

Harper's income splitting tax only benefits the already rich ^[1]

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Source: Huffington Post

Format: Article

Publication Date: 4 Nov 2014

AVAILABILITY

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EXCERPTS:

According to the government's own calculations, the Income Splitting tax cut will cost \$2.4 billion.

That's a serious amount of money. Used wisely it could do a lot of good.

Instead, most of the benefits of income splitting will go to Canadians who need it the least. According to an analysis done by Queen's University Law School Professor Kathleen Lahey, the top 20 per cent of families with incomes over \$140,000 would get 43 per cent of the estimated \$2.4 billion a year, even with a \$2000 cap on benefits. Men would get 87 per cent of the additional income.

You might question the fairness of that arithmetic, but it sure has Ontario MP Erin O'Toole excited. As parliamentary secretary he earns \$180,000 a year. He is downright effusive about the impact of income splitting on his family. A letter to Tory supporters obtained by Huffington Post says he stands to gain \$3,440 from the move.

Single parents, those with below taxable incomes and couples with equal incomes will get nothing.

The piece of the pie for 20 per cent of Canadians with income less than \$45,000 will amount to .03 per cent. That decimal point is not a typo.

That kind of financial disparity and its economic impact wasn't lost on former Finance Minister Jim Flaherty. He was a confident enough politician to be able to admit that an election promise to implement income splitting was "not good for the country". The benefits would not be going to people who would actually spend the money and the perks were spread too thin to make real impact on the growing number of struggling families.

A \$2.4 billion tax cut is a big ticket item and deserves careful scrutiny as to whether any social goals are achieved (other than boosting the Conservative Party's electoral chances in the next election).

There has been pushback from a broad political spectrum -- from the mainline C.D. Howe Institute and tax lawyers to anti-poverty organizations and progressive think tanks like the Broadbent Institute.

The Harper government tried to respond to the critics by capping the payout to \$2,000 and sweetened the deal with an increase in the Universal Child Care Benefit of \$60 a month per child under the age of 6 and extending the Benefit to children aged 6 to 17. This means all families with children will get some goodies, but still not enough to cover child care expenses. The expanded Child Care Benefit was also offset by eliminating the child tax credit so the net benefit to families is less than it might seem.

There are better ways to spend the money on supporting families. For instance, for \$1.8 billion, Canadians could invest in a national childcare program. Experience in Quebec and some European countries has shown that the return on investment in childcare is substantial. Quality child care can help to give children a good start in life and boost women's labour force participation rates, which in turn means stimulating the economy and increasing tax revenue.

If supporting families with children is the goal, then boosting the Canada Child Tax Benefit and National Child Benefit Supplement would have been a better way to go as a larger amount of support under this program goes to families who need it the most, with benefit amounts decreasing as family income increases -- unlike the Universal Child Care Benefit, where every child gets the same amount, regardless of need.

The Conservative government does not seem to understand the importance of targeting tax expenditures or spending to achieve the best results for the money. They recently gave out a tax cut to small businesses in the form of reductions in the employer contributions for Employment Insurance, whether they did any new hiring. Similarly, corporate income tax cuts were given out to the tune of \$10 billion a year, whether companies created new jobs or not.

Tax policy may not be sexy. But it can change things for the better. Or make them worse. The current system exacerbates the problem of growing income inequality, which is now recognized by a growing number of economists as one of the main causes of our stagnant global economy.

Once again this looks like a case of politics trumping the facts. The Harper government is proceeding with this give away to the rich even before the budget is balanced and despite warnings that the fall in the value of oil could mean revenue shortfalls.

If the Income Splitting tax break was not bad Prime Minister Harper is also giving hints that his government intends to proceed with promises to double of the contribution limits to the Tax Free Savings Account. This would again only benefit the very rich, and cost exponentially more in lost revenue, hamstringing any future government's ability to restore our broken public services, tackle climate change or reduce poverty.

Region: Canada ^[3]

Tags: federal programs ^[4]

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