

Summary of
What About Women?

Gender Analysis of Discussion Paper on New Brunswick's Tax System

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The Government of New Brunswick has stated in executive documents that even seemingly gender-neutral policies must be scrutinized for their unseen gender impact in order to eliminate all forms of discrimination. As each of the proposals in the Government's Discussion Paper on the Tax System is considered, the key question to ask is whether it will at least maintain existing areas of gender progressivity (where the tax system redistributes income in order to close the gap between women and men), and whether the proposed change can help eliminate remaining areas of gender regressivity. Given its heavy obligations to eliminate remaining areas of disadvantage faced by N.B. women, the government should not consider tax proposals that endanger progressivity, or that fall short of eliminating areas of regressivity.

Women in New Brunswick live in a very different social, economic, and political world than men. Women have substantially smaller incomes, heavier workloads, and limited access to critical resources. The overall 'gender income gap' in N.B. was at least 35% in 2005 and is estimated to reach 36.4% by the end of 2008. The single biggest barrier to women's economic security and equality is lack of access to adequate childcare resources. Unlike men with wives/partners, substantial numbers of women (23%) will routinely opt for part-time work, often in order to balance the low money return for their labour with the high after-tax value of their own unpaid childcare and domestic work. Women who work outside the home habitually assess their earning capacity by treating childcare expenses as a cost of working, which can discourage some from paid work. At the same time, men who expect to be able to support their families on a single income can count on the untaxed and unpaid care work of their wives/partners.

The tax and transfer systems in existence in N.B. provides some degree of redistribution. Women are able to keep a slightly larger percentage of their total income after taxes than men do. The overall degree of progressivity, where it exists, is slight, and in early earning years and in retirement years, the system in N.B. remains gender regressive - redistributing significant amounts of pre-tax incomes from women to men.

In New Brunswick in 2005, 40.8% of all N.B. women who filed income tax returns had no tax liability at all (27.3% of men) and so many of the proposals would not benefit them.

Option 1 - The government proposes to replace its progressive personal income tax rates with a flat 10% rate. This would have virtually no impact on those currently taxed at 10.12%, but it would give everyone with taxable incomes greater than \$34,836 cuts of between 5.48% and 7.95%. The largest dollar benefits would go to those with higher incomes. Women's average incomes in N.B. are so low that the proposal would increase women's average

consumable (aftertax) income only slightly, but increase men's consumable incomes quite dramatically. A flat 10% rate would cut provincial revenues by an estimated \$355 million in 2008, 28% of N.B.'s revenue from personal income tax. Reduction in governmental capacity - especially when combined with large non-targetted spending proposals for higher income people - means there will be considerable political resistance to addressing core needs like childcare resources to support women's economic development.

Option 2 - The alternative proposal would replace the existing four personal income tax rates with two rates and income brackets, 9% on the first \$34,999 of taxable income, plus 12% on the amount over that. This is slightly more progressive than a flat 10% but it would still reduce the gender progressivity of the tax system and impair governmental capacity to meet critical needs. It would offer some tax relief to those with lower incomes, by dropping their rate from 10.12% to 9%, but this benefit would bypass those who have no income tax liability and would be completely overshadowed by the huge tax cuts available to those with incomes over \$35,000. Option 2 would cost nearly as much in foregone revenues as Option 1.

Increase the Personal Exemption - New Brunswick proposes to increase the personal exemptions for taxpayer and spouse to \$12,000, creating one of the largest personal tax-free zones in any province. Dependency exemptions are one of many tax provisions that form invisible barriers to women's paid work. The larger the tax-free zone for a high-income single-income couple, the more income the wife/partner will have to earn in order to financially justify paid work, depriving him of a valuable tax credit. Dependency credits are a subsidy for those who earn large enough single-incomes to support the whole family. It will not be available for the vast category of low- and middle-income couples where both members work out of necessity, not choice, and will be of no use to those who have no provincial income tax liability, unless it is made refundable.

Child Tax Credit - A proposed non-refundable child tax credit of up to \$400/child - a very expensive tax benefit - would be more fully available to male taxpayers. If the province also increases the personal exemption to \$12,000, single mothers are highly unlikely to be able to take advantage of the child tax credit. The solution would be to make it a fully refundable tax credit, preferably integrated into the federal refundable child tax benefit to reduce administrative costs, based on the individual income of the parent with the lowest income, to ensure that this credit does not become another barrier to women's paid work.

Universal Child Care Benefit - A proposed direct annual grant of \$600/child under 6 would have a strong negative impact on women. It would cost \$28 to \$30 million in 2008 - an amount far more efficiently spent if it were made available on a needs basis in the public childcare system. Increasing the child tax credit by \$50/month/child is not going to make the difference between being able to afford fulltime regulated childcare, it becomes a luxury payment to parents who can live on one income and so do not incur childcare expenses. This proposal

should only go forward if it can be restructured. It should at least be assimilated into the federal child tax benefit system, be means-tested, and placed on a fully refundable nontaxable basis.

