

# Income splitting or Trojan horse? The federal government's proposal and its impact on provincial budgets <sup>[1]</sup>

Mowat Note

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## AVAILABILITY

Report in PDF <sup>[2]</sup>

## Summary

This Mowat Note examines an overlooked element of the federal government's family income splitting proposal, which could be introduced in the 2015 federal budget at a cost of almost \$3B to the federal government. As a result of tax collection agreements signed by provinces and the federal government, provinces would be forced to mirror the federal initiative at an additional cost to their budgets of roughly \$1.7B a year. Provinces have also recently been compelled to follow the federal government's introduction of pension income splitting and Tax-Free Savings Accounts.

Federal-provincial tax collection agreements were signed over the past several decades by the provinces in good faith to reduce administrative duplication and strengthen the Canadian economic union. It was not anticipated by provinces that the federal government would use these agreements as a Trojan horse to foist policy choices upon provinces and weaken their balance sheets. In Ontario alone, it is estimated that family income splitting would cost the government over \$1B annually at a time when it is already struggling to reduce its deficit. This Note examines the impact of the federal proposal on provinces' balance sheets and suggests ways the federal government can avoid making the provinces pay for its controversial policy choices.

**Region:** Canada <sup>[3]</sup>

**Tags:** economics <sup>[4]</sup>

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