



BACKGROUND

Working Income Tax Benefit

Prepared by
Bonnie Mah, Policy and Communications Officer

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Working Income Tax Benefit

Canada's social safety net includes a variety of programs intended to support people experiencing long-term or temporary poverty. One such program is the Working Income Tax Benefit (WITB) for individuals who are employed but have low incomes, and their families.

The federal government has indicated that it will expand WITB by approximately \$250 million per year beginning in 2019 to “provide additional benefits that roughly offset incremental Canada Pension Plan (CPP) contributions for eligible low-income workers.”¹ The changes to CPP will be phased in, starting in 2019. These changes mean that workers will be paying higher CPP contributions from their paycheques. Low-income workers especially could feel the impact on their take-home pay.

The WITB expansion could be an opportunity to take a step back and consider the program as a whole – how it is designed, whether it is meeting its goals, and how an expansion can improve the program as a whole as well as offset the cost of higher CPP contributions. However, based on the most recent federal announcements,² it seems that the expansion will be limited to slightly increasing benefit amounts with no significant changes in the program design.

This backgrounder provides an introduction to the program, explores how it impacts low-income workers, and how it could be improved.

1 Department of Finance Canada. “Backgrounder: Canada Pension Plan (CPP) enhancement,” September 19, 2016, http://www.fin.gc.ca/n16/data/16-113_3-eng.asp

2 Announcement and associated links at Department of Finance, Canada. “Stronger Canada Pension Plan now a reality,” March 3, 2017, https://www.canada.ca/en/department-finance/news/2017/03/stronger_canada_pensionplannowareality.html

What is the Working Income Tax Benefit?

The Working Income Tax Benefit (WITB – sounds like “Whitby”) is a payment aimed at supplementing the incomes of people who are working and still in poverty.

It is a refundable federal income tax credit, which means that the federal government pays the benefit to people even if they don’t owe any income taxes. However, recipients must file a tax return and complete a specific tax form to qualify for the benefit.

Approximately 1.5 million individuals received WITB in 2013, at a total cost to government of about \$1.2 billion.³

WITB in 2016: By the numbers	
Maximum WITB for a single person	\$1,028
Maximum WITB for a family	\$1,868
Maximum total income (employment income + WITB) for a single person	\$18,529
Maximum total income (employment income + WITB) for a family	\$28,576
Number of WITB recipients	1.5 million (2013)
Total cost to government	\$1.2 billion

³ Department of Finance Canada. “Report on federal tax expenditures – Concepts, estimates and evaluations 2016,” 2016, http://fin.gc.ca/taxexp-depfisc/2016/taxexp1608-eng.asp#_Toc442180658

What do benefits cost? (2017)

WITB	\$1.2 billion
GST/HST Credit	\$4.5 billion
Canada Child Benefit	\$22.9 billion
Old Age Security and Guaranteed Income Supplement	\$51.1 billion
Federal budget expenses	\$330 billion

Why do we have a WITB?

While many associate poverty with unemployment, the reality is that 70 per cent of Canadians living in poverty are “working poor” – people who are working but not earning enough to afford necessities.⁴

For many people, our current labour market simply doesn’t offer work that is secure and pays adequately.⁵ The past two decades have seen a marked increase in the number of workers earning minimum wage. In 1997, one in 40 workers in Ontario was making minimum wage; in 2015, it was one in eight.⁶ Working full-time hours at minimum wage leaves a person in poverty, whether measured by the low income cut-off (LICO) or the low income measure (LIM).⁷ For example, in Alberta, which has the highest minimum wage rate of all the provinces, a single person working full time at minimum wage would earn about \$19,000, after taxes and deductions for CPP and Employment Insurance. That’s about \$5,000 less than LICO and about \$3,400 less than LIM.⁸

4 Lefrancois, Amanda. “Canada’s working poor and precarious employment,” November 3, 2015, <http://pathwaytopotential.ca/2015/11/canadas-working-poor-and-precarious-employment/>

5 Battle, Ken, and Sherri Torjman. “Enhancing the Working Income Tax Benefit,” December 2012, <http://www.caledoninst.org/Publications/Detail/?ID=1001>

6 Lefrancois, 2015.

7 The Low Income Cut-of (LICO) is an income threshold set indicating the income level where a family would spend 20 per cent more of their income on food, shelter and clothing than the average Canadian family. The Low Income Measure (LIM) is based on the median income of the population. The LIM is set at 50 per cent of the median income.

