

Liberals' proposed tax-free parental leave could help high earners more than middle class, economist says ^[1]

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EXCERPTS

The Liberal Party's platform in the federal election stressed help for the middle class, including tax-free parental-leave benefits, part of a plan aimed at "helping families make ends meet."

While the details won't be firm until the government brings forward the legislation, the proposal could benefit higher earners significantly more than families struggling to get by.

"Who would be getting the biggest benefits? The people who have the biggest incomes," says University of Victoria economist Rob Gillezeau, noting people with the biggest tax bills stand to save the most.

He said a middle-class family could save about \$3,000 "but a top income earner with [an employer-provided] parental-leave top-up and investment income could be in the highest marginal tax rate, and save \$14,000." At the other end of the spectrum are people without incomes who can't access parental leave, so can't benefit from the tax cut, he said.

The campaign promise was short on details, but asserted a Liberal government would "make sure families get more money right away, by making maternity and parental benefits tax-free."

The platform also promised to increase the Canada Child Benefit (CCB) by 15 per cent for children under the age of one, giving \$1,000 more to the lowest-earning families. "With these changes, a family of two earning \$90,000, who are just about to have a child and already qualify for Employment Insurance benefits, can expect to receive about \$2,300 more tax-free," the platform states.

A family earning about \$150,000 could save almost \$6,000 from the CCB and tax changes combined, according to calculations by certified financial planner Owen Winkelmolen, who cautioned that without the full legislation available, it's not possible to determine the exact number.

He notes that although higher-earning families stand to save more money, they also face a larger decline in income during parental leave. Employment insurance (EI) payments are calculated at 55 per cent of the parent's average insurable weekly earnings, but are capped at \$562 per week.

"Providing parental benefits tax-free would certainly simplify things," added Mr. Winkelmolen, founder of PlanEasy.ca, in London, Ont. "I know of at least a few families who were surprised after having their first child that the default withholding tax on EI benefits wasn't enough to cover their actual tax owing. ... If a new family is not planning for that, a few hundred to a few thousand owed in tax on parental benefits can be a shock."

Brook Simpson, press secretary for the Prime Minister's Office, says it will be up to cabinet to decide how to proceed on the campaign promise. The new cabinet will be sworn in Nov. 20, but the changes would require new legislation to be passed and time for implementation, so there is no clear timeline of when parents could receive the new benefits.

It is also unclear whether the untaxed parental benefits will still be counted as part of a family's overall income, which could have the result of pushing recipients into higher tax brackets.

The Parliamentary Budget Officer's cost estimate of these proposals, released in September, estimates a start date of mid-2020. In the first full fiscal year of the program, 2021-22, costs for the tax cut are estimated at \$725-million in lost revenue, while the increase to CCB is estimated to cost \$345-million.

Mr. Gillezeau, the economist, sees a "weird tension" between the parental leave and CCB proposals, noting that while high earners benefit from the tax break, the CCB gives more to lower earners, to a maximum of \$6,639 annually per family.

"The CCB was created as the centrepiece of the government's agenda to help pull people out of poverty, but the government is now opting to spend substantially more incrementally to boost a regressive parental benefit than their own signature, progressive measure."

The Liberals have also promised to increase the basic personal income tax deduction to \$15,000 from \$12,069 reducing individuals' tax bills by about \$300.

These proposals are the latest in an ongoing Liberal government effort to rebalance the tax code. In 2015, the government created a new tax bracket for people making more than \$200,000 with a tax rate of 33 per cent.

Torontonians Jessica Whitford, 37, and Paul Castillo, 44, are expecting their first baby in January. They are still working out how they will allot their time off, but Ms. Whitford said she's hoping to take at least eight months off work. The couple's net income from their most recent tax year was about \$147,000.

Assuming that Paul takes four months off, the parental benefit is still subject to provincial tax and the tax-free parental benefits are not counted toward the family's net income, Mr. Winkelmolen estimates the family will gain \$5,717. The calculation also assumes the benefit starts when they have their child, not partway through the year as assumed by the PBO's estimate.

Ms. Whitford says getting tax-free benefits would have an impact on her decision to go back to work part-time after eight months, something she is considering. The narrowed gap between part-time wages with tax deducted and tax-free parental benefits makes staying home more appealing, she notes. Despite that, she believes a better focus for the government's efforts would be affordable childcare.

"The middle-class family will be able to get by [with this extra help], but those in the lower-income tax brackets won't really be lifted out of poverty or afford the luxury of deciding when to go back to work," she said. "On a personal level, though, any additional money will, of course, help us, as we live in Toronto and have those large costs ahead."

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