Consultation Brief
To The House of Commons
Standing Committee on Finance

Income Inequalities in Canada: Fiscal and Gender Dimensions

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Income Inequalities, Gender, and Canada's Fiscal System:

International experts agree that income inequality has been growing faster in Canada than in almost any other advanced economy,[1] and that all components of Canada`s fiscal system – tax rates, tax bases, tax benefits, tax cuts, spending programs, loans, privatization arrangements – are implicated in this process.[2] It has been many years since Canada lost its status as the most well-developed and gender-equal country in the world. Rated #1 on human development and gender indices for years, Canada has fallen hard and fast on both counts – particularly on gender issues.[3]

Rapid detaxation at the federal and provincial levels, cuts to social benefits and public services, and expanded use of both tax expenditures and joint tax-benefit measures biased against women create hidden but very powerful barriers to women`s full participation in the economy. Because this is such a technical area of law and policy, this brief strongly urges this Committee to address the complexities of these issues in depth in their study on income inequalities.

Summary of fiscal gender inequalities due to detaxation, tax expenditures, and joint tax/benefit items by gender, Canada, 2012-13

Type of fiscal change	**Lost revenues (fed)**	**Men`s shares[4]**	**Women`s shares**
Structural detaxation			
GST rate cuts	$ 13.8 bill.[5]	62%	38%
Corporate tax rate cuts	13.3 bill.	63 to 95%	5 to 37%
Personal income cuts	13.0 bill.	60%	40%
Total	**$ 40.1 bill.**		
Tax expenditures[6]			
Personal income tax	$ 128.6 bill.	60%	40%
Corporate income tax	26.0 bill.	70%	30%
GST	17.4 bill.	62%	38%
Total	**$172.0 bill.**		
Joint tax-benefit items[7]			
Personal income tax	$ 1.7 bill.	365%	(265%)
GST	0.7 bill.	(43%)	143%
Total	**$ 2.4 bill.**	246%	(146%)

I Structural Detaxation Reinforces Structural Gender Inequalities

Since the mid-1990s, Canada has pursued austerity and deficit-reduction policies to deal with revenue shortfalls caused by recessions, and has pursued tax cut policies to attract foreign investment. Structural detaxation was instituted in the mid-2000s, and resulted in unprecedented cuts to all three federal tax systems: personal income taxes, corporate income taxes, and the goods and services tax (VAT).

This detaxation program was put into place before the 2008 recession began. Once the recession began, however, tax cuts were quickly repackaged as `crisis stimulus.` Implemented between 2008 and 2012, and now part of the national fiscal structure, these revenue cuts matched quite closely the new operating deficits that arose in the same years. During the first sets of detaxation cuts in 2007/8, operating surpluses inherited from the previous government offset sharp drops in revenues. Since 2008, however, these tax cuts have directly created annual federal deficits:

Detaxation items (2008-12)	***Total*** [8]	***Women's shares*** [9]
GST rate cuts	$ 48.4 bill.	38%
Corporate income rate cuts	30.4 bill.	10% to 37%
Personal income tax cuts	51.6 bill.	40%
Total revenues cut 2008-12	**$130.4 bill.**	
Total deficits 2008-2012	**$115.8 bill.**	

Structural detaxation affects women in four fundamental ways:

- As the figures above and on page 1 demonstrate, each of these structural tax cuts is gender regressive. With 60% of the financial benefit of personal income tax cuts going to men, and with men's shares of corporate and GST cuts ranging from 62% to 95%, it is numerically impossible for these tax cuts to help increase women's shares of after-tax income to more than their existing 40% share. It is more likely that over time, detaxation will place increased downward pressure on women' existing 40% share.

- Without detaxation, it would not have been necessary to make the deep permanent cuts to public employment, services, pensions, EI, etc., announced in Budgets 2011 and 2012. These cuts will not be reversed as the deficit shrinks, as illustrated by the massive new spending allocated to infrastructure projects announced in Budget 2013 .

