

Busting income splitting myths

Income splitting is a viable option to help Canadian families come Budget 2015

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With contributions from William Watson, Lawrence Solomon,
Tasha Kheiriddin, Paul Malvern, Derek Rogusky and Andrea Mrozek



INTRODUCTION

Who knew tax policy could be so...exciting? Partisan politics have pulled income splitting into the stratosphere of political bickering.

The Conservatives had made income splitting an election plank in 2011, to be implemented when the budget was balanced. With balanced budgets purportedly upon us, many eagerly welcomed the prospect. Then, at the beginning of 2014, this hope was called into question when the late Finance Minister, the Honourable Jim Flaherty, voiced doubts. What followed was a smear campaign of the policy, led by a rather odd alliance of political and interest groups.

Income splitting isn't new, neither is it a partisan issue. In fact, it is tax policy the Liberals subscribed to under the Carter Commission back in the late 1960s. When the Conservatives raised it in 2011, the main Liberal complaint was about the delay in implementation.¹ Across the globe, countries like France, Czech Republic, Poland, Germany, Ireland, Luxembourg, Switzerland and the United States have all adopted it.

We acknowledge there are other ways to achieve the goal of substantive tax relief for families. These are typically more expensive and difficult in the short term, but also worth considering. But first of all, let's debunk the many fictions about income splitting.

In this paper, various respected Canadian authors and thinkers of differing backgrounds and viewpoints confront common myths around income splitting.

INSTITUTE OF MARRIAGE
AND FAMILY CANADA

1912 - 130 ALBERT ST.
OTTAWA ON, K1P 5G4

TEL: 613-565-3832
FAX: 613-565-3803
TOLL-FREE: 1-866-373-IMFC

WWW.IMFCANADA.ORG
INFO@IMFCANADA.ORG

Once again, large corporate interests and their allies are opposing measures that would make it easier for parents to attend to the difficult but immensely rewarding task of maintaining a home and raising children

— Paul Malvern, author of *Persuaders: Lobbying, Influence Peddling and Political Corruption in Canada*

MYTH NO. 1: CANADIANS DON'T WANT INCOME SPLITTING BECAUSE IT DOESN'T HELP MANY FAMILIES

by Paul Malvern

Recent polling data (Abacus 2014) suggests income splitting is quite popular among the general public — with support seen across party lines.

Broken down by party preference, support levels are as follows:

CONSERVATIVES: 65% | LIBERALS: 54% | NDP: 55%

This suggests that for ordinary Canadians this is a non-partisan issue.

Support was highest in Ontario (62%) and Atlantic Canada (64%).

Support was lowest in Quebec (48%) — which suggests that, if the Quebec figures were taken out, the support seen nationally would be higher than the current figure.

Overall, the results were:

FOR: 57% | AGAINST: 22% | UNDECIDED: 20%

Of special interest is the fact that, in spite of strong support for the program, only 16% believed that it would

benefit them personally. This suggests that the lack of universality does not greatly trouble ordinary Canadians who seem prepared to support the program even though they themselves may never get any tax relief from it.

One possible explanation may be that they view the current tax code as unfair to families getting by on a single income. And they are most definitely right in feeling that way. For there clearly are inequities in the treatment of such families. And while it is true that fixing this flaw in our tax code won't help every single Canadian, that's hardly a reason not to fix it. For the reality is that income splitting will help a significant portion of Canadian families, almost half of those with children under 18, or 46 percent according to a recent report which seeks to discredit income splitting.² That's a lot of families.

