

Income splitting: think Robin Hood in 'Bizarro World' ^[1]

Author: Dallaire, Jody

Source: Times & Transcript

Format: Article

Publication Date: 8 Dec 2011

EXCERPTS:

The federal government has promised to introduce a tax change that will benefit only higher income families, favour couple-families over lone-parent families, favour men over women, create an incentive to women being economically dependent and be very expensive to taxpayers. Gee, what's not to love, eh?

It will also reduce the share of government revenue paid by high-income Canadians and likely reduce provincial government revenues. It will remove people from the labour force at a time when Canada needs more labour force participation. It will widen the gap between the rich and the rest of us. Not exactly what we need these days.

The Conservatives say that, as soon as the federal budget is balanced, couples with children will be allowed to split a big part of their income on their income tax report.

The higher earning person would say, on paper for tax purposes, that they had transferred part of their income to the lower earning spouse, in order to pay less tax together than if they had each filed separate income tax reports. For a few years now, senior couples may split their pension income in this fashion.

Because women usually earn less than men, the male spouse would typically benefit from the tax relief, in heterosexual relationships. If she does what is advantageous to the family and stays home, but eventually wants to re-enter the labour force, she may find it impossible: every dollar earned by the lower-earning spouse would be taxed at a high rate. It would make married women more vulnerable in the short and long term by reducing their work experience and lifetime earnings. If at least the tax benefit went to the caregiver, she could save for retirement. But the tax benefit goes to the breadwinner, not the caregiver.

The one good thing about income splitting is that it raises the neglected issue of recognizing the work done at home raising children. It won't actually do much about it, but it pays lip service.

Instead of income splitting, what would effectively help families with children is to improve programs like the Employment Insurance maternity and parental benefits, the Working Income Tax Benefit, the Child Tax Credit, and to improve conditions and benefits for part time workers.

Income-splitting - an old idea revived by the Reform Party - has been studied in recent years and rejected as unfair and fiscally stupid by a parliamentary committee and the Department of Finance. The Conservatives estimate income splitting - they call it the "family tax cut" - would provide an average benefit of \$1,300 to eligible families. But most of us wouldn't be eligible.

Income splitting is done to encourage mothers to stay home - well-off mothers, that is - with 85 per cent of households including single parents gaining nothing. A Library of Parliament analysis found most tax savings would go to families with an income of \$90,000 or more with the top 10 per cent (\$150,000) getting almost a third of this tax cut. That's called taking from the poor and middle class to give to the rich. Households that won't benefit from income splitting will get fewer public services - or tax hikes - because the federal government would collect almost \$3 billion less in revenue with the current scheme. The provinces would lose an additional \$2 billion.

About half of couples with children would gain either nothing or less than \$500. Also, only couples where one spouse earns significantly more than the other would benefit; those with similar income would not. If the objective was to provide support to families in raising children, it targets those least in need, says the C.D. Howe Institute commentary on the issue.

Income splitting is favoured by those who say that one-earner couples are not treated as well as two-earner couples, a notion that many tax experts have blown out of the water. Jonathan Kesselman shows that the one-earner family at any income is better off financially than those with two working adults because the one-earner family has lower work-related expenses and lower payroll taxes.

As commentator Jeffrey Stevens reminds us, the reasons the Conservatives want this are political. "The poor vote less than the more affluent; young people vote less than older people." Caledon Institute calls income splitting "a perfect wedge issue" for the Conservatives, "reducing the size of government while giving most of the benefit to their base."

One other thing that is known by Conservatives about income splitting: once a government has adopted it, it is very hard to unwind that policy. That is why the few countries that have it still have it.

With no benefit to families with equal income spouses, low income families, or lone parents, income splitting is made for a particular clique.

-reprinted from Times & Transcript

Region: Canada ^[2]

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