



CALEDON
INSTITUTE OF SOCIAL POLICY

The 2014 Unbalanced Budget

by

**Ken Battle, Sherri Torjman and
Michael Mendelson**

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A balanced Budget is the holy grail of finance – and of Finance. This year, it was not to be. The 2014 federal Budget was not in balance.

Because the 2014 Budget has a \$3.0 billion contingency fund and a \$2.9 billion deficit, it is actually projected to be balanced from a fiscal perspective. But it is severely unbalanced in that it fails to address serious social problems currently plaguing the country.

Yes, it is important to reduce the high cell phone bills that Canadians pay. Yes, it is preferable for the economy if shoppers stay home instead of seeking south-of-the-border bargains. The Canada-US price gap has hit local pocketbooks hard.

But these so-called consumer measures fail to take into account the fact that far too many Canadians are not able to pay for the basics of food and rent. Income adequacy and income security are critical issues currently facing the majority of households in Canada. Growing income inequality poses a long-term threat to our social and economic prosperity. Cheaper cell phone bills and local shopping incentives are all good but they are at best peripheral to the core concerns of most Canadians.

The Conservatives had announced the intention in their 2011 election platform to proceed with income splitting for families with children when the Budget was balanced. This measure would have been a big tax win for the small minority of affluent families with a sole male breadwinner and stay-at-home mother. Income splitting for families with children under age 18 follows on their earlier move in 2006 to provide income splitting for seniors' private pension income. Both these measures – one implemented and one planned – increase inequality in Canada.

Since the Budget maintains the fiction that it is not yet balanced, the government can save this pricey tax goody until next year. Perhaps this explains the absence of any mention at all in this Budget of this prime plank of the Conservative government. Family income splitting was the proverbial elephant in the room during this Budget.

Or maybe not. The other possibility is that the penny has finally dropped and Ottawa has realized that income splitting for families with children is simply a very bad idea. Perhaps the federal government is not just putting aside the proposal for the time being but is sweeping it under the table altogether. Maybe no news on this front is good news.

Below we make the case for why we would not want to see income splitting for families introduced in next year's Budget – or ever. It is poor public policy.

But there *is* money for several new announcements in this year's Budget. The most important, in our view, is the financing for First Nations education. Ottawa and First Nations are to be congratulated for their action in this area. Other positive developments involve announcements – or re-announcements – on apprenticeships for youth, training for persons with disabilities, support for caregivers, and infrastructure and social housing investments.

At the same time, there are several negative developments from a social policy perspective. They involve the Canada Job Grant and federal transfers to the provinces and territories.

Both the positive and not-so-good measures are discussed in more detail below. We conclude with a statement of our concerns about the fact that the most pressing social problems in the country – widespread poverty and growing inequality – are missing entirely from the federal radar screen. In that sense, both the Budget and the federal agenda that it reflects are seriously unbalanced. Income splitting for families with children would be the worst way to tackle these challenges.

Neither would we want to see the surplus now in sight for 2015 to be wasted on a new set of ‘boutique’ tax credits aimed at specific groups of the electorate. Fortunately, Budget 2014 added only one arrow – the Search and Rescue Volunteers Tax Credit – to its burgeoning quiver of tax cuts. Below we explain why we hope that this only measure in the list will be the last.

Positive Budget Initiatives

i. First Nations Education

Last week’s announcement of an agreement between Ottawa and the Assembly of First Nations on a framework for a new *First Nations Control of First Nations Education Act* was a real breakthrough. Both the government and First Nations deserve kudos for pragmatic bargaining and managing to come to a hard-fought agreement.

Of course, there is much more to be done, not least the actual drafting of the Act and, most important, implementing it. In the end, it is the quality of teaching on the ground, the participation of local communities in their children’s education, and the preservation and continued evolution of First Nations’ cultures that will determine whether schools on reserve really do improve. So the work has only – just barely – begun. Yet this is not to diminish the importance of what has been achieved to date. We finally seem to be on the path to improving First Nations on-reserve schools using an approach based on mutual respect.

The 2014 Budget announcement reflected the first step along this path, namely the financial details set out in the agreement reached last week. This Budget provides for an ongoing commitment to core funding of \$1.25 billion (and core funding is to become a statutory obligation under the new Act – something which the Caledon Institute has long recommended). Last week’s agreement also provided for an increase of 4.5 percent annually, but beginning in 2016-17 – which usually means April 1, 2016.

The Budget provides ‘new’ money of \$120 million next fiscal year, which reflects the commitment of \$500 million over seven years for infrastructure and \$160 million over four years for implementation and transition, both beginning in 2015. However, there will be some additional transitional funding that remains available this year from the previous 2012 three-year commitment of \$275 million.

We recognize that the Budget honours the government's agreement with the Assembly of First Nations, so it cannot be criticized from that perspective. But the agreement also implies that both parties recognize that many First Nations schools on reserve have fallen far behind the funding of similar off-reserve schools in the provincial system.

The school term starts in September. We would urge Ottawa, as a gesture of goodwill and in recognition of the serious funding problems for many reserve schools, to begin the 4.5 percent escalator in September of the 2015-16 fiscal year, not the 2016-17 fiscal year in the Budget. This would mean that the 2015 Budget would provide for approximately half of a fiscal year increase in the core budget with the escalator timed to coincide with the 'education year' (September to August) in the future, rather than the government fiscal year.

The cost in the 2015-16 fiscal year would be, at our guess, somewhere around \$55 million. If this policy were announced in the next few months, or even weeks, it would go a long way to confirming the government's good faith and cementing support among First Nations for the new Education Act.

ii. Apprenticeships for youth

Budget 2014 announced \$40 million for 3,000 internships to help young people find employment in high-demand fields. It created the Canada Apprentice Loan to help registered apprentices in Red Seal trades with the costs of training. Budget 2014 also introduced the Flexibility and Innovation in Apprenticeship Technical Training pilot project to expand the use of innovative approaches for apprentice technical training.

News of initiatives to tackle youth unemployment was highly anticipated. At last count in January 2014, 14.1 percent of youth ages 15 to 24 were unemployed, almost double the 7.4 percent rate for all workers 15 and older. Canada is not alone in this regard. Young people in many European nations are experiencing even higher rates of joblessness.

Ottawa has correctly recognized that this problem is not good for the economy now and in future. It means many thousands of young people who are ready and willing to work are unable to make a contribution – both to the Canadian economy and to their own financial well-being. They are not in a position to pay off their student debt, establish independent households or save for retirement – let alone take all three actions that a healthy economy requires.

Widespread youth unemployment and underemployment are also problematic for the future in that they accelerate the rusting of job skills. These may be out of date by the time that suitable employment is found.

The modest Budget announcement on apprenticeships for youth in no way matches the extent and scope of the problem the country currently faces. Ottawa should have gone a lot further and deeper to help tackle this serious challenge.

iii. Training for persons with disabilities

Budget 2014 brought in several initiatives to support the training of persons with disabilities. The Labour Market Agreements for Persons with Disabilities were set to expire in March 2014. Ottawa has made a commitment to invest \$222 million per year in a new generation of agreements. The announcement renews the program at its current nominal level of funding. As at present, the partner province or territory must make a corresponding investment to match the federal dollars.

The purpose of the Labour Market Agreements for Persons with Disabilities is to improve the employment status of Canadians with disabilities. Their objectives are to:

- enhance the employability of persons with disabilities
- increase employment opportunities available to persons with disabilities
- build on the existing knowledge base of research, best practices, data collection and program evaluation.

Budget 2014 also announced new funds of \$15 million over three years for the Ready Willing and Able initiative to connect people with developmental disabilities to jobs. It allocated \$11.4 million over four years to support the creation of vocational training centres for people with autism. These are welcome measures; Canadians with developmental disabilities and individuals with autism typically face major obstacles to the workforce and often require additional assistance to access and maintain employment.

Budget 2014 also included \$75 million over three years through the Targeted Initiatives for Older Workers to help unemployed older workers find jobs.

iv. Support for caregivers

The 2014 Budget announced that it would launch a Canadian Employers for Caregivers Plan to support caregivers' labour market participation. The purpose of the Canadian Employers for Caregivers Plan is to engage with employers around cost-effective workplace solutions in order to maximize caregivers' labour market participation.

Caledon had recommended the creation of such a task force similar to the federal Panel on Labour Market Opportunities for Persons with Disabilities to enable a national conversation with employers [Torjman 2013]. We have also written extensively about the issues that employers should consider with respect to caregivers.

In addition to extra costs they often incur, caregivers may have had to leave their job or to reduce the number of hours of paid work in order to make time for their caregiving responsibilities. The insecurity may hinder their ability to contribute to a pension plan or to save for the future. Both current and future financial security may be jeopardized.

Holding a job and providing care at the same time frequently cause stress, depression and burnout that can lead to absenteeism and turnover. Workplace initiatives should enable a healthy caregiver/receiver relationship, including family leave policies, modified work week policies and employment assistance programs.

Flexible working time is especially important. The needs of the elderly as well as those with episodic conditions are often unpredictable. Companies are beginning to recognize that certain employees may need more than personal or vacation time to deal with family-related emergencies.

The new Panel will want to consider policy precedents at the international level regarding flexibility at work. Wide-ranging employment measures have been introduced, for example, as part of the Carer Strategy in the UK. In 2007, the British government amended its *Work and Families Act* to allow caregivers the right to request flexible work.

Paid leave is another important working condition around which the federal government can take direct action. The Compassionate Care Leave provisions within Employment Insurance allow up to six weeks' paid leave to care for a gravely ill relative who is likely to die within 26 weeks. Unfortunately, the eligibility requirements are too stringent to provide meaningful help to most caregivers. We have argued that these requirements should be made more flexible.

Budget 2014 announced only a very minor improvement. It allocated \$2.4 million over two years and \$1.2 million per year to enhance access to sickness benefits for claimants who receive Parents of Critically Ill Children and Compassionate Care benefits. The proposed enhancements will allow claimants who are away from work temporarily to take care of a critically ill or injured child or gravely ill family member at significant risk of death to temporarily suspend their claims in order to access sickness benefits, should they themselves fall sick or become injured.

