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Family Tax Cuts: How Inclusive a Family?

by

Jonathan Rhys Kesselman

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FAMILY TAX CUTS: HOW INCLUSIVE A FAMILY?

Executive Summary

The Conservative Party of Canada's proposed Family Tax Cut derives from two parallel but inconsistent rationales: equalizing tax burdens for couples with the same total incomes but divided differently between spouses, and supporting families in caring for their children. The proposal has been widely critiqued for its narrow notion of "family," exclusion of low- to moderate-income couples and all single parents, and concentration of benefits on single-earner couples at high incomes who have the least need for support.

This study reinforces earlier findings and also assesses the proposal's other deficiencies: faulty implementation of the horizontal equity criterion; assuming that couples fully pool and share their incomes; ignoring scale economies enjoyed by couples; lack of conditionality on the at-home spouse's activity; barriers to women's working and associated economic inefficiency; marital and cohabitation biases; violation of gender neutrality and individual autonomy; and potential adverse impacts on provincial income tax revenues and progressivity.

Several Family Tax Cut variants are examined for their revenue and distributional impacts. These include restrictive and expansive variants as well as proposals to alter the tax treatment of the spousal amount. None of the variants is found to satisfactorily address the original scheme's deficiencies, and some actually exacerbate them. Fiddling with the original proposal such as capping the maximum benefit would moderate the distributional impact but do little to address the many other deficiencies.

Next the study assesses the distributional and behavioural impacts of a wide range of alternative tax cuts and benefit hikes for families costing the same $2.88 billion estimated for the Family Tax Cut if enacted in 2015. These alternatives dispense with the proposal's first espoused rationale and focus on support to all kinds of families with children at multiple income levels—offering a much more inclusive notion of "family." Three of the programs considered were initiated by the Conservative government itself.

Alternatives examined include expansion of the Child Tax Credit, Canada Child Tax Benefit, National Child Benefit Supplement, Universal Child Care Benefit, Working Income Tax Benefit, EI Maternity Benefits, and Child Care Expense Deduction. Items from this rich menu for policy choice can be combined to avoid most deficiencies of the Family Tax Cut.

Lastly, the study examines general tax rate cuts to encompass the broadest notion of families: all taxpayers, with and without children, one and two adult. This approach would yield very small benefits if spread so widely and might be appealing only as part of a multi-year commitment to further cuts. For example, the $2.88 billion cost would finance raising the basic personal amount by less than $1,000, yielding a maximum tax saving of less than $150 per filer.

Compared with the proposed Family Tax Cut, many viable options exist to distribute the benefits more widely and more effectively in support of a far more inclusive notion of Canadian families. Any of these policies could avoid the Family Tax Cut's worst deficiencies and be implemented simply and quickly through the expansion of existing programs.

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Postscript (November 1, 2014)

This study was completed prior to the government's October 30th announcement of a modified income-splitting scheme. The following commentary relates it to the analysis of the present study.

The modified Family Tax Cut (MFTC) announced by the government essentially follows the original Family Tax Cut (FTC) advanced by the Conservative Party of Canada in its 2011 electoral campaign but with two changes: 1) the amount of benefit per couple is capped at $2,000 per year; and 2) the income split is changed from a transfer of taxable income (along the lines of pension income splitting) to a nonrefundable credit claimable by either spouse.

The significance of the conversion to a credit format, as explained in this study, is that the scheme will not impose any direct revenue cost on the treasuries of provinces that participate in tax collection agreements with the federal government. That change eliminates one objection to the original FTC proposal, but almost all of the other deficiencies of the original scheme cited in this study remain in the MFTC. The credit format also adds considerable complexity to the operation of the provision (taking four pages to explain in the Notice To Amend the Income Tax Act).