*Paul Malvern is President of The Malvern Consulting Group Ltd., which provides public and private sector clients with advice and assistance in the areas of strategic communication and social marketing. He is also an author and social critic, whose second book, *Persuaders: Lobbying, Influence Peddling and Political Corruption in Canada*, was nominated for the Governor-General's Award for Best Business Book.*

1. Then Liberal leader Michael Ignatieff had this to say about the Conservative promise: "It's like you come to a family and say, 'I've got good news. First, I'm going to cut taxes for the biggest and most profitable corporations in the country and then maybe in five years, if you take a ticket and you're patient and you vote for us a couple of times, and we'll do something really great for you.'" Chase, S., Curry, B., Taber, J. and Galloway, G. (2011, March 28). Harper unveils income-splitting plan; Ignatieff blasts four-year delay. *Globe and Mail*. Retrieved from <http://www.theglobeandmail.com/news/politics/harper-unveils-income-splitting-plan-ignatieff-blasts-four-year-delay/article4266794/>

2. Broadbent Institute. (2014, June). The big split: Income splitting's unequal distribution of benefits across Canada. Retrieved from <https://www.broadbentinstitute.ca/sites/default/files/thebigsplit-final.pdf>

MYTH NO. 2: INCOME SPLITTING IS RIGHT WING POLICY*by Paul Malvern*

Income splitting is part of a larger societal disagreement that has raged for the last half century or more as to how we go about supporting families in an increasingly market-driven world.

As such, it is a rerun of the debate over the family wage (the wage needed to support a family) which ultimately led to its virtual elimination in the early to mid-1960s. While no longer enshrined in law or a factor in union-management contract negotiations, the idea of a family wage is far from dead.

The current debate is all the more remarkable, given that those opposing the idea most vigorously come from two seemingly antagonistic groups: on the one hand, large corporate interests and on the other, feminists and their ideological allies—each with its own special reasons for wanting the family wage to remain dead and buried.

For big business and big government the motivation is the push for lower labour costs and the need to keep women in the workforce to ease possible labour shortages. Coupled with this have been arguments around the potential “job-killing” impacts of paying a family wage and the wisdom of allowing markets to determine wage rates without reference to their societal impacts.

For many feminists, the problem then and now has centered around the question of *who* earns the family wage in the paid workplace (i.e. men) and *who* stays at home with children (i.e. women). Many feminists see the home and family as oppressive, without openly saying so. This leads them to two false conclusions: First, that women can only be free and equal if they are in the workplace

labouring alongside men and second, that it will always be the woman who stays home.

Seen in this light, the current debate over income splitting for families is simply a replay of this older, much larger fight. For once again, large corporate interests and their allies are opposing measures that would make it easier for parents to attend to the difficult but immensely rewarding task of maintaining a home and raising their children. And their reasons for opposing income splitting are much the same as they were for opposing the family wage—namely, the need to keep everyone in the paid workforce and ensure a large reserve of low-wage workers who can be employed as needed.

On top of this, heads of large corporations may prefer that the money needed for income-splitting be used instead to lower corporate taxes and provide subsidies to the corporations they run.

All of which proves that politics does indeed make strange bedfellows.

**MYTH NO. 3: THERE ARE NO REAL TAX SAVINGS FOR MIDDLE CLASS FAMILIES***by Derek Rogusky*

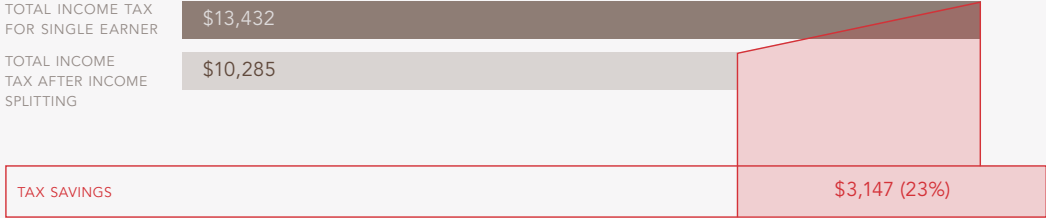
In 2008, Jack Mintz, a leading expert on tax policy, identified a significant source of unfairness in Canada’s tax system.³ A single income family often pays much higher taxes when compared to a two income family with the same household income. In an effort to address this horizontal inequity, Dr. Mintz recommended allowing

