

Help a family, save an economy

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In about three weeks, Finance Minister Jim Flaherty will rise in the House of Commons to present his fourth federal budget. As an election is one possible outcome, should an eager opposition decide to take down the government, the minister could make a virtue out of necessity by including in that budget one measure with high voter appeal--income splitting for all Canadian families.

It is a virtue because it is the right thing to do, was in fact one of the first policy proposals floated by a brand new Conservative Party of Canada preparing for its first election, and has already been partially implemented (for senior citizens). It is arguably a necessity because few initiatives this government could plausibly propose would match its earlier GST reductions for widely distributed tax relief, economic stimulus or election marketability.

Reduced to their lowest common denominator, income-splitting schemes tax family units, not individuals.

Almost invariably, the result is that the family pays less. By just how much was illustrated by Calgary economist Jack Mintz in a paper published last May. Comparing two same-size Ontario families with annual household incomes of \$70,000, Mintz showed the single-income family would pay \$3,800 more tax than the family where the two spouses each earned half the income. As there seems no valid public policy goal served by the inequity, the case for discrimination based on number of income-earners is hard to make.

Yet, the status quo persists. Bureaucrats at Finance Canada say the tax revenue Ottawa would forego makes any kind of income-splitting too costly, and so far, finance ministers have been persuaded.

That the government would lose revenue is certainly true, though family advocates would merely point out that if a discriminatory tax policy cannot be justified, its amendment should be a government priority anyway. However, now that the minister has promised a deficit budget, the bureaucratic argument loses much of its force: it has already been decided that the government will run at a loss, so the question has evolved into how borrowed money may best stimulate the economy.

So far, the consensus view sees a \$30-billion package injected into the economy over four years through such predictable mechanisms as training programs, increased EI and direct assistance to struggling enterprises, especially in the automotive sector. No doubt the minister will be obliged to substantially adhere to this formula, if his budget is to stand a chance of passing.

Even so, it is aid by chosen niche. Contrast that with the broad national stimulus even limited (i. e. affordable) income-splitting reform would generate, by directing extra income to Canada's roughly 7.5 million two-parent families, coast to coast--a typically hard-pressed demographic likely to route its tax savings right back into the marketplace.

Major tax reform in the midst of a political crisis might be a hard sell for a wary caucus.

Yet, difficult times call for bold gestures. Canadian families need help, and so does the economy.

It may be risky, but governments never look better than when they come bearing tax cuts.

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