Capping the maximum benefit in the MFTC at $2,000 both reduces the revenue cost of the scheme by about one-third and moderates the sharp tilt of total benefits toward the highest-income single-earner couples. Nevertheless, the MFTC like the FTC will still be received by fewer than 13 percent of all households, and the average income of those beneficiary households will still be a relatively high $123,000 (Table 2). Fewer than 3 percent of all households will be further constrained by the $2,000 cap than were already constrained by the original FTC limit. Moreover, while the government likes to retain the claim of a $50,000 limit on splitting, the dollar cap on the benefit means that for most couples the maximum allowable income split will be less.

The government's other companion proposals along with the MFTC are initiatives of kinds assessed in this study: 1) increasing the Universal Child Care Benefit from its current $100 per month for children under age 6 to $160 and introducing a new $60 per month UCCB for children aged 6 through 17; 2) eliminating the Child Tax Credit currently provided for children under age 18 in taxable families; and 3) increasing each of the limits allowed for children of different ages for Child Care Expense Deduction (CCED) by $1,000 from their current annual levels.

Loss of the Child Tax Credit will cost all taxable families $28 per month for each child, and taxability of the UCCB at both federal and provincial levels reduces the net monthly gain to about $39 to $45 per child. Thus, the overall net gain per child will be about $11 to $17 each month—not the headline figure of $2 per day but just about 50 cents.

Raising the limit for CCED claims by $1,000 for each category of children's ages disperses the benefit rather than concentrating it on children for whom the need is greatest. Taking the limit for children under age 7 from $7,000 to $8,000 ignores the actual cost of paid care for infants and toddlers ranging up to twice those sums. Conversely, raising the limit for older children through age 16, few of whom need daily paid care, from $4,000 to $5,000 mostly rewards parents who can afford to send their kids to summer camp. A better-targeted reform would be to double the limit for younger children to $14,000.

Income splitting for families with children up to age 18, extending the UCCB to school-age children, and increasing the CCED by $1,000 for children of all ages is a missed opportunity to bolster support for children at their most critical stages of development. A more effective initiative might, for example, have combined an increase in the UCCB and/or National Child Benefit Supplement for children age under three, an extension of Employment Insurance maternity and parental benefits to two years, and a sharp increase in the CCED focused on infants and young children. This package of policy reforms would have been affordable within the official package's annual cost of about $4.6 billion (60 percent higher than the original FTC proposal).

Alternatively, introducing a new Birth Bonus payable in non-taxable monthly sums to all parents of newborns in the period preceding and following birth could be a more visionary use the funds. The Bonus could total $7,000 per newborn for the same revenue cost as the original FTC, or $11,000 per newborn for the cost of the government's policy package. Payments could be tied to delivery of supportive services to expectant and postnatal mothers to avoid the tragic lifelong outcomes related to low birth weights, fetal alcohol spectrum disorders, and parental neglect.

A final observation relates to how the government's family policy package breaks down between tax cuts and expenditure increases. Using the government's own figures, we take the first full fiscal year of operation, 2015-2016.[*]

- Tax cuts: $1,935 million for income splitting, plus $65 million for increased Child Care Expense Deduction, minus $1,750 million for elimination of the Child Tax Credit, and minus $565 for additional federal taxes on the enhanced UCCB. Grand total of net tax impacts: *negative* $315 million, or a net increase in tax burdens.
- Spending increases: all on the enlarged UCCB: *positive* $4,935 million.

With numbers like these, the government is hardly in a good position to attack its political rivals for being big on spending and short on tax cuts.

[*] Canada Department of Finance, "Backgrounder: Helping Families Prosper," October 30, 2014, http://www.fin.gc.ca/n14/data/14-155_1-eng.asp

FAMILY TAX CUTS: HOW INCLUSIVE A FAMILY?

Jonathan Rhys Kesselman*

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FAMILY TAX CUTS: HOW INCLUSIVE A FAMILY?

