

EXECUTIVE SUMMARY

Family taxation rectifies an existing inequality in our tax system. It helps Canadian families by decreasing their tax burden, eradicates an existing injustice in our tax code and contributes toward family stability, which in turn strengthens communities.

The current family taxation proposal is a step in the right direction. It should be broadened to include more families, particularly single parent families.

In time, this tax principle should be broadened even further to help those caring for aging parents.

SUBMISSION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE PRE-BUDGET CONSULTATION PROCESS

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Marriage and Family Canada (www.imfcanada.org)**

The following submission outlines suggestions for supporting families and helping vulnerable Canadians, as well as ensuring prosperous and secure communities.

The primary vehicle we recommend for achieving these goals is the introduction of family taxation, also known as income splitting.

Family taxation is a tax principle that has been implemented in countries across the globe, including France, Czech Republic, Poland, Germany, Ireland, Luxembourg, Switzerland and the United States.

This tax principle allows those raising children and simultaneously often supporting aging parents to share income, which decreases the amount of tax paid.

There are different ways in which to implement family taxation.¹

However, in general, all concepts bring the same benefit for families.

FAMILY TAXATION SUPPORTS FAMILIES

Families are already pooling their income and budgeting together. Taxing families as a unit recognizes that families already function as a unit.

Taxing families as families is a way to recognize valuable, irreplaceable work that is done all too often without pay.

All too often today, families are caring for children with all the hands-on work that implies—driving to medical appointments, ensuring safety, providing guidance, companionship and love, without any recognition.

Very often, family care as a form of work is diminished and looked down upon, precisely because it is unpaid. Governments can and should empower families to take on this important work. The alternatives to family taxation for parents with young children are difficult to implement, expensive and inequitable.

Today we are discussing family taxation for families with children, yet the same principle can and should eventually be expanded to include families caring for the elderly, as well.

Regrettably, a vocal minority who are against family taxation express the concern that mothers will be forced to stay home as a result of family taxation. Nothing could be further from the truth.

Offering more money never decreases choice. We thankfully live in a country today where every career path is open to women. Women's rights are so firmly established that offering family taxation increasingly means a breadwinner mother sharing her income with a stay-at-home father. The idea that with the presence of family taxation women would lose the ability to make their own choices is paternalistic, something columnist Tasha Kheiriddin eloquently spoke to in a recent article.²

COMPELLED TO WORK

Today, both parents are increasingly required to work simply to make ends meet. This means they are denied the opportunity to spend more time with their families. Family finances are a major issue for Canadian families, and compelling parents of small children to spend more time in the workforce than they would wish to get by is short-sighted. Part of the reason why parents are forced to work longer and longer hours is precisely because tax rates are high. Lowering the tax rate through family taxation decreases the burdens families face.

The current proposal of allowing a transfer of up to \$50,000 for parents with children under 18 benefits many Canadians. The amount of money family taxation allows a family to keep, under the current proposal that allows \$50,000 to be transferred is not negligible, nor does it only benefit the rich.

According to our assessments of the tax burden for middle-class Canadians, implementing family taxation only on the federal level means a school teacher in Manitoba would save 28% on her tax bill. A nurse in New Brunswick would save 29%. An electrician in Ontario would save 23%. These are not small percentages.³

At the same time, providing family taxation at the federal level is only a step in the right direction. Provinces should follow suit.

Finally, income splitting with a child should be allowed, as it is in France, in order to include single parents.

INTRODUCING TAX FAIRNESS

Eradicating inequality in the tax system improves Canada's tax and regulatory regime. Today, Canadian families earning the same amount are taxed at very different rates. Fixing this inequality can be done through family taxation or by flattening the tax brackets, both of which

are valid options, but one of which is less costly for the government to implement in Budget 2015.

Family taxation is fair for all families. Families with two parents working full-time can benefit. Families where parents both work part-time can benefit. And families where one parent works full-time outside the home and one works full-time inside the home benefit. No family is penalized, and almost half of all families with children under 18 benefit. A recent report attempting to discredit family taxation actually highlights that 46% of all Canadian families with children under 18 would benefit.⁴

The bigger issue at stake for critics of family taxation is whether families should enjoy tax cuts at all. This becomes evident when we see how many who are against income splitting are in favour of government-funded institutional daycare. That this type of daycare program is inequitable—since this is not the first, second or third choice of care for most parents—is clear.⁵ State-run, state-funded care is expensive. More tax dollars would be needed to fund such a system, not less. But more taxes are not such a bad thing, so the argument goes, because parents can then use the system designed for them. This is another form of paternalism, taking money from parents (who are taxpayers) and telling them precisely how they will care for their kids. If there is concern about family taxation forcing a parent to stay home, then there should be the commensurate concern about national, state-funded daycare forcing parents back to work outside the home.

Indeed, in some instances, there is an animus against caregivers of all kinds underlying the opposition to income splitting. People who work for less outside the home in order to care for either children or aging parents inside the home more deserve recognition and support.

Family taxation reduces the stigma of caregiving by providing that support.

ENSURING PROSPEROUS AND SECURE COMMUNITIES

Absent prosperous and secure families, ensuring prosperous and secure communities is impossible. To state the obvious, strong families make our communities and our country.

Canada cannot afford to take strong families and by extension strong communities for granted. Yet we are on the path toward doing just that. The census results show marriage rates are declining, which is one indicator of family strength.⁶ The number of children under age 14 living with their own married parents, another measure of strength, is likewise declining.⁷ Common-law partnerships, which research shows are less durable, are on the rise.

