health care delivery.

The CMA is a voluntary professional organization representing the majority of Canada’s physicians and comprising 12 provincial and territorial divisions and 45 national medical organizations.

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Summary of our seven recommendations for the Committee's consideration

The Canadian Medical Association has a long-standing history of calling for a better fit for tax policy and health policy. The CMA recognizes that tax policy is important, but is just one type of policy instrument for health and health care. Accordingly we have seven principal recommendations for the Standing Committee on Finance.

Recommendation 1 — Accelerate health information technology investments – GST and tax incentives

That the federal government provides a one-time only \$50,000 tax credit spread out over four years, for community-based health care practices to invest in interoperable electronic medical records (EMR) to allow for accelerated system integration. In addition, that the government provides a rebate for IT to physicians for the GST/HST on costs relating to health care services provided by a medical practitioner and reimbursed by a province or provincial health plan.

Recommendation 2 — Introduce a tax on high-calorie, nutrient-poor foods to curb obesity

That the government consider the use of taxes on sales of high-calorie, nutrient-poor foods as part of an overall strategy of using tax incentives and disincentives to help promote healthy eating in Canada. Moreover, we suggest that a portion of the revenue from this tax should be used to make healthier foods cheaper or more accessible, especially for low-income groups. Obesity costs our economy \$9.6 billion per year.ⁱ Data collected for the recent Child Health Summit indicate that childhood obesity is a major issue, with 19.3% of Canadian youth aged 10 to 16 considered overweight. The Organization for Economic Cooperation and Development now ranks Canada 19th out of 20 countries surveyed.

Recommendation 3 — Double the Child Fitness Tax Credit

The CMA recognizes that a “high-calorie, nutrient-poor food tax” should be part of an integrated strategy to promote healthy lifestyles that would also involve better nutrition as well as physical fitness. Accordingly, we recommend that the federal government should increase the children’s fitness tax credit to encourage physical fitness. Similar to Canada’s Child Fitness Tax Credit, the Personal Health Investment Today (PHIT) bill in the U.S. allows for the use of up to \$1,000 pre-tax dollars to cover expenses related to sports, fitness and other physical activities. We recommend that the government double the \$500 children’s fitness tax credit and include a retail sales tax exemption on tobacco cessation aids.ⁱⁱ

Recommendation 4 — Increase federal Gas Tax Fund transfers for municipal transit to improve air quality

The CMA suggests that the government immediately accelerate the federal Gas Tax Fund transfers to \$2-billion in support of municipal transit infrastructure projects to improve air quality; with consideration of an escalator to close the municipal infrastructure gapⁱⁱⁱ. These transfers should be integrated into a national transit strategy that considers the heart and lung

impacts of motor vehicle pollution^{iv}. Studies have proven that heart and lung disease among children increases significantly the closer they are to high density traffic.

Recommendation 5 — Bolster Health Human Resources – extend the interest relief on Canada student loans for medical residents

Many Canadians might not recognize that high medical student debt load is an important health human resource issue. High debt loads unduly affect both the kind of specialty that physicians-in-training choose and, ultimately, where they decide to practice. Medical student debt limits the accessibility of a medical education and may also affect the diversity of the medical profession. Thus, high medical student debt affects patients' access to quality care. Medical student debt is an area in which the federal government can make a direct difference. Unfortunately, current government policy — namely the Canada Student Loans Program (CSLP) — is a barrier and not a boost to medical students. Medical students are accumulating unprecedented levels of debt as tuition fees for medical school continue to skyrocket. Consequently, we recommend that the government introduce changes to the Canada Student Loans Program to extend the interest free status on Canada student loans for medical residents pursuing postgraduate training.

Recommendation 6 — Explore tax policy options for Long Term Care

That the government considers either tax pre-paid or tax-deferred options for funding long-term health care. For example, in the 2007 federal budget, the government announced the introduction of a Registered Disability Savings Plan (RDSP)^v where parents and guardians can contribute to a lifetime maximum of \$200,000, while, similar to the RESP program, there will be a related program of disability grants and bonds, scaled to income. This approach could have more general applicability to long-term care.

