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Tories set to announce income-splitting tax break

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The Conservative government will announce an income-splitting tax break for parents Thursday, sources say.

The measure will allow the higher-earning parent of children up to 18 years of age to transfer as much as \$50,000 of income to the lower-earning spouse for tax purposes.

(What is income-splitting?¹ Read The Globe's easy explanation)

The tax break for couples will be capped at approximately \$2,000. This is a modification of the income-splitting pledge made in the 2011 election campaign.

The cap is designed to lessen criticism that the tax break generates a big windfall for wealthier parents in Canada.

This tax measure comes as Ottawa prepares to balance the books for the first time in years. It will add fuel to a simmering debate about how to spend surplus funds and fairness and equity in Canada's tax system.

Prime Minister Stephen Harper and Finance Minister Joe Oliver are scheduled to make the announcement in Toronto at a Jewish community centre in the afternoon.

Income splitting has tremendous significance for some Conservative Party supporters and cabinet ministers who are upset about what they consider a bias in Canada's tax system against stay-at-home spouses. It became party policy in 2005.

The measure will pit Mr. Harper against opposition parties that have assailed such a measure as a niche tax break that doesn't benefit enough Canadians.

Liberal Leader Justin Trudeau has pledged to repeal the measure if he wins office in an election expected next year.

The tax break is expected to cost "in the neighbourhood" of \$2.5-billion a year, the estimate the Tories gave when they first made the pledge in the 2011 election campaign, according to sources.

A recent analysis by TD Economics that didn't account for a \$2,000 cap said the annual cost would exceed \$3-billion a year.

It's unclear how much the cap will affect the tax break's overall price.

Income splitting allows the spouse in the higher tax bracket to shift income to the partner with a lower level of earnings so the overall rate of taxation is reduced.

The change is the biggest remaining promise from the Conservatives' 2011 election platform and Tory MPs have said there is a strong desire within the caucus to see the government deliver.

The Globe reported this month that the government was considering some form of cap that would reduce the size of the tax break available to high-income Canadians.

The main criticism of the promise as it was initially proposed was that it would convey a large benefit to relatively well-off Canadians while providing little or nothing to most Canadians.

A 2011 research paper by the C.D. Howe Institute found 40 per cent of total benefits from the tax cut would go to families with incomes above \$125,000 a year – with some high-income families receiving a tax cut of more than \$6,400. The report also found that 85 per cent of all households – including single parents – would gain nothing from the policy.

Advocates for income splitting argue that two-parent families where one parent stays home are taxed more than two-income families – and say it is a matter of treating family units fairly under the tax system.

The Conservative government introduced income splitting for seniors in the 2007 budget, allowing people to split some pension income. Last week Mr. Trudeau told CARP, a seniors advocacy group, that he would not touch income splitting for seniors. But he recently vowed he would reverse income splitting for families if the Tories enacted it.

The NDP is also critical of the income-splitting proposal. However NDP Leader Thomas Mulcair has declined to say whether he would repeal such a move, stating recently that he would wait to see what the government proposes before responding.

References

1. www.theglobeandmail.com/news/politics/everything-you-need-to-know-about-income-splitting/article21180088