How this tax season has impacted poverty

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Usually, many low-income Canadians anticipate an income tax refund at this time of year putting a positive spin to the tax season. It can also be an opportunity to learn about other government benefits one is eligible for. But this year many people with low-income nervous about tax season, and rightly so. But why?

Part of the reason is explained by the phenomenon of social exclusion. It is the phenomenon that describes how people with low incomes are often prevented from getting the supports and services they need to help them to survive and reach their goals. The current pandemic and associated economic recession have increased social exclusion, making it even harder for this vulnerable population. The Canadian Financial Diaries research project is investigating social exclusion and its impact on vulnerable and low-income people and their finances. One thing we discovered in our research was that Canadians with low-income depend on their tax refunds to help balance their budgets and put a bit of money aside for unexpected challenges. Moreover, the current pandemic and recession aggravate social exclusion and it also puts a spotlight on it. Just as we have become more acutely aware, though the pandemic, of how racism divides people, we can see how economic inequality divides. And, of course, these processes can reinforce one another.

For example, one participant we will call Kateryna, is a grandmother who lives in Winnipeg's inner-city. She relies on two part-time jobs for an annual income of just under $14,000, which is well below the $22,000 poverty line. She lives within her means and is very careful budgeting. Every year, she looks forward to getting her tax refund of approximately $1,400, which is 10 per cent of her annual income. This money is a lump sum that she relies on to put away and draw on throughout the year. Without it, she would have difficulty managing unexpected challenges. Having this money available gives her a small piece of mind and some financial resilience.

We noted that social exclusion was most acute for people who work in precarious settings like part-time jobs and those relying on social assistance. The poverty threshold for a single adult in Manitoba is $22,015 which is well above Kateryna's income. This is the case for virtually all remaining diaries participants. What stops people from getting better-paid, full-time, and more stable work? Outside of crises, unemployed and precariously employed people face barriers to gaining well-paid full-time work. People relying on social assistance face this by seeing any employment income gains lead to a decline in their social assistance income. Precariously employed persons struggle to juggle one or more casual jobs and look for full-time employment. This is particularly tough for people who do not have a computer or internet access.

We found Kateryna's experience to be a common one among many of the low-income participants in our study, and any reduction in employment income impacts the tax refund amount, which is often the only opportunity low-income people to save. That small bit of savings helps low-income people balance their budgets and prevents them from having to use payday lenders or pawn shops and the cycle of debt that often occurs with high interest short term loans.

Mainstream financial institutions

Mainstream financial institutions can help, can't they? Sadly, research I have done for several years in Winnipeg's inner city and reinforced by our diaries study find banks are not terribly interested in their business. The result, partial or full financial exclusion, means relying on family and friends for financial support. Worse yet, the lack of government oversight of the fringe 'bankers' –payday lenders, income tax rebates, pawnshops, etc.-- means using them can cause more harm than good. While accessible, these services are expensive (a payday loan is capped in Manitoba at an annualized interest rate of just over 500!), dead-end (e.g., no savings products), and offer no opportunities to widen one's awareness about useful financial products. Consider that the average middle-income person can avoid most banking charges by maintaining a minimum cash balance and have overdraft protection or a line of credit for emergencies – something a low-income earner cannot access. Many low-income earners face higher monthly banking charges which are not affordable and become excluded from mainstream banking services.

Kateryna's experience with banking highlights the situation of under-banked people. Kateryna has just a few bank products including a checking account with an associated debit card. She has a credit card but does not use it as she is afraid to accumulate debt. Without access to the internet at home and no smart phone she relies on accessing her bank via physical trips to the bank or ATM. She is meticulous about tracking her finances, even before starting with the diaries project, and relied on her bank passbook to track her bank account transactions. The bank phased-out the passbook and the only option she was offered Kateryna was to come to the branch a pay for a bank statement. Her bank exclusion was underscored in one incident in which she received a lump sum payout from a former employer. The only option the bank gave her was to keep it in her checking account. No savings account option was offered. Not that it would have earned high interest, but it would have been something more than no interest and, for many people, placing savings in a separate place, like a savings account, acts like a mental barrier to using it. It helps people to save.

