

Income splitting should be expanded

ANDREA MROZEK

Executive Director, Institute of Marriage and Family Canada



A version of this appeared in the *National Post* on March 30, 2015.

Income splitting makes sense. The bulk of Canadians understand it as a way to share income at tax time. Certainly, the current plan does not go far enough, and we should be discussing ways to improve and expand it, for example, by including single parents. Instead we are trapped in a cycle of re-hashing the talking points of those who prefer high taxes and high levels of redistribution over family independence.

The latest round happened when the Parliamentary Budget Office released a family taxation report on March 17.¹ In the speedy media cycle, with most Canadians only tuning in with one ear, we learned that family taxation only benefits the rich, that it would pull people out of the workforce and that a mere 15% of families would benefit.

This isn't exactly what the report said.

Setting the record straight

First, according to the report, the risk of pulling people out of the workforce under the current plan is quite small—a decrease of 0.01 per cent of total employment income.²

More to the point, when we discuss the labour force the more appropriate angle is not who will be forced into the home, but rather who is currently compelled into the workforce.

Plenty of parents—particularly working mothers—speak about juggling work priorities when they would prefer to spend more time at home with young children.³ Working part-time is currently very difficult as many workplaces have not (yet) made a cultural shift to facilitate

¹ Scholz, T. and Shaw, T. (2015, March 17). The Family Tax Cut. Office of the Parliamentary Budget Officer. Retrieved from http://www.pbo-dpb.gc.ca/files/files/Family_Tax_Cut_EN.pdf

² *Ibid*, p. 1.

³ In 2012, 37% of working mothers in the United States thought full-time work was “ideal.” From <http://www.pewresearch.org/daily-number/more-working-mothers-now-prefer-full-time-work/>

this. We need an attitude shift so that parents can keep credentials *and* care for their young children without being compelled to use centre-based care full-time, a less than desirable option for most parents.

On to addressing the second point, the predictable chorus that family taxation only benefits the wealthy. In a progressive system, many tax cuts benefit those with more money simply because *they pay more taxes*.⁴

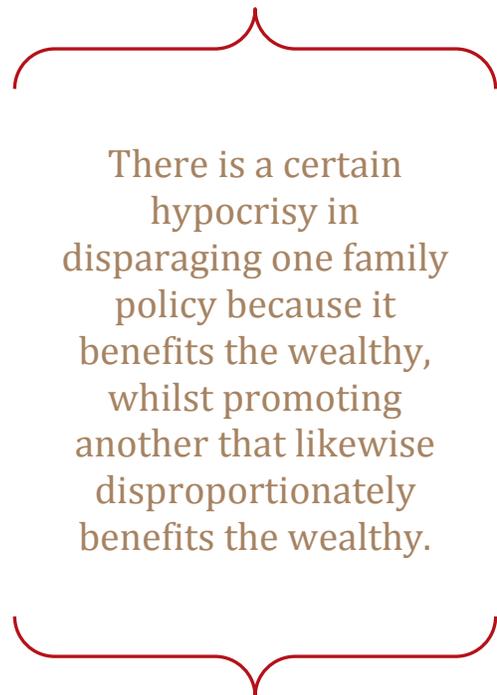
Ironically, those who are against income splitting for this reason generally go on to strenuously advocate for another program that disproportionately benefits the wealthy: National, state-funded daycare. Evidence from Quebec, which is the model many would use for Canada, shows that people of means access the system at higher rates than those who are lower income.⁵

There is a certain hypocrisy in disparaging one family policy because it benefits the wealthy, whilst promoting another that likewise disproportionately benefits the wealthy.

Finally, will only 15% of families benefit? This is what people heard, but not what the report actually says. Fifteen percent of households will benefit. "Households" is a Statistics Canada term that includes households with no children as well as single individuals. The Parliamentary Budget Office report didn't calculate the percentage of families *with children* who would benefit, but prior reports indicate this number is nearer 50% than 15%.⁶

Facilitating parenthood

Family policy is generally aimed at helping families with dependents, because they are the ones who need help. Raising children takes time and resources. Is anyone angry that



There is a certain
hypocrisy in
disparaging one family
policy because it
benefits the wealthy,
whilst promoting
another that likewise
disproportionately
benefits the wealthy.

⁴ "Higher income households representing only 24 per cent of the tax base claim 38 per cent of tuition fee and education cost credits. They also claim two-thirds of registered retirement deductions (although the principal and investment returns are fully taxed when cashed in). High-income households are also responsible for two-thirds of charitable donation tax credits." Bazel, P. and Mintz, J. (2014, December 11). Income splitting not perfect, but it is a step in the right direction, National Post. Retrieved from <http://business.financialpost.com/2014/12/11/income-splitting-taxes/>

⁵ Kozhaya, N. (2006, October). \$7-a-day childcare. Are parents getting what they need? Montreal Economic Institute. Retrieved from http://www.iedm.org/files/octobre06_en.pdf
Editorial. (2014, September 23). Change to Quebec's \$7-a-day daycare can't come soon enough. Maclean's. Retrieved from <http://www.macleans.ca/news/canada/quebecs-plan-to-end-7-a-day-daycare-is-a-breakthrough-for-economic-fairness-and-common-sense/>

⁶ Broadbent Institute. (2014, June). The big split: Income splitting's unequal distribution of benefits across Canada. Retrieved from <https://www.broadbentinstitute.ca/en/issue/big-split-income-splittings-unequal-distribution-benefits-across-canada>

national daycare wouldn't also help childless adults? Criticizing family taxation for only helping families with children is the rough equivalent.

As a side note, in Canada any family policy implemented today benefits a diminishing number of people. Demographic decline means we don't have enough children to replace ourselves. In 2006 we tipped over into having more households without children than with, and this gap has grown, according to Census 2011.⁷ It should go without saying, but dwindling demographics are not a success story for our country.

Ultimately, the idea of facilitating parental desires, and more expressly, maternal desires, is not visible in the public discussion right now.

Instead we hear economists against income splitting speak in broadly patronizing terms about what it means to do family. In one recent article, economist Dr. Rhys Kesselman explains that family taxation gives money to families with older children as well as young, aka those who don't really need it.

He writes, "Many studies have found that the most critical stages of human development happen in the prenatal period and during a baby's first few years. But the government's policy package dispenses many billions of dollars to families with older children.... Income-splitting's benefits also go to couples where the non-working spouse is pursuing hobbies, socializing, homemaking and other activities not directly related to child care."⁸

Pursuing hobbies! Socializing! Might there be some beer and popcorn involved?

Soon enough we'll need to file our taxes, and chances are high that for many Canadian families, income splitting will make that onerous task slightly less painful.

Permission granted to reprint in full with attribution to the Institute of Marriage and Family Canada

⁷ "For the first time in 2006, there were more households comprised of couples without children (29.0%) than households comprised of couples with children (28.5%). This gap widened in 2011, with 29.5% of households comprised of couples without children and 26.5% comprised of couples with children." Minister of Industry. (2012). Canadian households in 2011: Type and growth, p. 1. Retrieved from http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-312-x/98-312-x2011003_2-eng.pdf

⁸ Kesselman, R. (2014, November 6). The real problem with income splitting? It targets the wrong parents. Retrieved from <http://www.ipolitics.ca/2014/11/06/the-real-problem-with-income-splitting-it-targets-the-wrong-parents/>