Caledon has pointed out that future security can also be affected when caregivers drop out of the workforce due to their caregiving responsibilities. It is essential to find ways to protect the value of pensions in future. The Canadian Employers for Caregiver Plan could explore, among other options, the possibility of expanding the general drop-out or child care drop-out provisions of our national pension program – the Canada Pension Plan.

v. Infrastructure and social housing investments

There was great buzz prior to Budget 2014 about infrastructure investment. As it turns out, the Budget simply re-announced the commitment already made in *Economic Action Plan 2013*, which brought in a new 10-year \$53-billion Building Canada plan.

Building Canada consists of a suite of programs to meet infrastructure needs across the country, including a Gas Tax Fund and full rebate of the Goods and Services Tax paid by municipalities.

While not new, the investment is important. Municipalities have only limited sources of revenue. These include property tax, payments from other orders of government in lieu of taxes, and fees from various sources such as development charges, permits and admissions (and parking tickets).

The fiscal capacity of municipalities does not match their wide-ranging responsibilities. Local governments face increasingly complex social problems such as persistent poverty and growing inequality, homelessness and an aging population. Cities still carry much of the load for immigration, the environment, affordable housing, public health, emergency preparedness and public security. But they have neither the funding nor the taxation power to carry out these responsibilities effectively.

Even if local governments faced none of the newer pressures, they would still have to grapple with pressures from the past. The physical hardware of the country – roads, sewers and bridges – is in serious need of upgrade and repair.

We have argued that investment in infrastructure is crucial from both economic and social perspectives. On the economic front, it creates jobs and enables the provision of amenities, such as local roads, which are essential for business. It allows for the upgrading of buildings and facilities to green standards.

Infrastructure investment is also essential from a social perspective. It helps foster healthy communities by providing sufficient resources for local amenities, such as sewers and clean water, which contribute to good public health and good quality of life. Recreational investments are especially important in this regard. The vast majority of publicly-owned recreation facilities in the country were built between 1965 and 1980.

Another Budget re-announcement was Ottawa's commitment, made in 2013, to pay \$1.25 billion over five years to renew the Investment in Affordable Housing beginning in April 2014. While the money is not new, we noted last year and reaffirm our view that this investment is crucial. However, it could have been far more wide-ranging and substantial, given the serious lack of affordable housing in Canada.

Negative Budget Initiatives

i. Canada Job Grant

In its 2013 Budget, Ottawa announced that it would implement a new program called the Canada Job Grant. As the initiative was then described, it would provide up to \$15,000 for short-duration training, paid one-third each by employers, the federal government, and provincial or territorial governments at a total cost of \$900 million.

Ottawa proposed to finance its \$300 million share by cutting funds it now pays to the provinces and territories for Labour Market Agreements. However, as the Caledon Institute noted in our 2013 Budget analysis, this \$300 million is already being spent on an array of programs for groups

that have trouble entering and remaining in employment – e.g., immigrants, Aboriginal peoples and older unemployed Canadians. Provinces would not only have been expected to cough up \$300 million for their share of the Canada Job Grant, they also would need to find \$300 million to fund programs previously paid for through the Labour Market Agreement funding.

Needless to say, the provinces objected strenuously to the Canada Job Grant as did many of the organizations, communities and businesses now using services funded under the Labour Market Agreements. Evaluation of the programs under the Labour Market Agreements (done by a third party but commissioned by the federal government) showed that they were quite successful.

Yet after a barrage of government-paid advertising for the non-existent program, the response from Ottawa was silence. No meeting was called with the provinces and territories. No further design details for the program were released. No rationale or evidence for the ghost program was unveiled.

Finally, after about eight months, a new Minister of Employment and Social Development was appointed – Jason Kenney – apparently with firm directions to launch this ship. Minister Kenney has met several times with provinces and territories. The one concession he has made is that Ottawa would agree to pay the full \$10,000 ‘government’ grant per trainee with no provincial matching required.

Because Ottawa is not increasing the total size of its contribution, the federal government paying the whole grant for each trainee would presumably halve the total size of the whole program from \$900 million to \$450 million. The Canada Job Grant is so critical to the Canadian economy that no one has seemed troubled by or even noticed that the program has been chopped in half.

But the real catch to this ‘compromise’ is this. It would still be financed by cutting the Labour Market Agreements, leaving the provinces and territories \$300 million in the hole and, more importantly, putting at risk a huge range of proven training and skills development programs grown with great care and difficulty by thousands of agencies over the last five years.

Not surprisingly, in view of the nature of this so-called compromise, provinces and territories continued to object. Perhaps uniquely in Canadian history, the provinces and territories have so far remained unanimous in their rejection of the Canada Job Grant.

Yet the 2014 Budget not only reaffirmed that the federal government was making no further compromises, it announced that Ottawa would deliver the program itself starting seven weeks from now in provinces that did not agree to deliver the program on its behalf.

The Budget claimed that the federal government had consulted widely and had broad support. In fact, it has systematically excluded all groups opposing the Canada Job Grant from its consultations. Not only all the major labour organizations but many local Chambers of Commerce and other businesses were not in favour and, as far as we know, not consulted. Among the little more than a dozen organizations publicly endorsing the Canada Job Grant, Alberta-based organizations and those with known partisan leanings are over-represented.

The irony of this mess is that the best critic of the unilateral approach now being undertaken by the current government is the previous Conservative government. Under long-standing Conservative policy, the federal government was to stay out of areas of provincial jurisdiction. Prime among these ‘areas of provincial jurisdiction’ were labour market programs, which had been an area of jurisdictional conflict for decades and had been critical in many constitutional discussions.

In its 2007 Budget, the then relatively new Conservative government clearly and forcefully articulated its principled exit from labour market programs and its recognition of provincial jurisdiction. And it restated this view in the Labour Market Agreements as recently as a few months before the unilateral reversal announced in the 2013 Budget.

Most ironic is that the implementation of the Labour Market Agreements proved that the previous Conservative government had been right. Overlapping and duplicative poorly thought-out programs were largely dropped as the provinces and territories worked hard to implement the Agreements in light of local labour market conditions. The Labour Market Agreements had been one of the (previous) Conservative government’s most successful employment initiatives.

And just for a final irony: Many of the criticisms now cited to defend the Canada Job Grant are of programs supposedly training people for jobs that do not exist – like the proverbial dozen hairdressers in a small Newfoundland town. But these are the very programs that were in place before the Labour Market Agreements resulted in widespread reform.

But even if the Canada Job Grant were to be entirely funded with new money and administered by the provinces, there is little reason to see it as a well thought-out program. The 2014 Budget points to deficiencies in labour supply in science-based occupations and in skilled trades. How exactly will short-duration training programs build skills requiring years to acquire?

We are at the top of the building cycle and within a year or two at most there is bound to be a massive slowdown in residential construction. Does it really make sense to train labour to meet demand for the very top of the cycle? In fact, the federal government has yet to produce a single study or any evidence that substantiates the design of this program.

The Canada Job Grant may turn out to be a reasonable program among an array of training measures, perhaps in more specific niches rather than being plastered across Canada. But even so, the program should be introduced with caution and care, testing outcomes, measuring results and making adjustments as we learn.

So what now? Our first prediction is that the federal government is headed for an embarrassing disaster if it indeed implements the Canada Job Grant itself, and especially if it tries to do so seven weeks from now. Service Canada staff is inadequate in numbers and untrained to implement a program such as this. If there is indeed very light paper work and little auditing, there will be lots of wasted money, some profiteering and likely a little fraud. Be prepared for many troubling stories about a year from now.

More seriously, the provinces will have to figure out what to do with the existing Labour Market Agreement-funded programs. Many of these worthwhile initiatives are going to have to go under because, while the federal government may be doing well fiscally, this is not true of most of the provinces. These new developments will cause great harm and much chaos within the training sector.

Our second prediction: a net loss in the training of skilled workers in Canada.

ii. Federal transfers

Four major statutory transfer arrangements – the Canada Health Transfer, Canada Social Transfer, Equalization and Total Transfer protection – are governed by federal legislation set to expire on March 31, 2014 [Torjman 2014b]. However, this date has become somewhat irrelevant in light of the fact that Ottawa has been announcing changes to these arrangements over the past few years. The so-called end date has become a turning point for the introduction of a unilaterally announced new formula.

Budget 2014 should have been the time when several new announcements were made to the main fiscal transfer programs. However, Ottawa effectively eclipsed itself by making significant changes along the way. Budget 2014 simply reiterates current and pending changes – with no consultation or collaboration regarding the proposed shifts and their impact upon services as well as the health of provincial/territorial coffers.

There is, however, one big shift that will take effect this year – the withdrawal of the Total Protection Program. This measure is discussed below.

Federal fiscal transfers are a crucial source of revenue for provinces and territories. These funds help maintain Canada's system of health and social programs, while seeking to reduce revenue disparities between, and within, various orders of government. Payments to other orders of government are made mainly through several major funding arrangements: the Canada Health Transfer, Canada Social Transfer, Equalization and Territorial Formula Financing. Major transfers to other orders of government totalled \$60.5 billion in 2013-14.

The purpose of the Canada Health Transfer is to provide long-term predictable funding for health care. In 2013-14, total federal CHT expenditure came to \$30.3 billion. In order to qualify for the full federal cash contribution under the CHT, provinces and territories must comply with the conditions of the *Canada Health Act* which, at least in theory, prohibit extra-billing by physicians and user charges by hospitals.

The CHT payment consists of two components: a tax transfer and a cash transfer. The tax transfer was part of a federal-provincial/territorial arrangement that had taken effect in 1977 under the former *Established Programs Financing Act*. At that time, Ottawa transferred 13.5 percentage points of its personal income tax and one percentage point of its corporate income tax to the

provinces and territories. The value of the tax point component continued to increase in line with economic growth.

