Submission to the Standing Senate Committee on National Finance

by

Sherri Torjman and Ken Battle

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* This paper was submitted to the Standing Senate Committee on National Finance in response to Part 1: Amendments to the Income Tax Act and Related Regulations of Bill C-13 *Keeping Canada's Economy and Jobs Growing Act*.

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There are three main areas that we would like to address with respect to the measures announced in Bill C-13 *Keeping Canada's Economy and Jobs Growing Act*. They relate to the Family Caregiver Tax Credit, the Children's Arts Tax Credit and the Gas Tax Fund. We also raise some general concerns regarding tax expenditures as a means of financing social needs.

Family Caregiver Tax Credit

We were pleased to see reference to caregiver needs in Bill C-13. Caregivers face a variety of financial stresses as a result of their caregiving responsibilities. These stresses relate to three issues – the income security of the care receiver, the vulnerable employment status of the caregiver and the cost of health- and disability-related goods and services.

In terms of the income security of the care receiver, far too many people with severe disabilities and seniors in Canada live in poverty. Their caregivers often spend much of their own money paying for basic food and rent on behalf of the care receiver. There clearly is a need to shore up the disability and retirement income systems.

Caledon has put forward over the years various proposals for both incremental and comprehensive reform of the disability and retirement income systems. Unless Canada introduces significant improvements to these various programs of income support, the *poverty of the care receiver* effectively will continue to raise the spectre of *poverty for the caregiver*.

Second, caregivers' own employment status can be jeopardized by the pressures of their caregiving responsibilities. Many caregivers must reduce their hours or leave work altogether in order to carry out their caring role. Caregivers put at risk both their current income and future pensions.

Caledon has proposed an extension of the compassionate care leave provisions within Employment Insurance. We also have recommended an expanded definition of the caregiving drop-out provisions under the Canada Pension Plan to provide some future income protection for caregivers.

The third financial strain derives from additional expenses linked directly to age or disability. More than one-third of caregivers report extra expenses due to their caregiving responsibilities. These include home care, transportation for medical appointments, drug dispensing fees, technical aids and equipment, and structural modifications to a vehicle or residence. Two-thirds of these caregivers spend more than $100 per month on caregiving.

The federal government provides various tax credits in respect of these costs, in the form of the medical expense tax credit, caregiver credit and infirm dependant credit. Bill C-13 introduces an additional tax credit for family caregivers at an estimated cost of $160 million a year.

We are pleased that the government is recognizing the responsibilities of family caregivers and is acknowledging, through its proposed new measure, the additional costs of caregiving. At the same time, we are concerned about the problematic design of this assistance.

While the new Family Caregiver Tax Credit is being announced as an "amount" of $2,000, recipients receive only a fraction of this total. The actual tax assistance is only 15 percent of the amount announced in the Budget, which means that the new $2,000 credit is actually worth only $300.

Moreover, the Family Caregiver Tax Credit – like other non-refundable credits – is not paid to recipients as a direct cash benefit. Rather, it simply reduces the income taxes they owe to the federal government. And the amount they get depends on how much tax they owe: Middle- and upper-income taxfilers who claim the Family Caregiver Tax Credit will enjoy the maximum payment – a federal tax savings of $300. Modest- and lower-income income individuals will derive little or no benefit from this new measure because they owe little or no tax.

At Caledon, we have argued that turning non-refundable credits into refundable credits would help ensure that all eligible households receive some money in respect of their caregiving costs. This proposal is both possible and practicable.

Québec provides a refundable tax credit for caregivers. It is intended to help with expenses incurred in obtaining specialized respite services for the care and supervision of a person with a significant disability.

Québec's tax credit for caregivers is worth an annual maximum $1,560 and is equal to 30 percent of total expenses paid in the year, up to $5,200. The tax credit that may be claimed is reduced by 3 percent of family income in excess of $50,000.

