TAX REFORM

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Tax policy affects women, men and diverse groups differently, given disparities in income, in unpaid responsibilities and in other economic and social realities. It is imperative that the potential effects of any tax reform be carefully evaluated from a social and economic development perspective, with equality among citizens as a key guiding principle.

The comprehensive provincial tax system review announced by the New Brunswick Department of Finance in June 2008 illustrates the dangers of important policy-making that fails to take gender and diversity into account. The discussion paper intended to guide the public consultation process for this first formal review of provincial taxation in almost twenty years calls for radical restructuring of the tax system, without analysis of the differential impact of the proposals on women, low-income individuals and two-earner families.[1]

The work of feminist scholars offers insights into tax policy design that promotes gender equality or at least "does no harm."

EVALUATING THE DIFFERENTIAL IMPACT OF TAX POLICY

The tax system is made up of a complex and interconnected array of measures that can be expected to have a different impact on women, men and diverse groups because of their varying status, situation and life experiences.

Changes to any part of the tax mix – personal and corporate income taxes, consumption taxes, property taxes, deductions, credits and other items - may unfairly distribute the direct burden and benefits among taxpayers, indirectly influence labour force participation and other life choices and can limit the government revenues needed for redistributive spending on programs and services.

Tax policy can help reduce income disparities and alleviate disadvantage, but it can also increase inequality. The social and economic implications of existing tax laws are not neutral: they reward some people and behaviours and punish others, and have a different effect based on class and gender. Tax rules can influence fundamental decisions such as whether to marry, to engage in paid work or to work part-time or full-time. They can have the effect of keeping mothers out of the workforce or out of the home – often without the needed program supports.[2]

It is imperative that gender-based analysis – a systematic way of including gender in policy development – be conducted on any tax reform or other major policy initiative to reveal possible outcomes for women and for men in all their diversity (socioeconomic status, race, ability, sexual

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[1] N.B. Department of Finance, *A Discussion Paper on New Brunswick's Tax System*, June 2008, Summary document and complete discussion paper at www.gnb.ca/0162/New_Brunswick_Tax_System/index-e.asp

[2] See for example, Status of Women Canada, Synthesis Paper # 2: Women and Canadian Fiscal Policy in *Synthesis Reports* (December 2006), p. 5, at www.swc-cfc.gc.ca/pubs/pubspr/0662731351/index_e.html; and Monica Townson, *Tax Facts: What Every Woman Should Know*, Ottawa, Canadian Advisory Council on the Status of Women, 1993, p. 1-2.

orientation, etc.). GBA has been shown to be a valuable tool world-wide for evaluating the effect of initiatives on the relative position of women and men and diverse groups.[3]

GBA consists of asking key questions, to reveal any gender and diversity differences or issues, with equity as guiding principle. It must be integrated in all steps of the policy process: from the goals and definition of the problem, to the research, consultations and options considered as well as ongoing evaluation of policy results.

An effective gender-impact evaluation requires sex-disaggregated data (data broken down by sex), high-level commitment to the process, dedication of adequate human and financial resources, tools and training, and ensuring accountability by making GBA part of staff workload and evaluation.

In fiscal policy-making, as in other matters, federal and provincial governments have not honoured their decades-old constitutional obligations or international commitments to protect and promote women's equality. The Charter of Rights equality guarantees, in effect since 1985, make governments responsible for working to eliminate women's disadvantage in all areas of law, policy and programming, and reinforce commitments made by Canada as a signatory to the Convention on the Elimination of All Forms of Discrimination Against Women in 1981.[4]

Following the UN's Fourth World Conference on Women held in Beijing in 1995, the Canadian government affirmed its commitment to implementing gender-based analysis of all existing and proposed laws, policies and programs. Some federal departments developed policies, guides and pilot projects, with Status of Women Canada providing expertise and training on the domestic and international scenes. However, federal implementation across departments has been uneven given the lack of binding obligations to conduct GBA and wavering high-level commitment that translates into inadequate resources, training and capacity.[5]

Several provinces - including Newfoundland and Labrador and Quebec - have made strides in recent years in developing their GBA capacity and applying it to the development of programs, services and legislation.[6]

Despite efforts in the late 1990s to establish GBA guidelines for the N.B. government, gender and diversity concerns are not systematically considered in provincial government policy work. In 1999, civil servants from the N.B. Executive Council Office prepared and subsequently revised a guide "designed to assist departments and agencies develop policies and programs that are equitable to both men and women." Still available on the government website, it affirms that "gender permeates all facets of our lives, making the need for gender based analysis go beyond those policies that are specifically targeted at women. Policies related to health, finance, the

[3] GBA is also called Gender Mainstreaming, Equity Analysis, Gender Equity Analysis, Gender Equality Analysis, Diversity Analysis, Inclusive Analysis. See for example, Lisa Donner, *Including Gender in Health Planning: A Guide for Regional Health Authorities*, Prairie Women's Health Centre of Excellence, 2003, at http://www.pwhce.ca/gba.htm ; United Nations Women Watch, "Directory of UN Resources on Gender and Women's Issues – Gender Mainstreaming," at http://www.un.org/womenwatch/directory/gender_mainstreaming_10314.htm

