

Submission to The House Of Commons Finance Sub-Committee On Tax Fairness For Canadian Families With Dependent Children

By CCPA BC Office

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Introduction

- 1. The CCPA-BC applauds Parliament for its recognition that issues of tax fairness for families are important questions of fiscal and social policy. However, the ways in which these questions have been framed are destructive of the very goals which should inform such an inquiry: gender equality; concern for Canadian children; fairness; economic justice; and respect for individual liberty and choice in family formation.**

- 1. After-tax income among families has become more unequal during the 1990s. Middle and low-income families have been particularly affected by government policy over the period of this decade. But the problem of increased unfairness is not because families with children and two working parents have received some recognition in the tax system of the costs of working outside the home for pay.**

- 2. Since 1994, the ratio of after-tax income between the richest and poorest families has escalated to the highest point since 1973. The fastest change occurred after 1995, when very drastic changes were made in the federal government budget. In particular the cuts to transfer payments and the scale back of the provision of public goods have hit the poorest families hardest.**

- 3. The issue of fairness in the entire tax system is the most significant issue for the Sub-Committee to examine. Over the last ten years the federal tax system has become decidedly more regressive as the tax burden of corporations and the wealthy has shifted to middle- and lower-income individuals and families. Moreover, the tax system cannot be seen in isolation from the reduction or elimination of programmes which support families. In particular, we point to:**
 - (i) Massive changes in the personal income tax structure in 1988. These changes reduced ten tax brackets to three and substantially lowered the tax rate for those in the top income-earning categories;**

 - (ii) The introduction of the goods and services tax;**

 - (iii) Reductions in corporate taxes;**

 - (iv) De-indexation of personal tax exemptions and tax credits;**

 - (v) Elimination of the family allowance in 1993;**

- (vi) Introduction of \$950 taxation on immigration applications;**
 - (vii) Crippling of the national social housing funding;**
 - (viii) Significant reduction in federal transfer funds to the provinces for social programmes;**
 - (ix) Salary freezes for government employees.**
- 4. With respect to the specific mandate of this Sub-Committee, a false antagonism has been created between dual parent families with a female full-time caregiver and dual parent families where both parents are employed outside of the home in the paid labour force. The claim of "tax discrimination" against the first of these family types--families with a male breadwinner and a female full-time caregiver--is ill-founded and misdirects the debate.**
 - 5. The tax system's relative treatment of these two family types is basically fair, at least as it pertains to heterosexual couples.**
 - 6. The concerns which should directly occupy the Sub-Committee are women's unequal access to paid work, undervaluation of women's caregiving work, and poverty and questions of financial inequality among Canadian families.**

I. Women's Equality: Access to Paid Work

- 1. Women's equality, including women's equal access to the paid labour force, is a fundamental value recognized in Canada's domestic law through such things as the Canadian Charter of Rights and Freedoms and federal and provincial human rights legislation. Canada's international obligations under such human rights instruments as the International Covenant on Economic, Social, and Cultural Rights, the International Covenant on Civil and Political Rights, and the Convention on Elimination of All Forms of Discrimination Against Women also commit Canadian governments to active realization of women's equality.**
 - a. The Need For a Child Care Deduction to Ensure Women's Equal Access to the Paid Labour Force**
- 2. The child care expense deduction is an important measure for removing financial barriers to paid work for women. Recognition of women's unpaid caregiving work should not be premised upon the undermining of women's access to the paid labour market.**
- 3. Child care expenses are, for parents in the paid labour force, one of the costs of earning income. They are an employment expense. Without the deduction, many parents would**

have inadequate funds left over to support their households after paying for child care and other costs of entering the labour market. The Child Care Expense Deduction does not increase discretionary spending in two-earner families.

