CALEDON INSTITUTE OF SOCIAL POLICY

caledon commentary

November 2005 ISBN # 1-55382-161-0

A Working Income Tax Benefit That Works*

Most poor people in Canada have jobs, pay taxes and get little assistance from government. Ottawa's 2005 mini-budget proposed welcome new help for Canada's working poor – a Working Income Tax Benefit that would pay a cash supplement to bolster low earners' wages.

People who try to move from welfare to work now encounter the 'welfare wall.' They lose cash and benefits, like drug coverage, while taking on added employment-related expenses such as work clothing and transportation. The proposed Working Income Tax Benefit could offset some or all of these losses and lower the welfare wall.

The benefit could be good both for fighting poverty and removing barriers to employment. However, setting up a program that will work in the real world could encounter some serious problems. After the cheerleading, policymakers, experts and advocates need to do some hard thinking to translate this promising idea into an effective social program.

At first glance, the most attractive way to deliver the Working Income Tax Benefit might seem to be as a refundable tax credit, like the GST credit. Payment would be determined according to the worker's previous year's income, because that is what is reported in the annual tax return.

This would result in a benefit as much as two years out of date: In January 2010, a recipient still would be getting a payment based on earnings in January 2008.

Moreover, among the current jumble of provincial and federal tax credits and deductions,

* This Caledon commentary was published in the online Web-Exclusive version of the *Globe and Mail* (globeandmail.com), November 25, 2005.

you would need a degree in accounting to understand the relationship between your earnings and the amount of Working Income Tax Benefit you got.

The benefit won't be effective in combating poverty if it comes two years too late; it cannot work as an incentive to keep working if it is incomprehensible. It must be delivered on a timely basis, responsive to monthly changes in earnings. The tax system cannot do this.

Another option worth exploring is to use the Employment Insurance system's record of current earnings. However, this approach has downsides too. For example, it excludes self-employed Canadians.

The Working Income Tax Benefit could, instead, be delivered by the provinces, rather than Ottawa. A provincial work supplement could be based on current monthly earnings and fully harmonized with each province's welfare system and minimum wage. As well, it could be part of a broader reform that extends supplementary health care and disability supports to the working poor, to lower the welfare wall even further.

Fortunately, the birthplace of medicare already provides a functioning model of a program that does all this – Saskatchewan's Employment Supplement. It pays families with low employment earnings an income supplement – just as proposed for the federal program – and it is fully integrated with the province's welfare program. The Saskatchewan Employment Supplement is adjusted according to changes in monthly, not annual, earned income. Registration is simple and can be done over the phone. Best of all, families getting the program are automatically enrolled for some drug and other health benefits, so low-wage earners leaving welfare have less to worry about losing this critical safety net.

Not everything about the Saskatchewan program is perfect. Families on the Saskatchewan Employment Supplement do not get as generous health benefits as those on welfare. The program is currently available only to families with children. But if additional financing were available, as promised in the mini-budget, the benefits could easily be improved and the program extended to low-earning single persons and couples without children.

Saskatchewan is not alone: Quebec has invaluable experience and expertise to offer, having operated a working income supplement for 20 years. Both orders of government could learn from provinces that already operate such programs.

To its credit, the mini-budget proposal did recognize the need to coordinate with the provinces and territories. Implementation is targeted at 2008, allowing time for the governments to work on this initiative together.

With the mini-budget's $1 billion on the table, the discussion can be more ambitious. As they did successfully with the National Child Benefit reform, Ottawa and the provinces should look for ways to use this money more creatively to modernize our current income security system and simplify – not further complicate – the relationship between the governments.

There is a danger that, otherwise, the proposed Working Income Tax Benefit otherwise will become just one more add-on to an already too complicated hodgepodge of programs operated by Ottawa and the provinces.

For a start, the Working Income Tax Benefit could be broadened from a federal program to a *national* reform. Ottawa could help finance provincial working income supplements by taking over responsibility for some welfare caseload where the federal government could more appropriately deliver the benefits.

The provinces could agree to reinvest resulting savings in working income supplements that are designed by each province but meet national goals. One intriguing idea is for the federal government to introduce an Old Age Security/Guaranteed Income Supplement-style income-tested program for persons over age 55 with severe disabilities, thereby cutting provincial costs and extending reforms to benefit many more Canadians.

So we congratulate Ottawa for coming forward with a new proposal for low-income working Canadians. Let's use this as an opportunity to start a wider-ranging dialogue among the two orders of government, outside experts and social organizations, towards fundamental reform of Canada's ailing income security system.

Ken Battle and Michael Mendelson

1600 Scott Street, Suite 620
Ottawa, Ontario, Canada K1Y 4N7

Phone: (613) 729-3340 Fax: (613) 729-3896
E-mail: caledon@caledoninst.org
Website: *www.caledoninst.org*