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Are Tax Loopholes Sexist?

The Gender Distribution of Federal Tax Expenditures

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Introduction

The Great Recession of 2007–09 sparked a number of important debates about who is benefiting and who is losing out under the rules governing our financial system and the economy more broadly. In particular, extreme levels of income and wealth inequality have rightly angered the public and preoccupied political decision-makers, who continue to face pressure to level the playing field between a super-rich 1% and the vast majority who have not seen a real increase in wages for several decades.

In seeking policy solutions to the social and economic problem of income inequality, the Canadian Centre for Policy Alternatives has noted how Canada's system of tax breaks currently benefits high income earners much more so than those earning lower levels of pay. For instance, the benefits from the preferential tax treatment of capital gains, income-splitting, RRSPs and tax-free savings accounts all overwhelmingly go to upper-income earners, which can increase income inequality.[1]

Further CCPA research has disaggregated income statistics by gender, racialization and indigeneity to uncover where income and wealth inequality is even more extreme between different groups.[2] Policy-makers are finally seeking ways to seriously address the persistent gender pay gap across most economic sectors in Canada. But relatively scant attention has been paid to how the tax and transfer system may be contributing to this problem as well.

If the current tax and transfers system produces inequality, it has also come into increased focus as a potential lever for reducing it.[3] This report assesses the portion of benefits from 45 federal tax expenditures—tax deductions, credits, breaks and loopholes—currently going to men compared to women. It does the same for several important transfer programs and then compares the gender distribution of both tax expenditures and transfers in the aggregate.

In a nutshell, the report attempts to determine whether Canada's tax and transfer system is sexist. The results strongly suggest that it is: only eight of the 45 tax expenditures reviewed pay out greater amounts to women than men, while federal transfer programs are slightly more beneficial to women.

But this information does not get us closer to a policy fix for gender-based income inequality. While this report offers a few recommendations for reforming the tax and transfer system to make it more equitable, our findings point to the need for a much larger government review of Canada's many expensive and ineffective tax expenditures.

Tax expenditures and inequality

Though not the overarching goal of government tax and transfer systems, gender equity is one aspect of horizontal equity, which is itself an important objective of progressive taxation. The equity goals of the tax system are often balanced against revenue requirements and efficiency concerns. The market, left to its own devices, can produce substantial levels of income inequality; taxing higher incomes at progressively higher rates counteracts it. On the transfer side of things, the proceeds of the tax system can be used, at least in part, to top-up lower incomes—through direct transfers—in a way that offsets pre-tax income inequality.

However, there is a third pillar in the tax/transfer system that has been gaining much needed attention in debates about income inequality. Like income taxes and transfers, tax expenditures can be either progressive or regressive depending on whether they contribute to or counteract inequality. Tax expenditures—including tax deductions, credits, breaks and loopholes—are meant to reduce taxation in a variety of circumstances to offset what one would pay under the standard income tax brackets.

These tax measures, which became fashionable among conservative policy-makers in the late 2000s, are sometimes called "boutique" tax credits, but this belies their scope: some of Canada's more regressive tax expenditures cost the federal government billions of dollars a year in lost revenues. This is money that is voluntarily foregone by the federal government, which we can contrast with the "aggressive" tax accounting of high income individuals to hide income from the Canada Revenue Agency (CRA). Whether legal or illegal (e.g., storing income in off-shore tax havens), tax evasion does not count as a tax expenditure.

Given their explicit nature, tax expenditures can be readily identified and consistently examined as a standard feature of provincial and federal tax forms. Finance Canada maintains detailed information on the costs of tax expenditures—whether they apply to personal or corporate income, or the goods and services tax (GST)—based on these tax records.[4] This paper focuses on personal income tax expenditures only, and only those applied by the federal government, recognizing that some federal expenditures have implications for provincial revenues.

A growing body of research on federal tax expenditures has been conducted in recent years. In their 2015 report, Brian Murphy, Mike Veall and Michael Wolfson exposed how tightly the benefits of Canada's tax expenditures were concentrated in the top 1% of income earners.[5] Subsequent CCPA research found that across the entire income spectrum the distribution of tax expenditures is heavily skewed toward the highest earners, much more so than is offset by federal transfers.[6]

Analyzing tax expenditures through an inequality lens can have a potent public impact, as it did with Canada's short-lived family income-splitting policy.[7] In that case, studies showing the highly unequal distribution of benefits for family income-splitting played an important role in the government's decision to cap and subsequently cancel the expenditure.

Tax expenditures are a substantial drain on federal coffers, reducing taxes raised by over $100 billion annually for the federal government alone.[8] The flipside of this picture is that by cancelling some of the more regressive expenditures such as the employee stock option deduction, as both the Liberal Party and NDP proposed in their 2015 election platforms, the government could raise significant new revenues.[9]

The Liberal government has closed several Conservative-era "boutique" personal income tax credits, such as for child fitness and arts classes, but then introduced a new credit for teachers in the 2016 federal budget. The budget that year also initiated a comprehensive review of tax expenditures.

Though an expert panel was struck in the fall of 2016, no public report was ever produced.[10] Given cross-party support for addressing Canada's inequitable tax and transfer system, there should be no excuse for these kinds of delays.

As further impetus for prioritizing a review of tax expenditures, the government should consider how unequally current tax benefits are paid out between men and women. Part of the reason for cancelling income splitting was that it benefited men much more so than women.[11] As our analysis here shows, this is also the case in the vast majority of expensive, regressive tax expenditures.

Gendered inequality in the tax system

The current federal government frequently states that gender inequality and reducing the pay gap between men and women are important priorities. The past two federal budgets contained extensive analysis of the gender implications of government policy and specific actions to remedy the issues identified. Budget 2018 says:

> A true commitment to equality and diversity requires an understanding of how *all policy decisions* affect different people differently. The Government fully embraced this principle in Budget 2018, where every single decision on expenditure and tax measures was informed by [Gender Based Analysis] GBA+.[12] (Emphasis added.)