Continued on page 6

3. Mintz, J. (2008, March 1). Taxing families: does the system need an overhaul? Ottawa: Institute of Marriage and Family Canada. Retrieved from <http://www.imfcanada.org/issues/taxing-families-does-system-need-overhaul>

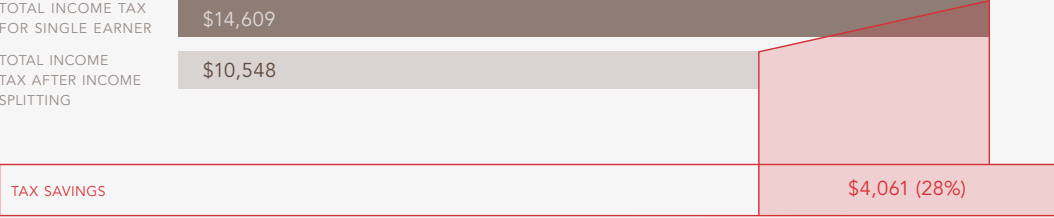
Potential tax savings from income splitting for middle-class Canadians

(IF APPLIED TO BOTH FEDERAL AND PROVINCIAL INCOME TAXES, FOR A MARRIED OR COMMON-LAW COUPLE WITH TWO CHILDREN UNDER THE AGE OF EIGHTEEN)



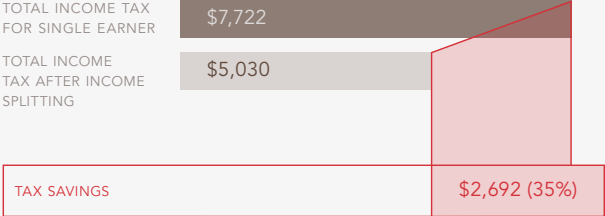
Secondary School Teacher in Manitoba with annual salary of \$69,722

Hourly Wage \$33.52



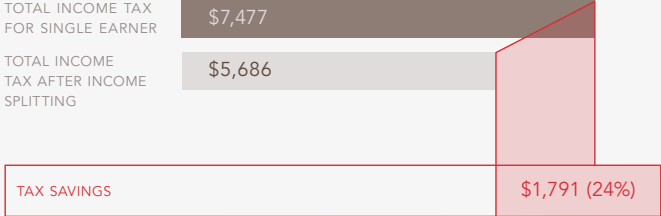
Registered Nurse in New Brunswick with annual salary of \$72,800