The total CHT cash envelope is legislated under the *Federal-Provincial Fiscal Arrangements Act*. Initially set at a fixed amount in 2004-05 and 2005-06, the total CHT cash envelope was slated to increase at a rate of 6 percent annually until 2013-14.

CHT transfer payments to the provinces are determined on an equal per capita basis according to an agreed-upon formula. Each province's share of per capita CHT cash is calculated as a residual or a remainder – i.e., the province's per capita share of total CHT less its per capita tax point transfer. Because the per capita cash transfer is higher for provinces with relatively weak tax point transfers, the CHT cash component was deemed to include an equalizing component.

This equalizing component of the CHT formula had been criticized on the grounds that interprovincial equity imbalances are more appropriately redressed through the Equalization program, discussed below. In response, the 2007 federal Budget removed the equalizing component of the CHT. It legislated that the cash transfer shift to an equal per capita allocation effective 2014-15, the first year of a new agreement following the expiry of the 10-Year Plan.

The Canada Health Transfer had been split off in 2004 from a larger Canada Health and Social Transfer. At that time, provinces signed a *10-Year Plan to Strengthen Health Care*. The Plan identified the core areas around which greater investments were required in order to support health care renewal. Under the *10-Year Plan*, Ottawa committed \$41 billion in new, long-term funding, including a 6 percent annual escalator, beginning in 2006-07. The *10-Year Plan to Strengthen Health Care* is scheduled to end on April 1, 2014. Starting in 2014-15, provincial and territorial CHT transfers will be allocated on an equal per capita cash basis only.

Total CHT cash levels were set in legislation up to 2013-14 and were slated to grow by 6 percent annually as a result of an automatic escalator. But in December 2011, Ottawa announced that total CHT cash would keep rising at the annual rate of 6 percent until 2016-17. Starting in 2017-18, total CHT cash will grow in line with a three-year moving average of nominal Gross Domestic Product, with funding guaranteed to increase by at least 3 percent per year.

The problem is that the new formula was introduced unilaterally by the federal government with no prior provincial/territorial consultation. Under the federal renewal plans, annual growth in the CHT will decline significantly from the 6 percent previously set out in the *10-Year Plan to Strengthen Health Care*. The Council of the Federation, comprising provincial and territorial Premiers, has expressed its concern about the impact of this shift.

For health, the federal government's Canada Health Transfer (CHT) will be reduced by almost \$36 billion, in total, over the 10-year period from 2014-15 to 2023-24 compared to the arrangements currently in place. This will bring the federal share of health care costs to less than 20 percent, compared to about 50 percent originally. In the shorter term, the 5-year period from 2014-15 to 2018-19, provinces and territories will receive, in total, about \$23 billion less than under the

current arrangements, with the CHT accounting for about \$7 billion of the reduction and Equalization accounting for about \$16 billion [Council of the Federation 2012].

Ontario, in particular, will take a hit from the shift to equal per capita cash. It will receive the equivalent of only a 3.4 percent increase in 2014-15. Alberta, by contrast, will be gaining about \$1 billion more – the equivalent of a 38 percent rise in that year.

The 2011 federal announcement, made several years before the 2014 renewal date, by-passed an opportunity for consultation, collaboration and co-operation between the two orders of government. These factors have historically been critical to the success of the Canadian federation and to the development of effective transfer arrangements [Government of Manitoba 2013: D4].

The Canada Social Transfer (CST) is a financial transfer to provinces and territories in support of post-secondary education, social assistance and social services, early childhood development, and early learning and child care. The CST has been paid out on an equal per capita basis since 2007-08. Prior to that time, the CST payment included cash as well as a tax component, similar to the current Canada Health Transfer allocation.

CST cash levels are currently set in legislation up to 2013-14 and have grown by three percent annually as a result of an automatic escalator applied since 2009-10. In December 2011, Ottawa announced that the CST will continue to grow at three percent a year effective 2014-15 and beyond. The CST cash transfer totals \$12.2 billion in 2013-14 and is slated to reach \$14.2 billion by 2018-19.

Equalization payments represent the third major transfer in Canada. Their purpose is to ensure that all provinces have the financial capacity to offer their residents reasonably comparable public services at reasonably comparable rates of taxation. In the absence of Equalization, Canadians in less wealthy provinces would face higher debt, lower levels of public services and/or higher levels of taxation than Canadians in more wealthy provinces.

A separate, but similar, program is in place for the three territories – Yukon, the Northwest Territories and Nunavut. The Territorial Formula Financing (TFF) program is an annual transfer from Ottawa to the three territorial governments enabling them to provide a range of public services comparable to those offered by provincial governments, at comparable levels of taxation.

In order to determine appropriate levels of payment, the Equalization program calculates, on a per capita basis, what each province could raise on its own at typical rates of taxation. Any shortfall relative to this “10-province standard” is paid out in Equalization. Payments are adjusted to keep the total program payout growing in line with the economy.

The Total Transfer Protection (TTP) program was announced by the federal government in 2010 to help provinces address the fiscal challenges related to the 2008-09 recession. The purpose of TTP was to ensure that no province receives less in combined major transfers (CHT, CST and Equalization) than it did the previous year.

Since its inception, the program has paid out more than \$2.2 billion to seven provinces in addition to the nearly \$60 billion that Ottawa has transferred to the provinces since 2010. While the TTP was extended into 2013-14, its pending demise was announced by the Finance Minister in December 2013, much to the dismay of the provinces – Ontario, in particular [Benzie and Boutilier 2013].

Ontario will be the big loser from the announced change. The coming year would have been the first in which Ontario qualified for a payment under the TTP program. Ottawa, for its part, argues that the Total Transfer Protection program was intended only as a temporary measure to help provinces and territories “in transitioning through current economic challenges.”

The timing of the TTP cut has raised many Ontario eyebrows – coming at a time when the province is about to enter into full-swing election mode. Ontario contends that there was no conversation or dialogue with Ottawa as to when this transfer protection would end. There is usually a warning or heads-up to give provinces some lead time to absorb the shock of – and prepare for – big fiscal shifts.

No Budget Initiatives

The 2014 Unbalanced Budget ignores pressing social challenges that remain unresolved, such as persistent poverty for high-risk groups (e.g., recent immigrants, persons with disabilities and Aboriginals) and growing inequality. Child poverty has declined substantially in recent years, especially among single-parent families led by mothers, thanks to declining unemployment, increasing employment among women and improvements to child benefits.

But there is still a long way to go to realize the all-party unanimous commitment in 1989 to move toward the eradication of child poverty by the year 2000. At last count (2011), 8.5 percent of all children lived in low-income families; 23.0 percent of families led by single-parent mothers were poor compared to 5.9 percent of two-parent families. The December 2013 report from the Standing Committee on Finance identified growing inequality as another problem that challenges the country.

The current government appears to be wearing blinders when it comes to the poverty/inequality twin challenge. The 2014 Unbalanced Budget neither acknowledged the existence of these problems nor put forward any concrete solutions other than a number of small tax cuts which do little if anything to help low- and modest-income households. The irony is that two key levers are already in place to help make a significant dent in these problems: the Canada Child Tax Benefit and the Working Income Tax Benefit [Torjman and Battle 2011].

The Canada Child Tax Benefit consists of two parts. The base Child Tax Benefit serves almost all (nine in ten) families and is intended to help the large majority of parents with their childrearing expenses. For July 2013-June 2014, the maximum base Child Tax Benefit is \$1,433 per child (\$119.40 a month for each child under 18). Eligibility and the amount of benefit are calculated on the basis of net family income and number of children. It is an income-tested benefit: Maximum

payments go to low-income families and the amount of benefits declines as net family incomes increase.

The second component of the Canada Child Tax Benefit, the National Child Benefit Supplement, sits on top of the base Child Tax Benefit and provides an additional amount to low- and modest-income families. Like the base benefit, the National Child Benefit Supplement is income tested, though more steeply. Maximum payments are \$2,221 for the first child, \$1,964 for the second child and \$1,869 for the third and each additional child for July 2013-June 2014.

The two benefits combined (i.e., the base Child Tax Benefit and the National Child Benefit Supplement) mean that a low-income family with one child and net income less than \$25,356 receives a maximum \$3,654 per year in 2014. Caledon has proposed that the base Canada Child Tax Benefit be raised so that the combined payments reach a total maximum \$5,400 per child [Battle 2008].

Our proposed \$5,400 Canada Child Tax Benefit is more than just another in a series of increases for low-income families, important as these improvements have been. Our recommended reform would provide a sizeable increase in child benefits to the majority of modest- and middle-income majority of families – an attractive option in light of growing concerns on the part of all federal political parties about the declining middle class. Our proposal enhances both the poverty reduction and parental recognition objectives of the child benefits system.

The Canada Child Tax Benefit not only provides a significant payment to low-income households but also reaches the majority of middle-class families. One would think that this proposal would be a political winner. The recommended increase would cost an estimated \$5 billion, which we have argued could be found through reallocation from programs such as the Universal Child Care Benefit and non-refundable Child Tax Credit, and by scrutinizing targeted tax breaks that favour higher-income households.

The Working Income Tax Benefit (WITB) is another measure that handily could have won political support. The WITB provides an income supplement to workers with low earnings – i.e., the working poor. This measure is intended as a work incentive for low-wage earners to join or remain in the paid labour market or to move off programs of income support such as welfare.

Despite significant increases in 2009 over the inaugural 2007 program, the Working Income Tax Benefit provides only a very modest amount. It pays a maximum \$970 for a single worker per year (\$1,762 for a family) and cuts out at a low net income of \$17,827 (\$27,489 for a family). Even with the 2009 improvements, the WITB still excludes almost all single minimum wage workers – the very people it was intended, at least in theory, to help.