All policy decisions would seem to include *all* tax expenditures. Budget 2017 briefly examined one such expenditure—the Canada caregiver credit—using a gender lens.[13] But clearly a more fulsome review of the federal government's full scope of tax expenditures is called for under this commitment to GBA+.

This report attempts just such a review of 45 tax expenditures, building on similar studies by Kathleen Lahey, as well as Isabella Bakker and Lisa Philipps.[14] In turn, each tax expenditure is "turned off" and the tax system adjusted appropriately to determine how much of the benefit of each expenditure goes to men versus women. The benefits are calculated using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) version 26.0 with "glass box" modifications.[15]

Not all federal tax expenditures could be included in this analysis, partly due to insufficient data. Of the 183 personal income tax expenditures outlined in Finance Canada's 2018 *Report on Federal Tax Expenditures*, 64 were selected that are worth more than $10 million a year and are neither transfers nor aggregates of other budget lines. Of those 64 expenditures, 45 had sufficient gender data to be considered here.[16]

As with any SPSD/M estimates, no behavioural adjustments are included, meaning that tax planning following the elimination of a particular tax expenditure may alter the amount and proportional benefit calculated below. All values are projected for the 2018 tax year unless otherwise specified.[17]

It is important to point out that none of Canada's federal tax expenditures are available only to members of one gender. None specify that they should only go to women or to mothers, for example. The only exception to this general rule is on the transfers side where the Canada Child Benefit is paid to the mother, or to only one person in a same-sex couple.[18] In all other cases the gender breakdown in the tables below is not the result of any explicit gender stipulation.

However, there are implicit gendered implications in general stipulations on many federal tax expenditures. For example, the benefits of the expenditure must sometimes go to the lower income earner in a couple, which is more likely a woman.[19] Furthermore, almost all tax expenditures are non-refundable, which is to say that one has to have taxable income from which to subtract the benefit. The lower one's taxable income, the less non-refundable credits can be useful.

Finally, as the analysis below reveals, a variety of societal differences between men and women result in tangible differences in benefits from tax expenditures. For example:

1. Women are more likely to be caregivers for children and aged parents.
2. Women are more likely to be single parents.
3. Women are more likely to earn less income.
4. Women are more likely to live longer.
5. Women over 65 have a higher poverty rate as a result of employment histories and other barriers.
6. Women are less likely to hold high-paid positions in the corporate world.

Table 1 ranks the list of 45 federal personal income tax expenditures by the percentage of the benefit from each that goes to men, starting with the lowest benefit; the cost to the government of each tax measure is listed in the adjacent column. Just under half (49%) of Canadians over the age of 18

TABLE 1 Tax expenditure costs (mil) and proportion of benefits going to men (2018)

Measure	Total cost $mil 2018	% Benefit going to men
Eligible Dependent Credit	$960	22%
Child care expense deduction	$1,335	26%
Non-taxation of social assistance benefits	$225	33%
Non-taxation of GIS and Spousal Allowance	$210	40%
Medical Expense Tax Credit	$1,715	41%
Student Loan Interest Credit	$35	41%
Refundable Medical Expense Supplement	$160	42%
Pension Income Credit	$1,275	47%
Age Credit	$3,620	50%
Registered Pension Plan: Deduction of contributions	$16,470	53%
Registered Pension Plan: Taxation of withdrawals	-$12,200	54%
Registered Pension Plan: Total	$4,270	51%
Credit for the Basic Personal Amount	$36,705	52%
Deduction of union and professional dues	$1,070	52%
Caregiver Credit	$155	53%
Tuition Tax Credit	$1,545	54%
Canada Employment Credit	$2,380	55%
Disability Tax Credit	$1,035	55%
Deduction for clergy residence	$100	56%
Tax treatment of employment insurance and Quebec Parental Insurance Plan premiums and benefits	$1,280	57%
Tax treatment of Canada Pension Plan and Quebec Pension Plan contributions and benefits	$4,095	58%
Non-capital loss carry-overs	$95	59%
Volunteer Firefighters Tax Credit	$15	61%
First-Time Home Buyers' Tax Credit	$125	63%
Labour-sponsored Venture Capital Corporations Credit	$160	63%
Quebec Abatement	$5,110	66%
Political Contribution Tax Credit	$35	66%
Moving expense deduction	$115	67%
Deduction of carrying charges incurred to earn income	$1,640	68%
Dividend gross-up and tax credit	$4,870	68%
Charitable Donation Tax Credit	$3,080	69%
Non-taxation of workers' compensation benefits	$675	71%
Deduction of other employment expenses	$1,055	71%
Deduction of allowable business investment losses	$40	72%

Measure	Total cost $mil 2018	% Benefit going to men
Northern Residents Deductions	$235	72%
Capital loss carry-overs	$640	72%
Partial inclusion of capital gains	$6,265	76%
Investment Tax Credits (SRED, child care, Atlantic Canada, logging etc.)	$15	77%
Employee stock option deduction	$755	77%
Foreign tax credit for individuals	$1,490	79%
Spouse or Common-Law Partner Credit	$1,620	83%
Flow-through share deductions	$110	83%
Registered Retirement Savings Plan: Deduction for contributions	$6,843	70%
Registered Retirement Savings Plan: Taxation of withdrawals	-$7,170	57%
Registered Retirement Savings Plan: Total*	$1,635	114%
Pension income–splitting*	$1,435	217%
Tax treatment of alimony and maintenance payments*	$80	304%

Source SPSD/M, *Report on Federal Tax Expenditures* (2018) and author's calculations.
* Each of these tax expenditures have a negative benefit for women, which is to say women pay more taxes as a result of the expenditure, thus more than 100% of the benefit goes to men.

