

General tax relief: Impacts on Canada's families ^[1]

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AVAILABILITY

Full report ^[2]

Excerpts from the report:

This report assesses the impact on families of general tax relief & increased personal exemptions; reduced tax rates across-the-board; and elimination of the higher income earner surtax.

Findings:

1. Tax levels for the 'average' Canadian family do not appear unreasonable. The contention that Canadians are overtaxed needs to be seriously examined.
 - The average family in Canada, with an annual after-tax income of approximately \$34,200 pays an effective tax rate of 24.3% (federal and provincial combined).
2. General tax relief is a costly and inefficient way to assist families with children.
 - At a cost of \$6.5 billion overall, split between the federal and provincial governments, the average family will see a reduction in their taxes of only \$476.
 - The 53% of families with low and modest incomes (up to \$40,000) will receive less than 10% of the total gains while the 9% of families with incomes above \$100,000 will receive 38% of the gains.
3. Families with children who have low, modest or middle incomes will benefit little, or not at all, from general tax relief.
 - The one-in-four families with incomes below \$20,000 receive an average increase in income of \$26 and together they derive a mere 1.4% of the total gains.
 - The 28% of families with modest incomes (\$20,001 to \$40,000) receive only 8.4% of the total gains from the tax cuts.
4. General tax relief is a poor vehicle to support families with children. Nearly half the benefits go to unattached individuals and families without children.
 - Single parents with children under 18, nearly half of whom are lone mothers living in poverty, comprise 5.4% of all families in Canada but would receive merely 2% of all the gains.
 - Families with children will receive barely half (54%) of the total benefits of general tax relief, and most of these benefits will be directed to advantaged and affluent families.

Conclusions:

General tax relief fails the test for Canada's families. It is a highly inefficient way to assist families with children in Canada. It is a costly and clumsy approach & costed here at \$6.5 billion & which delivers little individual benefit. As a policy to address both vertical and horizontal equity, general tax relief is ineffective, even perverse. The majority of families with children in Canada see little benefit. The greatest benefits go to families with the highest incomes.

General tax relief promises far more than it is able to deliver. When distributed across the entire 13.7 million census families in Canada, this approach offers little to most families.

A better way to support families with children is through a combination of the following two strategies:

- Tax measures that provide the greatest benefits to low, modest and middle income families, and that recognize the costs of raising children for all families; and
- Investments in maintaining and enhancing public services and related programs for families with children from which all Canadian families will benefit.

Tags: economics ^[3]

poverty ^[4]

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