8 Alberta’s minimum wage as of January 2017 is \$12.20/hour. Calculated using 35 hours per week for 52 weeks, after taxes and CPP and EI deductions. Using 2016 LICO figures and estimated figures for the LIM in 2016.

Further, the growth of part-time, “on-call” and precarious work means that many workers are, involuntarily, working less than full-time hours, at least some of the time.

WITB can be seen as a response to this kind of working poverty, by providing a boost to people who work and still have very low incomes.

It is also intended to compensate for a particular flaw in the way that our social safety net is designed, which makes it harder for people to move from unemployment to employment – for example, transitioning from social assistance to paid employment.

In theory, our social safety net supports people with the lowest incomes and greatest needs, and “catches” people before they fall into poverty. But these programs can interact with each other in ways that have unintended consequences for recipients, creating what is sometimes referred to as the “welfare wall.”⁹ As a person starts working and earning more income, they might no longer qualify for some benefits, or might get less of those benefits. For example, social assistance payments might be reduced or “clawed back,” they might lose drug benefits, child care subsidies, or other benefits as their employment income increases. At the same time, they must start paying taxes and payroll deductions on their wages. This means that when transitioning from unemployment to employment, workers might go through a period when they are actually worse off. Even though their employment earnings are increasing, they can end up with a lower income and fewer benefits overall than when they were unemployed or working less. This loss of benefits plus the increase in taxes is also referred to as the “marginal effective tax rate.”¹⁰

WITB is an attempt to reduce high marginal effective tax rates by supplementing the earnings of low-income workers.

9 Torjman, Sherri and Ken Battle. “Breaking down the welfare wall,” July 1993, <http://www.caledoninst.org/Publications/PDF/488ENG.pdf>

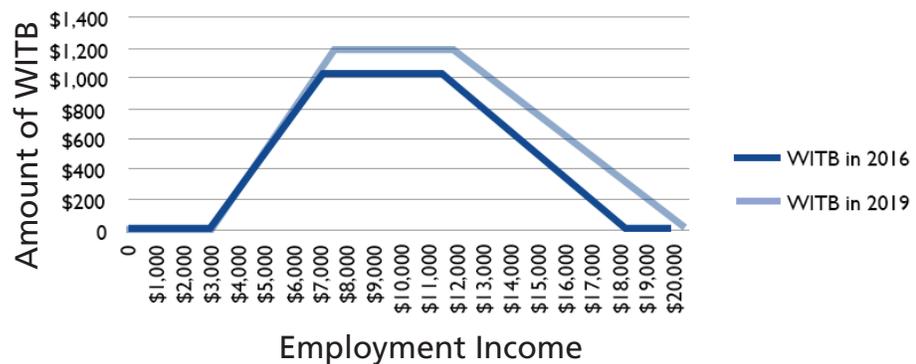
10 For a more detailed discussion of marginal effective tax rates and low-income families, see Laurin, Alexandre and Finn Poschmann. “Treading water: The impact of high METRs on working families in Canada,” July 17, 2013, https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/e-brief_160_0.pdf

Who can get WITB? And how much do you get?

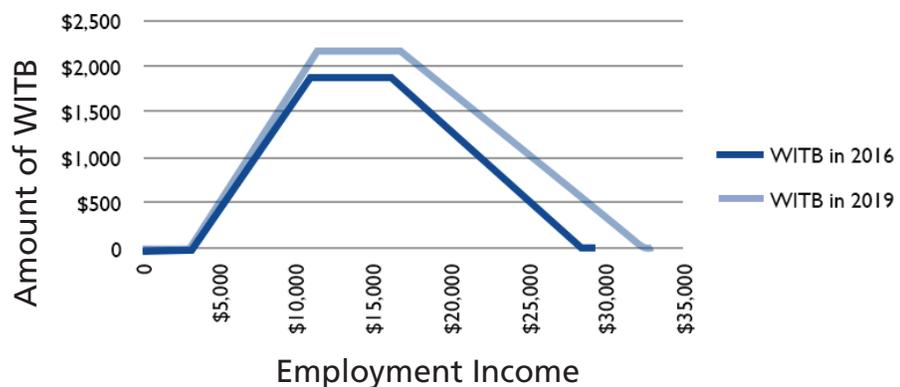
To be eligible for WITB, applicants must be 19 or older, and earning at least \$3,000 per year from employment. Individuals, couples and families can qualify for WITB.