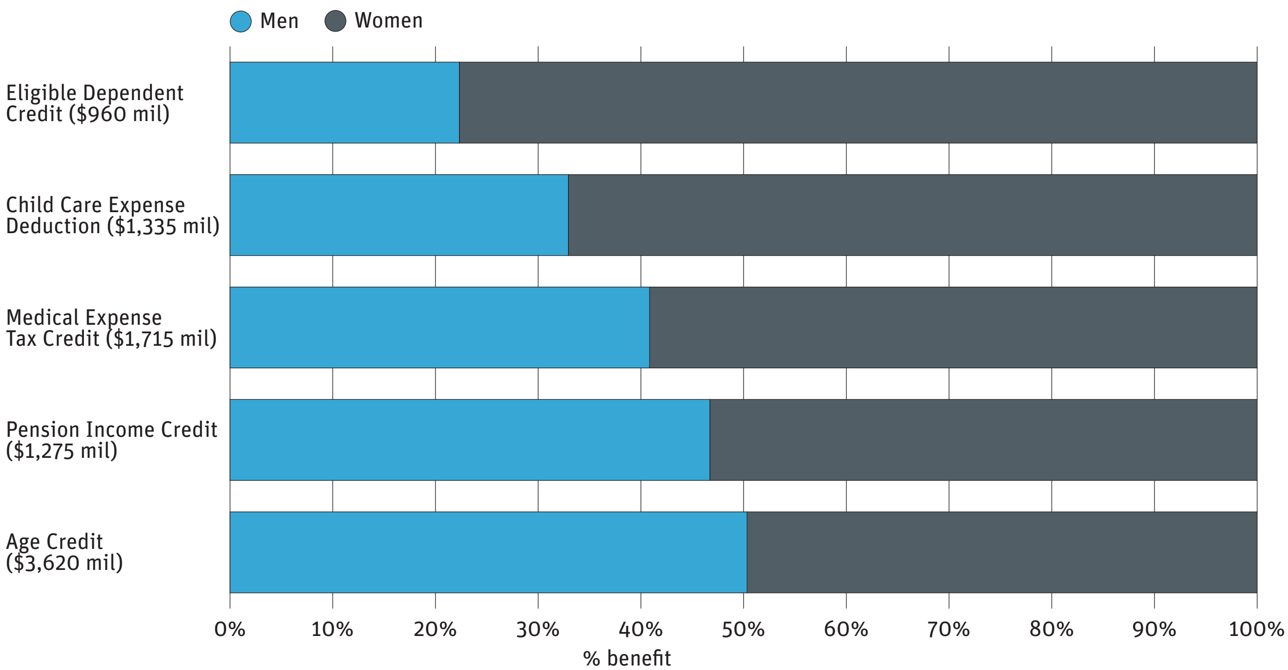
are men. As such, if a tax expenditure delivers 49% of its benefit to men we can say it achieves gender parity. The percentage benefit is based on the aggregate monetary benefit received by each gender.

Of the 45 tax expenditures outlined in *Table 1*, only eight (19%) provide more benefit to women than men. In three unusual cases, over 100% of the benefit goes to men, which implies a tax increase for women. Two of the three—pension income–splitting and the tax treatment of alimony—involve transfers of income from men to women that also increase the recipient's tax liability, although the net taxes paid by the couple is reduced. The RRSP system in 2018 was costing women more in taxes upon withdrawal than they were saving in refunds from RRSP contributions, possibly due to withdrawals from spousal RRSPs to which men largely contributed. (These cases are examined in more detail below.)

Top five tax expenditures for women

Figure 1 shows the top five most lucrative tax expenditures (in the list of 45) that benefit women the most, i.e., where women receive half or more of the benefit. Each of these five tax expenditures costs the federal government

FIGURE 1 Top five large tax expenditures for women (2018)



Source SPSD/M, *Report on Federal Tax Expenditures* (2018) and author's calculations.

more than half a billion dollars a year. The total cost of the five expenditures is nearly $9 billion a year.

The eligible dependent credit tops the list with women receiving 78% of the $960 million spent annually on this tax expenditure. This credit allows a tax filer to claim the spousal credit for a child or other dependent if no spouse is present. The spousal credit itself allows a filer to claim the basic personal exemption for a spouse who doesn't have enough taxable income for it be beneficial (as it is non-refundable). Single-parent families, which are overwhelmingly headed by women, are most likely to claim the eligible dependent credit (79% of the benefits flow to single parents).[20]

The second most beneficial tax expenditure for women is the child care expense deduction. Women receive 74% of the $1.34 billion a year in benefits flowing from this tax measure. That is largely because the credit must be claimed by the lower income earner in a family, which tends to be a woman. Also, the fact that single-parent families are overwhelmingly headed by a woman further increases the odds that this child-related expense will benefit women more.

In third place is the medical expense tax credit that can be applied against the cost of medical devices and long-term care, among other personal expenses. This credit is non-refundable and so only useful to those with sufficient taxable income from which to deduct the medical expenses. Women's longer lifespans drive their higher benefit from this credit. But so does the reality that it is more beneficial for the lower income earner in a couple (more often than not a woman) to claim the credit, though this is not a requirement as with the child care expense deduction.

The pension income credit is the fourth largest tax expenditure benefiting women relatively more than men, though only slightly less than half of the total benefit is paid to men. This credit can be claimed against the first $2,000 of pension income when you start claiming a work pension and reduces personal income taxes by $300. As a non-refundable credit it can be transferred between spouses if not otherwise fully utilized.