There is a list of eligibility criteria. The care receiver, for example, must have a severe and prolonged impairment in physical or mental functions or must be receiving palliative care. The individual cannot be left without supervision because of the disability. The services must be provided by a person who meets several criteria, including a recognized diploma in health or nursing.

Manitoba recently introduced a refundable Primary Caregiver Tax Credit. Its latest Budget included a 25 percent increase to the maximum annual Primary Caregiver Tax Credit, from $1,020 to $1,275 per care recipient.

Alternatively, a small direct payment administered outside the income tax system could be made to help offset additional caregiving expenses. The UK and Australia, along with other countries, actually do this. They pay a cash benefit to the family caregiver of persons requiring chronic at-home care with supplements for households that incur especially high costs.

Nova Scotia has in place a Caregiver Benefit (formerly the Caregiver Allowance) that recognizes the vital role of informal caregivers. The program is targeted at low-income care recipients with a high level of impairment as determined by a home care assessment. They must have a net annual income of $18,785 or less if single, or $35,570 or less net income if living in a family. Caregivers must be in a regular, ongoing caregiving relationship with the person receiving care, providing 20 or more hours of assistance per week. If the caregiver and care receiver both qualify for the program, the caregiver is eligible to receive a benefit of $400 per month.

The federal government has a similar measure for caregivers of children under age 18 with severe disabilities. The Child Disability Benefit is a tax-free payment of up to $2,504 per year ($209 per month) for low- and modest-families that care for a child under age 18 with a severe and prolonged impairment in physical or mental functions. It is delivered as a monthly supplement to the Canada Child Tax Benefit.

In short, there is a need for clear direction with respect to financial compensation for caregivers. But this is one component of a bigger agenda.

A set of coordinated actions regarding financial security, workplace policy and cost of care at home is required to fully meet the needs of caregivers. The federal government should spearhead a national initiative that would involve coherent actions among governments, the private sector and voluntary organizations.

The UK is likely the best example in the world of this type of 'joined-up' strategy that seeks to create alignment among sectors. The government, private and voluntary (also called the 'third') sectors are all actively involved in the comprehensive strategy for carers.

In 1999, the UK Department of Health introduced the National Strategy for Carers which represents a wide-ranging caring for carers approach. It set out three core components: information for carers, support for carers and care for carers. The strategy includes measures related to income security, respite and other supportive services, and employment arrangements.

Canada's response has been to look only at a very small component of the broader set of interrelated pressures facing caregivers. The federal government not only should redesign the current and newly-announced tax assistance. It also should focus on various measures required to sustain our vast – but vastly under-recognized – caregiving workforce.

Children's Arts Tax Credit

We already touched on the lack of transparency in the way in which tax credits are announced. We feel compelled to raise the issue again with this new measure.

The Children's Arts Tax Credit was described in the 2011 Budget as "a 15 per-cent non-refundable credit on an amount of $500." But like the Family Caregiver Tax Credit, the actual maximum value of the new measure is far less than its announced amount – in this case, just $75 in federal tax savings.

A $75 tax reduction is a lot less than a $500 amount. Seventy-five dollars does not go very far when expenses for arts and culture programs can run in the hundreds and even thousands of dollars.

The problem can get worse when a parent fills out the income tax form to claim the Children's Arts Tax Credit. It will be one of a list of two dozen-odd other amounts that must be summarized and then multiplied by 15 percent, producing a total amount far larger than its

Targeted Tax Credits 2011			
	'amount'	actual value	annual cost
Children's Arts Tax Credit	$500	$75	$100 million
Children's Fitness Tax Credit	$500	$75	$115 million
Family Caregiver Tax Credit*	$2,000	$300	$160 million
Volunteer Firefighters Tax Credit	$3,000	$450	$15 million
Home Buyers' Tax Credit	$5,000	$750	$145 million
* begins 2012			

constituent credits. Figuring out the true value of the Children's Arts Tax Credit from the tax form will be difficult for many applicants.