There are many ways to strengthen families. People of goodwill can and do disagree on what those are. However, one of the ways in which to strengthen families lies in strengthening marriages. Allowing a couple to work as a team in the financial domain achieves this goal.

A recent study by McGill sociologist Céline Le Bourdais, showed that married couples are more likely to share finances.⁸ Research shows that common-law couples, who for various reasons are less likely to be deeply invested in a permanent union, are generally less inclined

to share financially. In this way taxing both spouses separately is a form of marriage penalty, something Lawrence Solomon spoke to in the Institute of Marriage and Family Canada's recent family taxation mythbusting article.⁹

CONCLUSION

Recent polling suggests the overwhelming majority of Canadians of all political stripes (65% of Conservatives, 54% of Liberals and 55% of NDP) support the practice.¹⁰ This is not conservative or Conservative policy.

Recent critiques have suggested that only rich people benefit from family taxation. When you have a highly progressive tax system like Canada's, tax cuts are going to generally benefit higher incomes the most in terms of actual dollars saved because higher income taxpayers pay the most in taxes. That doesn't negate the fact that middle-class Canadians stand to benefit by upwards of a 20% plus reduction in their tax bill.

It is important to note that income splitting benefits only those families who are currently being discriminated against in the tax code. Income splitting will cost the government the amount that Canadian families are right now being unfairly overcharged.

When discussing this policy with financial managers, we have heard the quick and heartfelt refrain that family taxation simply makes sense.

More importantly, when talking with families—parents raising kids—we have likewise overwhelmingly heard it simply makes sense. This from families doing shift work, this from families where mom and dad are splitting child care equally, this from families in a number of different work arrangements.

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Family taxation strengthens families, and by extension communities by allowing parents to be in better control of their finances. It allows all families to choose what type of care is better for their children. It ought to be expanded, if not immediately, then in due course, to include single

parents and considered in due course as a viable way of helping families to care for elderly parents and grandparents in the home setting as well.

ABOUT THE IMFC

The Institute of Marriage and Family Canada conducts, compiles and presents the latest and most accurate research to ensure that marriage and family-friendly policy are foremost in the minds of Canada's decision makers.

The Institute of Marriage and Family Canada is the research arm of Focus on the Family Canada, a registered charity in Canada.

ENDNOTES

¹ Mintz, J. (2008, March 1). Taxing families: Does the system need an overhaul? Ottawa: Institute of Marriage and Family Canada. Retrieved from <http://www.imfcanada.org/issues/taxing-families-does-system-need-overhaul>

² This myth, that family taxation harms women, was addressed in our recent report: Busting income splitting myths, June 2014. Retrieved from <http://www.imfcanada.org/busting-income-splitting-myths>. Tasha Kheiriddin also addressed it on February 20, 2014: Income splitting doesn't just help taxpayers—it helps kids. *National Post*. Retrieved from <http://fullcomment.nationalpost.com/2014/02/20/tasha-kheiriddin-income-splitting-doesnt-just-help-taxpayers-it-helps-kids/>

³ Watson, W., Solomon, L. Kheiriddin, T. Malvern, P., Rogusky, D. and Mrozek, A. (2014, June). Busting income splitting myths. Ottawa: Institute of Marriage and Family Canada, pp. 4-5. Retrieved from <http://www.imfcanada.org/busting-income-splitting-myths>

⁴ Broadbent Institute. (2014, June). The big split: Income splitting's unequal distribution of benefits across Canada. Retrieved from <https://www.broadbentinstitute.ca/sites/default/files/thebigsplit-final.pdf>

⁵ Different polls and surveys show the same result. Parents would like to look after their own small children in the manner they deem appropriate. An IMFC poll is the most recent, showing 76% of Canadians believe it is best for a child under six to be looked after at home by a parent. Retrieved from http://www.imfcanada.org/sites/default/files/monthly_release/DaycareDesiresMay2013.pdf

⁶ Statistics Canada. (2011). Fifty years of family in Canada: 1961-2011 Figure 1. Retrieved from http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-312-x/2011003/fig/fig3_1-1-eng.cfm

⁷ Statistics Canada. (2011). Distribution (in percentage) of the population aged 14 and under by census family structure, Canada, 2001 to 2011. Retrieved from <http://www12.statcan.ca/census-recensement/2011/as-sa/98-312-x/2011001/fig/fig3-eng.cfm>

⁸ These results were discussed on Parliament Hill, December 2013, in a presentation by Céline Le Bourdais for the Federation for the Humanities and Social Sciences called *L'union libre: Une alternative ou un substitute au mariage?* Retrieved from <https://www.youtube.com/watch?v=pRSpF1WGcac>

⁹ Watson, *et al.* Busting income splitting myths, p.8.

¹⁰ Abacus Polling. (2014, March 19). Opinion soft and split on income splitting. Retrieved from <http://abacusinsider.com/politics-public-affairs/opinion-soft-split-income-splitting/>

RESOURCES FOR FURTHER READING

Krzepkowski, M. and Mintz, J. (2013, April). No more second class taxpayers: How income splitting can bring fairness to Canada's single income families. Calgary: School of Public Policy. Retrieved from <http://policyschool.ucalgary.ca/?q=content/no-more-second-class-taxpayers-how-income-splitting-can-bring-fairness-canadas-single-income>