Hourly Wage \$35



Electrician in Ontario with annual salary of \$56,160

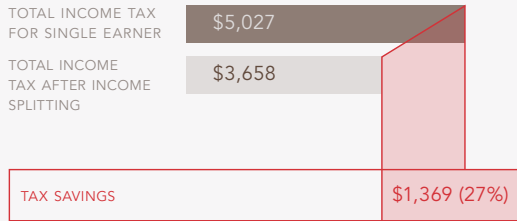
Hourly Wage \$27



Accountant in Saskatchewan with annual salary of \$60,008

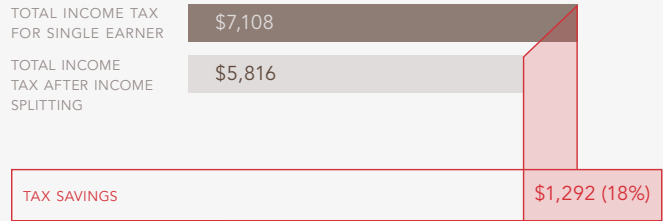
Hourly Wage \$28.85

METHODOLOGY: We first chose several middle class occupations and used the Government of Canada's Job Bank online database (<http://www.jobbank.gc.ca/wage-outlook-search-eng.do?reportOption=wage>) to determine the median wage for that occupation in a specific province. We then multiplied the median wage by 2080 hours (52 weeks X 40 hours/week) to determine the annual salary. Based on this annual income we used the 2013 Canadian income Tax Calculator at TaxTips.ca (<http://www.taxtips.ca/calculators/canadian-tax/canadian-tax-calculator.htm>) to calculate the household federal and provincial income tax for a married (or common-law) couple with two children at home under the age of 18 and assuming the second spouse had no income. We then calculated the household federal and provincial income tax again, this time splitting the income with the second spouse. In all calculations it was assumed that there were no deductions other than the basic personal, spousal and children amounts. In addition, the impact of EI and CPP premiums were not included for reasons that are best explained by Mintz & Krzepkowski in *No More Second-Class Taxpayers: How Income Splitting Can Bring Fairness to Canada's Single Income Families*, Page 3, Box 1. Retrieved from <http://policyschool.ucalgary.ca/sites/default/files/research/krzepkowski-mintz-income-splitting.pdf>



Graphic Designer in British Columbia
 with annual salary of \$49,920

Hourly Wage \$24



Crane Operator in Alberta
 with annual salary of \$58,240

Hourly Wage \$28 | Please note the savings are lower because Alberta has a flat tax at the provincial level.

Federal and provincial breakdown of potential savings

SECONDARY SCHOOL TEACHER IN MANITOBA
 with annual salary of \$69,722, hourly wage \$33.52

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 7,653	\$ 5,479	\$ 2,174	28 %
Provincial	\$ 5,779	\$ 4,806	\$ 973	17 %
Total	\$ 13,432	\$ 10,285	\$ 3,147	23 %

REGISTERED NURSE IN NEW BRUNSWICK
 with annual salary of \$72,800, hourly wage \$35

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 8,330	\$ 5,910	\$ 2,420	29 %
Provincial	\$ 6,279	\$ 4,638	\$ 1,641	26 %
Total	\$ 14,609	\$ 10,548	\$ 4,061	28 %

ELECTRICIAN IN ONTARIO
 with annual salary of \$56,160, hourly wage \$27

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 4,670	\$ 3,584	\$ 1,086	23 %
Provincial	\$ 3,052	\$ 1,446	\$ 1,606	53 %
Total	\$ 7,722	\$ 5,030	\$ 2,692	35 %

ACCOUNTANT IN SASKATCHEWAN
 with annual salary of \$60,008, hourly wage \$28.85

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 5,516	\$ 4,122	\$ 1,394	25 %
Provincial	\$ 1,961	\$ 1,564	\$ 397	20 %
Total	\$ 7,477	\$ 5,686	\$ 1,791	24 %

GRAPHIC DESIGNER IN BRITISH COLUMBIA
 with annual salary of \$49,920, hourly wage \$24

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 3,305	\$ 2,712	\$ 593	18 %
Provincial	\$ 1,722	\$ 946	\$ 776	45 %
Total	\$ 5,027	\$ 3,658	\$ 1,369	27 %

CRANE OPERATOR IN ALBERTA
 with annual salary of \$58,240, hourly wage \$28

	Single Income	Income Splitting	Difference (\$)	Difference (%)
Federal	\$ 5,127	\$ 3,874	\$ 1,253	24 %
Provincial	\$ 1,981	\$ 1,942	\$ 39	2 %
Total	\$ 7,108	\$ 5,816	\$ 1,292	18 %

households to split their income for tax purposes. Some critics of income splitting, however, have suggested such a policy will mostly benefit the rich and middle class families will be left behind. But is that really the case? Let's look at a few scenarios based on a couple with two children at home and one spouse employed in some typical middle class jobs. We can see that if income splitting were to be implemented on both a federal and a provincial level, the tax savings for your typical middle-class family would be significant.

An Ontario household with an electrician making \$56,160 per year (\$27/hour) might expect to pay about \$7,722 in combined federal and provincial income tax. If he or she was able to split that income, the combined income tax burden would fall by \$2,692 or a savings of 35%.

A British Columbia household with a graphic designer making \$49,920 per year (\$24/hour) might expect to pay about \$5,027 in combined federal and provincial income tax. If he or she was able to split that income, the combined income tax burden would fall by \$1,369 or a savings of 27%.

