

Finding the bottom line for families: Tax credits vs. the Canada Child Benefit ^[1]

Critics say Liberals have raised taxes on middle class and compensated them with additional program spending

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EXCERPTS

Beyond the riveting drama of Finance Minister Bill Morneau's personal finances and the ethical implications thereof - a topic that has dominated question period for weeks - there has lingered a potentially useful debate about taxes.

That debate starts with what should be a reasonably straightforward question: Have federal taxes for middle-class families increased or decreased over the last two years?

Stick with that question long enough and you end up at an argument that Justin Trudeau's Liberals are fostering a "dependence on government" and discouraging hard work.

Andrew Scheer's Conservatives don't seem prepared to go that far. But they are very interested in that first question.

Scheer tweeted a familiar charge about middle class families paying more in taxes on Sunday, one his party has repeated at several points over the past month.

The figure is based on analysis conducted by the Fraser Institute, a research organization with a preference for conservative economic theory.

In September, the Fraser Institute estimated that the average middle-class family - households earning between \$77,089 and \$107,624 annually - is now paying \$840 more in taxes as a result of Liberal policy changes, contrary to the government's claim of a middle class tax cut.

The institute's math is thus: that the reduction the Liberals made to the second income-tax bracket was more than counterbalanced by the Liberal government's decisions to cancel income splitting for families and eliminate tax credits for public transit, children's fitness activities and post-secondary education.

As such, the study's authors charge that the Liberals are wrong to claim that they have cut taxes for the middle class.

This is not the first time that the promise of a middle class tax cut has been given a kick: shortly after the 2015 election, analysis by an economist with the left-wing Canadian Centre for Policy Alternatives showed that the cut would most benefit "upper middle class" families.

The Fraser Institute might have succeeded in further undermining that talking point. And the Liberals might be scolded for relying on an oversimplified explanation of their agenda.

But, Liberals note, there is substantially more to be said here.

The Canada Child Benefit

A full analysis of how Liberal policies have impacted families would have to include the government's introduction of an expanded child benefit. The Fraser Institute study's authors didn't include the Canada Child Benefit because it is considered a transfer, not a tax measure.

Including the benefit would presumably make a significant difference in the average family's tally. In the government's 2016 budget, for instance, it was estimated that a family with two children and an annual income of \$90,000 would receive \$2,500 more per year than they would have under the previous system of benefits.

When presented with the Fraser Institute's findings, the government has pointed to this omission.

On that point, the Fraser Institute's Charles Lamman and Hugh MacIntyre have defended their methodology but also gone more than a bit

further: criticizing the child benefit as "a transfer program that fosters dependence on government" and "a disincentive to hard work and independence" (because the benefit is distributed according to income, with the lowest incomes receiving the most).

At the very least, that would seem to ignore the potential improvementson children's health, wellbeing and educational outcomes associated with such assistance. Liberals have often touted the benefit as a means to reduce child poverty.

The Conservatives have not embraced the Fraser Institute's argument, though Pierre Poilievre does seem unimpressed while objecting to the benefit's inclusion in an analysis of Liberal tax policy.

Paying less tax

"Their promise was that the middle class would pay less tax," the Conservative finance critic says. "Their promise was not to raise taxes on the middle class and then compensate some of them with bigger government programs."

In fact, the Liberals did promise to review all tax credits, cancel the two post-secondary credits (while boosting student grants) and cancel income-splitting, the latter accounting for the majority of the increase that the Fraser Institute reports.

There is also a case to be made for killing each of the measures in question.

The public transit tax credit did little to increase the use of public transportation. The children's fitness tax credit did little to increase participation and tended to disproportionately benefit wealthier families. Income-splitting similarly resulted in high-income households receiving more than low-income families.

Would the Conservatives restore any or all of those measures? There is no specific commitment beyond a promise that taxes will be somehow lower.

"We will announce our platform well before the next election," Poilievre says, "which will leave taxpayers with more money than they have now."

That, of course, could impact any Conservative commitment in 2019 to reduce federal spending.

But if the next two years are not entirely consumed by questions about Bill Morneau's finances, there might be the makings here of a decent debate about taxes, benefits, how best to provide for the general welfare and the politics involved in all of that.

-CBC News

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