



## **Tax credits: great politics, bad policy\***

In recent years, Ottawa has relied increasingly on the personal income tax system to achieve economic and social goals. The result is a tax system that is stretched to the limit. It is strained to the point of taxing, ironically, its own capacity to manage its wide-ranging purposes.

There are two functions the income tax system does well and one that is problematic.

First, it raises money to fund various purposes – health care, transportation and communications – that benefit all Canadians. Its temporary role, when introduced in 1918, was to pay off the war debt.

Second and less well known, the income tax system acts as a vehicle for delivering income benefits in Canada. In this capacity, it is nothing short of elegant. The Canada Child Tax Benefit is a prime example.

The income tax system basically acts as a national railway. Canadians receive the same federal benefit whether they live in

Inverness or Iqaluit, Charlottetown or the Queen Charlotte Islands (Haida Gwaii), Ottawa or the Outaouais.

The income tax system enables portability. Families can move throughout the country without worrying about losing benefits or having to requalify for the program.

There is no intrusive administration. Canadians are eligible if their net incomes fall below a designated level. There is no need for asset-stripping in order to qualify.

The income tax system also plays a third role. It helps Canadians offset costs they incur that are deemed to have a social purpose, like medical expenses, disability supports and caregiving services.

An April 2015 report of the Auditor General examined Canada's heavy reliance on these so-called "tax expenditures," which come with a multi-billion dollar annual price tag. He concluded that many tax expenditures are not being systematically evaluated.

\* This commentary was published as an op ed in the *National Post* on May 23, 2015.

But lack of spending oversight is only one concern. The problem is that tax breaks for social purposes are not the most effective policy response.

Most tax breaks are delivered as non-refundable credits. They provide their cost savings as tax reductions. As a result, non-refundable credits leave out households that are too poor to pay income tax or that pay relatively little tax. Yet these are precisely the households that would benefit most from financial assistance.

A larger question, beyond design, has to do with whether a nation should incentivize the behaviour of selected households or whether it is preferable to make investments that benefit the entire population.

A burgeoning literature points, for example, to the preventive and remediating value of active living for all ages for both physical and mental well-being. Yet Ottawa provides a Children's Fitness Tax Credit only for families that pay for recreational programs.

Given the powerful evidence base, it would be preferable to invest these same funds in recreational programs and amenities for Canadians across-the-board. Private households cannot possibly build and maintain through individual fees the facilities and programs required to ensure an active, healthy population.

Similarly, with rapid population aging, growing numbers of Canadians will need assistance with the activities of daily living. An astoundingly high number of Canadians – three in five over age 20 – live with chronic disease, according to the Public Health Agency of Canada. Four in five are

at risk. When 80 percent of Canadians are directly or potentially affected by some form of chronic disease, we are talking about a population-wide concern.

Ottawa spends an estimated annual \$750 million on the Disability Tax Credit to help eligible individuals offset their costs resulting from severe functional impairments, whether these arise from chronic disease or disability. The same funds could be better spent on the accommodation of environments and investment in supports such as technical aids and equipment, and services such as home care.

The income tax system is an excellent mechanism for raising funds and for delivering income benefits. It is *not* the best way to achieve other important societal objectives.

Tax breaks make great politics. But they are seriously wanting in addressing Canada's aging population, the participation of persons with disabilities and the high incidence of chronic disease. Effective policy should trump expedient politics when it comes to tackling the tough challenges facing the nation.

*Sherri Torjman*

Copyright © 2015 by  
Caledon Institute of Social Policy

1354 Wellington Street West, 3rd Floor  
Ottawa, ON K1Y 3C3  
CANADA

Tel./Fax: (613) 729-3340

E-mail: [caledon@caledoninst.org](mailto:caledon@caledoninst.org)  
Website: [www.caledoninst.org](http://www.caledoninst.org)  
Twitter: @CaledonINST