Challenges

Another challenge for low-income people, and we saw this in our diaries data, is that people value being in control of their finances, as one participant said, instead of "her finances controlling her." But their income is so low that it is very tough to stay in control. Yes, people do it, but no, it is not easy. What that means is that a person with low-income is more likely, than someone with more income, to find themselves losing control if only for a short period. The closer you are to the poverty line the more likely you will sometimes fall below it. If people value being in control but their income position makes them more vulnerable, then they are more likely to experience 'being controlled,' and experience the negative emotional consequences. Once in the personal finance-driven crisis, with its material and emotional outcomes, a kind of vicious cycle can extend it in time and depth. We have seen many cases in the diaries project of how traumas –economic like this one, or personal or social traumas (e.g., divorce, job loss)—have a lasting effect on people's lives including their finances.

Take the example of Kateryna, again, who used to have a good paying full-time job but now struggled juggling two casual jobs. One of these jobs was particularly exploitative of her. She was not paid a wage but was required to 'ask' when she needed money. But Kateryna had difficulty leaving this job even when the other casual job might have offered more hours. Instead of 'growing' her employment and income she concentrated on managing her small income. Was it trauma that prevented her from moving on? Behavioral economics uses terms like 'status quo' bias that humans prefer the safe but harmful status quo instead of risking something better. They also talk about how people who face scarcity 'tunnel' in on meeting their daily needs and ignore the longer-term issues. Trauma, risk-aversion, scarcity, and tunnelling might help to understand Kateryna's predicament.

And now, on top of the 'regular' poverty pressures, add the double crisis of a global pandemic and an economic recession. Many people and sectors have been deeply harmed by this crisis. People with low incomes are a group that have been deeply affected. The 'she-cession' underscores a unique feature of the pandemic-recession that has disproportionally affected low-income women --many from ethno-cultural communities or Indigenous People-- because of their employment positions disproportionately falling in the low-waged services, that part of the economy most vulnerable to the lock down. I have not been in touch with Kateryna since before the pandemic. I fear that she was lay-off from her part-time job in the municipal office as the lockdown was shut those offices down at least for parts of the last year.

The federal government stepped up with many pandemic rescue programs, most notably, for people with low-income, the Canadian Emergency Response Benefit. But for people with incomes below the $5,000 annual income, due to unemployment, underemployment, disability, were ineligible. We undertook a follow-up survey of participants after the first wave in the summer of 2020 (The Differential Impact of the Pandemic and Recession on Family Finances) and found a stark difference between two groups. Those who had been employed were receiving CERB and, although there were challenges, they were managing okay. Not so with the unemployed and underemployed. They were not getting the relief support, but they were facing ~~many more challenges including living expenses. For instance, for safety rea-~~sons people might take a taxi to the grocery store instead of the bus. Or one might shop locally, paying a higher price, as opposed to taking the bus ride to the grocery store with lower prices.

Final thoughts

A final thought about Kateryna. If she did receive CERB, as some did, without meeting all the criteria, e.g., not earning $5,000 the year before, then there will not be a lump sum tax refund that can help her through the coming year. In fact, some or nervous that they will need to repay their CERB income. Is the repayment because she did not need it? Clearly not, she needed it as much or more than many other people. The problem was that CERB did not target all the people in acute need. And this error reinforces the structures that prevent people with low incomes, if they choose, to improve their employment and income situation.

Social exclusion has caused some of the most vulnerable members of our society to be least protected from the pandemic and resulting economic recession. We need to consider how we, as a society through our government and civil society, respond to people in need. The diaries project is amassing evidence that people with low incomes are every bit as rational and hard working as others, but they face unique sets of challenges, including structures that exclude them from many benefits available to others. By addressing social exclusion, these barriers can be reduced, and opportunities increased, helping our vulnerable and low-income citizens live better lives. Each year the federal government forgoes billions of tax revenue dollars to encourage middle-income Canadians to save for retirement through registered products. Why not establish a similar program to enable Canadians with low-income, like Kateryna, to save, like a matched savings program, used by SEED Winnipeg? The Financial Consumer Agency of Canada is responsible to ensure banking is accessible to all Canadians. Their regulations are limited, and it is likely time for the regulations to be reconsidered and bolstered so that Kateryna and other Canadians with low-income do not end up relying on payday lenders.

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