Recommendation 7 — Ensure that all Canadians are protected against catastrophic drug costs

The federal government could consider establishing a catastrophic pharmaceutical program to be administered through reimbursement of provincial/territorial and private prescription drug programs as was proposed by the Kirby/Lebreton Report.^{vi} There are currently more than one-half million Canadians without catastrophic drug coverage.

The fiscal impact of our seven recommendations (in millions of dollars)

	2008/09	2009/10	2010/11	Total
1. Accelerate health information technology investments	\$218	\$379	\$228	\$825
2. Introduce a tax on high calorie nutrient poor foods to curb obesity	-\$300	-\$300	-\$300	-\$900
3. Double the Child Fitness Tax Credit	\$512	\$555	\$587	\$1,654
4. Increase federal Gas Tax Fund transfers for municipal transit to improve air quality	\$2,000	\$2,200	\$2,420	\$6,620
5. Bolster Health Human Resources- extend interest relief on Canada student loans for medical residents	\$8	\$8	\$9	\$25
6. Explore tax policy options for Long Term Care	\$563	\$844	\$1,125	\$2,531
7. Ensure that all Canadians are protected against catastrophic drug costs	\$669	\$709	\$752	\$2,130
Total	\$2,438	\$2,842	\$2,944	\$8,224

Notes explaining the methodology of these estimates

#1. There are two parts of this initiative: **First** a \$50k tax credit to 20,000 community based health care practices come to \$1 billion over four years

Second: That the government provides a rebate (for IT) to physicians for the GST/HST

on costs relating to health care services provided by a medical practitioner and reimbursed by a province or provincial health plan.

According to estimates by KPMG this would cost \$52.7 million. Over three years the costs are adjusted for inflation.

#2. This includes \$500 million in revenue as well as \$200 million in expenditure = Net revenue of \$300 m.

#3. The current estimate of the cost of the Child Fitness Tax credit is \$250 million. Outer year increases adjust for inflation. Includes RST exemption for tobacco cessation aids.

#4. Assuming that the Gas Fund transfer increases to \$2 billion as well as a 10% escalator in the outer years.

#5. This is based on estimates from a Canadian Association Internes and Residents 2006 survey.

#6. This assumes a \$2,500 tax free savings at 45% rate and that over time more people would subscribe.

#7. This is based on a \$500 million estimate made by the Kirby/Lebreton Report in 2002 and adjusting for pharmaceutical inflation.

A. Addressing the committee's questions on tax policy trade-offs

The CMA does not pretend to be an expert on optimal tax policy. However, we have, over the last five years engaged experts that have illuminated the advantages of aligning tax policy with health policy^{vii}. In general, the CMA recognizes that the Canadian economy and its corporate and income tax rates must compete in the global economy, particularly relative to the United States. We also see that the tax system interfaces with health at three levels: health-care financing, health-care inputs and lifestyle choices. A balance must be struck considering all three of these levels of interaction. The following section provides our views on tax-policy trade-offs as they relate to health and the economy.

i. Should taxes be broadly-based or targeted to a specific group of residents or business sectors?

The CMA recognizes the three main principles of tax policy: equity, efficiency and economic growth. Our most precious resource is our people: Canada's human capital. Therefore, tax policy should be used to maximize the health of our citizens, particularly the health of our children – the labour force of the future. The CMA believes in broadly based tax policy that creates incentives for integrating good nutrition and active lifestyles for all Canadians.

ii. What consideration should be given to the various levels and types of public goods provided by countries?

The health-care sector currently represents 10% of our economy and is likely to grow. This makes the case for immediately implementing forward-looking tax policy that encourages healthy lifestyles as well as improving system efficiencies so that billions of dollars may be saved in the future. In addition, universal health care coverage facilitates labour mobility as employees are not tied to their employers for medical coverage. This is an advantage for Canadians as well as prospective overseas talent coming to Canada.

iii. What is the appropriate level of corporate taxes and should they be competitive?

The CMA also believes that corporate tax policy should create incentives for companies to invest in capital, as well as labour, in order to increase productivity. Consumption taxes like the GST should not fall on publicly funded physicians with respect to goods and services required to run their practices because they cannot pass on price increases to their patients. This is inefficient and inequitable.

iv. What is the appropriate form and level of personal taxes, fees and other charges and should they be competitive?

