

Canada's massive tax cuts 1997-2016 –

Who gets the cuts? Federal personal income tax cuts intensify gender inequality

c 2015 by Kathleen A. Lahey

Between 1997 and 2016, successive federal governments made so many substantial tax cuts that the impact of all those cuts on 2016 federal revenues creates a \$94.4 billion revenue hole in just that one year. This represents a loss of some 40% of federal revenues that would otherwise have been received in 1997, if those cuts had not been made.

The single largest source of those tax cuts has been the many changes made to the federal personal income tax (PIT) system. Collectively, these cuts account for \$52.3 billion of the 2016 \$94.4 billion revenue hole.

The federal personal income tax system was the most 'progressive' tax instrument in the federal revenue lineup at the beginning of this two-decade period of tax cutting. This is because, unlike flat-rated taxes collected via the GST, EI and CPP premiums, and corporate income taxes, the federal PIT system uses a series of graduated income tax rates to calculate progressively larger percentages of taxes at higher income levels. This reflects the equitable principle of imposing taxes on the basis of ability to pay, and higher incomes generally bring with them the ability to pay higher rates of taxes.

Precisely because of these graduated rates, however, cuts to PIT taxes have to be designed with great caution to avoid over-benefiting those with the highest incomes and under-benefiting those with the lowest incomes.

Cutting low tax rates for those with low incomes provides no real tax relief, because low rates on low incomes usually produce little if any tax revenue. Thus cuts to those tax rates will not leave much – if any – additional after-tax income in the pockets of those with low incomes.

At the other extreme, even modest rate cuts at high income levels produce large tax cut benefits. Thus such cuts almost invariably produce 'upside down' after-tax benefits, giving the largest tax cut benefits to those who need them the least, even though they have the greatest ability to pay taxes.

As a result, over 52% of the \$52.3 billion benefit of the 1997-2016 federal PIT tax cuts will go to those in the two highest income deciles. In contrast, the two lowest income deciles together will only receive 2% of that \$52.3 billion.

When the gender allocations of these decile tax cut benefits are taken into consideration, it can be seen that preexisting gender income inequalities ensure that women will receive much smaller shares than men of this \$52.3 billion PIT tax cut benefit.

Overall, women receive just under one-third of the benefit of that \$52.3 billion, while men receive slightly more than two-thirds of it. Thus men's share of \$35.4 billion is more than double women's \$16.9 billion share.

If women and men received equal shares of these \$52.3 billion tax cut benefits, then women as a group would share \$26.13 billion – nearly \$10 billion more than they will actually receive.

Delivering such markedly disproportionate shares of large tax cut benefits to women vs men every year exacerbates existing gender income inequalities. At the present time, women with equal educational attainments working fulltime fullyear still only earn 70.3% as much as men. When added to gendered market income disparities, this method of allocating tax cut benefits increases women's after-tax income inequalities.

Particularly when women in paid work receive limited government support for unpaid care responsibilities, and work nearly twice as many hours of unpaid work per week as men, designing PIT tax cuts that provide greater tax incentives to men to increase their paid work efforts than to women can only undercut women's attachment to paid work.

Looking at the gender impact of these PIT tax cut benefits raises a serious question: Was this set of tax cuts deliberately designed to have this effect? Is this just one of many federal tax and spending changes designed to push women more firmly in the direction of home-based unpaid work instead of in the direction of economic autonomy and equality?

Kathleen Lahey is professor of tax law and policy 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.

Distribution of \$52.3 billion in 2016 federal personal income tax (PIT) cuts generated by cumulative 1997-2016 PIT changes, by decile and gender

Range of total family incomes in each decile	Actual decile share of total federal PIT changes (\$millions)	Total \$ PIT tax cuts per decile (%)	Men's shares of cuts within decile (%)	Women's shares of cuts within decile (%)
1: up to \$19,700	\$ 216.3	0.4%	51.9%	48.1%
2: \$19,701-\$29,100	\$ 815.7	1.6%	46.4%	53.4%
3: \$29,101-\$39,500	\$ 1,269.2	3.4%	50.7%	49.3%
4: \$39,501-\$50,500	\$ 2,287.2	4.4%	57.3%	42.7%
5: \$50,501-\$63,400	\$ 3,224.8	6.7%	59.6%	40.4%
6: \$63,401-\$78,900	\$ 4,345.8	8.3%	68.0%	32.0%
7: \$78,901-\$98,700	\$ 5,621.8	10.8%	67.4%	32.6%
8: \$98,701-\$125,800	\$ 7,198.9	13.8%	70.4%	29.6%
9: \$125,801-\$168,800	\$ 9,404.2	18.0%	70.2%	29.8%
10: \$168,801 and up	\$17,871.7	34.2%	70.3%	29.7%
All	\$52,255.7	100%	67.7%	32.3%
Top 20%	\$27,275.9	52.2% of cuts	70.3%	29.7%

Source: Statistics Canada SPSD/M v. 22; deciles and results have been rounded.