[4] United Nations, *Convention on the Elimination of All Forms of Discrimination Against Women*, General Assembly Resolution 25 (XLIV): 44th Session (1980): Supplement No. 49 (A/RES/44/25, reprinted in 28 I.L.M. 1448). The full text of the Convention is available at http://www.un.org/womenwatch/daw/cedaw/text/econvention.htm

[5] House of Commons Standing Committee on the Status of Women, *Gender-based Analysis: Building Blocks for Success*, April 2005, at http://cmte.parl.gc.ca/Content/HOC/committee/381/fewo/reports/rp1778246/feworp02/feworp02-e.pdf

[6] See, for example, Government of NFL, Women's Policy Office, "About WPO – What we do" at http://www.exec.gov.nl.ca/exec/WPO/wedo.htm; Gouvernement du Québec, various action plans and documents in section "Filles, femmes et education – Égalité entre les femmes et les hommes" , at http://www.mels.gouv.qc.ca./sections/conditionFeminine/index.asp?page=egalite

environment, or even transportation all have the potential to either perpetuate gender-based inequities or to alleviate them in some way."[7]

In June 2008, the Advisory Council commissioned a gender impact study of the N.B. government's tax review proposals by Queen's University law professor and fiscal expert Kathleen Lahey. Lahey's study, believed to be the first gender analysis of a major prospective tax policy document in Canada, uses Statistics Canada's Social Policy Simulation Database and Model and sex-disaggregated data from the Canada Revenue Agency and other sources to determine how the proposals would affect women, men and families of various income levels.[8]

Any assessment of tax policy impact must take into account significant gender disparities in income, labour force participation, unpaid responsibilities and in other economic and social realities, including (all data is for New Brunswick): [9]

- Total income gap (total, or before-tax and consumable, or after-tax): the average total income of women in 2005 was $22,408, or 35% less than men's at $34,300. It has been estimated that the gender income gap will continue to grow, reaching 36.4% by the end of 2008.[10]
- Higher poverty rate of women, particularly female lone-parent women, at 45%, and female seniors living alone, 41% compared to 19% for male seniors living alone (2006, using before-tax income).
- Higher part-time employment rate of women: 23% of employed women, compared to 9% of employed men in 2007.
- Women's lower average earnings: 13% less in 2007 based on hourly wage; 25% less based on full-time, full-year earnings in 2006.
- Women's heavier share of unpaid responsibilities: In 2005, women spent on average 4.2 hours daily on housework and child care, compared to 2.5 hours for men. Women also devote more time on average than men to care to seniors.
- Women's lack of access to adequate child care services: regulated child care spaces available for just 14% of children aged 12 and under in 2007.

It is also important to consider specific tax system data, as in who pays taxes and who does not. In New Brunswick as elsewhere in Canada, more women than men have such low incomes that they pay no tax at all. In 2005, 41% of women and 27% of men taxfilers in New Brunswick had no tax payable, higher than the national level of 39% of women and 24% of men taxfilers.[11] This is a significant portion of the population, to which must be added anyone behind in filing or paying their taxes, the homeless and other non-taxfilers who would be excluded from receiving any benefits based on tax deductions or credits. Women are also overrepresented among those who pay taxes at the lowest rate.

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[7] Government of N.B., Executive Council Office, Women's Issues Branch, *Gender-Based Analysis Guide* (1999, 2003), available at http://www.gnb.ca/0012/womens-issues/genderanalysis2003.pdf

[8] *What About Women? Gender Analysis of Discussion Paper on New Brunswick's Tax System*, July 31, 2008 at http://www.acswcccf.nb.ca/english/acsw1.asp ; Lahey also prepared two followup analyses in August 2008: *New Brunswick and Fiscal Policy: Tax Women Fairly or at least 'Do no Harm*'; and N*ew Brunswick and Fiscal Policy: Gender Impact Analysis of Alternative Tax Reform Measures*.

[9] Unless otherwise indicated, N.B. data is presented in NB ACSW, *2008 Report Card on the Status of N.B. Women*, at http://www.acswcccf.nb.ca/english/acsw3.asp ; Comparable national data can also be found in Statistics Canada, *Women in Canada 2005: A Gender-Based Statistical Report* , Ottawa, Minister of Industry, 2006, 5th edition & Work chapter updates at http://www.statcan.ca/english/freepub/89-503-XIE/0010589-503-XIE.pdf ; http://www.statcan.ca/bsolc/english/bsolc?catno=89F0133XWE

[10] Lahey, *What About Women?*, p. 9.

[11] Lahey, *What About Women?*, p. 19; see also Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 159.