A Saskatchewan household with an accountant making \$60,008 per year (\$28.85/hour) might expect to pay about \$7,477 in combined federal and provincial income tax. If he or she was able to split that income, the combined income tax burden would fall by \$1,791 or a savings of 24%.

A Manitoba household with a secondary school teacher making \$69,722 per year (\$33.52/hour) might expect to save 23% if he or she was able to split that income.

A New Brunswick household with a registered nurse making \$72,800 per year (\$35/hour) might expect to pay about \$14,609 in combined federal and provincial income

tax. If he or she was able to split that income, the combined income tax burden would fall by \$4,061 or a savings of 28%.

An Alberta household with a crane operator making \$58,240 per year (\$28/hour) might expect to pay about \$7,108 in combined federal and provincial income tax. If he or she was able to split that income, the combined income tax burden would fall by \$1,292 or 18%. Note that the tax savings here are not quite as dramatic as in other provinces, because Alberta has a flat tax provincially. Still, implementing income splitting federally would significantly help middle-class families in Alberta.

These examples suggest that the potential tax savings are far from trivial. Yes, spouses must be in different tax brackets to benefit. But when children are young, it remains a common desire for one parent to spend more time with children. In fact, 76% of Canadians believe the best place for children under six is in the home with a parent.⁴ Another concern is that so many of these families with young children are also juggling care for aging parents.

As a result, single income middle class families are likely not as quick to dismiss the idea of income splitting as some critics have.

Derek Rogusky is a senior vice-president at Focus on the Family Canada. Before joining Focus in 1999 he was an assistant director of MBA programs at the University of Alberta and a research analyst for the Official Opposition in the Alberta Legislature. Derek has an MBA from the University of Alberta.



4. Canadian Daycare Desires. (2013, May). Institute of Marriage and Family Canada. Retrieved from <http://www.imfcanada.org/daycaresdesires>

MYTH NO. 4: INCOME SPLITTING DENIGRATES WOMEN AND REMOVES THEIR CHOICE TO WORK

by Andrea Mrozek

If you won the lottery tomorrow, would you treat that extra money as a burden—a coercive force pushing you out of your workplace and into your home? Or would you treat it as a good thing, something that allowed you to do the things you've always wanted?

Income splitting provides Canadian families greater freedom to make their own choices.

Kathleen Lahey, tax professor at Queen's University, once wrote about income splitting under the title, "Bribing women to stay at home." Lahey called income-splitting one of the "huge hidden barriers [on] the road of women who have their own incomes." Her reasoning is that when families are able to access a reduced combined tax load, by splitting a single wage-earner's income, the result will be that "women [leave] paid work to earn huge tax bonuses for working in the home."

In effect, Lahey is literally arguing for the right to pay higher taxes—so that women will be forced, as a matter of economic necessity, to stay in the work force. She disregards their choice in the matter. Tax policy that grants lower taxes would offer families too much freedom of choice for her liking.

Of course, an increasing number of Canadian families rely more on mom's income than on dad's, but this nuance is lost on ideologues.

The larger question is why feminists such as Lahey have staked out this odd position. One answer is that many feminists believe that maximizing female participation in the workplace is a pre-eminent social goal unto itself—never mind what lifestyle choice individual women actually want.

Income splitting is also not, as its critics charge, an incentive to send women 'back to the kitchen.' It is a policy that would allow women—or men—who want to spend more time at home with their kids to do so, a choice surveys consistently show most parents of small children would make if it were financially viable⁵

—Tasha Kheiriddin is a writer and broadcaster based in the Greater Toronto Area

Lower taxes mean more money in a family's pocket. More money means greater freedom.

Bottom line? Let women (and men) decide where they want to be. The tax code should not influence parenting choices by taxing families with the same income differently, as it does now. This discrimination against single earner families in Canada's tax code must end.

Andrea Mrozek is Executive Director of the Institute of Marriage and Family Canada.