- 4. While the stay-at-home parent does forgo cash income, she is able to produce goods and services for her family unit which have economic value. Economists refer to this as "imputed income", noting that such goods and services have material value and enhance that family's economic capacity and standard of living. Two-earner families forgo this economic benefit.**
- 5. Thus, there are high marginal costs to having a second parent within a family unit enter paid employment. The two-earner family must purchase many goods and services on the market to replace those generated by the household production of stay-at-home parents. There are also employment-related expenses which would not otherwise be incurred. This remains true despite the presence of the current child care deduction, as the child care deduction does not cover the full cost of typical full time care for a pre-school child, let alone all the additional costs occasioned by working in the paid labour force.**
- 6. Since it is disproportionately women who, within Canadian society, bear primary responsibility for child care work, increasing the marginal costs of entering the paid labour force by reducing the tax recognition for child care expenses would discriminate against women. It would constitute a barrier to those women who choose (or need) to enter the paid labour force.**

b. The Better Solution: Universal, Public Child Care Provision

- 1. Were high quality, universally accessible, publicly provided daycare available, the child care expense deduction would be less essential for many women to ensure equal access to opportunities in the paid labour force. Although, it must be emphasized, for some Canadian women, such as farm women or others living in remote places, the child care expenses deduction will always be a necessary measure to remove financial barriers to entering the paid labour force.**
- 2. The problems with the deduction lie not in relation to the fact that it is not provided to stay-at-home parents but, rather, the problems result from the inability of the deduction to create affordable day care spaces for all children who need them, to assist women who cannot afford but desire receipted child care, and to benefit women whose incomes are too low to register the deduction. Indeed, the deduction needs to be made less restrictive in terms of the numbers of women in the paid labour force who are able meaningfully to access it.**
- 3. A system of public day care would ensure that opportunities for high quality care for all Canadian children exist and that all parents, but particularly women, have a real choice about whether or not, and when, to enter the paid labour force.**

4. **The federal government must show leadership in establishing a national early childhood education and care system.**
5. **However, until such important progress is realized, the CCPA-BC recommends strongly that the child care expense deduction be maintained despite implementation of any other child tax measure. Otherwise, the marginal costs of entering the paid labour force will significantly reduce women's equality of opportunity to enter the paid labour force. Any legislative measure which resulted in such a reduction would be in contravention of Canada's domestic and international human rights obligations.**

c. Other Tax Measures

1. **Implementation of a national daycare programme must be a higher priority than introduction of such things as a "universal" deduction or credit for all children. Individual tax reductions work to lower the revenue base available to fund directly universal programmes which work to the benefit for all children.**
2. **Should the government decide to introduce a new child tax measure, CCPA-BC recommends that it have the following features:**
 - (i) **That any new child tax measure be a refundable tax credit. Non-refundable credits or tax deductions discriminate against those whose incomes are too low to benefit from such tax relief. This group disproportionately includes single-mother families, a distressingly large number of whom live below Statistics Canada Low Income Cut-Off lines. The federal government must also work to ensure that any credit that is introduced is not effectively clawed-back by provincial governments from families on income assistance;**
 - (ii) **That the child care expense deduction be maintained as a separate provision (in the absence of the establishment of a national, universal early childhood care and education programme.) This would offset the marginal costs occurred by parents in the paid labour force. In other words, any new initiative, such as a universal child credit, should not be financed to any degree by a reduction of the child care expense deduction. To do so would be clearly discriminatory, contrary to Canadian equality law, against those women who need to or who have chosen to work in the paid labour force. Moreover, such a measure would also distort labour market supply by reasserting economic barriers to paid work, particularly for women and for second earners in households.**

II Valuing Women's Unpaid Caregiving Work

1. **Measures designed to address the inequities at play in the lack of recognition and valuation of women's caregiving work must:**