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The day after delivering the 2014 budget, then-Finance Minister Flaherty publicly questioned the Conservative Party of Canada's (CPC) signature tax promise of the 2011 election campaign—a Family Tax Cut in the form of income splitting for couples. He stated, "I'm not sure that overall it benefits our society. I think income splitting needs a long, hard analytical look."[1] The CPC proposal would allow couples with at least one child under age 18 to split up to $50,000 per year, and it was to be triggered by the return to federal budgetary balance in 2015 as forecast in the 2014 budget. Flaherty's distancing from a key policy of his party was an unprecedented move for a finance minister, and it evoked a raft of media speculation and commentary and statements from top government officials.[2] Prime Minister Harper and successor Finance Minister Oliver reiterated their strong commitment to a "family tax cut" but equivocated on whether the format would be the original income-splitting scheme. These events followed a long series of critical Canadian analyses of income splitting for couples in general and the CPC proposal in particular, suggesting that Flaherty's summoned "long, hard analytical look" had already been fulfilled.[3]

The CPC income-splitting scheme suffers an acute identity crisis or at least a curious case of split personality. What precisely is the rationale for this proposal? Supporters of the scheme commonly cite two patently inconsistent rationales. First, splitting is promoted as essential to equalize tax burdens for two-earner couples with the same total incomes but with earnings split differently between spouses. If this is the valid basis for the scheme, then how can the restriction of splitting to couples with dependent children be justified? This so-called "horizontal equity" principle should apply equally to all couples regardless of the presence of children. Under this

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* The author acknowledges with thanks Alexandre Laurin for quantitative simulations and input and the comments of eight reviewers in improving the study. Responsibility for all content and conclusions rests solely with the author.

[1] Curry and Wingrove (2014).

[2] The reporting is often blended with analysis and commentary in articles and columns (all 2014) by Babbage; Barrett; Beltrame; Chase and Curry; Clark; Corcoran; Coyne; Curry and Wingrove; Geddes; Greenwood; Isfeld; Ivison; McParland; Mercer; Simpson; Venis; and Yalnizyan.

[3] Critical assessments had emerged from expert analysts at such wide-ranging think tanks as the C.D. Howe Institute (Boessenkool and Davies 1998; Laurin and Kesselman 2011), the Institute for Research on Public Policy (Vincent and Woolley 2000; Kesselman 2008), the Canadian Centre for Policy Alternatives (Macdonald 2014), and the Fraser Institute (Clemens et al. 2014). Subsequent critical analyses appeared in Milligan (2014), Lahey (2014) for Canadians for Tax Fairness, Shillington (2014) for the Broadbent Institute, and Johal (2014) for the Mowat Centre. On the supportive side of income splitting were studies from two researchers affiliated with the University of Calgary's School of Public Policy (Mintz 2008; Krzepkowski and Mintz 2013; Krzepkowski 2013), but even they argued that modifications to the CPC scheme were needed (which we assess later). Also see Institute of Marriage and Family Canada (2014).

rationale, couples without dependent children but also having different earnings splits should be equally deserving of the option to split their incomes.[4] Second, income splitting is promoted as a means to assist families in the choice of having a parent stay home to care for children. If this is a valid rationale for the scheme, then why is it structured so as to provide no benefit to families with the least ability to afford an at-home parent—low- to moderate-earning couples and sole-parent households? Moreover, this rationale might suggest a scheme restricted to families with pre-school-age children. Why provide a significant benefit as well to families with only school-age children, who have far less need for an at-home parent? The CPC scheme's heavy tilt of benefits toward high-income, single-earner couples further strains the basis for this rationale. In short, a key policy question is how inclusive should the notion of "family" be for tax cuts?