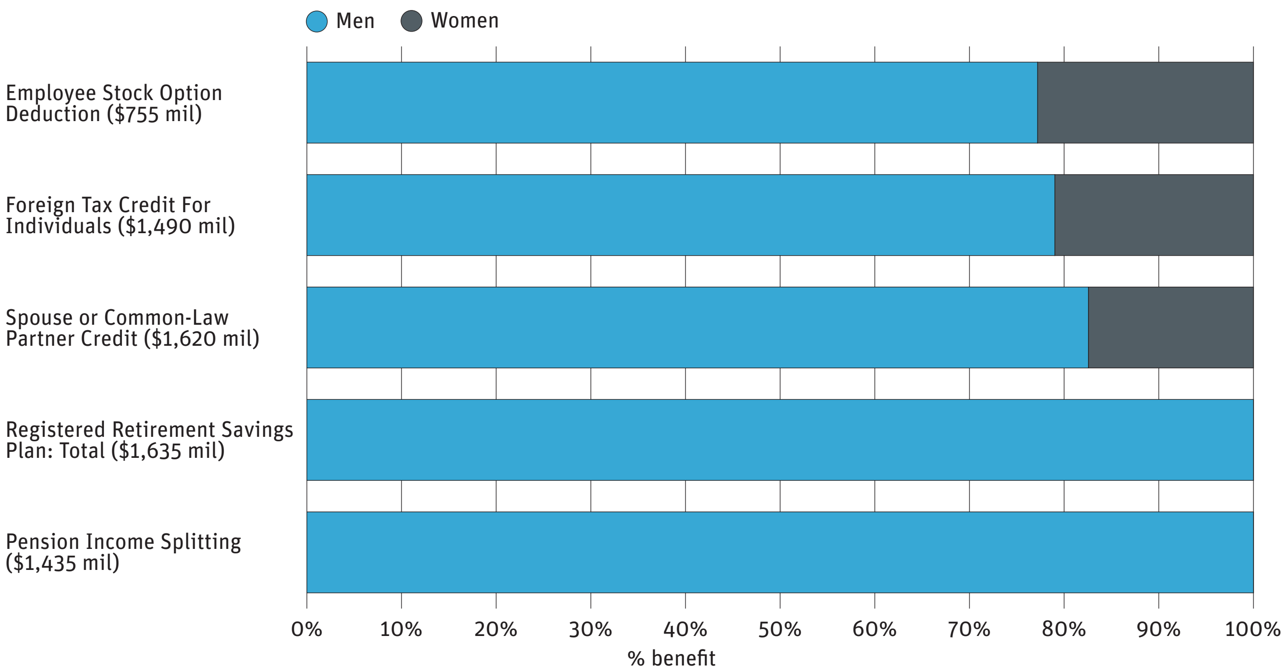
At first glance, it would seem counterintuitive that women would benefit more than men from the pension income credit. Men's total pension income in 2015 was $55.3 billion and women's was $40.6 billion—a result of men being paid more in their working years and taking less time off to care for children and aged parents.[21] However, due to pension income–splitting, women claimed $50.2 billion of pension income for tax purposes in 2015 while men claimed only $45.6 billion, an inversion of the actual gender distribution of pension income.[22] Still, the aggregate effect of pension income–splitting on women was negative, as examined below.

While the age credit ranks fifth on our list of top tax expenditures for women, it is proportionally of more benefit to men. The age credit provides people over the age of 65 a maximum tax refund of $1,100 on their 2018 taxes but phases out completely for those who earned more than $85,863 in income last year. While there are more senior women in Canada than men, they have lower incomes and experience higher poverty rates. Because the age credit is non-refundable (i.e., it goes up with income to the cut-off rate), women take home less of the benefit.

Top five tax expenditures for men

We now turn to the top five most lucrative tax expenditures that benefit men more than women. Like in the previous section, each expenditure costs the government more than $500 million a year in foregone revenues; the total cost of these programs is just shy of $7 billion a year. What is immediately

FIGURE 2 Top five large tax expenditures for men (2018)



Source SPSD/M, *Report on Federal Tax Expenditures* (2018) and author's calculations.

apparent in *Figure 2* is how overwhelmingly men benefit from these tax credits compared to women, in two cases—pension income–splitting and RRSPs—taking 100% of the total benefit.

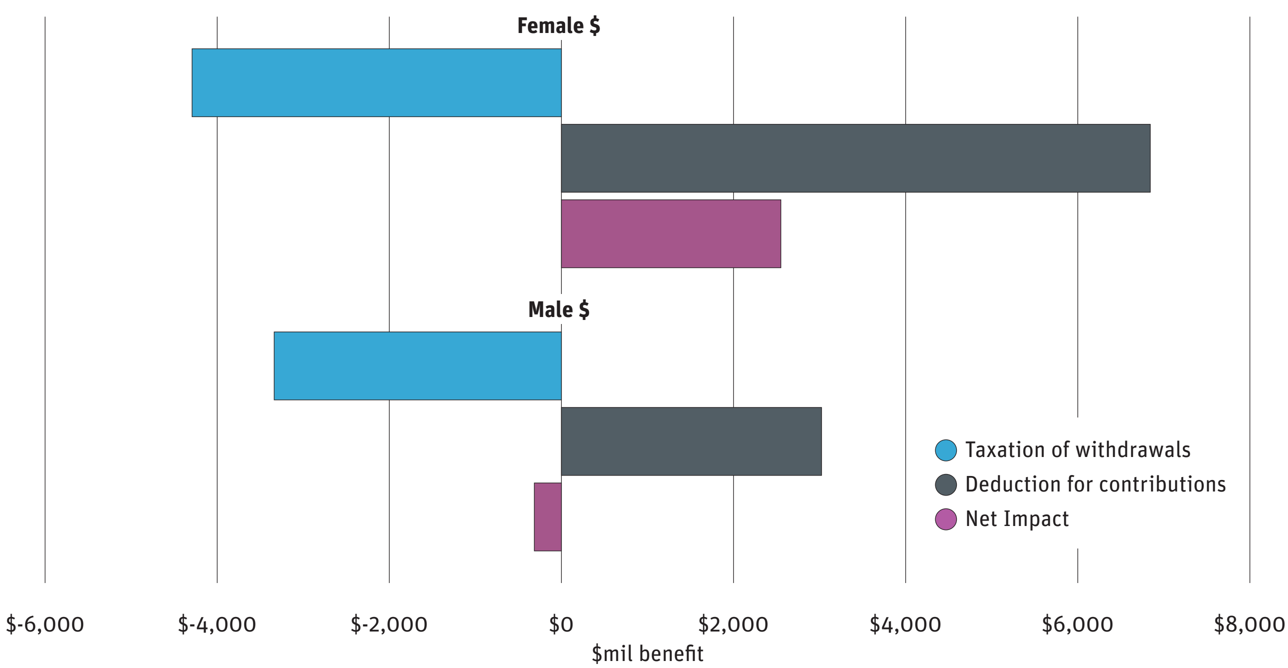
In first place is pension income–splitting (cost: $1.4 billion a year), which creates a notional transfer within the family from the higher earner to the lower earner if they are in different tax brackets, thereby creating net tax savings for the family equal to the difference in the tax bracket rates multiplied by the amount transferred. But for the lower income earner in a family, which is more often than not a woman, taxes naturally go up as some of the higher income earner's income is transferred. Based on this paper's metric, 100% of the benefit from pension income–splitting goes to men.[23]