Tax measures alone can not eliminate gender inequality. Strong government spending capacity and budgetary allocations that favour substantive equality are the other side of the fiscal equation. Promotion of equitable social and economic development requires adequate public revenues spent directly on programs and services – for example, on affordable child care spaces and low-income supports - to counter the still severe disadvantages faced by women and diverse groups. Feminist scholars and equality-seeking advocates are urging governments to do gender budgeting, which involves analyzing all public expenditures to ensure that the implications and impacts equitably benefit women and men, girls and boys.[12]

Some of the important questions to address when designing and implementing tax policy include:[13]

Have fiscal policy-makers marshaled the necessary expertise and data to conduct a diversity and gender-based analysis of proposed changes?
What is the anticipated effect – direct and indirect - of the measures on each type of families: two-earner couples, one-earner couples, one-earner one parent, etc. and on people living alone, on the relative position of women and men, and on diverse groups of women and men?
Who (which income level, which family/household type, etc.) will benefit, and to what extent, from each tax measure and from the interaction of the various measures?
Which of the measures are of benefit only to those who have enough income to pay taxes, and what is available to those who pay little or no tax?
If a measure will **unfairly** advantage a particular category of taxpayer over others, or if tax benefits are not available to those who need them most, how can the initiative be redesigned to remove the discriminatory effect or compensate for it?
What is the expected impact of tax measures on behaviour: do the changes discourage or encourage certain life choices, such as the entry of one or both parents into the paid labour force, or the decision of one spouse to stay at home to care for children or elderly relatives?
Do the tax measures contribute to the undervaluation of unpaid labour in the home?
How will tax changes affect government revenue yields? If there is a shortfall, how will the needs of women and diverse groups be taken into account when making decisions about public spending cuts?

DESIGNING A GENDER AND DIVERSITY-SENSITIVE TAX SYSTEM: DOS AND DON'TS

The level of equality between groups in society should be a central consideration when making changes to the tax system.

Equity is generally included among the core criteria of traditional tax policy evaluation, although the perception of what is equitable may vary considerably.[14]

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[12] See for example, FAFIA's Federal Gender Budgeting Initiative materials, at http://www.fafia-afai.org/en/fafias_federal_gender_budgeting_initiative; Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 143-168; House of Commons Standing Committee on the Status of Women, *Towards Gender-Responsive Budgeting: Rising to the Challenge of Achieving Gender Equality*, June 2008, at http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=13186&Lang=1&SourceId=245162 ; Women's Budget Group (U.K.), at http://www.wbg.org.uk/GBA_How.htm

[13] See for example Claire F.L. Young, *Women, Tax and Social Programs: The Gendered Impact of Funding Social Programs Through the Tax System,* Ottawa, Status of Women Canada, October 2000, p. 69 at www.swc-cfc.gc.ca/pubs/pubspr/066265028X/index_e.html ; Phillips, "Gender Budgets and Tax Policy-Making", p. 162-163.

[14] Other key criteria include simplicity – ease of administration – and economic efficiency - taxation should raise sufficient revenue. See for example, Monica Townson, *Tax Facts: What Every Woman Should Know*, Ottawa, Canadian Advisory Council on the Status of Women, 1993, p. 5-6; Claire Young, *What's Sex Got to*

Discussions of tax fairness may refer to two concepts, horizontal equity and vertical equity, both of which say little about the individual or household characteristics that should be taken into account.[15]

Horizontal equity means that people in similar circumstances should be treated in the same way. This is a slippery notion to apply as it can be difficult to determine whether situations are similar enough to warrant the same treatment for tax purposes.[16] For example, some have used the horizontal equity argument to question the fairness of taxation of one-earner, one stay-at-home parent families versus two-earner families with dependent children. The view that families that have the same total income should pay about the same amount of tax, regardless of the sources or uses of that income has been countered by those who note that the different circumstances of the two kinds of families warrant some differences in tax treatment.[17]

Vertical equity holds that people in different circumstances be treated in an appropriately different way. It is usually interpreted to mean that higher income people are expected to pay a larger share of tax than those with lower incomes.

In a general sense, equity or tax fairness requires that the tax burden be shared among all taxpayers, whether individuals or corporations, according to their ability to pay. As economist and public finance researcher Jonathan Kesselman states, the tax burden "should be spread across those at different income levels and in differing circumstances in a pattern that the public deems to be fair."[18]

The principle of progressivity – requiring that the tax burden be lightest on those who can least afford to pay and heavier as ability to pay increases - is a yardstick for assessing fairness in the tax system. Some degree of progressivity must be maintained in the tax system to help counter income inequality; how much will vary according to the particular vision of equality.

Feminist scholars push the conventional tax equity perspective further to include the principle of equality between groups. This broadens and deepens the requirement of fairness by taking into account particular characteristics such as gender, age and family responsibilities. Their analyses explore the direct and indirect gender impact of tax provisions in the financial situation and life choices of women and diverse groups. Feminist fiscal studies highlight the discriminatory aspects of taxation policy and suggest how tax system design could favour gender equality, or at least avoid exacerbating existing disadvantage.

Personal and corporate income taxes

Progressive personal income tax rates have long been a central feature of our provincial and federal tax systems. A progressive rate requires individuals to pay a higher percentage of their income in taxes as their income level rises.

Do with It? : Tax and the "Family", Law Commission of Canada, May 2000, p. 14-15, at www.familyindex.net/Categories/Family+Economics/Socio-economic+Status/00289.htm

[15] Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 155.