The same visibility problem holds for other current and proposed non-refundable tax credits. The Family Caregiver Tax Credit (as noted) and Volunteer Firefighters Tax Credit were introduced in 2011 as 'amounts' of $2,000 and $3,000, translating into actual benefits in the form of tax savings of $300 and $450, respectively.

The table provides the estimated annual cost of several non-refundable tax credits that the federal government has brought in or proposed in recent years. These five credits alone total $535 million – over half a billion dollars. ***This is a staggering sum of public money, given the limited social value of these measures***.

A more serious shortcoming of these tax benefits, as noted, stems from their non-refundable design. Taxfilers who pay no income tax do not qualify for these credits because they have

no tax to reduce. If they pay a small amount of income tax, they would receive tax savings that are much less than the maximum.

Most people eligible for the maximum tax savings from non-refundable tax credits likely do not need them. They would undertake the activity that the government wants to encourage whether they received a modest tax cut or not. Or at least they need a tax break less than other individuals who pay minimal or no tax because their incomes are so low in the first place. Ironically, these are the people who most need the assistance.

The Children's Arts Tax Credit is an excellent case in point. The intent of this measure is good. It recognizes the value of arts and culture in contributing to the well-being of children, their self-esteem and positive development, and the expression of their identity.

Yet it is low-income children – excluded from the Children's Arts Tax Credit – who would benefit most from arts programs because they typically do not have access to various personal enrichment activities. Their families simply cannot afford what might be considered a 'frill' when they struggle daily with the choice of paying the rent or feeding the kids.

Unless the Children's Arts Tax Credit is made refundable, it is of little or no value to children who most require financial assistance to take advantage of the benefits of various arts-related programs. If the federal government is serious about tackling the significant social need that it has identified, then it should use an instrument that is more appropriate to the Canadians who truly could benefit from this type of initiative.

Our preference is to use scarce public resources to provide opportunities for all children, the poor in particular – not simply for those whose families already can afford to buy access to these programs in the first place.

This problem applies to a range of existing non-refundable tax credits as well. A prime example is the Children's Fitness Tax Credit that took effect in 2007.

This tax credit goes to selected families. It in no way substitutes for investment in both the capital and operating components of a widely available program or service. In the case of recreation, in particular, families cannot possibly build and maintain through their individual contributions essential infrastructure such as parks, trails, fields, arenas, rinks and pools, and the training and payment of qualified staff.

The Disability Tax Credit is another illustration of the problem. It provides tax relief to individuals with severe impairments in function that restrict them in activities of daily living. It is also available to those who require extensive therapy to sustain a vital function.

The Disability Tax Credit is based on the assumption that these individuals likely incur a range of disability-related costs that they are not able to claim under the medical expense tax

credit, such as expenses associated with transportation and housing. These are considered to be the non-itemizable or hidden costs of disability.

The Disability Tax Credit provides partial income tax relief for assumed non-itemizable costs of $7,341 (the amount for 2011), which translates to a reduction of federal income tax otherwise owing or payable of a maximum of $1,101 (15 percent of $7,341).

The purpose of the Disability Tax Credit is to promote greater tax fairness by allowing some relief for disability costs. These are unavoidable additional expenses not faced by other taxpayers.

But the current design of disability tax assistance is not fair in the broader sense of the word. It is of little or no value to persons with disabilities who are too poor to pay income tax. Individuals must first have a taxable income in order to derive any benefit from the existing measure.

Persons with disabilities experience difficulty participating in the paid labour market. They face a range of barriers that make it impossible to find or maintain paid employment.

Even those who are fortunate enough to work often earn low wages. They derive little or no benefit from various tax provisions even though they may be employed. Still others will never be able to sustain themselves fully, or at all, through paid work.

Aboriginal Canadians living on reserve are another major group that typically does not benefit from disability-related tax measures, as most do not owe income tax and many do not even file a tax return.