5. Kheiriddin, T. (2014, February 20). Income splitting doesn't just help taxpayers—it helps kids. National Post. Retrieved from <http://fullcomment.nationalpost.com/2014/02/20/tasha-kheiriddin-income-splitting-doesnt-just-help-taxpayers-it-helps-kids/>

MYTH NO. 5: IT DOESN'T HELP THE POOR*by Lawrence Solomon*

The family is a firm as well as a basic social unit. It is an economic unit whose members jointly advance its welfare, not merely through a main breadwinner's formal employment but also through mutual emotional support, housekeeping and child rearing, and through a spouse's public relations role via dinner parties, networking and strategizing over whether to quit one employer for another.

The very word "economics" originates in ancient Greece, where it meant "household management."

Poor households are overwhelmingly dominated by the unmarried—just 12% of the households in the bottom quartile are married, compared to an 86% marriage rate for the wealthiest quartile, according to research by the Institute of Marriage and Family Canada.⁶

Yet instead of recognizing the family firm for the coherent money making machine that it has always been, Canada's income tax system illogically divides the family firm by separately taxing its components.

This is akin to separately taxing a corporate firm's various departments—human resources, marketing, public relations, etc.—rather than the firm as a whole.

When married women became common in the workforce and it became evident that the tax system inadvertently penalized marriages by taxing both spouses separately, the Carter Royal Commission on Taxation in 1966 and later others attempted to change tax law to treat the family as the economic unit. But it was too late—feminists opposed income splitting on grounds that it discouraged women from joining the workforce, since back then it was typically the woman's income that would be taxed at a high family rate when combined with her husband's, rather than at her lower rate.

As one example, a single man earning \$40,000 a year today can pay more than \$6,200 in taxes to federal and provincial governments. Under the current tax system, he would see little immediate financial gain in getting married to his impecunious, long-time girlfriend. But under a full income-splitting system where he and his wife would each report \$20,000 in income, tying the knot would lower the tax bill to \$3,500, a marriage benefit of \$2,700.

By the same token, he would also have a financial incentive to stay married—if they split, he would end up paying the taxman that \$2,700. The incentives to get married, and stay married, only increase as the incomes increase.

Opponents of income splitting claim that 85% of Canadian households (which are disproportionately populated by single households) would gain nothing from income splitting.

Yes, maybe so, in a world in which financial incentives don't matter. Because incentives do matter, many of those now involuntarily stuck in that single household demographic would migrate to married status and then—as research has shown—would, through marriage, have the moorings that lead to future prosperity.

*Lawrence Solomon is one of Canada's leading environmentalists. His book, *The Conserver Solution (Doubleday)* popularized the Conserver Society concept in the late 1970s and became the manual for those interested in incorporating environmental factors into economic life. Mr. Solomon is a founder and managing director of Energy Probe Research Foundation and the executive director of its Energy Probe and Urban Renaissance Institute divisions. He has been a columnist for *The Globe and Mail*, a contributor to the *Wall Street Journal*, the editor and publisher of the award-winning *The Next City* magazine.*

*A longer version of this article was first published in the *Financial Post* on February 27, 2014.*

6. Cross, P. and Mitchell, P.J. (2014). The marriage gap between rich and poor Canadians. Ottawa: Institute of Marriage and Family Canada. Retrieved from <http://www.imfcanada.org/canadian-marriage-gap>

The current tax system penalizes marriage, and marriage is a wealth-creating vehicle for everyone

MYTH NO. 6: INCOME SPLITTING WILL PULL PEOPLE OUT OF THE WORKFORCE

by *William Watson*

Will income-splitting cause hordes of high-skilled people to quit their jobs, reduce their work hours or delay their return to the labour force after child-raising, thus worsening the supposed skill shortage? I doubt it.

Income-splitting is most generous if I have no income and my spouse has lots. Exact savings differ by family status, tax situation, province and so on but a 2011 C. D. Howe Institute study estimated a maximum tax saving, even if the provinces participate, of about \$12K, with only eight per cent of eligible families gaining \$5K or more.

A tax-free \$12K would be a very nice subsidy to my leisure. But, face it, to your average skilled worker, it's not gigantic bucks. And it has to be weighed against the career impact of being out of the work force, which can add up quickly.