[16] Claire Young, *What's Sex Got to Do with It? : Tax and the "Family"*, Law Commission of Canada, May 2000, p. 14, at www.familyindex.net/Categories/Family+Economics/Socio-economic+Status/00289.htm

[17] Richard Shillington, *The Tax Debate over One- and Two-Earner Families*, April 2000, available at http://www.shillington.ca/benefits/benefits.htm

[18] Jonathan Kesselman, « Flat Taxes, Dual Taxes, Smart Taxes: Making the Best Choices », Institute for Research on Public Policy, *Policy Matters*, vol. 1, no. 7 (November 2000) at www.irpp.org/pm/archive/pmvol1no7.pdf, p. 5.

To understand the graduated rate structure, we can picture our income as a series of blocks piled one on top of the other.[19] The bottom block represents the first chunk of income, taxed at the lowest rate, with the government taking a larger bite from the second block and so on.

The New Brunswick provincial tax rate structure is currently based on four different rates for four income chunks or brackets, so that citizens pay:

> 10.12% on the first $34,836 of taxable income, plus
> 15.48% on the next $34,836, plus
> 16.80% on the next $69,673, plus
> 17.95% on the amount over $113,273 [20]

Having a higher personal income tax rate for higher income levels means that those who have more money to save or spend on non-essential items will pay a greater share of their income in taxes. Low-income citizens who have little or no income left after paying for food, clothing, shelter and other necessities, will pay a smaller share or no taxes.

Progressive tax rates help reduce, to some extent, the wide existing income disparities between and among women and men.

Kathleen Lahey's study of the recent N.B. government tax proposals shows that the existing provincial tax system 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, however, and in early earning years and in retirement years, the system remains gender regressive, redistributing significant amounts of pre-tax incomes from women to men.[21]

Tax cuts have been a popular political promise and policy practice in Canada and other countries over the past decade and still have a place on government agendas. It is very important that feminist researchers and activists continue to push for gender analysis of the impact of any new tax reductions.[22]

Proposals for radical restructuring of the provincial and national tax systems have gained favour among some economists, politicians and taxpayers' groups in recent years. Proponents have called for changes including deep personal and business income tax cuts, a move towards a single-rate or flat tax, and a greater reliance on consumption taxes. [23]

The recent N.B. government tax proposals fit into this trend: move to a single personal income tax rate of 10% for all taxable income levels, or a two rate, two bracket structure with a 9% rate for taxable incomes below $35,000 and 12% for all incomes above that.

Flat or nearly flat tax rates exacerbate disadvantage for women and other lower-income citizens. The move to fewer tax brackets or a single rate forces those with lower incomes to pay more than their fair share of income tax. "Any flat tax will be regressive generally, states Lahey, because it

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[19] Monica Townson, *Tax Facts: What Every Woman Should Know*, Ottawa, Canadian Advisory Council on the Status of Women, 1993, p. 9.
[20] N.B. Department of Finance, Personal Income Tax, at http://www.gnb.ca/0162/tax/Personal-e.asp
[21] Lahey, *What About Women?*
[22] Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 157.
[23] See for example Jack Mintz, *The 2007 Tax Competitiveness Report: A Call for Comprehensive Tax Reform*, C.D. Howe Institute Backgrounder No. 254, Toronto, C.D. Howe Institute, September 2007, at http://www.cdhowe.org/display.cfm?page=TaxCompetitive

will take a smaller share of total income from those with high incomes than from those with lower incomes."[24]

Lahey's analysis of the N.B. 10% flat tax option shows the following tax savings for different categories of taxpayers, the largest dollar amounts going to those with the highest incomes:

One-income couple with two children living on $25,000:	$219
Single taxpayer with $25,000 income:	$359
Single taxpayer with $100,000 income:	$3,160

Higher income individuals benefit most from tax cuts, since they stand to keep a larger amount of money in their pockets. The most disadvantaged in our society who have incomes so low that they pay no taxes at all – 41% of N.B. women and 27% of N.B. men - get no benefit from tax reductions. Those women who do pay taxes get smaller benefits in absolute dollars and as a percentage of income compared with men, because of their lower average incomes.

Cuts to other kinds of taxes affecting high earners – such as capital gains tax, the tax on profit from selling assets – also provide a disproportionate benefit to men, overrepresented among the upper-income earners.[25]

Corporate and business/investment property tax cuts should also be weighed against the principle of gender equality. Lower business sector tax rates tend to disproportionately benefit higher income earners and men who own the bulk of corporate shares, although more research is needed on the complex impact of corporate taxes on consumers, employees and diverse business sectors.[26]

The N.B. government is considering reducing the general corporate tax rates to levels at par with or lower than the personal rates. The general corporate rate would go from the current 13% to either 10%, 7% or 5%. The N.B. government is also looking at reducing or eliminating the Financial Corporation Capital Tax, currently levied at a rate of 3% on taxable capital of financial institutions in excess of $10 million. Since 2005, the province has gradually reduced its other business capital tax – the Large Corporations Capital Tax - and it will be eliminated in 2009.[27]

Tax scholar Kathleen Lahey suggests that reduced tax rates for certain types of businesses – manufacturing, processing and new ventures – are preferable to general corporate income tax cuts.[28]

Beyond the direct financial gain or loss for individuals, families and businesses, lower tax rates also mean lost government revenues for needed public programs and services. Such revenue shortfalls disproportionately affect women and low-income individuals, since they rely more heavily on public programs and services such as childcare and income supports that may be sacrificed in spending cuts.