The WITB needs a healthy, multi-year injection of funds before it can become a major weapon in the war on poverty and inequality. But at least a solid foundation is in place. Caledon has called for the federal government to build the Working Income Tax Benefit into a much more powerful instrument, both in terms of increasing benefits and extending the program higher up the income scale [Battle and Torjman 2012].

We have put forward several proposals for how to expand the scope of the program to ensure that it extends to more workers. While this expansion doubtless would have a hefty price tag, there are various design options that can help reduce the overall cost.

There are two crucial tools in hand and yet no reference to these measures that potentially could pack a powerful punch against poverty and inequality. The last thing that Canada needs right now is more tax breaks for well-off families.

Caledon has argued that the wrong-headed tax cut to the GST by two percentage points took a whack out of Canada's revenues and put us back into deficit. The change represented a significant structural shift that destabilized the revenue stream – especially at a time when the country was in recession [Battle, Torjman and Mendelson 2012].

Over the past few years, the federal government has also introduced a series of tax cuts that spend lots of public money on non-poor families, including the minority of well-off families [Battle and Torjman 2011]. The Children's Arts Tax Credit cost \$35 million in 2012. The non-refundable Child Tax Credit (which is much different from the Canada Child Tax Benefit, as discussed later) amounted to \$1.6 billion in that year. The Family Caregiver Tax Credit cost \$160 million while the Infirm Dependent Credit was \$5 million. The Children's Fitness Tax Credit amounted to \$120 million in 2012. We further consider targeted tax breaks in the later section *Boutique Tax Credits*.

In 2006, the federal government introduced pension income splitting, allowing couples to divide their private pension income between them when calculating their income tax; each spouse pays income tax on only half of income from private pensions and RRSPs. The cost of pension income splitting in foregone tax revenue is huge. According to the federal government's *Tax Expenditures and Evaluations* report, pension income splitting cost Ottawa an estimated \$1 billion in 2012.

We objected to this measure when it was introduced on two grounds [Battle, Torjman, Mendelson and Tamagno 2007]. First, pension income splitting confers its greatest benefit on higher-income households. Those who are the best off – the relatively small percentage of seniors who are truly affluent – get the largest tax savings, while the majority in the middle see only a modest tax break. Second, the annual \$1 billion price tag would be far better spent bolstering the Guaranteed Income Supplement for low-income seniors.

Now we face the spectre of income splitting for families with children, a major plank of the Conservatives' 2011 election platform. While it was not mentioned in this Budget, family income splitting is lurking in the halls of Parliament awaiting next year's Budget. Here's why this proposal should be put to rest.

Family Income Splitting: Never will so much be spent on so few who need so little

The Conservative platform in the 2011 federal election included a pledge to correct an alleged inequity in the tax system: A family with children and one earner pays more income tax than a family

with the same income earned by both parents. The one-earner family is the traditional mom at home caring for the kids with dad in the workforce – a disappearing institution beloved by the Conservative base.

Table 1 looks at the amount of federal income tax paid by two types of family – two-earner families and one-earner families. Each spouse in the two-earner family earns \$40,000, for a total income of \$80,000. They each pay \$6,000 in federal income tax, for a total of \$12,000. In the one-earner family, one spouse earns all the income – \$80,000 – and pays \$14,523 in income tax. The one-earner family pays \$2,523 more in federal income tax than the two-earner couple.

The reason for the tax gap between these households is that the one-earner family pays income tax at two rates: 15 percent on taxable income up to \$43,953 and 22 percent on taxable income between \$43,954 and \$80,000. But the two-earner family pays tax at only one rate – the lowest 15 percent.

Table 1							
Two-earner family				One-earner family			
spouse 1	taxable income	tax rate	income tax	spouse 1	taxable income	tax rate	income tax
	\$40,000	15%	\$6,000 (\$40,000*15%)		\$80,000	15%	\$6,593 (\$43,953*15%)
spouse 2	\$40,000	15%	\$6,000 (\$40,000*15%)			22%	\$7,930 (\$80,000- \$43,954*22%)
family			\$12,000				\$14,523

Ottawa had wanted to fix this perceived inequity by introducing a tax measure by the name of *family income splitting*. It builds on the pension income splitting measure introduced by the federal government in 2006 [Tamagno and Battle 2006].

Family income splitting aims at reducing income taxes for one-earner families with children under age 18. It shifts taxable income (up to a limit of \$50,000) from the spouse in a higher tax bracket to the spouse in a lower bracket (who traditionally is not in the labour force or works part time). As a result, the higher-income spouse pays less tax while the lower-income spouse pays more tax. The family’s total tax bill is reduced as a result of income splitting though, of course, total family income remains the same.

The amount of income tax savings is calculated as the product of the amount shifted between spouses and the difference between their two marginal tax rates. Under the proposal that Ottawa had been considering, there would be a limit of \$50,000 transferable between the spouses. Tax savings from splitting would arise only if the spouses’ taxable incomes are in a different tax bracket.

A recent commentary written for the C.D. Howe Institute by economists Alexandre Laurin and Jonathan Rhys Kesselman offers a trenchant critique of the federal government's income splitting scheme [Laurin and Kesselman 2013]. Our discussion here draws heavily on their invaluable analysis.

horizontal equity: one-income versus two-income families

Proponents of income splitting contend that families with similar total money income should pay similar amounts of tax, according to the principle that equals should be taxed equally. Tax experts call this the principle of horizontal equity.

Analysis supports the argument that many one-income families with children pay more income tax than two-income families with children. The average tax burden of families with children is higher when most of their income comes from one spouse. Comparing families in which the lower-income parent earns less than 15 percent of income with families where the lesser earner makes more than 35 percent of family income, the tax burden on one-earner couples is heavier between family incomes of \$50,000 and \$80,000 by \$500-\$1,500. The same holds for incomes above \$150,000 [Laurin and Kesselman 2013: 3]. These are not large differences.

Critics of income splitting argue that concentrating on cash income leads to a narrow view of income. A broader conceptualization of families' total economic resources is required that takes into account the value of in-kind home-produced services – e.g., housework, cooking and child care.

Such home-produced services are generally worth more if one spouse spends less time, or no time, in the paid labour force. For their part, two-earner families face work-related costs such as transportation, clothing and purchased child care [Laurin and Kesselman 2013: 3]. So the actual income gap between one- and two-earner families with children is much smaller, if at all, once in-kind services and work-related expenses are taken into account.

Another aim of income splitting is to help parents spend more time caring for their children in the home. This argument fails to acknowledge that income splitting would favour upper-income one-earner families that are already most able to reduce one parent's paid work, and would least benefit lower- and modest-income couples with lesser ability to do so. Moreover, income splitting would do nothing at all for single parents, who typically have lower incomes from low-paid jobs [Laurin and Kesselman 2013: 3-4].

Another criticism of family income splitting is that it includes older children (up to age 17, the age of eligibility for child-related benefits such as the Canada Child Tax Benefit). It can be argued that families most need assistance in caring for their children at home when they are infants or preschoolers. But Ottawa's income splitting proposal would extend throughout the school years. Targeting family income splitting to preschool children (e.g., the Universal Child Care Benefit is restricted to ages 5 and under) would reduce the program's cost.

a tightly targeted program

Family income splitting would exclude the large majority – 85 percent – of Canadian households [Laurin and Kesselman 2013: 6-7]. It would pay nothing to single adults living alone (45 percent of households), single parents (6 percent of households), childless couples (31 percent) and couples with children and low incomes (2 percent) that are below the taxpaying threshold. It would exclude low- and modest-income families where neither parent earns more than the bottom tax bracket (\$43,953 in 2014), or if both spouses have earnings that place them in the same tax bracket.

Family income splitting would provide a tax break to only 15 percent of households. Six percent of households that get a tax reduction would receive \$500 or less. Only 9 percent of households would get more than \$500 in tax savings from income splitting.

who would gain from income splitting?

Income splitting targets two-parent single-earner families with children. This is a shrinking breed. Only 22 percent of women with school-age children and 34 percent with preschoolers are not in the paid labour force [Jackson 2014].

Family income splitting is a regressive program, favouring high-income couples. Figure 1 looks at average tax savings from income splitting for three types of family according to the lesser earning spouse's share of family income: 0-15 percent (shown in blue bars), 15-35 percent (green bars) and 35-50 percent (red bars). Tax savings represent combined federal and provincial amounts.

Average income tax savings (federal and provincial combined) for families in which the lower-income spouse earns less than 15 percent of family income would range from \$592 for families with incomes of \$55,000 or less to \$2,652 for families between \$55,001 and \$88,000, \$4,664 for those between \$88,001 and \$125,000, and \$6,443 for families with incomes of \$125,001 or more.

Figure 1 shows that tax savings are smaller for families in which the lower-income spouse earns between 15 and 35 percent, shown in green, but they are still regressive: an average \$266 for families with incomes of \$55,000 or less, \$1,035 for families between \$55,001 and \$88,000, \$1,677 for those between \$88,001 and \$125,000, and \$2,325 for families with incomes of \$125,001 or more. While tax savings are smallest for families in which the lower-income spouse earns between 35 and 50 percent of family income, shown in red, they too are regressive: an average \$115 for families with incomes of \$55,000 or less, \$302 for families between \$55,001 and \$88,000, \$351 for those between \$88,001 and \$125,000, and \$351 for families with incomes of \$125,001 or more [Laurin and Kesselman 2013: 11].