The amount of WITB paid depends on family type and size, as well as the amount of employment income. As wages increase, the amount of WITB also increases until it reaches a maximum, plateaus for a certain wage range, and then decreases, phasing out with each dollar earned until it reaches zero.

WITB for single individuals (no children), Canada, 2016



WITB for families (single parents, married couples with or without children), Canada, 2016



WITB is a refundable tax credit, which means that it is paid after an applicant files an income tax return. Generally, the Canada

Revenue Agency takes one to six weeks to process tax returns, and pays refunds by cheque or direct deposit. The program also allows potential recipients to apply for advance payments (up to half the total WITB benefit). Advance payments are made quarterly, alongside GST/HST credits.

The maximum WITB amount for a single person is \$1,028 per year, and \$1,868 for a family (as of 2016), plus an additional amount for people with a disability. For WITB recipients, the maximum total income (i.e. employment income plus WITB) is \$18,529 for a single person, \$28,576 for a family. These amounts are less than LICO and LIM, and less than the amount someone would earn working full time at minimum wage. The planned expansion of WITB will take effect in 2019, and raise these rates by about 16 per cent.¹¹

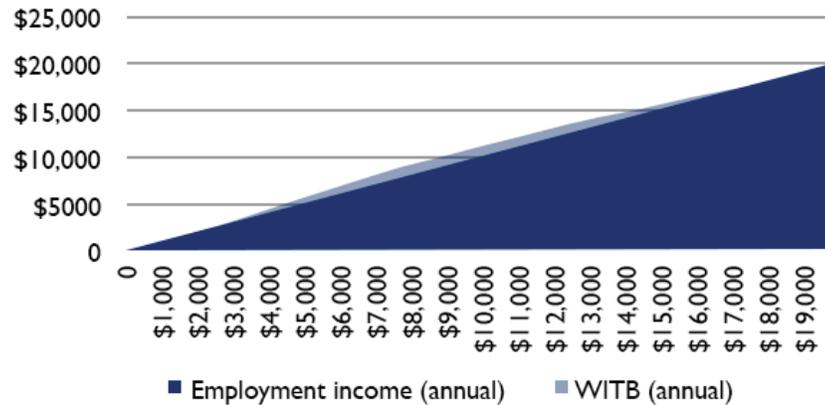
Maximum WITB amount (excluding disability supplement)		
	Single person	Family
2016	\$1,028	\$1,868
2019	\$1,192	\$2,165

Maximum total income for WITB recipients (excluding disability supplement)		
	Single person	Family
2016	\$18,529	\$28,576
2019	\$20,600*	\$32,200*

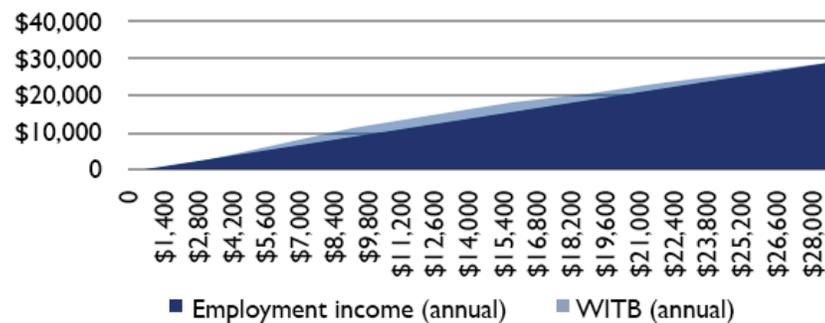
*approximate value

11 Maytree calculations, based on Bill C-26, *An act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*, 1st Session, 42nd parliament, 2016, <http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=8708008>

WITB and total income for single individuals (no children), Canada, 2016



WITB and total income for families (single parents, married couples with or without children), Canada, 2016



At very low income levels – for example, a single person working 10-12 hours per week at minimum wage – WITB would account for about 14 per cent of income. But as income increases to even modest levels – to say, working 30 hours per week at minimum wage – WITB would account for less than 1 per cent of income.