Personal income tax provides a large portion of provincial and federal tax revenues, currently some 31% of all N.B. government revenues. Lahey estimates that the move to a flat 10% rate would amputate 28% of New Brunswick's personal income tax revenue from public coffers.[29]

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[24] Lahey, *What About Women?,* p. 16.

[25] Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 159.

[26] Lahey, *What About Women?,* p. 28; Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 158.

[27] N.B. Department of Finance, Capital Taxes, at http://www.gnb.ca/0162/tax/capital_taxes-e.asp

[28] Lahey, *New Brunswick and Fiscal Policy: Tax Women Fairly or at least 'Do no Harm*', August 2008, p. 5.

[29] Lahey, *What About Women?,* p. 17.

Some analysts suggest that federal and provincial tax cuts of the past two decades have undermined the progressivity of the tax system and contributed to a growing income gap between wealthy and poor Canadians.[30]

While there is little evidence to indicate that tax cuts are the recipe for economic growth and competitiveness - the rationale of many tax-cut proposals - some research shows that tax reductions can have devastating effects on the well-being of citizens. A recent study by tax law and policy experts Neil Brooks and Thaddeus Hwong found that high-tax countries like Finland and Norway have done better on important social indicators – including poverty rates, income distribution, gender equality, health and educational outcomes - than low-tax countries including Canada and Ireland, and have not sacrificed economic development to do so.[31]

Economist Andrew Jackson even makes the case for increasing the tax rate on Canadian's highest-income earners to bring it into line with the U.S. top rate and to help close the growing income gap between wealthy and poor Canadians.[32]

Consumption taxes

Proponents of personal and corporate income tax cuts may advocate increases in consumption taxes and in some cases, new consumption taxes, as a means of recouping lost revenue.

Consumption taxes such as the HST are said to have a "regressive" effect, because they are levied at the same rate regardless of ability to pay. Lower income people who must spend a larger proportion of their income on goods and services are at a clear disadvantage compared to more wealthy citizens. The business/corporate sector is not affected by HST increases, since it can claim refunds of tax paid on purchases for business purposes. Consider two different people, Sandra and Paul, who each buy $5,000 worth of goods and services in a year, taxed at the current HST rate of 13%. They both pay $650 in sales taxes. But if Sandra is a low-income earner with annual wages of only $20,000, the $650 tax she pays swallows up almost 3% of her annual salary. If Paul is a high income earner, making $75,000 a year, the same amount of sales tax would take less than 1% of his annual salary.

The introduction of new consumption taxes, or increases to the sales tax rate deepen the disadvantage experienced by women and other lower-income citizens.

The N.B. government's recent reform proposals included a 2% jump in the provincial portion of the HST, bringing the combined tax to 15%, along with a new carbon tax on home heating, gasoline and other fossil fuels.

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[30] In 1987, the number of federal tax rates was reduced from 10 to 3, and the top federal rate reduced from 34% to 29%. See for example, Claire Young, *What's Sex Got to Do with It? : Tax and the "Family"*, Law Commission of Canada, May 2000, p. 14-15 at www.familyindex.net/Categories/Family+Economics/Socio-economic+Status/00289.htm; Marc Lee, "Overall Tax System No Longer Meets Basic Test of Fairness", *The Canadian Centre for Policy Alternatives Monito*r, vol. 14, no. 8 (February 2008); Andrew Jackson, *Why Charity Isn't Enough: The Case for Raising Taxes on Canada's Rich*, Ottawa, Canadian Centre for Policy Alternatives, December 2007, at http://www.policyalternatives.ca/Reports/2007/12/ReportsStudies1779/

[31] Neil Brooks and Thaddeus Hwong, *The Social Benefits and Economic Costs of Taxation - A Comparison of High and Low-Tax Countries*, Ottawa, Canadian Centre for Policy Alternatives, December 2006, www.policyalternatives.ca/documents/National_Office_Pubs/2006/Benefits_and_Costs_of_Taxation.pdf

[32] Andrew Jackson, *Why Charity Isn't Enough: The Case for Raising Taxes on Canada's Rich*, Ottawa, Canadian Centre for Policy Alternatives, December 2007, at http://www.policyalternatives.ca/Reports/2007/12/ReportsStudies1779/

Adding carbon taxes to already high home-heating and gasoline costs would weigh heavily on lower income people and small business owners. Research also suggests that a fossil fuels tax would not deliver on the goal of reducing greenhouse gas emissions, as intended.

The negative impact of new consumption taxes or sales tax increases will be even more severe if coupled with a shift away from multi-tiered personal income tax rates to a single-rate or two-rate structure. The current graduated income tax rates help soften the blow of flat-rate consumption taxes.