Surprisingly, the registered retirement savings plan (RRSP) system—the second most beneficial tax expenditure for men—doesn't provide a net benefit for women. This is a result of how RRSPs are structured into three components: first they are a means to lower personal income taxes through contributions; next, investment gains within the RRSP are sheltered from taxation; and finally, retirement savings income is only finally taxed on withdrawal. While we have no way of knowing whether men or women benefit more from the sheltered investment earnings component of RRSPs, we can determine the distribution of benefits at the contribution and withdrawal stages.[24]

Tax-free savings accounts, being individually held, could provide some insight as their non-taxation is a tax expenditure. However, updated gender disaggregated results are not publicly available either in SPSD/M or elsewhere. Results from 2011, when total TFSA room was much smaller, suggest that women made up 55% of contributions, possibly as a result of their higher survival rates in old age. Unfortunately, this doesn't reveal the tax benefit of TFSAs to women as it is not the fair market value of all TFSA assets either in 2011 or in 2018.

Figure 3 disaggregates these two known RRSP components by gender and benefits. It shows that, on a net basis, women pay $315 million more in taxes on RRSP withdrawals than they receive in benefits by saving the taxes on RRSP contributions. Men, on the other hand, receive $2.6 billion more in savings from RRSP contributions than they pay in taxes on RRSP withdrawals. Though both women's and men's net gain would naturally increase were we to determine and add the non-taxation of RRSP investment income, this information would not likely change the distributional ratio of benefits, which are heavily skewed toward men.

FIGURE 3 RRSP gender impact disaggregated (2018)



Source SPSD/M and author's calculations.

Men receive 70% of the benefit of the first component of RRSPs, i.e., contributions as a means of saving and lowering income taxes. The larger benefit is likely the result of men's higher earnings, which play a double role here. First, people earning more money are more likely to have excess income to contribute to an RRSP. Second, those same high income earners, who are still more likely than not to be men, will gain a larger benefit in taxes saved under our progressive tax bracket system.

The taxes paid on RRSP withdrawals (the third component of the program) are more evenly shared, with men absorbing 57% of the cost to women's 43%. This could be because women live longer than men and are therefore paying taxes on retirement income, some of it transferred to them on the death of their spouse, for a longer period. It may also be more beneficial for couples in retirement to have the lower income earner, usually a woman, withdrawing spousal retirement funds so that they are taxed at a lower rate.

In third place is the spouse or common-law partner credit, which provides 83% of its $1.6 billion expenditure a year to men. This credit allows the higher earner to claim some or all of the basic personal exemption of the lower earner if the lower earner can't use it all because they have too little taxable income. As with other tax expenditures, the lower earner in a couple is likely to be a woman, making it more likely that she will transfer her basic personal exemption to her partner.

Next is the foreign tax credit, which provides 79% of its $1.49 billion in annual benefits to men. This credit allows Canadians to deduct income taxes paid in other countries from their Canadian taxes. Paying taxes in another country likely means having worked there. Given the immigration and tax challenges involved, companies predominantly help their higher earners with these obstacles, skewing the credit toward men as a result.

The fifth largest tax expenditure benefiting men the most is the employee stock option deduction: 77% of the benefit (a special case of the partial inclusion of capital gains) goes to men at a cost to the federal government of $755 million a year. Stock options are a common form of compensation, particularly for executives of public companies.[25] Though the granting of stock options itself is not taxed, the profits on exercising a right to buy the stock are—but at half the tax rate of regular employment income.

If women rarely benefit from this tax expenditure it is because they do not earn as much as men. But it is also due to there being substantially fewer women at the top of large Canadian corporations where this type of compensation is most common. Of the 100 highest paid CEOs in Canada in 2018, only three were women.[26] Even when women do reach the so-called

The intersection of gender and income inequality

Three of the tax expenditures of most benefit to the bottom half of Canadian adult income earners are also among the most skewed toward women. This should not be surprising given women's higher levels of poverty and overall lower salaries. But it is a reminder that closing the gender pay gap is only one part of a bigger picture, albeit an important part, for improving the lives of women across Canada.

The non-taxation of the Guaranteed Income Supplement (GIS), non-taxation of social assistance and the refundable medical expense supplement, all near the top of Table 1, pay 60%, 77% and 59% of their benefit respectively to women.[28] If these tax expenditures are not included in the detailed analysis above it is because they do not meet the $500-million threshold for making the top five lists for men and women.

Among seniors, women have a higher poverty rate, which makes them more likely to benefit from the GIS. Women also more frequently receive social assistance payments—in the form of child benefits in single-parent families, for example—and therefore benefit most from that tax credit. As mentioned already, the refundable medical expense (versus the non-refundable version) pays out slightly more to women due to their lower incomes and longer lifespans.

At the other hand end of the spectrum, four of the tax expenditures most skewed toward the richest Canadians are also the ones most skewed toward men. The capital gains inclusion rate missed being in the top five list for males by 1.4 percentage points. That tax expenditure provides 87% of its benefits to the top 1% of Canadians, making it one of the most unequal when seen through an income lens.