In this study we extend our own and others' assessments of the Conservative Party of Canada's proposal for income splitting at the federal level. Our assessment considers a much wider range of policy criteria than previous studies, which have focused on the revenue and distributional impacts. We also outline and examine alternative family-oriented policies that could be adopted for the same forgone federal revenue cost as the CPC proposal.[5]

We begin by assessing the CPC scheme's numerous deficiencies, which serves as a basis for the subsequent analysis. This material casts serious doubt on the validity of the horizontal-equity rationale for income splitting. Several variants of the CPC proposal are then subjected to analysis for their revenue cost, distributional impacts, and behavioural effects. We consider both expansive and restrictive versions of the CPC scheme as well as proposals to vary the tax treatment of the spousal amount. The succeeding section examines a wide range of "family" tax cuts and counterpart benefit increases that would focus on the CPC's second rationale—assisting families to care for their children. These alternative policies construe "family" more widely than the CPC scheme to include single-parent households and spouses without divergent earnings. Most of the suggested reforms could be implemented as simple extensions of existing tax and benefit provisions. The last substantive section takes the concept of "family" in the broadest sense to include all taxpayers regardless of the presence of children; it estimates various general tax cuts that could be financed by our projected $2.88 billion cost of the CPC proposal in 2015.

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[4] Apropos this point, the Conservative Party of Ontario's 2011 election pledge for income splitting at the provincial level would have extended to all couples irrespective of the presence of children, thus giving primacy to the first rationale and abandoning any pretence of the second rationale (Howlett 2011).

[5] For estimates of the provincial revenue cost and distribution of benefits from federal and provincial income splitting, see Laurin and Kesselman (2011); for more detailed estimates of the provincial distributional impacts of federal income splitting, see Shillington (2014).

BOX: Assumptions and Quantitative Methodology

A few notes about our assumptions and methodology are appropriate before proceeding. All estimates of revenue costs and distributional impacts have been derived using Statistics Canada's Social Policy Simulation Database/Model, with projection of tax parameters and data to 2015. Tax parameters are assumed to increase by 1.91 percent from 2014 to 2015 based on projected CPI increases, which is the Statistics Canada model estimate. The model estimate of tax bracket indexation between the 2013 and 2014 tax years, at 1.8 percent, was higher than the actual 0.9 percent rate, but in our text we cite 2015 tax parameters indexed from the actual 2014 values. The author assumes full responsibility for use of the SPSD/M in this study.

Any behavioural responses to changes in tax or benefit policies are ignored in our quantitative analysis; therefore, the taxable base is assumed to be unaffected by all variants of the policies. One implication is that our estimate of the CPC scheme's revenue cost likely errs on the low side given its work disincentive effects for some married women, which we discuss later. The taxes on their forgone earnings will be lost, and their lower incomes will increase the gains to and revenue cost of income splitting by their higher-earning spouses.

Our method makes no assumption about whether the provinces would choose to follow any federal-level income-splitting initiative. Thus, the estimates in this study pertain solely to federal policy changes, although we offer one estimate of the revenue cost of federal plus provincial splitting under a scheme that poses no limits on the income split or the presence of children. In an earlier analysis, we estimated that provincial income splitting using the same parameters as the CPC proposal would raise the total revenue cost by more than 60 percent.

Most of our simulations and illustrations of policy alternatives to splitting assume the same $2.88 billion cost as the CPC proposal, but all could be scaled up or down for any desired revenue cost. We assume that splitting is permitted for employment/self-employment earnings and property/investment income, since the CPC proposal allows splitting of all kinds of income. In all numerical illustrations we assume that all the income is in fully taxable forms such as labour and interest income, rather than of a type that is taxed at preferential rates, such as capital gains and Canadian dividends. Thus, whenever we use the term "earn" or "earner," we are referring to the individual's total taxable income.

CRITIQUES OF THE CPC PROPOSAL

Income splitting generally and the CPC splitting scheme in particular have been subjected to extensive analysis, with a widespread finding of numerous deficiencies.[6] In the following subsections we summarize the operation of the proposed CPC scheme and enumerate the deficiencies both with respect to claims of proponents as well as other aspects considered by analysts. Some observers have suggested that the CPC scheme could be "tweaked" to make it more palatable, while others have proposed structural changes in the spousal tax credit to mitigate some adverse properties of the original proposal. These proposed modifications are

[6] For a review of earlier work assessing the choice of taxable unit and income splitting in multiple countries, along with numerous references, see Kesselman (2008) and various studies in Head and Krever (1996). Income splitting for tax is utilized in only a minority of countries. For analysis of the CPC scheme, see the sources in note 3.

assessed in the following major section, and we shall see that they provide only limited remedies while failing to correct most of the noted deficiencies.