While WITB is a national program, provinces and territories can tailor it to their own needs. As a result, the WITB programs in British Columbia, Alberta, Quebec and Nunavut use different phase-in and phase-out amounts than the federal program, but are built on the same general structure. In British Columbia, Alberta and Quebec, the maximum amount of WITB is higher than in the federal program, and it phases out at a slightly higher income. In Nunavut, the maximum amount of WITB for a single person without children is lower than in the federal program, but it phases out at a much higher income –

a single person can receive WITB until they have a total income of \$38,311 (as of 2016).

Does WITB work?

Critics argue that WITB in its current form is inadequate.¹² Indeed, calls to expand the program are coming from across the political spectrum.¹³ Since even the maximum amount is very low, and recipients stop receiving it before crossing the poverty line (both LICO and LIM) or the equivalent of full-time minimum wage, WITB itself does not lift anyone out of poverty.

Further, some argue that the current structure of WITB does not provide benefit where it would most help people over the “welfare wall.” For example, in Ontario, which has chosen not to create a tailored provincial WITB program, the highest amount of WITB goes to people working part time, around 14-20 hours per week at minimum wage, and then starts to decline. Across family types, at least half of WITB recipients earn “too much” to qualify for the full amount of WITB.¹⁴

This runs counter to the goal of supporting people towards fuller employment. Arguably, WITB should be at its maximum as someone approaches full-time work.¹⁵

An interesting feature of the program is that potential recipients can apply for advance payments if they believe they will qualify for WITB in the upcoming year. Advance payments are paid quarterly. This way, recipients do not need to wait until tax refunds are issued (though few people who are eligible actually take advantage of this option). So while WITB payment might be low, at least people can get it closer to the time they need it.¹⁶

12 Battle, Ken, and Sherri Torjman. “Enhancing the Working Income Tax Benefit,” December 2012, <http://www.caledoninst.org/Publications/Detail/?ID=1001>

13 Gillezeau, Rob and Sean Speer. “The cross-party case for the Working Income Tax Benefit,” Policy Options, December 7, 2016, <http://policyoptions.irpp.org/magazines/december-2016/the-cross-party-case-for-the-working-income-tax-benefit/>

14 Department of Finance Canada. “Report on federal tax expenditures.”

15 Milway, James, Katherine Chan, and John Stapleton. “Time for a ‘Made in Ontario’ Working Income Tax Benefit,” 2009, http://www.competeprosper.ca/work/white_papers/time_for_a_made_in_ontario_working_income_tax_benefit_1

16 Wooley, Frances. “Five years of the Working Income Tax Benefit,” November 3, 2012, http://worthwhile.typepad.com/worthwhile_canadian_initi/2012/11/five-years-of-the-working-income-tax-benefit.html

Very little research or evaluation has been done on WITB.¹⁷ One study found very modest effects on overall employment rates and hours worked for eligible individuals.¹⁸ This modest effect is not surprising, given that the current design of WITB does not set people up to move past the welfare wall.

Some question whether these types of benefits for low-income workers make it easy for employers to continue to pay workers poorly and keep them in part-time, precarious positions.

As it is currently designed, WITB does not appear to accomplish its goals. While WITB does slightly boost the income of low-income workers, it still leaves recipients in poverty. And because it pays its maximum benefit to people working part time at minimum wage, it does not support them to climb over the “welfare wall” on their way to fuller employment.

That one of the goals of WITB is to help people over the welfare wall also raises the question of why the structure of social assistance and other social support programs makes it so difficult for people to transition into fuller employment. As a response to these larger problems with the labour market and the social safety net system, WITB seems to be rather small in scope and ambition. It does not address either of these underlying problems.

What can we learn from similar programs in other places?

The WITB is often compared to the Earned Income Tax Credit (EITC) in the United States on which it was modelled. The EITC was established in 1975 to help people to overcome the “welfare wall.” The structure of the EITC is similar to WITB – if your employment income is below a certain level, you receive a credit or refund on your income taxes.