Aboriginal Canadians who live in the northern regions of the country face unique problems. The basic costs of living 'north of 60' are much higher than other parts of Canada. In addition, Aboriginal Canadians with disabilities face considerable barriers to participation. Most buildings – including homes, schools, band offices, churches, arenas and meeting halls – are inaccessible. There is a lack of recreational facilities, accessible transportation and services, such as attendant care, homemaker services and respite for caregivers.

Canadians who are fortunate enough to have access to disability supports through various provincial and territorial programs typically pay only a small amount, or nothing, for those goods and services. In effect, their costs of disability are partially or fully offset by virtue of the fact that the required supports are provided through such programs.

Our discussion of problems related to the Disability Tax Credit illustrates a bigger public issue: whether to provide tax breaks on private spending or to invest in the supply of a broad range of goods and services available to all.

In our view, limited public funds are better spent bolstering the supply of disability supports rather than enhancing tax measures with limited reach – and primarily for the rich. The estimated $50 billion currently spent on a long list of non-refundable tax credits could be directed more strategically toward selected public priority investments.

Gas Tax Fund

Bill C-13 proposes to make permanent the $2 billion Gas Tax Fund for municipalities. We support this announcement as a positive development. It will help respond to the need for stable, predictable and long-term funding for municipal infrastructure.

We agree, however, with the Association of Municipalities of Ontario's recommendation concerning the importance of indexing the $2 billion fund. We have seen income security benefits and tax credits erode in value over time when they are not pegged to increases in the cost of living.

Despite the advance that the new measure represents, we are concerned that the difference between available funding and infrastructure requirements looks more like a chasm than simply a gap. In 2007, the Federation of Canadian Municipalities pegged the total infrastructure deficit at $123 billion. The cost of new infrastructure was an estimated $115 billion at that time.

Much of Canada's existing infrastructure was built in the 1950s and 1960s and is now deteriorating, requiring upgrades, replacement or accessibility improvements. A growing population in many urban centres is adding to the pressure on the existing system. Green infrastructure investments are also essential to make buildings more fuel efficient and to put in place new grids and hardware for emerging sources of energy.

The vast majority of publicly-owned recreation facilities, in particular, were constructed between 1965 and 1980. Facilities of this age not only require capital renovation or replacement, but they are also more expensive to operate. In 2005-06, the national recreation infrastructure deficit alone – for the country's arenas, pools and community centres – was an estimated $15 billion, the projected cost to repair or replace existing inventory.

A positive development on this front took place in 2009 when Ottawa introduced, as part of its two-year *Economic Action Plan*, a federal Recreation Infrastructure Program worth $1 billion. It is set to expire this year.

Another notable development was the broader federal infrastructure plan, Building Canada, worth $33-billion from 2007-14. Building Canada consists of a suite of programs to meet infrastructure needs across the country, including a Gas Tax Fund and full rebate of the Goods and Services Tax paid by municipalities.

While the $2 billion permanent Gas Tax Fund represents an excellent advance, it is only a small step in tackling one of the most serious problems that Canada faces*: *ongoing, adequate and secure financing to meet the wide range of municipal challenges. The gap can be narrowed partly through federal (and provincial/territorial) transfers to municipalities.

Another longer-term solution is to increase the scope of revenue-generating sources to which municipalities have access. Because of the implications for both the federal and provincial/territorial governments, Ottawa must take the lead in that conversation.

Conclusion

Bill C-13 introduces an important measure to help tackle the glaring deficiencies in current municipal financing arrangements in Canada. But the permanent Gas Tax Fund is a small step at best. It recognizes the presence of a profound structural fault line that is only expected to deepen with time. A fundamental reconfiguration of revenue collection and sharing among all orders of government is required.

On the personal income tax front, we recommend a halt to the showering of targeted tax breaks on non-poor Canadians – including those in the upper-income elite. In a time of limited resources and growing inequality, it is patently unfair to favour taxpayers who least need public assistance. Perhaps more importantly, targeted tax breaks are a blunt and ineffective way to meet the serious social challenges of our day.