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The Six Billion Dollar Man*

Finance Minister Joe Oliver might want to consider starring in his own TV adventure as "The Six Billion Dollar Man" now that the 2014 federal budget is projecting a $6.4 billion surplus for 2015. Some recent estimates even peg the amount at more than $8 billion.

Ottawa has already signalled its plan for these funds. The bulk of it will go toward tax cuts for hard-working Canadians. Tax cuts for weary middle-class families. Tax cuts for worthy businesses, which create jobs and economic growth.

While we support job creation and financial assistance for Canadian households, we have serious reservations about current and proposed tax measures.

The federal government is determined to lower income taxes for one-earner, two-parent families through a provision known as "income splitting." This measure divides earnings between spouses so that total household income is taxed at a lower rate than if it were assessed as one higher income, the current practice.

Income splitting belongs in a Leave-It-To-Beaver world, not the current reality where the majority of women participate in the paid labour market. The proposed measure would be a big tax win for the minority 15 percent of households – most with high incomes – with a sole male breadwinner and stay-at-home mother. Single adults, single parents, childless couples and lower-income families would get nothing.

Income splitting is out of step not only with trends in family structure. Its projected $2.6 billion cost is a lot of buck for relatively small impact. An enhanced Canada Child Tax Benefit would be a far better use of such money.

The Canada Child Tax Benefit consists of two parts: a base benefit that goes to the large majority of Canadian families with children, and a supplement for low- and modest-income households. Any new funds should enhance the base benefit so that the combined base and supplement would total a maximum $5,600 per child. This reform would provide a sizeable increase in child

* This commentary was published as an op ed "Ottawa should think hard before squandering money on income splitting" in the *Toronto Star* on October 3, 2014.

benefits not only for the poor, but also the majority of modest- and middle-income families – an attractive proposal given the widespread concern of all political parties in the decline of the middle class.

A second flaw of new tax cuts is that they would build on an already unfair foundation. Under the existing system, most tax breaks take the form of non-refundable credits, which reduce the amount of income taxes owed. Higher-income households benefit most from non-refundable credits. Modest- and lower-income households typically derive little or no benefit.

Tax breaks should assist all families and not just the well-off. Selected tax credits should be made refundable, or the equivalent tax expenditures could be delivered as a direct payment outside of the tax system.

Finally, certain functions are best carried out through collective investment rather than tax breaks. Tax cuts to individual households do not build a country with public amenities that can be enjoyed by all citizens, regardless of income.

Take, for example, the Children's Fitness Tax Credit, which reduces income taxes for the cost of participation in certain programs. The annual $115 million federal cost of this tax expenditure alone could be better spent on investing in spaces and facilities that benefit everyone. Families cannot possibly construct and maintain through their individual contributions essential infrastructure such as parks, trails, arenas, rinks and pools.

The Six Billion Dollar Man and his colleagues will be making significant decisions in the coming months about who will get which tax breaks and how much. They should think long and hard before squandering scarce dollars on households that least need additional financial assistance. Election goodies are not always good.

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