The stock option deduction is perhaps the most stunningly skewed, with 100% of its benefits flowing to the top 1% of Canadian earners. The foreign tax credit provides 86% of its benefit to the top 10%. Pension income–splitting, due to its notional transfer of income, provides a positive net benefit particularly to the top 10%, with Canadians below the eighth decile paying higher taxes due to this tax break.[29]

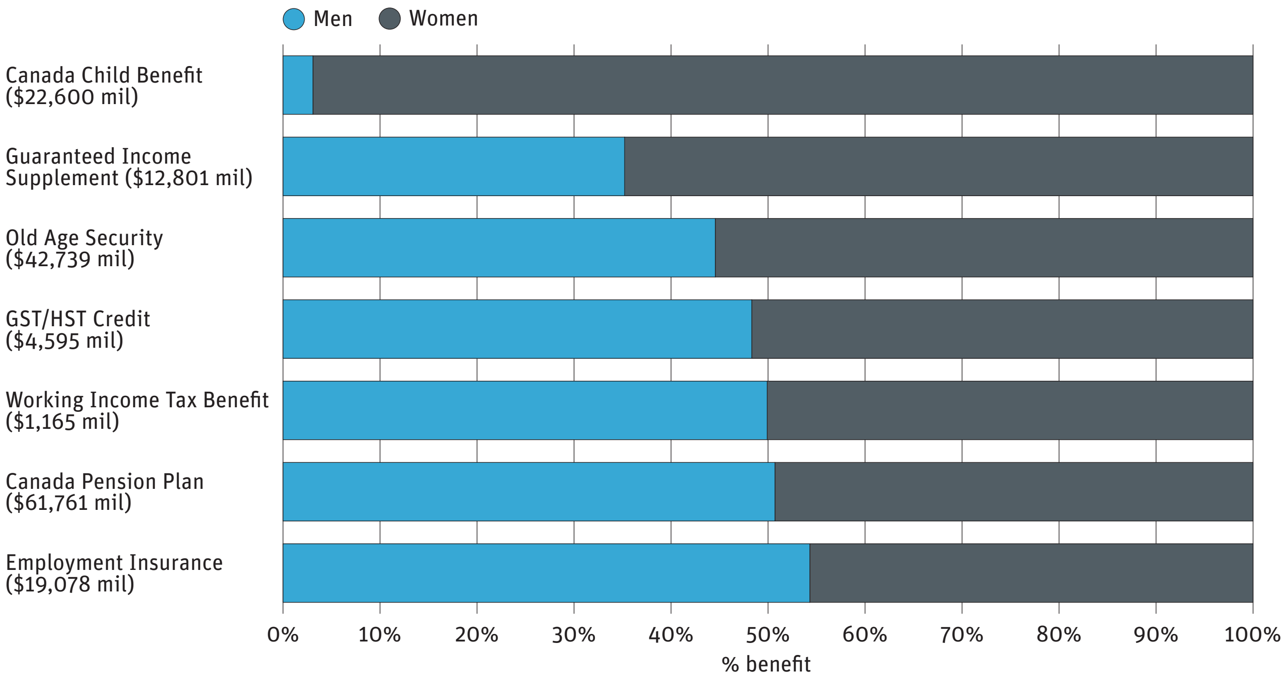
c-suite their variable pay tends to be far lower than that of their male colleagues, a component of which is stock options.[27]

Gender equity in federal transfers

Federal transfers are an important way of reducing income inequality and, as it happens, improving gender equity. Just as we did for the tax credits and rebates, we can determine which federal transfers provide most of their benefit to women.

The Canada Child Benefit (CCB), GST credit and the Working Income Tax Benefit/Canada Workers Benefit (WITB/CWB) are all administered federally

FIGURE 4 Benefits from federal transfer programs by gender (2018)



Source SPSD/M, *Report on Federal Tax Expenditures* (2018) and author's calculations.

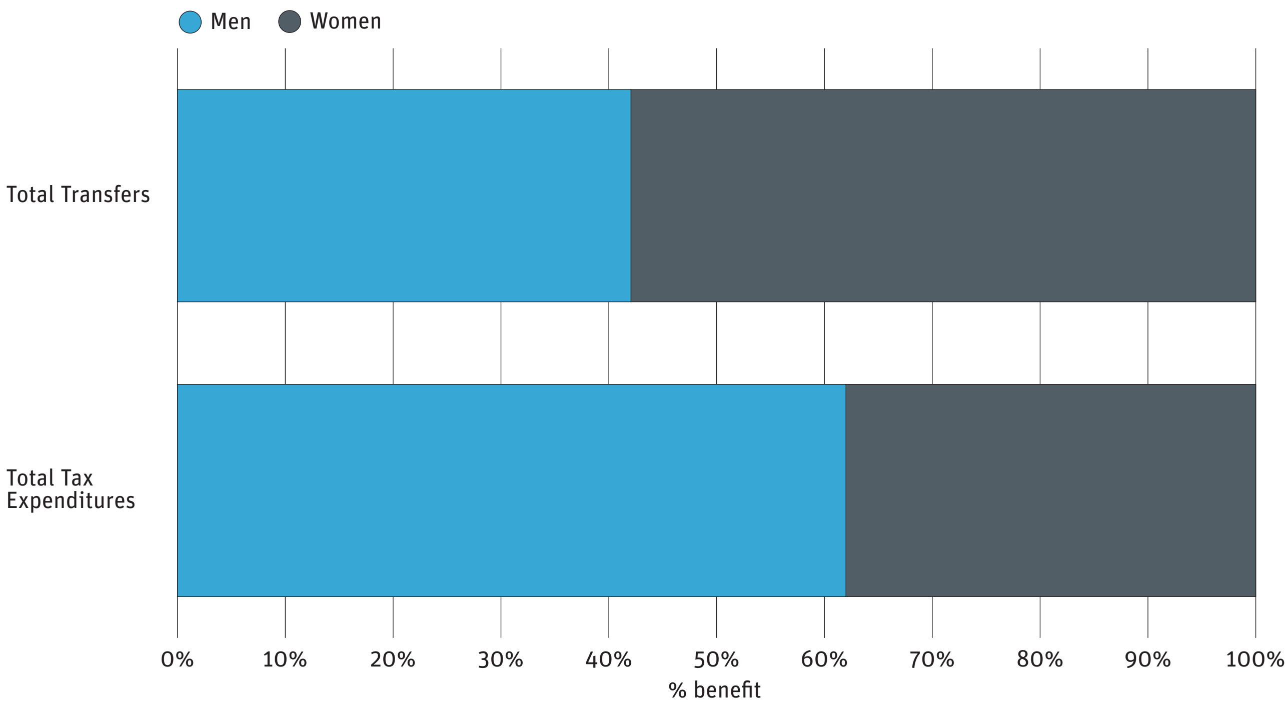
through the tax system. Though these programs are sometimes considered tax expenditures they are grouped here with transfers.

