



Economist wants family income splitting ... but with a twist

By Heather Scoffield
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A controversial federal policy that would allow families to split their incomes for tax purposes would make a lot of sense, as long as it is accompanied by other measures so that the benefits would be shared by all kinds of families, says University of Calgary economist Jack Mintz.

In a research paper, Mintz and doctoral student Matt Krzepkowski argue that the current tax system is unfair because it penalizes single-earner families.

"Given that Canada's income system aims to treat people in similar circumstances as equally as possible, it is certainly time to let couples split their income so they do not face a penalty in higher tax rates than those faced by couples bringing home the same amount of total pay," they write.

But they say the tax reform should also recognize that single-earner families have some advantages that dual-earners do not, such as more unpaid time spent raising children and taking care of the home.

One way to account for this would be to change the way the basic personal tax exemption works, said Mintz, director of the university's School of Public Policy.

Under the current rules, one spouse can transfer the unused portion of the exemption to the other spouse. If Ottawa were to require both spouses to be earning income in order to qualify for the transfer, it would smooth out some of the rough edges of the income-splitting proposal, he said.

"We particularly have a twist on the original Conservative proposal of splitting income up to \$50,000 that I think would achieve quite a bit in terms of equal taxation of different types of families with children," Mintz told an audience of MPs and others.

Critics have said the policy would do little for low-income families and would encourage women to stay at home rather than join the paid workforce.

The Krzepkowski-Mintz analysis recognizes these points, but argues they can be fixed.

"In our opinion, introducing income-splitting, along with restrictions on the transferability of the basic tax exemption, is a far better approach for personal taxation, as it directly increases equality between family earnings and corrects for labour-market distortions due to home production provided by at-home spouses," the authors write.

The Conservatives pitched the family income-splitting idea in the last federal election campaign, saying they would allow individuals to transfer up to \$50,000 to a spouse as long as they had at least one dependent child under 18. However, since the measure would cost billions every year in foregone tax revenue, the Conservatives said they would not implement the measures until the federal deficit was eliminated.

The Conservatives have pegged the cost at about \$2.5 billion in lost tax revenue, but Mintz said it would cost somewhat less if the government were to adopt his proposal.

The research paper raised eyebrows even before it was published Monday, mainly because it was being showcased on Parliament Hill by the socially conservative Institute for Marriage and Family Canada, and co-hosted by Conservative MP Stella Ambler and Liberal MP John McKay.

The NDP's Niki Ashton said the event makes it look like Liberals are backing a policy that would erode a woman's position in the family.

But McKay said he is personally "agnostic" on income-splitting, and his party is inclined to be against it for now. By co-sponsoring the event on Monday, McKay said he hoped to help de-politicize the issue.

"There's maybe some hope here that we can take the edge off the wedge," he said.

The institute's executive director, Andrea Mrozek, said the event is meant to explore and debate tax policy -- a discussion that is meant to help voters of all stripes.