Time for a family-friendly tax policy

By Dave Quist, published February 7, 2011

As speculation grows about the upcoming federal budget, Finance Minister Jim Flaherty recently commented that he’d consider pension reform to help seniors struggling to make ends meet. He then specified that he wanted to assist “particularly some single, older Canadians who are not entitled to the Canada Pension Plan, because in their day they worked at home, raising children.”

But why limit his remarks to seniors? There are millions of Canadian families, raising children as we speak, who are struggling to get by every day.

If the Prime Minister and Minister of Finance really want to enact serious reforms in this budget, a significant step forward would be to look at family finances from the perspective of, well, a family. Compared to single people, families pool their income to pay all the bills. Their households are not merely groupings of individuals, like roommates, on a schedule to buy milk and toilet paper. Rather, families form cohesive economic units, working for the common good of their members.

Yet today, family members are taxed as individuals, as if they had no association with one another whatsoever. The practical result is that families pay more than single people at tax time.

In a 2008 paper for the Institute of Marriage and Family Canada, leading tax expert Jack Mintz showed that of two identical Ontario families, each earning $70,000, one could pay as much as $3,800 more than the other. The reason? One single income earner at $70,000 falls into a higher tax bracket than dual-income earners taking home $35,000 each. The government penalizes the single-earner family, despite the possibility that the non-working spouse is foregoing income to perform the valuable (but unpaid) tasks of nurturing children or caring for an aging parent.

To end this discriminatory treatment, tax policy should consider the family as a unit and tax the group, not the individuals within it. Family taxation or family income splitting would tax parents together, lowering the burden on single-earner families and bringing them on par with dual-earner households.
Family taxation or income splitting would assist families in a myriad of ways. Imagine the family that would like to make plans to purchase a house. Using our scenario of a savings of $3,800 per year, that's over $300 per month that could be saved for a down payment, or put towards a mortgage. Or consider a young couple that wants to start or add to their family. Being able to split their family income between both parents would give them more personal choices - and possibly help combat Canada’s falling birthrate.

Single parent families could also benefit, when the option of using the oldest child as a tax equivalent to spouse is calculated. So too could the "sandwich generation," who are supporting both children and their own aging parents. Meanwhile, dual-income families would not be penalized. For them, a family-friendly tax policy would be either revenue neutral, or beneficial, when one partner earns significantly more than the other.

In other contexts, the family is already assessed as a unit. When a couple wants to buy a house, the lender looks at their collective income. Why shouldn't the government do something similar at tax time?

Opponents will cite the cost to government coffers of implementing such a plan. However, when families keep more of their own money, they are most likely to use it for their benefit, buying goods and services and thereby increasing economic activity. And for those who still object, there are options: Place a ceiling on the eligible amount for family income splitting, or limit eligibility to those families who have children at home.

The federal government has already introduced pension splitting for seniors. Through this, they have recognized that seniors, especially those on lower fixed incomes, pay the bills as a family, not only as individuals. Younger families are worthy of this consideration as well.

Our research shows the number one concern for families of every demographic is finances. Family taxation helps families keep more of their own hard-earned money. If politicians are serious about being family friendly, why not follow up the rhetoric with action in this budget?

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