The maximum annual tax break from federal income splitting would reach \$6,408 for 2011. But the provinces and territories would also likely implement family income splitting, as they have with pension income splitting. Maximum provincial tax savings in 2011 would range widely from \$0 in

Figure 1
Average income tax savings from income splitting,
by family income and percentage of income
earned by lower-income parent, 2012

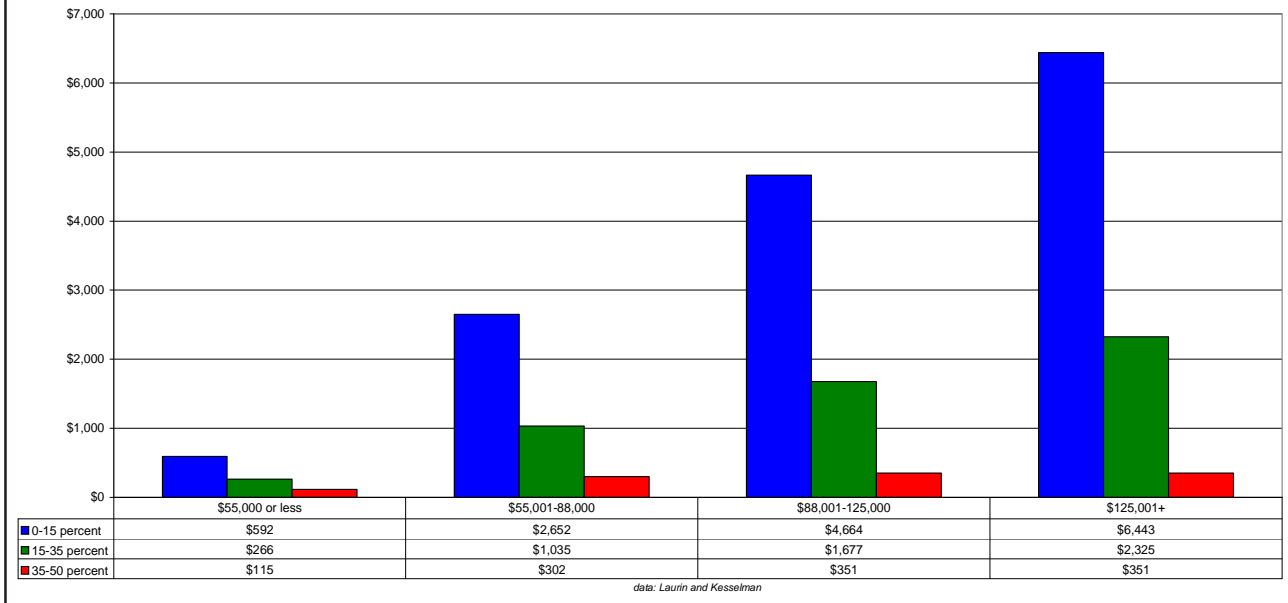
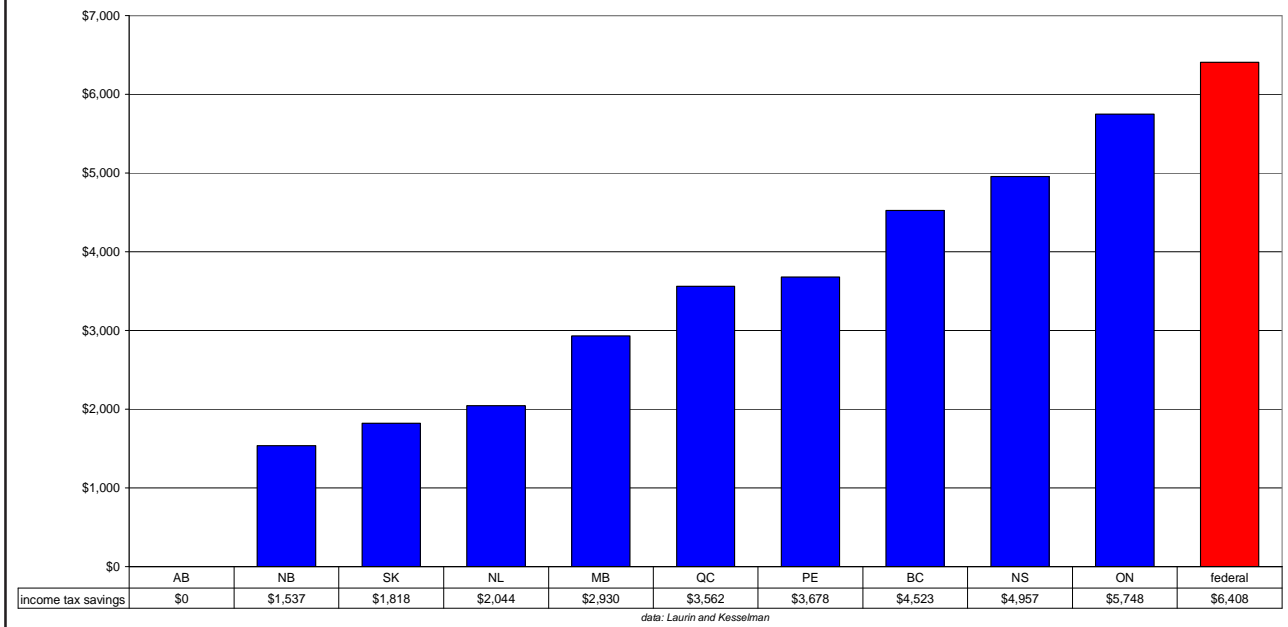
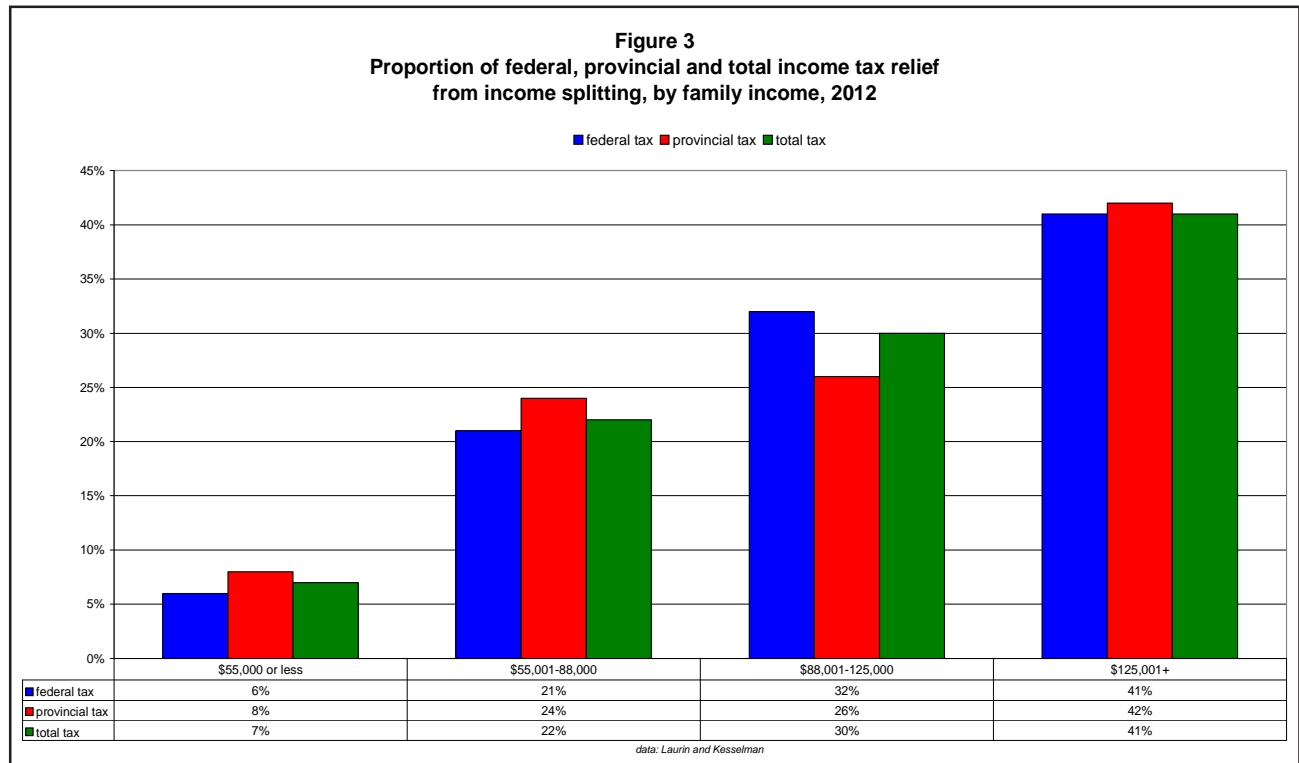


Figure 2
Maximum federal and provincial income
tax savings from family income splitting, 2011



Alberta (due to its single 10 percent tax rate for all taxpayers) to \$5,748 in Ontario, as illustrated in Figure 2 [Laurin and Kesselman 2013: 9].

Figure 3 illustrates how tax savings from family income splitting would be distributed across the income range. The analysis shows federal, provincial and total income tax savings.