The CMA believes in a progressive personal income tax system that supports social services while at the same time is not so onerous as to discourage labour in fields that are considered strategic or in short supply. Accordingly, federal personal income tax should be mindful of international personal income tax rates especially for professions (such as physicians) that are currently and will be in short supply in the future. The CMA is concerned about being able to ensure sufficient health human resources for our health-care system in the future. In this regard, income-tax policy could be used to offer an expanded range of incentives for example, to encourage physicians to continue working in Canada or return to Canada from abroad. It is important to consider that over the last ten years; well over 4,800 physicians emigrated from Canada to other countries.

B. Tax incentives supporting an enhanced and sustainable health system

This pre-budget submission will next set out the CMA's recommended specific tax measures that can enhance both economic and health system performance. We believe that tax policy can create incentives for Canadians to live healthier lives, improve the efficiency of our health-care system, improve community-based health care, and reinforce the value of the publicly-funded system for business. Accordingly our submission outlines three principals of **health and tax policy**:

- I. Tax incentives for community-based health-care practices
- II. Tax incentives for healthier living
- III. Tax incentives to support an efficient health-care system

I. Tax incentives for community based health care practices

1. Accelerate health information technology investments – GST and tax incentives

A Booz, Allen, Hamilton study^{viii} on the Canadian health care system estimates that the benefits of an electronic medical record (EMR) could provide annual system-wide savings of \$6.1 billion, due to a reduction in duplicate testing, transcription savings, fewer chart pulls and filing time, reduction in office supplies and reduced expenditures due to fewer adverse drug reactions.

The physician community can play a pivotal role in helping the federal government make a connected health-care system a realizable goal in the years to come. Through a multi-stakeholder process encompassing the entire health-care team, the CMA will work toward achieving cooperation and buy-in. This will require a true partnership between provincial medical associations, provincial and territorial governments and Canada Health Infoway.

Recommendation: That the federal government provide a \$50,000 tax credit, spread-out over four years, for community-based health care practices to invest in interoperable EMRs to allow for system integration. In addition, the CMA recommends that the government provide a rebate for IT to physicians for the GST/HST on costs relating to health-care services provided by a medical practitioner and reimbursed by a province or provincial health plan.

II. Why tax incentives for healthier living?

Healthier individuals positively affect the economy in four ways.^{ix}

1. They are more productive at work and so earn higher incomes.
2. They spend more time in the labour force, as less healthy people take sickness absence or retire early.
3. They invest more in their own education, which will increase their productivity.
4. They save more in expectation of a longer life (for example, for retirement) increasing the funds available for investment in the economy.

2. Obesity and absenteeism affect the bottom line today and tomorrow

Almost 60% of all Canadian adults and 26% of our children and adolescents are overweight or obese.^x Obesity costs Canada \$9.6 billion per year.^{xi} The programs and incentives in place now are clearly not working as the incidence of obesity continues to grow. The experts agree: “The economic drive toward eating more and exercising less represents a failure of the free market that governments must act to reverse.”^{xii} That is why the CMA is calling for a tax on high-calorie, nutrient-poor foods. We are not alone in calling for this tax; the World Health Organization anti-obesity strategy includes a call for “fat taxes”^{xiii}. In addition there is support among voters for such a tax, as a recent consumer survey^{xiv} revealed that 75% of participants would support a tax designed to discourage consumers from purchasing high-fat, low-nutrition foods.

Recommendation: That the government considers the use of taxes on sales of high-calorie, nutrient-poor foods as part of a strategy of using tax incentives to promote healthy eating in Canada. Moreover, a portion of the revenue from this tax should be applied to make healthier foods cheaper and more accessible, especially for low income groups.

3. Double the Child Fitness Tax Credit

The CMA recognizes that a “high-calorie, nutrient-poor food tax” should be part of an integrated strategy to promote healthy lifestyles that would involve better nutrition as well as physical fitness. Accordingly, we recommend that the federal government increase the children’s fitness tax credit to encourage physical fitness. Similar to Canada’s Child Fitness Tax Credit, the Personal Health Investment Today (PHIT) bill in the U.S. allows for the use of up to \$1,000 pre-tax dollars to cover expenses related to sports, fitness and other physical activities. In addition, we urge the federal government to introduce a Retail Sales Tax (RST) exemption on tobacco cessation aids, similar to the recent initiative in Ontario^{xv}.