If consumption tax rate increases or any new consumption taxes are introduced, it is essential to provide refundable credits or adjust existing compensation to offset the higher costs borne by low-income citizens.

Refundable credits for low-income earners can mitigate the negative effects of consumption taxes, but such credits must also be analyzed to determine if women and those who most need it are actually receiving it. Experience with the GST tax credit, based on the combined income of spouses or common-law partners, suggests that such credits may not reach some of those who most need them, including women.[33]

Tax deductions, tax credits and public sector spending

Governments use an array of tax deductions (subtracted from the taxpayers' income *before* calculating how much tax is owed) and tax credits (applied *after* the tax calculation is done to reduce the amount of tax owing) to lighten the tax burden on taxpayers in particular circumstances and to encourage savings, investments and other activities.

Tax deductions reduce taxable income at the outset, so provide greater benefit to upper income earners who pay tax at a higher rate than lower income earners who pay at a lower rate. Tax credits are considered fairer subsidies, since they are a fixed amount taken off every taxpayer's bill, regardless of income.[34]

New Brunswick residents may presently be eligible for more than 20 exemptions and credits, including deductions for age, disability or dependants, medical expense and interest paid on student loans credits.[35] Many of these tax breaks are discriminatory to women and other lower income individuals because of their lower earnings, savings and investment capacity as well as their caregiving responsibilities and household status.

One example is the deductible contribution for Registered Retirement Savings Plans (RRSPs), that helps reduce the tax bill of those who can afford to put aside money for retirement. Fewer women than men contribute to RRSPs and those who do, contribute less than men. In 2006, 16% of women taxfilers in New Brunswick, compared to 21% of men, invested in RRSPs. Women's median contribution was $1,740 compared to $2,560 for men.[36] In light of such disparities, some

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[33] Lisa Philipps, "Gender Budgets and Tax Policy-Making: Contrasting Canadian and Australian Experiences" in Miranda Stewart, ed., *Tax Law and Political Institutions*, Australia, Federation Press, 2006, p. 157.

[34] Monica Townson, *Tax Facts: What Every Woman Should Know*, Ottawa, Canadian Advisory Council on the Status of Women, 1993, p. 12; Status of Women Canada, Synthesis Paper # 2: Women and Canadian Fiscal Policy in *Synthesis Reports* (December 2006), p. 6, at www.swc-cfc.gc.ca/pubs/pubspr/0662731351/index_e.html

[35] N.B. Department of Finance, Personal Income Tax, at http://www.gnb.ca/0162/tax/Personal-e.asp (consulted September 5, 2008).

[36] NB ACSW, *2008 Report Card on the Status of N.B. Women*, p. 33, at http://www.acswcccf.nb.ca/english/acsw3.asp

argue for the removal of all tax breaks for retirement saving and redirection of funds to more universal programs such as Old Age Security and the Canada Pension Plan.[37]

The child care expense deduction (CCED) is an example of a targeted provision that does not serve women and families as well as it should. The deduction was introduced by the federal government in 1972 as a way of facilitating labour force entry for women with children.[38] It currently allows one of the parents or supporting persons who is in paid employment, attending school or training to deduct child care expenses of up to $7,000 for each child under 7, $4,000 for each child between 7 and 16 (or for older children who have a mental or physical infirmity) and $10,000 for those with a disability under the age of one year.[39]

While this deduction may encourage some parents to use formalized child care, it was intended as a means of compensating the taxpayer for the cost of earning income, rather than fully supporting the caregiving needs of parents and children.[40]

As is the case with other deductions that reduce taxable income, the CCED is more beneficial to higher income taxpayers and many low-income parents will get no benefit at all. Moreover, many two-earner and lone-parent earner families are not eligible for this deduction because they pay in cash for informal child-care arrangements and are unable to provide the required receipts. This excludes many Aboriginal and low-income women who depend on extended family or neighbours to care for their children.[41]

Tax credits may ensure that all taxpayers receive the same subsidy, but the credits may not reach those who need them most because they are non-refundable. Non-refundable credits can only be applied against tax owing and any balance left after covering the tax bill will not be given to the taxpayer.

Women's overrepresentation among those who pay little or no taxes means that they may be excluded from accessing part or all of the credit amounts. For example, imagine you qualify for a $685 disability benefit, but your income is so low that you owe only $200 in personal income taxes. In that case, you would not be able to make use of the entire amount, just enough to cover your tax bill. Your higher earning neighbour, on the other hand, who qualifies for the same credit but owes $2,000 in taxes would keep the full $685 in tax savings.
The non-refundable child tax credit recently proposed by the N.B. government is another prime example of a tax subsidy that misses the mark. Set at a maximum value of $400 per child, the credit would be more fully available to male taxpayers than to the poorest families who need it most, including the female lone parents who pay little or no taxes.[42]

Feminist researchers and activists insist that tax credits be made fully refundable so that the benefits can reach the most needy individuals and families. They also call for governments to invest in public programs and services rather than attempting to address particular needs with tax