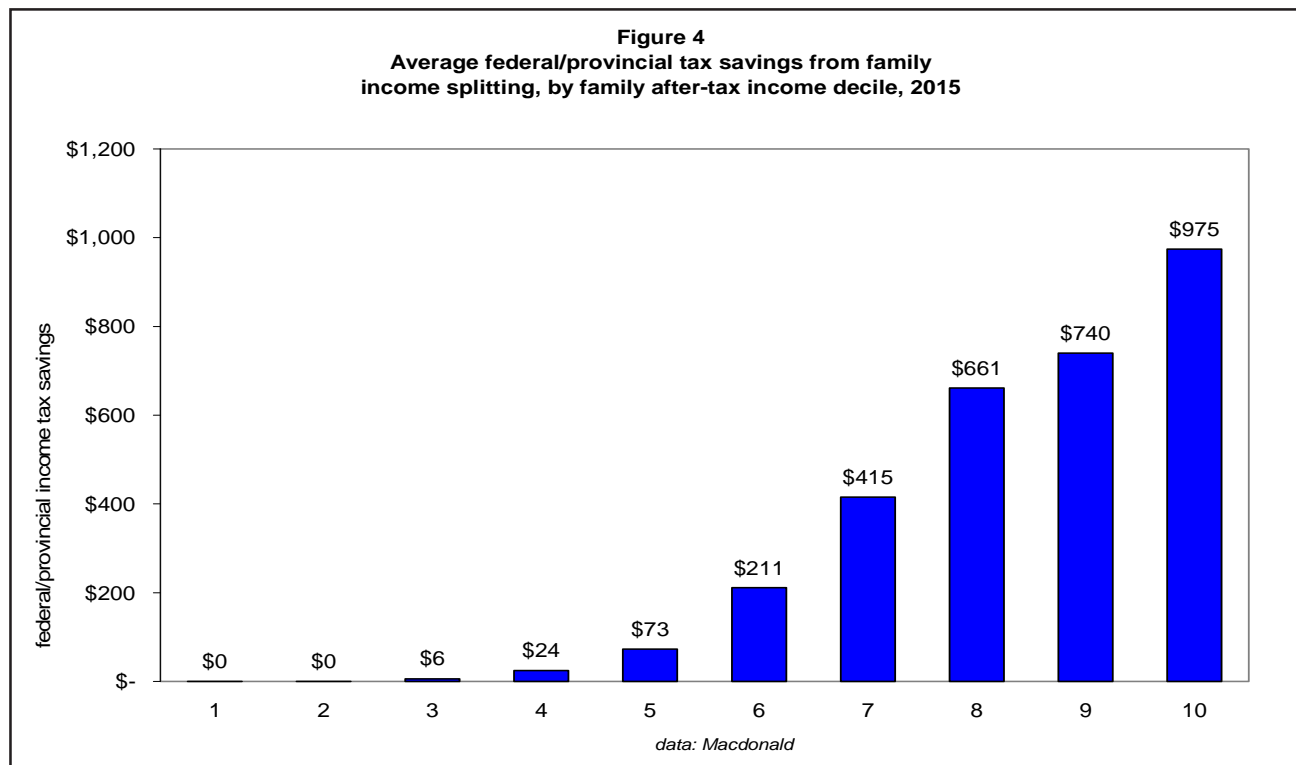
Families with incomes of \$55,000 or less would get 6 percent of total federal tax savings (illustrated by the blue bars), 8 percent of provincial tax savings (red bars) and 7 percent of total tax savings (green bars). Families with incomes between \$55,001 and \$88,000 would get 21 percent of total federal tax savings (blue bars), 24 percent of provincial tax savings (red bars) and 22 percent of total tax savings (green bars). Families with incomes between \$88,001 and \$125,000 would receive 32 percent of total federal tax savings (blue bars), 26 percent of provincial tax savings (red bars) and 30 percent of total tax savings (green bars). Families with incomes of \$125,001 and more would get 41 percent of total federal tax savings (blue bars), 42 percent of provincial tax savings (red bars) and 41 percent of total tax savings (green bars) [Laurin and Kesselman 2013: 11].

The gap in income savings from family income splitting is wide. Families in which the lower earner makes 0-15 percent of family income and families with income of \$55,000 or less, comprise 25 percent of all families; yet they account for only 7 percent of total (federal and provincial) tax relief. Families with incomes of \$125,001 and over also make up 25 percent of all families but reap 41 percent of total tax savings from family income splitting – six times as much as families with incomes of \$55,000 or less.

Currently, one-income families typically pay more income taxes than two-income families, as discussed above. Family income splitting would reverse this pattern, so that most two-income families would pay more tax than one-income couples. For families with incomes over \$65,000, the extra tax burden on two-earner couples would range from \$3,000 to \$4,500 on average [Laurin and Kesselman 2013: 12].

A revealing new study by David Macdonald of the Canadian Centre for Policy Alternatives confirms that family income splitting is a very pro-rich scheme. The lower 50 percent of families would get a mere 3 percent of tax savings from family income splitting, while the top 10 percent would enjoy 31 percent of tax benefits. The top 5 percent, with incomes of \$147,000 or more, would save on average \$1,100 in tax savings, while one in ten of that elite group would enjoy more than \$5,000 from family income splitting [Macdonald 2014: 17-18].

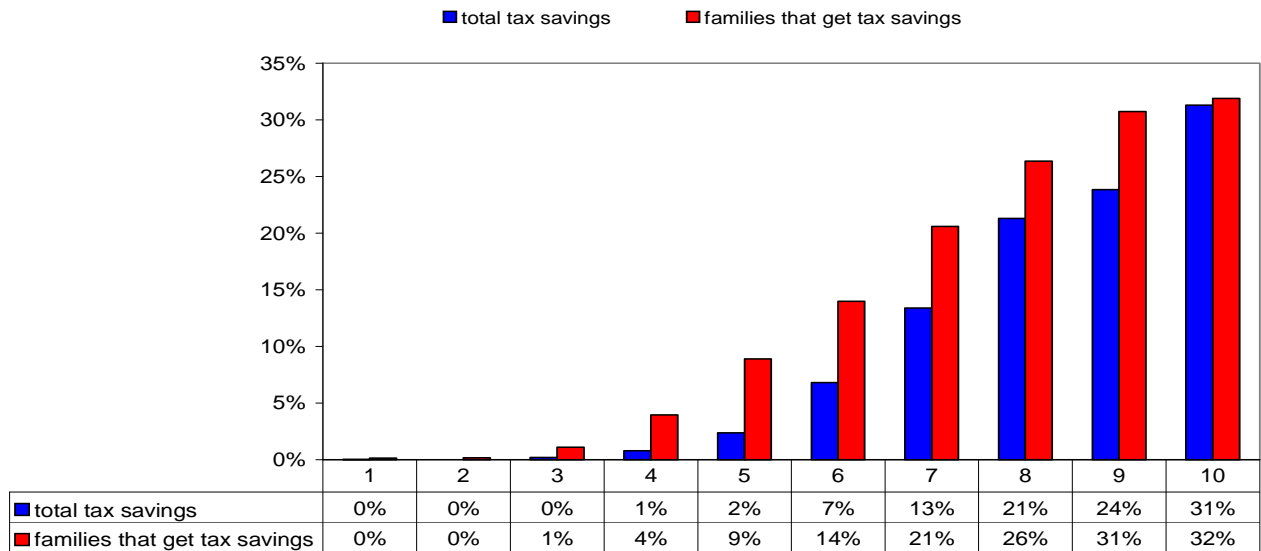
Figure 4 shows average federal/provincial income tax savings from family income splitting, ranging from \$6 in the 3rd decile to \$975 in the 10th decile. Figure 5 indicates that the percentage of total tax savings from family income splitting goes from 1 percent in the 4th decile to 31 percent in the 10th decile, while the percentage of families that get any benefit ranges from 1 percent in the 3rd decile to 32 percent of those in the 10th decile.



a perverse child benefit

Family income splitting is typically viewed as a tax measure, but it also is a child benefit delivered through the tax system like a growing number of programs. Canada currently has three

Figure 5
Percentage of total tax savings and percentage of families that get some tax savings from family income splitting, by family after-tax income decile, 2015



data: Macdonald

federal child benefits – the Canada Child Tax Benefit, the Universal Child Care Benefit and the non-refundable Child Tax Credit. The Canada Child Tax Benefit is a sound and well-designed social program that should be strengthened; the other two benefits are flawed and should be abolished.

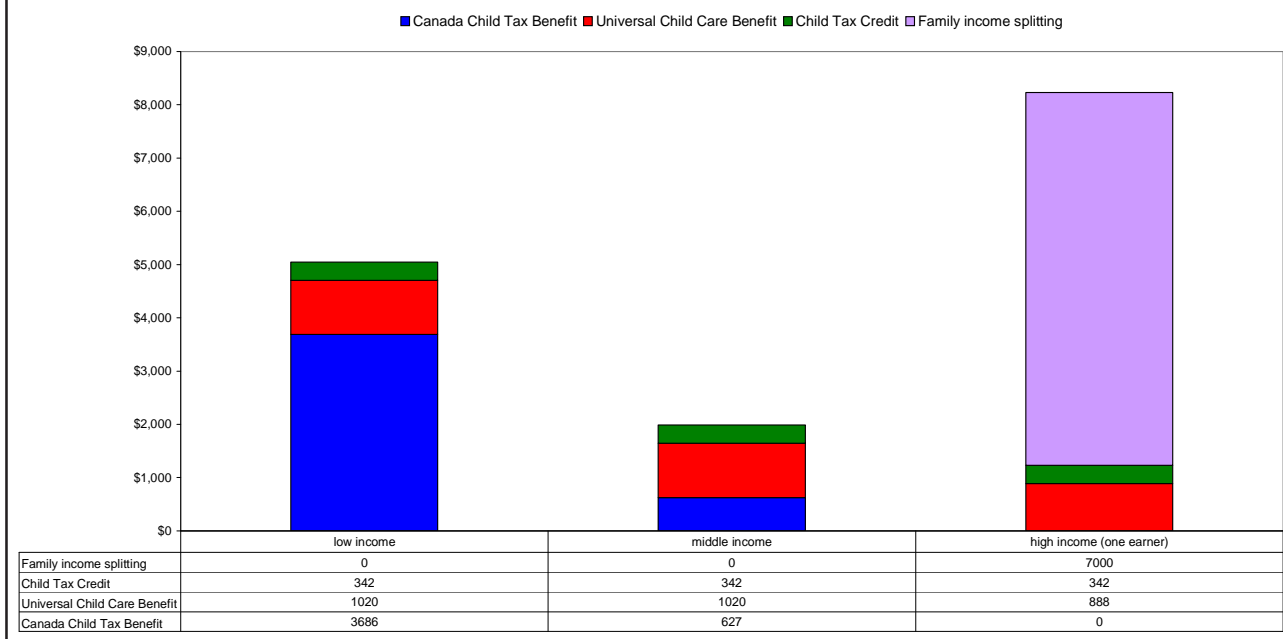
Family income splitting is a terrible idea for a child benefit, a highly regressive scheme that would favour the elite group of rich families with one parent at home [Battle 2014]. These wealthy families definitely do not need more financial help from the state.

