

STRENGTHEN CANADA'S WORKFORCE THROUGH TAX INDEXING

Issue

Inconsistencies in what deductions are indexed unfairly affect business and discourage workforce participation.

Background

The Canadian Department of Finance began indexing personal income tax brackets on every Canada's tax return in 1988. However, the Finance Department has failed to index a number of deductions which, in effect, has Canadians paying unfair taxes in certain areas. Two specific examples that affect the business community are the deduction of child care costs and Canada Pension Plan contributions.

The practice of indexing was implemented to prevent "bracket creep" where, as a result of cost-of-living increase, the taxpayer was bumped up into the next tax bracket and, as a consequence, took home no additional monies.

Current deductions for child care, only applicable for children under six years of age, are capped at \$8,000 per year. While this deduction was increased from the 1998 level of \$7,000 per year, the amount of the increase was neither in line with inflation nor the substantial rise in child care costs. (Average annual rate of inflation 1998-2017 is 1.91%)

A 2017 study released by the Canadian Centre for Policy Alternatives showed that since 2014 child care fees have risen faster than inflation in 82% of the cities compared. However, this cost varies wildly depending on the region with those in major metropolitan centres such as Toronto and Vancouver paying more than double the average.¹ This cost is often disproportionate to the benefit of parents returning to the workforce and acts as a significant disincentive to increased workforce participation.

With acute labour shortages across Canada becoming a norm, it is incumbent upon government to make workforce participation as appealing as possible to parents. A study from the University of Sherbrooke demonstrated that lower costs for child care in Quebec have had a significant positive economic impact. Since the 2008 introduction of universal access to low-fee childcare Quebec has induced nearly 70,000 more mothers – an increase of 3.7% of women employment and increased its GDP by 1.7% as a result.² While the financial benefit to families of the federal tax deduction is relatively small compared to Quebec's low-fee childcare program, it is reasonable to infer that a lower cost of child care has a significant and positive impact on employment and the economy.

On the other end of the workforce lifecycle is the issue of Canada Pension Plan (CPP) contributions. Since 1998 the maximum annual pensionable earnings has increased due to indexing by \$19,000 (as of 2018). Comparatively, the basic exemption has increased by \$0, and the employee/employer matched contributions have increased by \$1,525, a 143 per cent increase over the past 20 years.

Canadians and their employers are paying an ever-increasing cost to fund CPP. The government has taken credit for holding the contribution rate on CPP steady through the recent downturn in the financial markets and world economies. However, the indexing of the maximum contribution amount and the non-indexing of the basic exemption continues to substantially raise the cost of payroll taxes at a time where businesses already face an array of rising costs.

¹ Time Out – Child care fees in Canada 2017. David Macdonald, Martha Friendly. Canadian Centre for Policy Alternatives.

<https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2017/12/Time%20Out.pdf>

² Impact of Quebec's Universal Low-Fee Childcare Program on Female Labour Force Participation, Domestic Income, and Government Budgets, Pierre Fortin, Luc Godbout, Suzie St-Cerny. University of Sherbrooke.

https://www.oise.utoronto.ca/atkinson/UserFiles/File/News/Fortin-Godbout-St_Cerny_eng.pdf

There are a number of specific tax credits that are indexed, along with the tax brackets, yet there are some glaring inconsistencies where indexing has not been applied. This adds to the complication of the Canadian tax system and weakens Canada's workforce by discouraging labour force participation.

Recommendations

That the federal government:

1. Add consistency to the Tax Act by applying indexing all exemptions, deductions and contribution limits

SUBMITTED BY THE MEDICINE HAT & DISTRICT CHAMBER OF COMMERCE

Co-sponsored by the Red Deer & District Chamber of Commerce