- Women are disproportionately affected by spending cuts to public services, old age pensions, retirement programs, health services, and unemployment benefits.

- The cost of detaxation to the federal treasury for 2012/13 alone was expected to be $40.1 billion. Women can continue to seek higher and further education and training, and increase their labour force participation rates, but as long as men receive larger shares of this annual $40.1 billion as it grows, structural detaxation will form a permanent but invisible barrier to women`s economic equality.

II Tax Expenditures Covertly Intensify Gender Inequalities

In budgetary terms, tax expenditures are interchangeable with direct spending; both types of measures have similar costs, in the end. However, tax expenditures tend to be more complex than direct spending provisions, because they are hidden inside the fine print of tax laws, and can take the form of tax deductions, tax credits, or special tax rates. All tax systems contain at least some tax expenditures.

In Canada, the use of tax expenditures removes almost as much potential revenue from the total federal tax system as it raises in the form of taxes paid. In 2010, for example, the combined total of all personal, corporate, and GST tax expenditures came to an estimated $172.0 billion, which is only slightly less than the $191.5 billion in federal revenues for that year.[10] It is difficult to track and quantify tax expenditures, and to analyze them in budgetary terms.

In addition, each tax expenditure will have its own unique fiscal footprint. Thus it requires detailed analysis to identify how and under what circumstances tax expenditures affect people along gender lines. For example, men receive 62% of total deductions taken in calculating total income assessed, but the precise gender allocation for each item will change from one individual to another, and from year to year.

Overall, however, the bulk of tax expenditures tend to favour men, and covertly benefit men in ways that are not available to nearly as many women:

Tax expenditure items	***Total cost***	***Men`s shares***	***Women`s shares***
Securities options deductions	$ 2.4 bill.	89.8%	10.2%
Pension income splitting	$10.8 bill.	88.7%	11.2%
Exploration/development expenses	$ 1.5 bill.	81.5%	18.5%
Capital loss carryover deductions	$ 1.7 bill.	65.1%	34.9%
Charitable donations	$ 8.5 bill.	64.7%	35.3%
Dividend tax credits	$ 6.9 bill.	63.0%	37.0%
Investment expense deductions	$ 4.2 bill.	62.1%	37.9%
RRSP deductions	$33.0 bill.	61.5%	38.5%
Tax benefits transferred to spouses	$ 5.2 bill.	59.6%	40.4%
Child care expense deductions	$ 4.1 bill.	24.4%	75.6%

The fact that Canadian tax laws are riddled with hundreds of tax expenditures makes it all the more urgent for this Committee to examine, in detail, the relationship between federal tax laws and rising income inequalities in Canada. This will involve careful gender impact analysis of all features of the federal tax and spending system.

This Committee should also be mindful that provincial and territorial governments tend to model a great deal of their tax legislation along federal lines. Thus the fiscal and gender effects outlined in relation to federal tax expenditures in this section increase by a factor of at least 42% when provincial/territorial tax expenditures are brought into the analysis.

III Joint Tax-Benefit Provisions Undermine Income Equality and Economic Vitality

On paper, the federal *Income Tax Act* makes it sound as each individual human is a taxpayer. However, there has always been strong pressure on the government to adopt the married couple – and now, unmarried common law couples – as tax units. This has not been done by passing laws that redefine the legal tax unit as the couple, or by enacting full joint filing of all taxable incomes, as in the US, but by the slow and steady insertion of growing numbers of `joint`tax and benefit laws into federal legislation. In this area, the provinces and territories follow suit.

As a result, Canada tax law is riddled with well over a hundred different tax provisions that tax spouses/common-law couples as presumed interdependent and integrated tax units. These provisions include, for example, the right to transfer taxable dividends to a supporting spouse to optimize the dependent spouse tax credit, while using the same dividend transfers to disquality a low-income spouse from receiving the Working Income Tax Credit. With the recent enactment of pension income splitting laws, high-income spouses/partners have actually been able to obtain *additional* OAS, GST credit, and other low-income supports by treating their artificially split incomes as their real incomes for social assistance purposes.