If I'm already out and thinking about coming back in, income-splitting raises my marginal rate. I'm charged with up to \$50K of my spouse's income even if I'm earning nothing. So on re-entry my marginal rate starts, not at zero, but at whatever a \$50K-a-year worker pays.

The same Howe Institute study found that: for three-quarters of re-entrants the hike in their marginal rate would be less than ten percentage points (and even negative in some cases); for another fifth it would be between ten and 20 points; and for just one in 20 people it would be greater than 20 per cent. Moreover, in most cases these

effects would be at least partly offset by reductions in the spouse's top rate.

Conservative economists believe and ample evidence confirms that marginal tax rates do affect people's behaviour. So, yes, all this will have an effect. Will it be a big or decisive effect? My guess is: in the great majority of cases, probably not.

William Watson has taught economics at McGill since 1977. A specialist in public policy, he is known for his columns in the Financial Post and the Ottawa Citizen. From 1998 to 2002 he edited Policy Options, the magazine of Montreal's Institute for Research on Public Policy, where he is currently a senior fellow. He is also a research fellow at the C.D. Howe Institute.



MYTH NO. 7: INCOME SPLITTING IS THE ONLY WAY TO BRING TAX FAIRNESS TO SINGLE EARNER FAMILIES

by *Derek Rogusky*

Is income splitting the only way to bring greater fairness between dual and single earner households earning the same amount? To answer that we first need to understand what drives the unequal treatment of households. The difference in the tax bill is primarily due to the graduated tax structure the federal and most provincial governments follow (see the list of the current four federal income tax level brackets).

Canadians pay:

- 15% on the first \$43,953 of taxable income
- 22% on income between \$43,954 and \$87,907
- 26% on income between \$87,908 and \$136,270
- 29% on income over \$136,270

As a result, part of the single earner's income is often taxed at a higher rate than that of the two earner household. Income splitting allows a couple to combine their income and then "split" it for tax purposes. This allows the couple to move income from the higher rates of one spouse to the lower tax rate of the other.

Of course if all earnings were taxed at the same rate, the inequity between single earner households and dual earner households would essentially vanish. This is in fact the case in Alberta where the provincial income tax rate is 10% for all levels of income above \$17,787.

So one alternative to income splitting that still addresses the unfair treatment of single earner families is to flatten the tax system.⁷ This is in fact the recommended solution of three economists with the Fraser Institute. They suggest "eliminating the two middle-income tax brackets leaving one tax bracket (15%) for the majority of Canadians and a single high-income bracket." They argue that not only would the unequal treatment of households with similar income cease, but it would also simplify the tax system and improve economic incentives for greater entrepreneurship and more productive investment.

The challenge with such a plan is the price tag. The Fraser Institute authors estimate it would cost \$20.6 billion to fully implement their plan, so it would likely have to be implemented over a number of years. By comparison, income splitting is estimated to cost \$2.7 billion.⁸

That said, eliminating the two middle income brackets over

the next five years would go a long way to bringing fairness to the tax system and making Canada an attractive place to work and invest.



MYTH NO. 8: INCOME SPLITTING IS A TAX BREAK FOR THE RICH

by Andrea Mrozek

At the end of the day, income splitting is not a tax break at all. It is a policy to correct an inequity in the current tax system that treats households with similar income differently. Critics don't like it because it means less tax income for government and more income for families.

Critics fail to recognize the current inequality. The reality is that right now families earning the same amount pay very different amounts of taxes, simply because one family has one income earner and another family has two income earners. Fixing this inequity can be done either through income splitting or by flattening the tax brackets.

Claiming it is unfair to fix a clear inequality in the tax code is a bit like blaming the victim.

Critics are correct in saying that one partner with a high income and another partner with a low income benefit the most. After all, you can't split income you don't have. However, households making much less would also benefit as we have outlined in our scenarios.