Figure 6 illustrates our point in dramatic fashion. We look at couples with one child under 6, in three income groups – low income (\$25,000), middle income (\$85,000) and high income (\$250,000 with one earner). The rich family’s total child benefits are \$8,230 thanks to their \$7,000 gift from income splitting – substantially more than the \$5,048 total child benefits for the low-income family and the \$1,989 in total child benefits for the middle-income family.

cost

Family income splitting is an expensive proposition. It would cost the federal government an estimated \$3.0 billion and the provinces \$1.9 billion, for a total \$4.9 billion price tag in 2015 [Macdonald 2014: 12]. Families in which the lower earner makes between 0 and 15 percent of family income would garner the largest tax savings from income splitting – in 2012, an estimated \$2.7 billion or 61 percent of the total \$4.4 billion cost to Ottawa and the provinces [Laurin and Kesselman 2013: 10].

Figure 6
Child benefits, couple with one child
under 6, by program and income group, 2014



The family income splitting proposal limits the amount of transferable income to \$50,000 per household, supposedly to restrict the program to middle-class families. But wealthy families will come out ahead and will be able to make profitable use of family income splitting. The \$50,000 ceiling trims the cost of the program by \$210 million or just 4 percent of its cost [Macdonald 2014: 16].

Costs could be even larger to the extent that family income splitting affects work incentives. Income splitting can raise the ‘marginal effective tax rate’ (i.e., the rate of tax increases and decreases in income-tested programs for every dollar of earnings) on the lower-earning parent:

Income splitting would induce some married spouses – mostly women – to reduce their hours of work, others to withdraw from the labour force, and still others to choose not to re-enter the labour force after withdrawing to mind infants or young children. All of these responses would reduce that spouse’s taxable earnings and taxes paid [Laurin and Kesselman 2013: 12].

In our view, the possible allocation \$3.0 billion of federal tax expenditure on family income splitting is a huge waste of public dollars for two reasons (\$5 billion if provincial spending on this measure is included). The benefits of this expenditure go largely to higher-income families who least need tax assistance.

These funds – along with spending on the Universal Child Care Benefit and non-refundable Child Tax Credit – could be far better directed toward the Canada Child Tax Benefit, which not only makes monthly payments to the vast majority of Canadian families with children but also directs its

greatest support to lower- and modest-income families. A stronger Canada Child Tax Benefit is an effective way to help tackle both poverty and inequality – two pressing problems in this country.

Boutique Tax Credits: Waiting in the wings

We hope that a 2015 Budget surplus will not be wasted on a spate of new ‘boutique’ tax credits. These narrowly targeted tax measures are aimed at specific groups of the electorate whose behaviour Ottawa thinks can be influenced through the lure of tax breaks.

This year’s Budget made only a couple of changes and additions to its stock of targeted tax measures, simply reminding Canadians of the various credits it has created in recent years. The Budget did announce two items – enhancements to the Adoption Expenses Tax Credit, and a new Search and Rescue Volunteers Tax Credit.

The Adoption Expenses Tax Credit recognizes the costs unique to adopting a child by providing a tax credit on up to a maximum of \$11,774 in expenses per child for 2014. To provide further tax recognition of adoption-related expenses, such as adoption agency fees and legal fees, 2014 Budget increased the maximum amount of the credit to \$15,000. This change will apply to adoptions finalized after 2013. Normal indexation will apply to the new maximum amount for taxation years after 2014. That means that the maximum federal tax savings for the Adoption Expenses Tax Credit will rise from \$1,762 to \$2,250. The cost of this tax break will rise from \$4 million to \$6 million.

Budget 2014 added one new targeted tax cut, the Search and Rescue Volunteers Tax Credit. It pays an amount up to \$3,000 for federal tax savings of \$450, at an estimated cost of \$4 million.

These tax goodies don’t come cheap. The seven measures listed in Table 2 together cost the federal government \$450 million.

There are several shortcomings to boutique tax benefits.

First, they are worth substantially less than people might believe. On the income tax form, these measures are listed by their ‘amounts.’ But their actual value in terms of income tax savings systems is less than it might seem – specifically, 15 percent of their amount (15 percent is the lowest tax rate).

While the Children’s Arts Tax Credit and the Children’s Fitness Tax Credit, for example, each has an amount of \$500, in reality are worth just \$75 in federal tax savings. The Family Caregiver Tax Credit is worth \$300, the Volunteer Firefighters Tax Credit \$450, the Search and Rescue Volunteers Tax Credit \$450, the first-time Home Buyers Tax Credit \$750 and the Adoption Expenses Tax Credit \$2,250. While these larger tax measures’ value in tax savings looks pretty good, in terms of their contribution to their stated purposes they are generally relatively small.

Targeted tax credits are non-refundable, which means they deliver their tax savings in the form of tax reductions. But they do not help low-income Canadians whose incomes are so low that they are below the taxpaying threshold and do not pay income tax.

Targeted tax credits are regressive, which means their value is highest for well-off taxpayer, and vice versa. As noted, they exclude the poorest. Among taxpayers who claim such tax credits, the distribution of benefits is regressive, in several ways. We look at the example of the Children’s Fitness Tax Credit.

In the 2011 taxation year, 1.5 million Canadians claimed the Children’s Fitness Tax Credit. Relatively few of them had low incomes, while the opposite is the case for upper-income claimants. Figure 7 shows that the percentage of taxpayers who claimed the Children’s Fitness Tax Credit ranged from less than one percent (.89) of taxpayers with incomes under \$10,000 to 22 percent for those with incomes of \$250,000 or more.

Figure 8 shows that the average amount claimed for the Children’s Fitness Tax Credit went from \$427 for taxpayers with incomes under \$10,000 to a high of \$769 for those at the top end.

The value of the Children’s Fitness Credit, in federal income tax savings, ranged from \$2 at the bottom end of the income scale to \$115 at the top. Figure 9 shows the findings.

**Table 2
Targeted Tax Credits 2014**

Tax credit	‘amount’	value (federal income tax savings)	cost (millions) 2012
Children’s Arts	\$500	\$75	\$35
Children’s Fitness	\$500	\$75	\$120
Family Caregiver	\$2,000	\$300	\$160
Volunteer Firefighters	\$3,000	\$450	\$15
Search and Rescue Volunteers	\$3,000	\$450	\$4 (2014)
Home Buyers	\$5,000	\$750	\$110
Adoption Expenses	\$15,000	\$2,250	\$6

Figure 7
Percentage of taxfilers claiming
Children's Fitness Tax Credit, by income, 2011

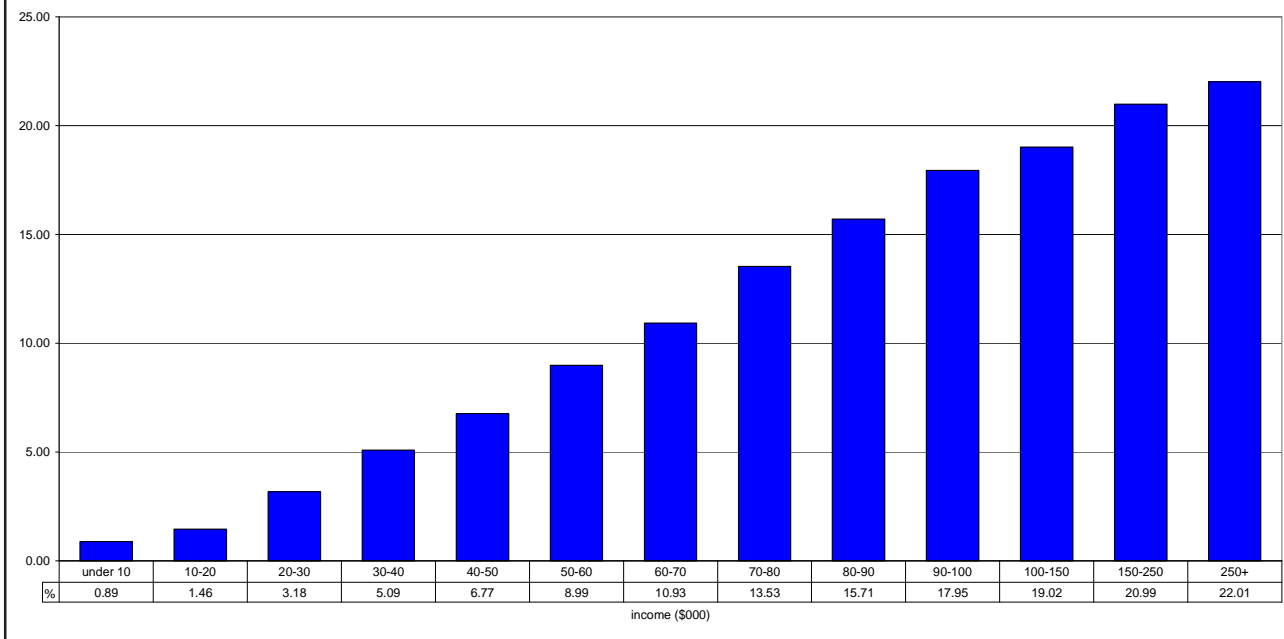


Figure 8
Average amount of Children's
Fitness Tax Credit claimed, by income, 2011