Overall, joint tax-benefit systems create three complex fiscal interactions:

(1) They shift significant amounts of taxation to women once income is artificially split between spouses; they then reduce the amounts of government benefits they would receive if they were individuals, and thus reduce their consumable incomes;
(2) They reduce government tax revenues, and provide very large and politically useful savings in spending programs for governments; and
(3) They provide very large and valuable tax benefits to male taxpayers that leave them with increased consumable incomes at the end of the tax year.

Using the tax and budgetary impact of the entire joint tax-benefit system for 2013, this is how these interactions each of the three parties:

Women:	Higher net taxes for year:	($ 3.6 bill.)
	Reduced transfer payments:	($23.4 bill.)
	Reduced consumable income for year:	($27.0 bill.)
Governments:	Net additional taxes paid by women:	$ 3.6 bill.
	Net tax reductions given to men:	($ 8.1 bill.)
	Savings in joint spending programs:	$24.4 bill.
	Government fiscal balance:	$19.9 bill.
Men:	Net tax refunds for year:	$ 8.1 bill.
	Reduced transfer payments:	($ 1.0 bill.)
	Increased consumable income for year:	$ 7.1 bill.[11]

References:

1. Organization for Economic Cooperation and Development (OECD), *Divided We Stand: Why Inequality Keeps Rising* (OECD: Paris, 2011). The OECD found that income inequality grew more quickly in Canada between 1980 and 2008 than all but five other countries. The richest 10% of the population had incomes ten times as high as the poorest 10% ($10,260), and the richest 1% of the population alone received 13.3% of total income.

2. As the OECD reported in *Divided We Stand*, Canada's skyrocketing income inequalities are due to growing wage gaps *and* to less redistribution: 'Taxes and benefits reduce inequality less in Canada than in most OECD countries.' See OECD, 'Country Note: Canada,' *Divided We Stand*, at http://www.oecd.org/canada/49177689.pdf. This reduced level of redistribution has been many years in the making, but it is now a pronounced feature of the Canadian state.

3. United Nations, *Human Development Report* (NY: 1997-present), esp. table 4.

4. Gender shares of structural detaxation items were estimated using Statistics Canada, SPSD/M, ver. 20.

5. Tax cut figures are based on those reported in Minister of Finance, *Canada's Economic Action Plan: Budget 2009*, 255, table A2.2, at http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf. The personal and corporate tax figures have been adjusted to remove estimated tax expenditures reported for those years in Budget 2009, 254, table A2.1. Tax expenditures are analyzed separately in this brief.

6. Tax expenditures and gender shares were calculated based on CRA, *Income Statistics 2012* (prelim. data, for 2010 tax year), at http://www.cra-arc.gc.ca/gncy/stts/gb10/pst/ntrm/pdf/table4-eng.pdf.

7. The gender impact of federal joint tax and benefit items in this table were estimated using Statistics Canada, SPSD/M, ver. 20.

8. Minister of Finance, *Canada's Economic Action Plan: Budget 2009*, 255, table A2.2, at http://www.budget.gc.ca/2009/pdf/budget-planbugetaire-eng.pdf. The personal and corporate tax figures have been adjusted to remove estimated tax expenditures reported for those years in Budget 2009, 254, table A2.1.

9. The gender shares of these cuts were estimated using Statistics Canada, SPSD/M, ver. 20.

10. Canada, Department of Finance, *Tax Expenditures and Evaluations 2011* (Ottawa: Public Works Canada, 2012) [*Tax Expenditures* (2011)], at http://www.fin.gc.ca/taxexp-depfisc/2011/taxexp11-eng.pdf. The arithmetic total of all estimated tax expenditures will not necessarily reflect their actual revenue costs, because changing any one tax expenditure will affect the costs of all others.

11. The three-way allocations of costs and benefits of joint fiscal instruments were estimated using Statistics Canada, SPSD/M, ver. 20.

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