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[37] Claire F.L. Young, *Women, Tax and Social Programs: The Gendered Impact of Funding Social Programs through the Tax System*, Ottawa, SWC, Octobre 2000.
[38] Claire F.L. Young, *Women, Tax and Social Programs: The Gendered Impact of Funding Social Programs Through the Tax System,* Ottawa, Status of Women Canada, October 2000, p. 20.
[39] See Canada Customs and Revenue Agency, Child Care Expenses Deduction for 2007, at http://www.cra-arc.gc.ca/E/pbg/tf/t778/README.html
[40] Christa Freiler, Felicite Stairs and Brigitte Kitchen with Judy Cerny, *Mothers as Earners, Mothers as Carers: Responsibility for Children, Social Policy and the Tax System*, Ottawa, Status of Women Canada, March 2001, at http://www.swccfc.gc.ca/pubs/pubspr/0662655206/200103_0662655206_1_e.html; see also Michael Krashinsky and Gordon Cleveland, *Tax Fairness for One-Earner and Two-Earner Families: An Examination of the Issues*, Canadian Policy Research Networks Discussion Paper, December 1999, at http://www.cprn.org/en/doc.cfm?doc=792
[41] Status of Women Canada, *Synthesis Paper # 2: Women and Canadian Fiscal Policy*, in Synthesis Reports (December 2006), p. 6 at at www.swc-cfc.gc.ca/pubs/pubspr/0662731351/index_e.html
[42] Lahey, *What About Women?,* p. 21.

credits, exemptions and benefits. Subsidies delivered to individuals and households through the tax system are generally less effective than expenditures on public programs and services. Canadian social policy of the past decade has been marked by a shift away from direct program spending in favour of individualized benefits and privatizing of social services, placing a heavier burden on individuals and families for unpaid caregiving and reducing supports that encourage paid labour market participation.[43]

A prime example of a misdirected subsidy is the Universal Child Care Benefit (UCCB) introduced by the federal government in 2006, a model that the N.B. government is considering copying. The federal UCCB currently offers a small direct taxable benefit of $1,200, or $100 per month, to all parents for each child under the age of 6. The amount falls far short of covering child care costs paid by parents and diverts funding originally earmarked for building a national child care system. The N.B. version would offer a $600 per year or $50 per month allowance to families.

Tax expert Kathleen Lahey characterizes the proposed provincial UCCB as a luxury payment to parents who can live on one income and so do not incur child care expenses.[44] It is a costly initiative that will do little for the majority of families with dependent children who must purchase child care services since both parents, or the lone parent, is in paid employment.

New Brunswickers are facing a child care crisis. Spaces are in short supply, particularly for infants and in rural areas: only 14% of children below the age of 12 in our province can be accommodated in licensed spaces. The cost of quality care, when it can be found, is very high. Average monthly parent fees for full-time regulated child care in New Brunswick are about $525 for infants, $453 for pre-schoolers, and $244 for school-age children.[45]

Child care is an essential service, crucial for economic and social development in an era when three-quarters of women with young children are in paid employment. Direct public investment in the creation of quality, affordable, inclusive, not-for-profit child care services would be a more equitable and effective use of public funds.[46]

Joint measures

While we file income tax returns as individuals, a significant number of tax provisions consider our combined income or earning status as members of couples or families. New Brunswick fiscal legislation currently includes almost one hundred such joint tax and benefit measures, to which are added many federal tax rules that similarly recognize spousal and family relationships.[47] Feminist tax studies offer insights into how such provisions disadvantage women and diverse groups of women – lesbian couples, people of colour and other groups - by reinforcing the traditional male breadwinner nuclear family model and undercutting women's economic autonomy.

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[43] Armine Yalnizyan, *Canada's Commitment to Equality: Gender Analysis of the Last Ten Federal Budgets (1995-2004),* Canadian Centre for Policy Alternatives, February 2005 at http://www.policyalternatives.ca/index.cfm?act=news&do=Article&call=1115&pA=AE5DAA5F&type=2,3,4,5,6,7

[44] Lahey, *What About Women?,* p. 22.

[45] Based on space and parental fee data provided by the N.B. Department of Social Development and Statistics Canada postcensal population estimates.

[46] See Lahey, *What About Women?,* p. 22 ; also briefs and other documents by provincial and national child care groups including New Brunswick's Child Care Coalition/Coalition des services de garde à l'enfance at www.nbccc-csgnb.ca/ ; and Child Care Advocacy Association of Canada /l'Association canadienne pour la promotion des services de garde à l'enfance at http://ccaac.ca/ ; Ken Battle, Sheri Torjman and Michael Mendelson, *More than a Name Change: The Universal Child Care Benefit,* Caledon Institute of Social Policy (May 2006), at www.caledoninst.org/

[47] Kathleen Lahey, *New Brunswick and Fiscal Policy : Tax Women Fairly or at least 'Do no Harm'*, 2008, p. 6; Claire Young, *What's Sex Got to Do with It? Tax and the "Family"*, Law Commission of Canada, May 2000, www.familyindex.net/Categories/Family+Economics/Socio-economic+Status/00289.htm

Provisions such as the spousal tax credit serve to reinforce women's economic dependence on a spouse or partner and bolster traditional expectations about and undervaluation of women's caregiving work. The spousal amount is a non-refundable credit that can be claimed if one partner in a couple has little or no income. The earning spouse is entitled to claim the non-earning spouse as a dependent and receives a tax break because of it. Far more men than women claim this subsidy to single income households in which one spouse earns a high enough income to support the household.