- (i) Deliver benefits and support directly to the primary caregiver, in order to enhance the autonomy of the household caregiver;**
 - (ii) Must reinforce equality within the household;**
 - (iii) Must facilitate women's entry into the paid labour force so as to not reinforce the gendered division of labour;**
 - (iv) Be paired with the provision for caregivers of independent access to social and labour benefits such as worker's compensation, disability and retirement benefits, employment insurance and retraining programmes;**
 - (v) Be paired with measures that ensure that part-time workers receive full employment benefits;**
 - (vi) Provide longer, better-remunerated maternity and parental leaves available to all mothers and fathers, regardless of their patterns of labour force attachment.**
- 2. CCPA-BC recommends that the following set of measures be introduced to address the current undervaluation of caregiving work and the economic stresses faced by families with children;**
- (i) A universal family allowance payment, payable to the primary caregiver in a family. This would be a taxable payment received by all families and valued at a percentage of the average wage. It would provide recognition of the important contribution parents make to society and would work to achieve tax fairness between families with and without children, while also respecting the goal of vertical equity essential to the tax system.**
 - (ii) An income tested, refundable tax credit, similar to the current child tax benefit but set at a significantly higher benefit level. Both benefit and income levels need to be fully indexed. The credit must represent significant financial relief to middle and low income families and must be available to all families below the income cut-off line, regardless of whether or not families are in receipt of provincial income assistance. Such a benefit would reduce current levels of child poverty and would protect middle income families from falling into poverty.**

III The Problem of Poverty : Economic Justice for All Family Types and for All Family Members

- 1. CCPA-BC strongly rejects any set of proposals which promotes one model of the family or of parenting as morally superior to other models. Canadian human rights and constitutional law prohibit discriminatory advantaging or disadvantaging of different**

types of family formation, as do Canada's obligations under international human rights law. Thus, for example, proposals which target tax relief solely to two parent families with a stay-at-home parent (almost always a stay-at-home mother) offend equality guarantees under the Charter of Rights and Freedoms and the Canada Human Rights Act. Equally, denial of tax benefits to families because of reliance on income assistance also discriminates under the Charter. Stay-at-home mothers must be supported and recognized for the important child care work they do, but this should be the case for single-mother families as much as for two-parent families. Households where the sole parent or both parents work in the paid labour force must also be supported, with their child care needs recognized and their choices and need to enter the paid labour force facilitated.

a. Inter-Family Equity: The Problems With Proposals to Increase the Spousal Credit

- 1. CCPA-BC rejects the various proposals to increase the amount of the spousal credit.**
- 2. The lower amount of the spousal credit is fully justified by the economies of scale realized through joint living. The basic expenses of a two person household are not double those of a single person household. Simply put, maintaining one household for two people is cheaper than maintaining two separate one person households. Increasing the spousal credit would discriminate against single person households and households where both partners work in the paid labour force.**
- 3. Additionally, increasing the spousal credit leaves unaddressed the problem of undervaluing of women's unpaid care-giving work and does nothing to address the economic autonomy of the dependent spouse. It simply gives a tax reduction to the income earning spouse (typically, in heterosexual couples, the male partner). Continued is the patriarchal stereotype of family relations where women rely exclusively on a male breadwinner to meet their economic needs. This model of family relations contributes to women's economic and social inequality.**
- 4. The spousal credit should be equally available to lesbian and gay male couples.**

b. Inter- and Intra- Family Equity: The Problem with Income Splitting

- 1. To repeat an earlier point, no tax discrimination lies between two-earner families and single-earner families. This is at least in part because of the value of household production realized by the stay-at-home spouse. Such household production works to raise single-earner families' standard of living.**
- 2. CCPA-BC opposes tax changes that would allow single-earner couples to income split or to file jointly in order to reduce their overall tax burdens. This opposition proceeds from three problems which would flow from such a tax change.**

(i) Joint filing or income splitting imposes a very high rate of tax on the full-time homemaker when she decides to enter the paid labour force. Her first dollar would be taxed at the same rate as the main breadwinner's salary. This is unfair and results in disincentives for stay-at-home women to enter the paid labour force.

(ii) Income splitting simply provides tax relief to the main breadwinner (typically the male partner in heterosexual couples). No monies are specifically and directly transferred to the stay-at-home partner (typically the woman), with the result that women's dependence on the male wage and the patriarchal family form are reinforced. The result is that the proposal fails to provide recognition to the stay-at-home parent for her caregiving work. Research shows that it is wrong to assume that tax benefits provided to the sole earner are shared equally within the family unit.

