Huge tax cuts for the rich coming into effect in 2015 federal budget – who gains and who loses?

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The promises of income splitting have all been made, and some small adjustments have been tacked onto the 'Family Tax Cut Credit' announced Oct. 30 2014. With the budget formally placing this new law into the 2015 budget plan, Canadians will be able to see if this plan makes sense in terms of where the economy is today.

The original promise of income splitting would have cost $2.7 billion in 2015, and would have produced an average of just under $2,000 per couple at the highest income levels.

The actual law now places a $2,000 cap on the maximum each couple can receive. Only those in the top 5% and 10% incomes will be significantly affected by that cap. Now, the total tax cut will now cost $700,000 less than originally promised.

But this is still a 'made for the richest' tax benefit: The richest 30% of families will get 78% of that $2 billion.

The other 70% of families will have to share the other 22% – less than half a million dollars for 70% of families with children.

Does packaging the Family Tax Cut Credit together with small increases in the Child Care Expense Deduction and turning the Child Fitness Credit into a refundable credit make things fairer, overall?

No. 87% of the increased child care credit will go to the 30% of families with the highest incomes, and only 13% of that increase will be left for sharing among the lower income 70%. And the increased funding provided by this change is a paltry $41 million – an amount that is so small that even if it were shared fairly, it would not make the whole family tax package any fairer at all.

Nor does turning the children's fitness credits into refundable credits make up for the unfair distribution of the income splitting credit – it only adds $31 million to that benefit, and the richest 30% of families also get far more of their fair share of that benefit too – 54% for the 30% richest.

In fact, when looking at the whole tax picture, including the cancellation of the Child Tax Credit to fund the income splitting credits, the whole package looks even more unfair. Only couples can claim the income splitting credits – single parents, low income parents, and equal-income parents need not apply. So a valuable tax benefit received by both single and two parent families has been cancelled to finance the new two-parent tax benefits.

And the child tax credit – although hard for those with low incomes to claim – was less unfair than the income splitting credit: Only 61% of that credit went to the richest 30%, which is much fairer than giving 78% of the income splitting credit to the richest families – and narrowing the eligible groups down to only rich two-parent families.

All the way up and down the income scale, all these changes give far more new tax benefits to those who have the greatest ability to pay higher taxes – and who by definition have the least need for this kind of government help.

All these changes give very little – or nothing at all – to those who need government help the most in raising their children. Their need is being ignored to give money the government says it can now afford to give to families to the richest.

To his credit, former Minister of Finance James Flaherty eventually admitted that such upside-down tax cuts might not be wise. Minister Oliver and his government apparently care more about keeping rich voters happy than about giving all families fair benefits.

Distribution of $2 billion federal family tax cuts by income and gender, Canada, 2015

Family income groups	**Percentage of all families with children in group**	**FamilyTax Cut Credit**	**Cancelling Child Tax Credit**	**Increasing Child Care Expense Deduction**	**Converting Child Fitness Credit to Refundable Credit**
Highest 30% of incomes ($100,000 and up)	50%	78%	61%	87%	47%
Lowest 70% of incomes (up to $100,000)	50%	22%	39%	13%	53%
Highest 5% of incomes (over $210,000)	9%	16%	11%	26%	12%
Highest 1% of incomes (over $400,000)	2%	3%	2%	4%	3%
Total costs of new benefits ($mill)	$1,968.5	$1,896.5	($1,832.0)	$41.0	$31.0
Men’s shares		85%	70%	32%	60%
Women’s shares		15%	30%	38%	40%

Source: Statistics Canada SPSD/M v. 21; income group fractiles and results have been rounded.

Kathleen Lahey is a professor of tax law at Queen’s University Faculty of Law.

This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by Kathleen Lahey and Andrew Mitchell, and they bear the entire responsibility for the use and interpretation of these data.