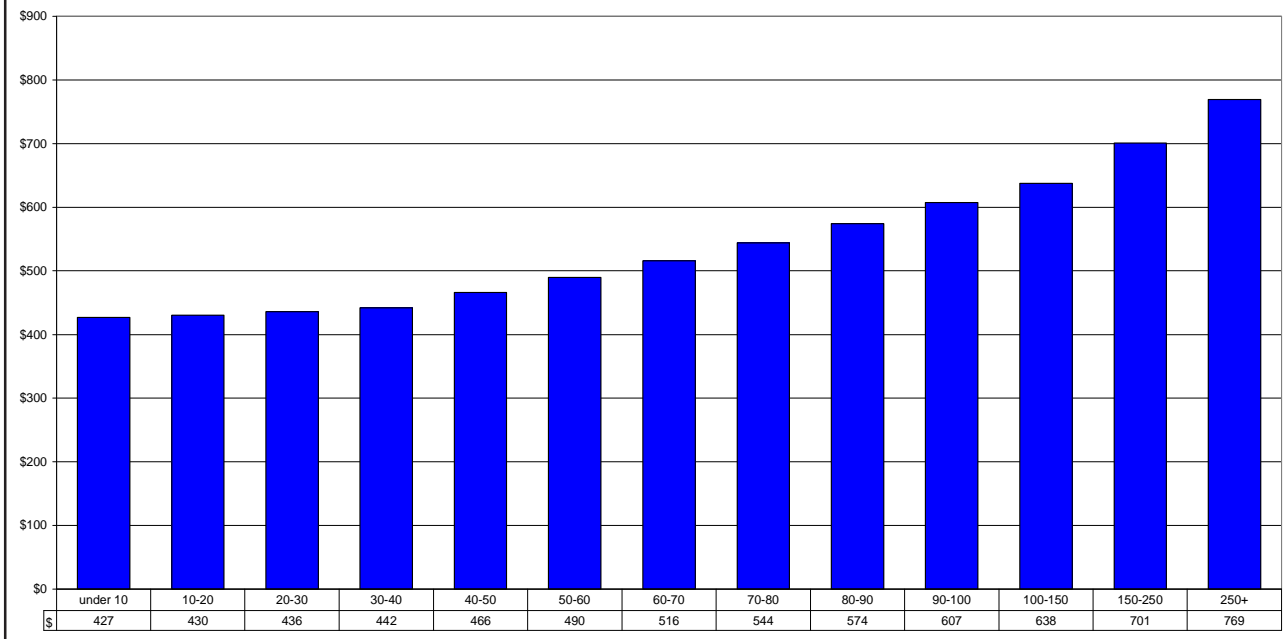
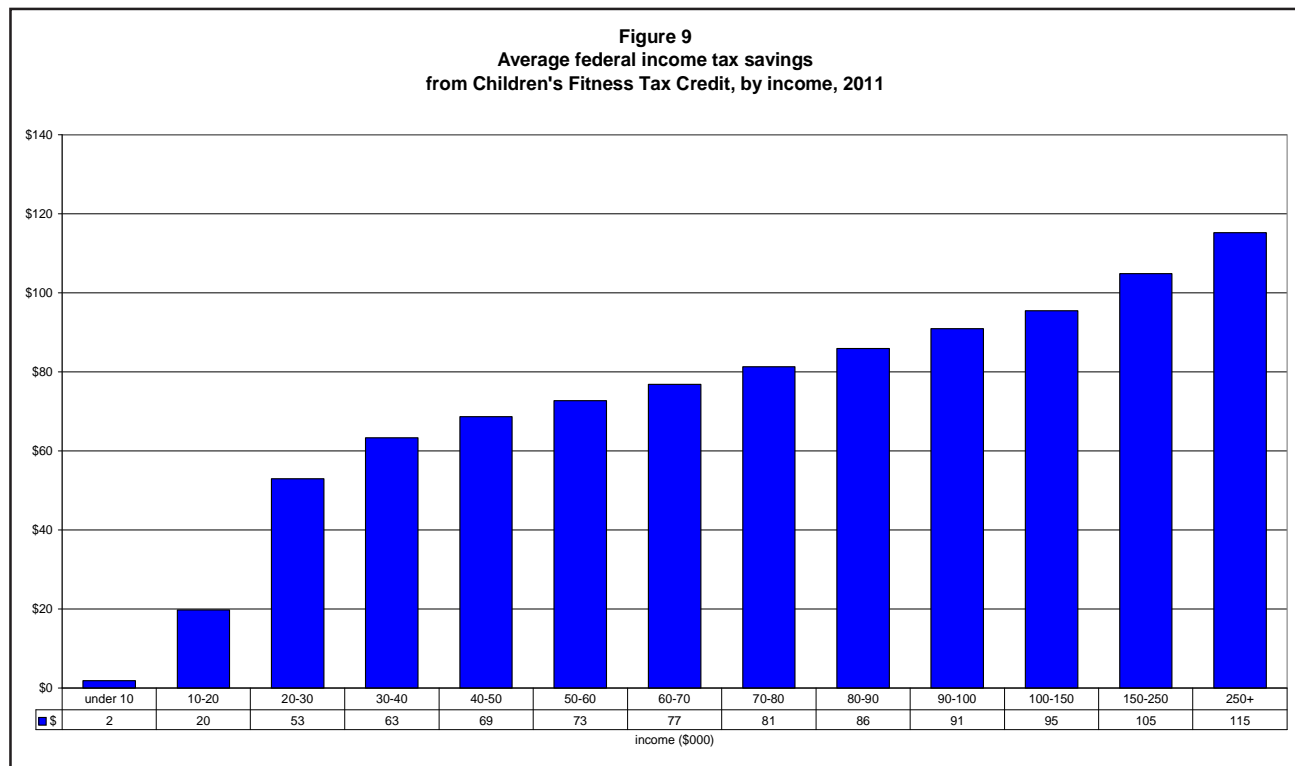


Figure 10 illustrates an inequality index, calculated as the percentage of total federal tax savings divided by the percent of claimants at each income level. The results range from .03 for Children’s Fitness Credit claimants with incomes under \$10,000 to 1.53 for those at \$250,000 and above. The Children’s Fitness Tax Credit disproportionately benefits upper-income Canadians.

Another key question about targeted tax credits is their rationale. What are they supposed to do? And are they the best way to do it?

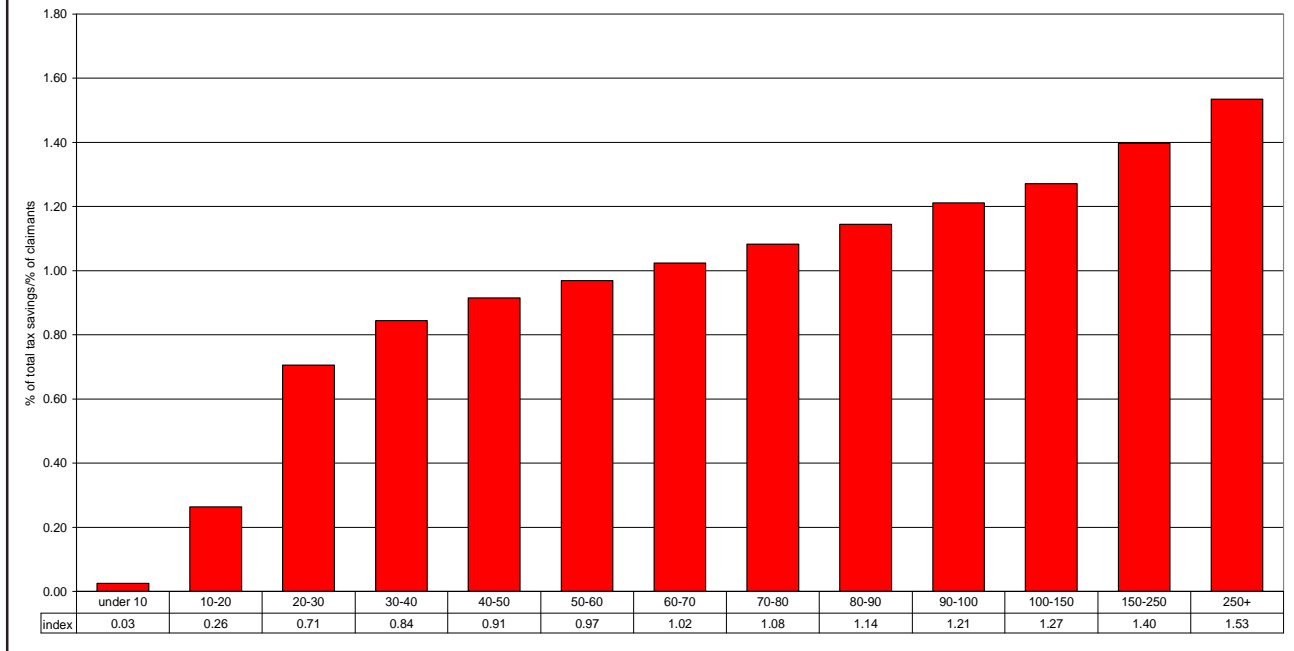


Doubtless all the targeted tax cuts can lay claim to some worthwhile *raison d’être*, usually right in their name. Children’s fitness is a social as well as individual good, and thus worth encouraging with public money. The same can be said for the other targeted tax reductions listed above for the widely various activities.

But is the tax system the best way to encourage such behaviour? The value of tax cuts is quite small, especially compared to the often substantial costs of the activities they are supposed to encourage. The Children’s Arts Tax Credit is worth at most \$75 in federal tax savings. The parents of a teenager doing competitive dance can easily shell out \$15,000 a year.

Moreover, a tax credit for better-off Canadians who already send their children to hockey or ballet is simply a windfall – and a costly one collectively. It is poor families – excluded from the Children’s Arts Tax Credit and Children’s Fitness Tax Credit – that would benefit most from arts and sports programs because they typically do not have access to such personal enrichment undertakings. These families simply cannot afford what might be considered a ‘frill’ such as sports or dance or art

Figure 10
Inequality index, Children's Fitness
Tax Credit, by income, 2011



and other personal development activities when they struggle daily with the choice of paying the rent or feeding the kids. Better to invest in tax-supported services that provide fitness and arts and culture opportunities for all children together, the poor in particular – not just those whose families already can afford to buy access to these services in the first place.

While Budget 2014 made only a few announcements on boutique tax cuts, Budget 2015 is certain to have more to say on what has become one of this government's favourite policy instruments.

Conclusion

The 2014 Budget introduced several positive measures, which are significant and noteworthy developments for the country. Fortunately, the Unbalanced Budget did not have sufficient funds to proceed with income splitting for families with children. Perhaps most serious, it is unbalanced in its focus on Canadians as consumers rather than Canadians as citizens, far too many of whom face poverty and insecurity.

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