Recommendation: That the government doubles the \$500 Children’s Fitness Tax Credit and include a retail sales tax exemption on tobacco cessation aids.^{xvi}

4. Increase federal Gas Tax Fund transfers for municipal transit to improve air quality

Studies have proven that heart and lung disease among children increases significantly the closer they are to high-density traffic. The CMA suggests that the government immediately accelerate the federal Gas Tax Fund transfers to \$2 billion in support of municipal transit infrastructure projects to improve air quality; with consideration of an escalator to close the municipal infrastructure gap.^{xvii} These transfers should be integrated into a national transit strategy that considers the heart and lung impacts of motor vehicle pollution.^{xviii}

Recommendation: That the government increases the federal Gas Tax Fund tax transfers for municipal transit.

III. Tax incentives supporting an efficient quality health care system

5. Bolster Health Human Resources – extend the interest relief on Canada student loans for medical residents

Many Canadians might not recognize that high medical student debt load is an important health human resource issue. High debt loads unduly affect both the kind of specialty that physicians-in-training choose and, ultimately, where they decide to practice. Medical student debt limits the accessibility of a medical education and may also affect the diversity of the medical profession. Thus, high medical student debt affects patients’ access to quality care. Medical student debt is an area in which the federal government can make a direct difference. Unfortunately, current government policy — namely the Canada Student Loans Program (CSLP) — is a barrier and not a boost to medical students. Medical students are accumulating unprecedented levels of debt as tuition fees for medical school continue to skyrocket.

Recommendation: That the government introduce changes to the Canada Student Loans Program to extend the interest-free status on Canada student loans for medical residents pursuing postgraduate training.

6. Explore tax policy options for Long Term Care

Canada is in a period of accelerated population aging that will increase the proportion of seniors aged 65-plus substantially over the next 25 years. These people will need long-term care.

Recommendation: That the government considers either tax pre-paid or tax-deferred options for funding long-term health care. For example, in the 2007 federal budget, the government announced the introduction of a Registered Disability Savings Plan (RDSP). Parents and guardians will be able to contribute to a lifetime maximum of \$200,000, and similar to the RESP program, there will be a related program of disability grants and bonds, scaled to income. This approach could have more general applicability to long-term care.

7. Ensure that all Canadians are protected against catastrophic drug costs

This is not a tax policy proposal but it is desperately needed. There are currently over one-half-million Canadians without catastrophic drug coverage. Catastrophic Drug Coverage (CDC) aims to address the issue of undue financial hardship faced by Canadians in gaining access to required drug therapies, regardless of where they live and work. In the case of truly catastrophic health needs, these Canadians would probably face the loss of their homes and be destitute, according to the Fraser Group^{xix}. The founders of Medicare a half-century ago established the principle of equity of access to hospitals and doctors' services for all Canadians. First Ministers agree that no Canadian should suffer undue financial hardship in accessing needed drug therapies. Affordable access to drugs is fundamental to equitable health outcomes for all our citizens.

Recommendation: That the federal government could consider establishing a catastrophic pharmaceutical program to be administered through reimbursement of provincial/territorial and private prescription drug programs as was proposed by the Kirby/Lebreton Report^{xx}.

Summary

The CMA recognizes the benefits of aligning tax policy with health policy in order to create the right incentives for citizens to realize their potential. We believe that tax policy can create incentives for Canadians to live healthier lives, improve the efficiency of our health care system, improve community based health care, and reinforce the value of the publicly funded system for business. On behalf of the members of the Canadian Medical Association, I wish you all the best in your deliberations.

