

Income splitting in Canada: Inequality by design ^[1]

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Excerpts from the press release:

Eighty-six percent of Canadian families would gain no benefit from the proposed Conservative income splitting plan, says a new study released today by the Canadian Centre for Policy Alternatives (CCPA).

"If Canadian governments are concerned about supporting families with children, they could provide a universal child care program...."

The study, by CCPA Senior Economist David Macdonald, examines the cost and the distributional impact of three income splitting scenarios: pension income splitting; income splitting for families with children under 18, as the Conservatives have pledged; and income splitting for all families. The study finds that the impact of income splitting in all scenarios is very unequal and the lost revenue for Canadian governments would be substantial.

"Income splitting creates a tax loophole big enough to drive a Rolls Royce through. It's pitched as a program for the middle class but in reality it's an expensive tax gift for the rich," says Macdonald. "The upper third of Canada's richest families would receive \$3 of every \$4 spent on income splitting."

The study finds seven out of ten senior families get no benefit at all from pension income splitting and the richest 10% of senior families receive more than the bottom 70% combined. The cost of pension income splitting for senior couples in 2015 is estimated at \$1.7 billion (\$1.2 billion federally and \$500 million provincially). In contrast, it would cost \$1.5 billion a year to lift all Canadian seniors out of poverty.

The study examines the Conservative plan to extend income splitting to families with children under 18 and finds:

- 86% of all families would gain no benefit whatsoever from this tax loophole.
- The richest 5% of families would see more benefit than the bottom 60% of families combined.
- The bottom 60% of families would receive, on average, \$50. The richest 5% of Canadian families - those making over \$147,000 - would see an average benefit of \$1,100.
- This loophole would cost the federal government \$3 billion in lost revenue and an additional \$1.9 billion provincially - for a total revenue loss of \$4.9 billion in 2015 alone.

"There are real consequences of creating a \$5 billion a year loophole that gives tax breaks to Canada's richest families who don't need them," says Macdonald. "If Canadian governments are concerned about supporting families with children, they could provide a universal child care program similar to the Quebec \$10-a-day model for roughly the same cost as income splitting."

"Income splitting is a policy choice that would purposely exacerbate already high income inequality in Canada. This is inequality by design, not by accident," Macdonald concludes.

Region: Canada ^[5]

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