(iii) The proposal to allow income splitting discriminates against two-earner families and single-parent families. Two-earner families would not realize the same beneficial tax consequences realized by single-earner families allowed to income split. This inequity would be compounded by the failure of the tax system to recognize the benefit accrued by the two parent, single-earner family from the household production done by the stay-at-home parent. Additionally, the proposal does nothing to assist single-parent families who do not have another adult with whom to split income. Yet, single-parent families are disproportionately poor and thus most in need of measures to address their problems of poverty and low income.

c. Addressing Child Poverty Across All Family Types: The National Child Benefit

- 1. CCPA-BC strongly urges the federal government to ensure that the Child Tax Benefit is received by all family types in need of income support. Federal/provincial agreements over the delivery of this national programme must ensure that the Benefit is not clawed back from families on income assistance by provincial governments. Failure to ensure this results in federal complicity in discrimination against families who receive income assistance.**
- 2. Such discrimination particularly effects single-mother-led families. National Council of Welfare data show that single-mother families account for more than double the number of other family types (single fathers and couples with children) on provincial income assistance. This disproportionate reliance on social assistance programmes is necessitated by the economic hardship experienced by these families. Single mothers with children under seven had poverty rates as high as 82.8 percent in 1995. Poor single mothers also live in the deepest poverty, with incomes \$8,851 below the poverty line in 1995.**
- 3. The United Nations Committee on Economic, Social and Cultural Right in its Concluding Observations on Canada's Third Periodic Report under the International Covenant on Economic, Social and Cultural Rights noted with concern that the National**

Child Benefit was, in the large majority of provinces, effectively received only by children of working poor parents.

- 4. Failure to ensure that all families effectively receive the Child Tax Benefit results in reinforcement of the undervaluing of the unpaid caregiving work such mothers do. Any set of reforms with the objective of valuing the unpaid caregiving work parents do must address this existing inequity and eliminate this discriminatory practice.**

IV. Conclusion

- 1. CCPA-BC urges the Sub-Committee to place its current inquiry into tax fairness for Canadian families within the larger context of the whole tax system. The larger goals of both horizontal and vertical equity within the tax system and the Canadian state's continued commitment to progressive redistribution of income must shape the particular focus of this Sub-Committee's work.**
- 2. CCPA-BC makes the following recommendations to the Sub-Committee:**
 - (i) The child care expense deduction must be retained and measures must be undertaken to increase the deduction's availability to all parents employed in the paid labour force who have child care costs. This would ensure that this significant employment expense incurred by two-earner or by single-parent, single earner families is taken into account fairly;**
 - (ii) The federal government must undertake to provide universally accessible, publicly funded early childhood education and care programmes. The Sub-Committee is reminded that Canada's failure in this area was a subject of concern for the United Nations Committee on Economic, Social and Cultural Rights which recommended that Canada direct a greater portion of its budget to the provision of affordable day care.**
 - (iii) All family types must be treated equally and fairly, taking into account the different needs and circumstances of each family form. In particular, the choices/needs of women to stay at home as primary caregivers or to enter the paid work force must be equally valued and facilitated. Additionally, same-sex couples must be provided with the same benefits under law as are available to opposite-sex couples.**
 - (iv) Stay-at-home caregivers must have independent access to social and labour benefits, such as worker's compensation, disability and retirement benefits, employment insurance and retraining programmes;**
 - (v) The Canadian state must provide better (longer and higher benefit levels) maternity and parental leaves, available to all parents, regardless of work force attachment patterns. Maternity and parental leaves should have distinct conditions of eligibility under the**

Employment Insurance Act, removing such inappropriate elements as the two-week waiting period and income-based "claw back" of paid benefits.

(vi) The federal government should reinstate some form of a universal family allowance, payable directly to the primary caregiver in every family unit;

(vii) The federal government should institute an income/means tested benefit available to families with children, calculated in terms of a percentage of the average wage and representing more meaningful financial assistance to middle and low income families than the current Child Tax Benefit.;

(viii) The amount of the current spousal credit should not be increased.

(ix) Income-splitting should not be permitted. To do so, would discriminate against both two-earner families and single-parent families and would increase the regressivity of the tax system. It would incorporate unfair, preferential tax treatment of two-parent, single-earner families into the tax system.