

Family tax cuts: How inclusive a family? ^[1]

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AVAILABILITY

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Description:

This study undertakes a systematic assessment of the Family Tax Cut for income-splitting by couples proposed in the Conservative Party of Canada's 2011 electoral platform. The analysis confirms earlier assessments of the revenue costs and distributional tilt of the policy favouring high-income families. The average income of families that would receive any benefit from the Family Tax Cut exceeds \$123,000; and this remains the case for the modified scheme announced by the government after the completion of the study.

Fewer than 13 percent of all households would receive any benefit from the Family Tax Cut, and most of them would receive less than \$1,000; those facts remain true for the modified scheme. Moreover, while the revised Family Tax Cut continues to claim its original \$50,000 limit on the income that can be split between spouses, the cap of \$2,000 on annual benefits implies that the effective amount of income shift has been reduced to about \$14,000.

The original Family Tax Cut is found to suffer from many deficiencies in addition to the revenue cost and distributional tilt: faulty implementation of the horizontal equity criterion; assuming that couples fully pool and share their incomes; ignoring scale economies enjoyed by couples; lack of conditionality on the at-home spouse's activity; barriers to women's working and associated economic inefficiency; marital and cohabitation biases; and violation of gender neutrality and individual autonomy. While some of these are moderated by the reduced cap on splitting in the modified Family Tax Cut, none of the deficiencies is eliminated.

The study canvasses a range of alternative tax cuts and benefit hikes for families having the same revenue cost as the Family Tax Cut. It assesses their distributional impacts and other attributes. The study concludes that numerous policy options alternative to the Family Tax Cut could distribute the benefits more widely and effectively in support of a far more inclusive notion of Canadian families.

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