Old age security (OAS) and the Guaranteed Income Supplement (GIS) are not considered part of the tax system per se, but again they result in cash transfers to seniors and are generally targeted to low income individuals and families. Likewise, employment insurance (EI) and the Canada Pension Plan (CPP) are nominally separate from the federal government as contributory programs, but are backed by the federal government and therefore nominally within the transfer system.

Figure 4 shows the proportion of benefits from federal transfer programs going to women and men. As we can see, EI provides slightly more benefits to men than women. This is likely due to men earning more on average, since EI payments are calculated as a proportion of earnings. The high number of hours required to be eligible for EI eliminates workers who have less regular employment, a group that includes more women than men. And although women are much more likely than men to receive EI special benefits, particularly parental benefits, those benefits are of lesser value than regular EI benefits.[30]

The WITB, GST credit and CPP provide roughly the same benefit to men and women. In the case of the Canada Pension Plan, though women

FIGURE 5 Total tax expenditures and transfers by gender (2018)



Source SPSD/M, *Report on Federal Tax Expenditures* (2018) and author's calculations.

make up a larger proportion of the senior population, and should logically receive proportionally more of the benefit, they also earn lower average incomes—and therefore make lower CPP contributions—in their working years, which offsets the impact of their longer life expectancy.

The OAS and GIS programs are targeted at seniors. Since more seniors are women and more senior women live in poverty, both pay out slightly more of their benefits to women. With GIS being more targeted to seniors with low incomes, the program tends to benefit senior women more given their higher poverty rates. The same cannot be said for OAS, which is less targeted to low income seniors, so the distribution is likely more reflective of population and lifespan statistics than income levels.

The Canada Child Benefit is the only tax expenditure or transfer that has an explicit gender stipulation—it is paid to the mother in a couple or to only one person in a same-sex couple—resulting in 97% of the program's $22.6 billion benefit being paid to women.

Figure 5 compares the aggregate benefits of Canada's federal tax expenditures and transfers divided by gender. Doing so reveals who benefits more from both parts of our federal tax and transfer system.

As we can see, in the aggregate, federal transfer programs provide 58% of their benefits to women, who represent 51% of the adult population, weighting transfers slightly in their favour. This result is due to the CCB, which is paid almost exclusively to women, and the fact a greater share of the GIS goes to women given their disproportionately higher poverty levels. EI partially offsets the aggregate female weighting as it skews slightly toward men. The other transfer programs are roughly equal between the genders.

While several of Canada's most expensive tax expenditures skew heavily in men's favour, aggregating the 45 expenditures in *Table 1* reveals that 62% of total benefits go to men. No single tax expenditure is driving the male weighting. The costliest is by far is the basic personal deduction, but this tax expenditure is essentially evenly split between the genders. The next largest expenditure is the partial inclusion of capital gains, which did not have quite enough male bias to make it onto our top five list above. The Quebec abatement and the dividend gross-up and credit are next in line, although both programs represent only approximately 5% of the total value of tax expenditures examined here.

In general, individual tax expenditures benefit men more, thus driving the aggregate impact. However, simply cancelling these tax expenditures will not necessarily increase federal revenues by same amount as their costs or improve gender equity in an easily calculable way. Tax expenditures can interact with each other and trigger behavioural responses that are not represented in Finance Canada's estimates. Cancelling one tax expenditure may change the value of another and may also change the utilization of a third, with potentially unforeseen implications for revenues raised and the distributional impacts by gender.

This does not change the reality that many federal tax expenditures are reinforcing income- and gender-based inequality while depriving the government of revenues that could go toward enhancing transfer programs that do improve the lives of women and low income families.

Conclusion

Women regularly experience a "pink tax" on a wide variety of goods and services. Near identical personal care products, from soap to deodorant for example, cost 43% more on average for women than men.[31] Women frequently pay more for car repairs and even mortgages than men do.[32] The federal government's tax expenditures should be seen as another "pink tax":

simply put, men in Canada are treated much differently and much better by the tax system than women.

Compared to federal program spending, tax expenditures are rarely reviewed for effectiveness or to ensure their economic and social objectives are being met. In fact, Canada's myriad tax breaks, credits and loopholes remain a critically under-examined part of federal operations. Finance Canada takes note of their existence in annual reports, but their cost is not included in federal budgets or fiscal updates.

As this report has shown, it is both feasible and valuable to analyze the impacts of Canada's tax and transfer system through the lens of gender equity—a stated priority of the current government. Federal tax expenditures not only graphically reflect current inequities; they reproduce and reinforce disadvantage. Under different priorities and programs, however, the tax and transfer system could play an important role in enhancing after-tax gender equity.

This report's gender approach to tax expenditures can provide a starting point for gender-based analysis of the federal tax and transfer system. But clearly, analyzing the problem is not going to be enough: concrete actions should be taken to close tax breaks that are not serving their purpose, are unequal, or do not promote gender equity.

Notes

1 David Macdonald. *Out of the Shadows: Shining a light on Canada's unequal distribution of federal tax expenditures*. Ottawa: Canadian Centre for Policy Alternatives, 2016.