Tax-Free Savings Accounts - The proposed tax exemption for income earned on Tax-Free Savings Accounts would have negative impact on women. TFSAs (and income splitting of investment income via TFSAs) will really only be accessible by those with the highest incomes; in N.B., few women fall into that category. TFSAs permit 'pretend sharing for tax purposes' without requiring actually legal sharing. Contrary to spousal RRSPs, nothing in the TFSA rules require the contributing partner to turn the funds into the 'property' of the partner in whose name it is established. The anti-avoidance rules that have always blocked this kind of income splitting in the past have been suspended for TFSAs. This departure from the principle that married couples are to be treated as individuals for tax purposes undercuts women's economic autonomy and creates fiscal barriers to women's paid work, because it may be financially more lucrative for the wife/partner to serve as a tax shelter for income splitting purposes than to enter paid work.

Corporate Income Tax - New Brunswick is proposing to reduce its corporate income tax rate from the current 13% to 10%, 7% or 5%, leaving the small business rate at 5%. Corporate income tax is N.B.'s 5th largest source of revenue. Two-thirds of the financial benefits of cutting corporate income tax rates will accrue to men. By 2012, the total federal and N.B. tax burden on individuals would be markedly higher than the total federal and N.B. tax burden on corporations.

Carbon Tax - Carbon taxes are easy to avoid for those who can spend their way through any resulting price increases, but they take a fixed proportion of income from those on low incomes who have no alternatives but to incur them. N.B.'s carbon tax proposal is even more regressive because the government would use it to replace revenue lost due to other tax cuts - replacing progressive tax structures with regressive flat consumption taxes. If a carbon tax is adopted, any low-income credit should be payable to individuals, not to households, because often women who qualify for benefits on their own are denied them because of their higher-income partner. If carbon taxes actually work, the revenues flowing from them will disappear as alternative sources of energy are used, so the short-term use of carbon taxes to replace more broad based, equitable and stable income tax would result in permanent destruction of part of the N.B. tax base.

Increase the HST - The proposed increase in the HST would fall more heavily on those with the lowest incomes - the same group that will not be receiving any benefits from cuts to the personal and corporate tax rates, from increases in tax credits and exemptions, and will be exposed to carbon taxes and the inflationary effects of those taxes. Increasing the HST rate to 10% would produce about two-thirds of the amount of revenue lost if either of the proposed cuts to personal income tax were adopted. Women, having lower incomes, spend a greater portion of it on HST-taxable goods and services. The credits given to low-income individuals to offset consumption taxes are reduced for those who are married or living common law. The HST will

account for a slowly increasing share of overall provincial revenue, and will make it all the more difficult for women to close the gender gap in consumable (aftertax) income.

The real gender regressivity arises not just out of the cuts for higher income taxpayers, nor out of the 2% increase to HST, but out of the interaction between these two proposals. It slices 28% of the personal income tax load off at the highest income levels, replaces only two-thirds of that lost revenue, and replaces it with the most regressive type of tax. It will dramatically reduce the tax load on high income New Brunswickers, who are predominantly male. This will make it more difficult in the future for women to move toward economic equality, widening the aftertax gender gap, as will the tax cuts to corporations, the carbon tax, TFSAs, nonrefundable child tax credits and the provincial UCCB. The increase in HST plus Option 1 leaves men with on average \$316 more in consumable aftertax income overall for 2008, women with \$198 more. The HST increase plus Option 2 leaves men with on average \$300 more, but women with \$119 more. Both Options in a gender gap in aftertax income (the percentage women must make up to reach equality on these policy proposals): Option 1, 37.3% and Option 2, 60.3%.

The proposals outlined in the Discussion Paper will widen the existing gender gap between women's and men's total incomes, taxable incomes, and consumable (aftertax) incomes. They will seriously impair and destabilize the existing tax bases, with the result that the government will be able to plead poverty when faced with demands for adequate childcare resources, low-income supports and development projects that are capable of helping N.B. women overcome their disadvantaged economic status.

The tax policy issues addressed in the Discussion Paper are framed with a single policy objective: how best to promote economic development and self-sufficiency. It is not really a 'tax policy analysis' so much as an attempt to sell specific tax changes that fit into that focus. If the Government had begun by asking whether the current provincial tax/transfer system is optimal, in light of all the policy objectives of modern tax/benefit systems, the analysis would have considered core issues of progressivity/ regressivity, fairness, economic efficiency, economic growth, adequacy and stability of revenues, and 'fit' with federal and other provincial systems. It would also have included gender impact analysis – if that had been done, the proposals may well have looked very different. A full-scale gender impact analysis of the tax/benefit system in New Brunswick is overdue. In the longer term, each policy document, and especially every tax or spending proposal, should be developed in conjunction with detailed gender analysis.

Too little time has been devoted to the development of the proposals, to public hearings, and to the submission of briefs. Rapid movement in fundamental policy areas is anti-democratic, and runs the risk that groups with easy access to government decisionmakers may have more influence over outcomes. Women remain disadvantaged in terms of economic power and opportunities, and political empowerment, and so it is important to allow adequate time and resources for full public discussion of issues like those posed by this process.