When you have a highly progressive tax system like Canada's, tax cuts are going to generally benefit higher incomes the most in terms of actual dollars saved because higher income taxpayers pay the most in taxes. That doesn't negate the fact that, for example, households

7. Clemens, J., Palacios, M. and Veldhuis, N. (2014, February 14). Forget income-splitting; cut tax rates. Vancouver: The Fraser Institute. Retrieved from <http://www.fraserinstitute.org/research-news/news/commentaries/Forget-income-splitting-cut-tax-rates/>

making \$60,000 to \$75,000 would see a twenty percent plus reduction in their income tax bill, if the federal and provincial governments pursued income splitting or flattened the tax brackets.

There are good arguments to be made for flattening the tax system. It is likely no coincidence that the only province with a flat tax rate for provincial income tax, Alberta, is also the primary driver of economic growth in Canada.

Attempts to paint income splitting as favouring Alberta and Saskatchewan at the expense of other provinces are disingenuous. This “favouring” is only because those provinces earn higher incomes and therefore pay more in income tax than other provinces. They also have relatively younger populations with families with kids at home. What those same critics also don’t highlight is the fact that other provinces with older populations received a greater benefit from the pension income splitting program already implemented.

It is important to note that income splitting benefits only those families who are currently being discriminated against in the tax code. Income splitting will cost the government the amount that Canadian families are right now being overcharged.



MYTH NO. 9: INCOME SPLITTING CREATES GREATER INEQUITY BETWEEN CANADIANS

by *Andrea Mrozek*

Implementing income splitting would *rectify* an existing inequity. Families that look similar should be taxed similarly.

Even where not all families would benefit, allowing some to keep more of their own money is a benefit and works toward correcting this inequity.

The bigger issue at stake for the critics is actually whether certain families should enjoy tax cuts at all.

Many who are against income splitting are in favour of government-funded institutional daycare. That this type of daycare program is inequitable—since this type of care is not the first choice of parents—is lost on advocates for the program. They want it, so they perceive that every parent wants it.

State-run, state-funded care is expensive. More tax dollars would be needed to fund such a system, not less. But more taxes are not such a bad thing, so the argument goes, because parents can then use the system designed for them. This soft paternalism takes money from parents and then proceeds to tell them how to care for their kids.

Recognizing that Canadian families want to spend more time with children and then making it financially feasible is not something to be derisive toward.

Indeed, there is an animus against caregivers of all kinds underlying some of the opposition to income splitting. People who work less outside the home in order to care for either children or aging parents deserve recognition and support.

Taking the value of caring for others and trashing it as irrelevant or only for certain families deemed “traditional” ought to be recognized as the mean-spirited discrimination that it is.



CONCLUSION

Families work as a unit. Taxing them as individuals has resulted in unfairness in the tax code, where two families of similar means are taxed very differently based on how their income is earned. This longstanding, unfair discrimination must end.

Families make decisions about how to divide their time between work and home based on their family's changing needs. Many find that at some point, caring for young children—or disabled, sick or aging family members—demands more attention. These families should not be penalized in the tax code for choosing the honourable path of working outside the home less in order to care for family members more.

Income splitting is not a perk for certain types of families, but a policy that brings justice and fairness to all families. About half of all Canadian families with kids are hurt by this discrimination in the tax code.

The tax savings from income splitting would be significant for middle class families getting by on one income. It will also help spouses whose incomes fall into different tax brackets.

There is broad popular support for income splitting. Even Canadians who do not stand to benefit personally from the policy support it.

We have seen that the greatest source of resistance against this policy comes from groups that have a vested interest in keeping all Canadians in the workforce regardless of personal family circumstances. This is not compassionate, nor is it tolerant. Furthermore, it is clear that some of these groups have contempt for the families that would benefit from income splitting—particularly those who choose to opt out of the workforce for caretaking reasons. This derogatory attitude is not respectful of diversity, and it does not support parents in the choices they make for their families.

We encourage policymakers at both the provincial and federal level to consider the merits of income splitting—or other tax policies that achieve the same goal—in order to eliminate unfairness for families. 🍁