References

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- ⁱ P.Katzmarzyk, I. Janssen “The Economic costs associated with physical inactivity and obesity in Canada: An Update” *Can J Applied Physiology* 2004 Apr; 29(2):90-115. www.phe.queensu.ca/epi/ABSTRACTS/abst81.htm Accessed August 14, 2006.
- ⁱⁱ Children's Fitness Tax Credit see: www.cra-arc.gc.ca/fitness/
- ⁱⁱⁱ The Conference Board argues that Canadian cities are incapable of addressing the infrastructure gap on their own. The report, *Canada's Cities: In Need of a New Fiscal Framework*, proposes a financing model that involves all three levels of government on the grounds that infrastructure is a national issue and a national priority. See: www.infrastructure.gc.ca/research-recherche/result/precis/rp08_e.shtml
- ^{iv} Gauderman WJ, Vora H, McConnell R, et al. Effects of exposure to traffic on lung development from 10 to 18 years of age: a cohort study. *Lancet* 2007; 369: 571-577.
- ^v Federal Budget 2007. see page 83. Budget 2007 acts on the recommendations of the Panel by announcing the introduction of a new registered disability savings plan (RDSP). The plan will be available commencing in 2008 and will be based generally on the existing registered education savings plan (RESP) design.
- ^{vi} Standing Senate Committee on Science, Technology and Social Affairs' study, *The Health of Canadians - The Federal Role* (Kirby/Lebreton Report). See Chapter 7 –Expanding coverage to include protection against catastrophic drug costs. Section 7.5.1 How the plan would work on page 138.
- ^{vii} On April 4, 2002, the Canadian Medical Association (CMA) presented its interim report to the Commission on the Future of Health Care in Canada (the Romanow Commission). In this submission, the CMA outlined what Mr. Romanow called “bold and intriguing” changes to reaffirm and realign our health system. Specifically, the CMA report laid out an approach for the renewal of Canada’s health care system comprised of three components: a health charter; a health council; and supporting legislative initiatives, including tax system reform. See: *Tax and Health – Taking Another Look*, May 2002, the CMA.
- ^{viii} Pan-Canadian Electronic Health Record, Canada’s Health Infoway’s 10-Year Investment Strategy, Booz, Allan, Hamilton, March 2005-09-06. see: www.infoway-inforoute.ca/en/ResourceCenter/ResourceCenter.aspx (accessed August 14, 2007)
- ^{ix} Investment in health could be good for Europe's economies, Suhrcke, McKee, Arce, Tsoлова, Mortensen, *BMJ* 2006;333:1017-1019 (11 November), doi:10.1136/bmj.38951.614144.68
- ^x Source: ww2.heartandstroke.ca/Page.asp?PageID=1366&ArticleID=4321&Src=blank&From=SubCategory accessed 08/06.
- ^{xi} Apr; 29(2):90-115. www.phe.queensu.ca/epi/ABSTRACTS/abst81.htm Accessed August 14, 2006.
- ^{xii} Swinburn, et al. *International Journal of Pediatric Obesity* (vol 1, p 133) (accessed Sept. 19, 2006)
- ^{xiii} In December, 2003, The World Health Organization proposed that nations consider taxing junk foods to encourage people to make healthier food choices. According to the WHO report, "Several countries use fiscal measures to promote availability of and access to certain foods; others use taxes to increase or decrease consumption of food; and some use public funds and subsidies to promote access among poor communities to recreational and sporting facilities." See: http://en.wikipedia.org/wiki/Fat_tax
- ^{xiv} A recent consumer survey by conducted by eDiets.com reveals strong support for a 'fat tax' see: www.foodproductiondaily.com/news/ng.asp?n=66981-fat-tax-junk-food-obesity
- ^{xv} McGuinty Government Introduces Tax Break On Smoking Cessation see www.mhp.gov.on.ca/english/news/2007/073007.asp The national cost of the RST exemption would be about \$12 million.
- ^{xvi} See endnote ii.
- ^{xvii} See endnote iii.
- ^{xviii} See endnote iv.
- ^{xix} Fraser Group's business is research, analysis and marketing information for financial service organizations. Our area of greatest expertise is the employee benefits sector including the group life and health and the group pension and retirement markets. Our clients include insurance companies, mutual fund companies, suppliers to the employee benefits sector and, pharmaceutical firms as well as government (estimates for the Kirby/Lebreton report on pharmaceutical strategy in 2002) and non-profit entities with a need to understand this sector. See www.frasergroup.com/aboutus.htm in addition
- ^{xx} See endnote v.