

Income-splitting genie out of bottle [CA] ^[1]

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EXCERPTS

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In the antiseptic lingo of tax professionals, the measure is known as income splitting. Quite simply, it means that couples — if they wish — get to total up their total earnings each year, divide them down the middle and pay their income taxes accordingly.

Income splitting provides a windfall financial benefit to families where only one partner works outside the home. For that reason, it is favoured by those, like the anti-feminist organization R.E.A.L Women, who promote the concept of stay-at-home moms.

It also benefits couples where one spouse earns significantly more than the other. The reason? High-income individuals face higher income tax rates. If a big earner can transfer some of his income to a spouse facing a lower tax rate, the couple as a whole saves money.

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Although income splitting is now associated with social conservatism, it was not always so. In 1967, a royal commission headed by accountant Kenneth Carter recommended the measure as part of a wide-ranging package designed to make the income-tax system fairer.

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A 1970 royal commission on the status of women also recommended income splitting. But by the late '70s, as more and more women entered the work force, so-called progressives began to shy away from the idea.

As Queen's University law professor Kathleen Lahey noted in a paper for the Law Commission of Canada, some argued that income splitting would discourage the lower-paid spouse — usually the wife — from getting work outside the home.

That's because, after income splitting, every extra dollar she brought in would be taxed at an inordinately high rate.

As those who favoured women working outside the home pulled away from the concept, so those who supported so-called family values were drawn to it. The new supporters noted that income splitting is the norm in the United States and that it is welcomed by social conservatives there.

At the 1999 Commons committee hearings, spokespeople from the Canada Family Action Coalition, Campaign Life, Focus on the Family and R.E.A.L. Women argued in favour of so-called pro-family measures like income splitting.

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However, the Conservatives did not focus on income splitting during last winter's election campaign. Earlier this month, Flaherty said that it was "not a high priority."

His decision to axe income trusts, however, meant he needed something to appease middle-class seniors, many of whom have benefited from the high rate of return that these tax dodges offer.

Presto. Income splitting was pulled out of the closet. If it proves popular — as it almost certainly will — it is not going back in.

- reprinted from the Toronto Star

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