This measure potentially disadvantages women in at least two ways. First, it should not be assumed that the non-earning spouse will in practice be able to share equally in these tax savings, or even access these resources at all. The reality is that income is not always pooled and controlled equally within the couple or family. This is a serious problem given the reality of women's unpaid work burden at home. Second, the provision may discourage women's labour force participation, since the loss of the tax credit and the exemption of unpaid domestic work from income tax may weigh in a decision for the stay-at-home partner, most often female, to take on what are often low-paying jobs.[48]

More than 30 years ago, a study commissioned by the Royal Commission on the Status of Women in Canada (1967-1970) suggested that rather than giving a tax break to husbands whose wives do not work outside the home, husbands should be required to pay tax on homemakers' unpaid work, in recognition of its value.[49]

Feminist researchers warn us of the dangers of any measures involving income splitting, given the all too common reality of unequal control of incomes within households.[50] The lower income spouse, usually a woman, does not necessarily receive any benefit from the income splitting initiative. This could be corrected by actually transferring legal title to the asset in the spouse's name. Feminist scholars and equality-seeking advocates call for all tax and benefit measures to be restructured as individual measures.[51]

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[48] Kathleen Lahey, "Tax Policy and the Traditional Family Model", NAWL, *Mothering in Law: Defending Women's Rights in 2007, Conference Paper*, May 2007, p. 21-24, www.nawl.ca/ns/en/Actions/conference2007.html ; Kathleen A. Lahey, *Women and Employment: Removing Fiscal Barriers to Women's Labour Force Participation*, Ottawa, Status of Women Canada, Nov. 2005, www.swc-cfc.gc.ca/pubs/pubspr/0662416759/200511_0662416759_2_e.html

[49] Townson, *Tax Facts: What Every Woman Should Know*, p. 20-21; see also Canadian Advisory Council on the Status of Women, Maureen Maloney, *Women and Income Tax Reform: Background Paper*, Ottawa, CACSW, October 1987, p. 10-13.

[50] Kathleen Lahey, *The Benefit/Penalty Unit in Income Tax Policy: Diversity and Reform*, Law Commission of Canada, September 2000, https://dspace.dal.ca/dspace/bitstream/10222/10400/1/Lahey%20Research%20Income%20Tax%20Policy%20EN.pdf ; Claire Young, *What's Sex Got to Do with It? Tax and the "Family"*, Law Commission of Canada, May 2000, www.familyindex.net/Categories/Family+Economics/Socio-economic+Status/00289.htm

[51] See for example, Lahey*, New Brunswick Women and Fiscal Policy : Tax Women Fairly or at least 'Do No Harm'*, August 2008, p. 6; Status of Women Canada, *Synthesis Paper # 2: Women and Canadian Fiscal Policy*, in Synthesis Reports (December 2006), p. 8 at at www.swc-cfc.gc.ca/pubs/pubspr/0662731351/index_e.html

ADVISORY COUNCIL POSITION

Taxation is an important public policy tool that can redistribute resources and reduce or increase inequality. The tax system is a complex and interconnected web of measures that can be expected to have a different impact on women, men and diverse groups because of their varying status, situation and life experiences. Substantive equality between groups in society must be a guiding principle for fiscal policy development.

Feminist tax studies uncover the discriminatory aspects of tax policy and suggest how governments could design gender and diversity-sensitive tax measures. Our recommendations are informed by the lessons learned from Kathleen Lahey's recent analysis of the New Brunswick government's tax proposals and the work of other fiscal scholars.

The Advisory Council urges governments undertaking fiscal reform to:

- Conduct and make publicly available gender-based analysis of the potential effects of any tax policy changes - positive and negative, direct and indirect - on the relative position of women, men and diverse groups of women and men.
- Ensure the conditions for effective gender-based analysis: sex-disaggregated data, high-level commitment by policy-makers, adequate human and financial resources, tools and training, and accountability by making GBA part of staff workload and evaluation.
- Consider the potential impact of any tax changes on government revenue as well as on distribution of income, consumption and property taxes among individuals and businesses.
- Ensure that the existing degree of progressivity in the personal and corporate income tax structure is not reduced. Maintain graduated tax rates to help reduce the income gaps between and among women and men.
- Provide refunds to lower-income individuals to offset the costs of single-rate consumption taxes and adjust this compensation to neutralize the impact of any rate increases. Regressive taxes that are levied at the same rate on all citizens regardless of income level place a heavier burden on those forced to spend all or most of their income on life's necessities.
- Make tax credits refundable so that low-income people who currently pay little or no tax also benefit from them.
- Dedicate adequate public expenditures to essential programs and services such as child care, instead of using tax measures to deliver small subsidies to individuals and families.
- Tax and benefit measures should be structured for individuals not couples or families. Joint measures that provide benefits to women as part of a couple or family serve to reinforce economic dependency and may discourage labour force participation.