2 Sheila Block, Grace-Edward Galabuzi and Alexandra Weiss. *The Colour Coded Labour Market By The Numbers: A National Household Survey Analysis*. Toronto: Wellesley Institute, 2014.

3 Andrew Sharpe and Evan Capeluck. *The Impact of Redistribution on Income Inequality in Canada and the Provinces, 1981–2010*. Ottawa: Canadian Centre for the Study of Living Standards, September 2012.

4 Department of Finance. "Report on Federal Tax Expenditures: Concepts, Estimates, and Evaluations." Ottawa: Government of Canada, 2018 (https://www.fin.gc.ca/purl/taxexp-eng.asp).

5 Brian Murphy, Mike Veall and Michael Wolfson, "Top-End Progressivity and Federal Tax Preferences in Canada: Estimates from Personal Income Tax Data," Canadian Tax Journal, Vol. 63, No. 3. (2015).

6 David Macdonald (2016).

7 Laura Payton, "Jim Flaherty backs away from income-splitting promise," CBC News February 12, 2014.

8 David Macdonald (2016).

9 New Democratic Party, "Building the country of our dreams: Tom Mulcair's plan to bring change to Ottawa," 2015 election platform, p. 11; Liberal Party of Canada, "A new plan for a strong middle class," 2015 election platform, p. 80.

10 Finance Canada, "Review of Federal Tax Expenditure," accessed here: https://www.fin.gc.ca/access/tt-it/rfte-edff-eng.asp.

11 Kathleen A. Lahey, "Uncovering Women in Taxation: The Gender Impact of Detaxation, Tax Expenditures, and Joint Tax/Benefit Units," *Osgoode Hall Law Journal*, Vol. 52, No. 2 (2015): 427–459.

12 Budget 2018, p. 245.

13 Budget 2017, p. 241.

14 See Table 6 of Lahey, Kathleen A. "Uncovering Women in Taxation: The Gender Impact of Detaxation, Tax Expenditures, and Joint Tax/Benefit Units." See also: Isabella Bakker and Lisa Philipps, "Gendering the Analysis of Tax Expenditures: Bridging two Solitudes in Canadian Fiscal Policy," presented to the 2018 New York University Tax Policy Colloquium, March 6, 2018. Accessed here: http://www.law.nyu.edu/sites/default/files/upload_documents/Gendering%20the%20Analysis%20of%20Tax%20Expenditures%20-%20Philipps.pdf.

15 This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the simulation results were prepared by David Macdonald and the responsibility for their use and interpretation is entirely his own. Reconciliation between SPSD/M and the *Report on Federal Tax Expenditures* (2018) were conducted and are available upon request.

16 The exemptions are largely similar to the excluded list in Appendix II of the 2016 report *Out of the Shadows* (see Note 1 above). The most important exclusions are the non-taxation of RRSP and RPP savings as well as the non-taxation of capital gains on principal residences, which were included in the 2016 report but aren't in this version. These exemptions are not entered into income tax forms and as such aren't available through SPSD/M. Estimates may be possible through the Survey of Financial Security, but the aggregation of assets in the survey at the family and not the individual level make a gender disaggregation difficult.

17 SPSD/M 26.0 estimates for 2018 incorporate all tax rules applicable to that year. However, demographic inputs such as income distribution or growth in employment income are projections from the 2014 base year.

18 Males can apply for the CCB if they are the primary caregiver in a household, but they must have a note from the female in the couple stating as much.

19 In 17% of couples women have higher incomes, in 32% of couples both partners make roughly the same, and in 51% of couples men have higher incomes. See Statistics Canada, "Household income in Canada: Key results from the 2016 Census," *The Daily*, September 13, 2017.

20 SPSD/M 26.0, 2018 tax year, and author's calculations.

21 Canadian Income Survey 2015, Public Use Microdata File.

22 Ibid.

23 The tax treatment of alimony has a similar distribution. Alimony increases taxes for women for the same reason as pension income–splitting, although in this case the transfer is actual, not notional. If alimony is not included in Figure 2 it is only because the tax expenditure costs the government less than $500 million a year (i.e., it does not meet our criteria for top five expenditures).

24 Using some speculative assumptions, we can venture a gender breakdown of the non-taxation of RRSP investment income, the total benefit which is known from the *Review of Federal Tax Expenditure*. If we assume that: 1) the gender proportion of contributions to RRSPs in 2018 is equal to the gender proportion of assets in RRSPs in 2018; 2) the returns on RRSP assets are equal between genders; and 3) the types of investment income generated in RRSPs is equal between genders (e.g., capital gains, dividend and interest income is the same between genders as these have different tax implications), then 68% of the benefit from the non-taxation of RRSP returns goes to men. Combining this with the other two parts of the RRSP system, where we do know the gender breakdown, we can estimate that 73% of the total benefit from the RRSP program goes to men. This would kick RRSPs out of our top five list, to be replaced by the partial inclusion rate on capital gains, which provides 76% of its benefit to men.

25 David Macdonald. *Climbing up and kicking down: Executive pay in Canada*. Ottawa: Canadian Centre for Policy Alternatives, 2018.

26 Ibid.

27 Macdonald. *The Double-Pane Glass Ceiling: The Gender Pay Gap at The Top Of Corporate Canada*. Ottawa: Canadian Centre for Policy Alternatives, 2019.

28 Macdonald (2016—Note 1).

29 Ibid.

30 Chart 5.6 on p. 248 of Budget 2018 provides an interesting gender overview of the various EI benefits.

31 Angelina Fomina, "Pink Tax is real: women pay 43% more for personal products in Canada," Parsehub.com, March 30, 2016; Meghan Busse, Ayelet Israeli and Florian Zettelmeyer, "Repairing the damage: the effect of price knowledge and gender on auto repair price quotes," *Journal of Marketing Research*, Vol. 54, No. 1 (2017): 75–95.

32 Ibid. See also: Laurie Goodman, Jun Zhu and Bing Bai. *Women are better than men at paying their mortgages*, Washington, D.C.: Urban Institute, September 2016.

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