

Tax system narrows gender wealth gap, but divide remains: federal report ^[1]

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The federal government's first annual report on tax expenditures analyzed by gender — now required under a new law — found Canada's personal income tax system slightly narrows the wealth gap between men and women, but notable disparities in earnings continue to persist.

The analysis, released by Finance Canada on April 11 as part of its overall annual tax expenditure report, reveals the share of income held by women after federal income tax system was applied was 1.9 percent higher than their share of pre-tax income, using tax information from 2016.

Both men and women stand to gain from federal benefits and tax exemptions, but tax credits are generally found to have a more positive impact for women, especially the Liberal government's new Canada Child Benefit.

While a progressive income tax rate structure also helps to redistribute wealth to women, men benefited more from changes made to income for tax purposes as well as certain exemptions such as the one offered for lifetime capital gains.

The new data also highlights the distribution of wealth in Canada that currently favour males. Women represented slightly more than half of all Canadian tax filers but reported 41.6 percent of total pre-tax income. Men held the other 58.4 percent.

More than 32 percent of men reported pre-tax incomes in the top quartile compared to only about 18 percent of women. Almost 30 percent of women reported income in the bottom quartile compared to about 20 percent of men.

However, the differences are less pronounced if adjusted to their pre-tax family income. Among the top quartile, for example, the wealth gap falls to below 3 percentage points. Nevertheless, the report finds persistent disparities.

"Regardless of age or family type, women's average pre-tax personal income is consistently lower than that of men," the report reads.

New law requires annual reporting

The gender-based tax analysis is a product of the Canadian Gender Budgeting Act, which was tucked into a massive 850-page budget bill that received royal assent in December 2018. It requires the federal finance minister to report annually on the impacts of tax expenditures in terms of gender and other intersecting factors on an annual basis.

Lisa Phillipps, a tax policy expert and professor at Osgoode Hall Law School, said the move to examine more than just the impact of budget spending by gender will offer Canadians a fuller picture of how the federal government influences wealth among men and women.

"If you don't also look at the tax policies, you're missing half the picture," she said. "Because we use our tax system so heavily to deliver various kinds of social and economic incentives and policies."

Phillipps said the data highlights the different experiences that men and women have in the labour market, as well as socio-economic characteristics such as how often people work that can determine, for example, the benefits they receive.

Beneficial, but for whom

The analysis shows women benefit more from the non-taxation of social assistance benefits, as well as from the various non-refundable credits related to the care of dependants, age, health and educational participation.

The analysis also concludes that out of the 31 non-refundable credits reviewed, 13 mostly benefited women, 11 were more beneficial to men, and seven benefited both genders almost equally.

Women benefit from refundable tax credits, particularly the Canada Child Benefit. Among 2016 female tax filers, 22.9 percent qualified in the following benefit year, compared to 1.2 percent of male tax filers. Female beneficiaries received on average \$907 more as well.

Men gain more from measures such as the non-taxation of workers' compensation benefits, as well as from non-refundable credits for couples, charitable donations, political contributions, and the purchase of a first home.

The analysis also concludes three of 14 deductions examined mostly benefited women: deductions for child care expenses, union and professional dues, and disability supports.

Analysis looks at age, family

Unlike past studies, the analysis also takes into account other available identity factors that may explain income disparities between genders, including age and family. Since tax data doesn't ask Canadians about their ethnicity or sexual orientation, such analysis is unavailable.

The analysis found the redistributive impact toward women is greater among certain groups of tax filers, particularly individuals in their 40s, those with dependent children or with low pre-tax income.

For example, the increase for women between ages 31 and 49 after the tax system was applied was largest, at 3 percent, and smallest among seniors at 0.8 percent. Applied to women living as part of a couple with dependent children, the impact is 3.9 percentage points.

Women with personal incomes in the bottom quartile saw the most notable distributional impact at 6 per cent.

Disparities among top earners

Average individual incomes between men and women within income brackets were similar except in the top quartile, where earnings for women was \$104,000 compared to \$120,300 for their male counterparts.

When adjusted for family income, men on average earn significantly more than women in the three top quartiles. In the third bracket with incomes ranging from \$41,583 to \$60,074, the gender wealth disparity was \$13,800. Men also had higher market incomes, which include earnings through investments.

The overall 1.9 per cent redistributive change was larger than the 1.4 per cent impact a previous departmental study found for the 2008 tax year.

The study primarily used 2016 T1 tax return data to examine the impact of a wide range of federal personal income tax measures on the distribution of income between men and women.

In a statement, Finance Minister Bill Morneau's spokesperson Pierre-Olivier Hebert said Liberal measures such as the Canada Child Benefit have helped to reduce income inequality between genders, and applying the new analysis on the tax system will also help the government to reduce inequalities between men and women in the future.

While Statistics Canada has previously published data on the topic, Phillipps said she believes the report is the most thorough the government has put out to date.

"This is another data point that tells us why debates still need to happen and solutions still need to be pursued."

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