

Income splitting and joint taxation of couples: What's fair ^[1]

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Description:

This report is part of the Institute for Research and Public Policy's series comprising individual IRPP Choice and IRPP Policy Matters studies on economic policy issues.

This study provides a comprehensive assessment of proposals for income splitting in the Canadian tax system. It compares individual taxation of spouses, full income splitting for couples and a splitting variant called joint taxation, which recognizes the scale economies such as rent and utilities enjoyed by couples relative to singles. The central criterion in assessing the appropriate unit for taxing couples is equity, or fairness. Horizontal equity — the notion that equally situated individuals should be taxed equally — needs to be considered along with the vertical and gender dimensions of equity. Assessing the choice of tax unit on the grounds of horizontal equity requires adjustments for varying needs (family size), preferences (market versus household work) and opportunities for legal tax avoidance. Other important criteria are economic efficiency, simplicity, revenue cost and the effects of alternative schemes on behaviour.

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