Some implications of the Liberal government's tax changes [1]

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Excerpts

Reflecting its election platform, Canada's new Liberal government recently introduced changes to the personal income tax system for the 2016 tax year. In its upcoming Budget, the government will fulfill another election promise by increasing child benefits.

The combined impact of the changes can be summarized as follows:

• The tax reduction, based on taxable income, is a costly and ineffective method to target the middle class;

• The tax reduction is generally regressive in nature;

• The tax reduction has uneven impacts on family units depending on the division of income between earners;

• The increases in child benefits are targeted toward middleincome families;

• The increases in child benefits are regressive with respect to low-income families; and

• Low-income individuals and families, both those with and without children, are not well served by either of these tax changes.

For families with two children in the taxable income range of $45,000 to $90,000, the increase in child benefits is much larger than the maximum tax reduction, and the gap increases as family income decreases. The gap for a family with one child under age 6 is smaller than for the two-child family but still large at the lower-income end, where the tax saving is small or even nil. Given the generally small size of the tax reduction in relation to the increase in child benefits for families in the net income range of $45,000 to $90,000, the tax reduction would hardly be missed by low- and modest-income families if it had not even been introduced.

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