17 Wooley, 2012.

18 Hasan, Sazid. “Labour supply response to the Working Income Tax Benefit (WITB): A difference-in-differences approach,” 2015, Retrieved from <http://summit.sfu.ca/item/15353>

As a major part of the US income security system, the EITC appears to be more effective at reducing poverty than WITB in its current form. Unlike WITB, which is a small program in comparison, the amount of EITC increases depending on the number of children in a family, and it phases out at a higher income level for families with children than WITB.

Proportionately more people get the EITC – in 2012, 8.5 per cent of the US population compared to only 4.2 per cent of Canadians who received WITB. The EITC is credited with lifting 6.5 million people out of poverty in 2015.¹⁹

Research indicates that people who receive the EITC spend the money on necessities, home repair and vehicle maintenance. In some cases, people use it to pay for education and training.²⁰

As a model, the EITC demonstrates that a benefit that pays more and covers more people has the potential to reduce poverty. However, rather than directly comparing specific programs, it might be more valuable to look at the overall contexts of social safety nets. For example, in Canada, benefits for children are delivered through dedicated child benefit programs (for example, the national Canada Child Benefit and its provincial counterparts), and are paid to families regardless of whether parents are employed or not. This could partially explain why WITB (unlike the EITC) does not account for the number of children in a family. In general, fewer elements of Canada's social safety net are tied to employment than in the US, and this could be one reason why WITB plays a smaller role than its American counterpart.

19 Centre on Budget and Policy Priorities. "Policy basics: The Earned Income Tax Credit," October 21, 2016, <http://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>

20 Centre on Budget and Policy Priorities, 2016.

How can WITB be improved?

INCREASE THE AMOUNT AND REACH OF WITB

As it stands, WITB does not seem to be an adequate response to the problem that some people are working and still poor. Currently, even the maximum amount of WITB leaves recipients below LICO or LIM and below what someone would earn at a full-time minimum wage job. So WITB recipients are likely still living in poverty if they are not receiving additional, significant benefits.

Further, to meet its goal of helping people transition from unemployment to employment, the amount of WITB should be at its maximum as someone approaches full-time work, or at the very least, should support people until they reach full-time work.

MAKE THE APPLICATION PROCESS EASIER OR AUTOMATIC

Research suggests that low-income groups face a number of barriers to filing taxes in the first place, including complexity, low awareness of the benefits available, and lack of access to internet filing or tax advice.²¹

Currently, applicants must apply for WITB through the tax system, using a specific form (Schedule 6). This requires that people

- a. file a tax return in the first place;
- b. are aware of the WITB program;
- c. know that they are or might be eligible; and
- d. know how to access and complete the necessary form.

What's more, a review of administrative data from the WITB program shows that the take-up rate is significantly lower for people who file taxes on paper, compared to people who use tax software or a tax preparation agent.²²

21 Bajwa, U. "Accessing income-boosting benefits through tax filing," 2015, <http://prospercanada.org/getattachment/ea6b571e-861e-4977-95cd-ba799bfbf12d/Accessing-Income-Boosting-Benefits-through-Tax-Fil.aspx>

22 Department of Finance Canada. "Report on federal tax expenditures."

In contrast, you don't have to specifically apply for other tax benefits, such as the GST/HST tax credit, which you can get as long as you file taxes – the Canada Revenue Agency automatically determines whether you are eligible.

At the least, an automatic application approach to WITB could lessen the barriers caused by lack of awareness of the program and by the complexity of filling out tax forms for those who do file taxes.

What's next for WITB?

In theory, the goal of WITB is to fill a gaping hole in our social safety net – one that discourages rather than supports people as they try to reach fuller employment. However, in practice, the current design of WITB makes it a niche response to a wide need.

With upcoming changes to the CPP, the federal government committed to expanding WITB. Initial changes seem to focus narrowly on offsetting higher CPP contributions. As the CPP changes are phased in over the coming years, we have the opportunity to reconsider the WITB program design overall. In these considerations, our goal should be to ensure that it works, both on its own and in concert with other aspects of our social safety net, to better support people with low incomes to transition from unemployment to employment, and to lift people out of poverty.

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170 Bloor Street West, Suite 804
Toronto, ON M5S 1T9
CANADA

+1-416-944-2627
info@maytree.com
www.maytee.com
@maytree_canada