The essence of the proposed Family Tax Cut is to permit couples with a child under age 18 to shift income—strictly notional shifts for purposes of income tax—from the higher-earning spouse to the lower-earning spouse. The Canadian income tax does not differentiate between married couples and those in common-law relationships, nor between straight and gay couples, so that splitting would be available to all couples. Any tax benefit to a couple from splitting hinges on the ability to shift taxable income from a spouse in a higher tax bracket to the spouse in a lower tax bracket. Thus, the amount of any such tax benefit is proportional to both the amount of income that can be shifted and the differential between the tax rates of the two spouses. Table 1 presents the federal income tax rate brackets projected to the 2015 tax year; it shows 26 percent of all adult tax filers in two-parent families with children are non-taxable, and 83 percent of taxable returns fall in the lower three rate brackets. The higher-earning partner lies in the upper two rate brackets in 23 percent of couples with children.

A couple with both spouses in the same tax bracket gains nothing from splitting *per se*.[7] Thus, even a couple with high total taxable income of $140,000 would not benefit if their earnings were divided $55,000 and $85,000, since those figures both lie in the 22% rate tax bracket.[8] Similarly, a mid-income couple with each partner earning $44,000 would not benefit,[9] nor would a lower-earning single or dual-earner couple with neither spouse earning more than $44,000. In contrast, a single-earner couple with income of $140,000 could save a great deal from splitting with the ability to shift up to $50,000 into lower rate brackets on the tax return of the non-earning spouse. The greatest tax savings from income splitting arise for one-earner couples particularly at the highest earnings levels for the working partner.[10] Under the CPC scheme, the largest tax savings of $6,636 arise for a single-earner couple with taxable income of $188,874[11] or more (which could exceed $225,000 in total income).

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[7] While that situation creates no tax benefit from the splitting *per se*, in some circumstances it can provide indirect tax savings through provisions such as allowing couples to optimize the child care expense deduction or to maximize their use of non-transferable tax credits.

[8] This couple could easily have total income exceeding $165,000, given the availability of deductions for pension plan and RRSP contributions at a maximum of 18 percent of earnings.

[9] This couple could actually have total income exceeding $100,000, given the availability of deductions for pension plan and RRSP contributions at a maximum of 18 percent of earnings.

[10] See Laurin and Kesselman (2011, Table 4) for this pattern, although it portrays federal plus provincial splitting.

[11] Because of the federal tax abatement, the corresponding largest tax savings for Quebec taxpayers is $5,541.

Defining and Measuring Horizontal Equity

A key issue in the first-cited rationale for income splitting is the argument that taxing couples based not only on their total combined incomes but also related to the earnings split between the spouses is somehow "unfair." This assertion refers to the economic concept of "horizontal equity," which states that taxpayers who are equal in all relevant respects or have similar "ability to pay" should bear the same tax burdens. However, this concept does not refer explicitly to income but rather to a broader measure of economic resources. A single-earner couple's full economic resources include more than their money income, as this ignores the potential income that the at-home spouse could earn by working outside the home. Thus, a two-earner couple cannot be regarded as equal in taxpaying ability with a one-earner couple having the same money income but an at-home spouse.

Comparing single-earner and dual-earner couples with the same total money incomes ignores the fact that the single-earner couple has a spouse out of the paid labour force able to generate significant valued goods and services for the household – goods and services that the dual-earner couple would need to purchase on the market and/or produce in their time spent off-work. The most prominent of these home-produced items are childcare and many forms of housework such as cooking and cleaning. Moreover, even with the same total money income, the dual-earning couple bears additional costs of daycare, hired maid and laundry service, more meals eaten out and prepared foods, and the work-related expenses of the second spouse including commuting (maybe a second car), clothing, meals, and payroll taxes.[12] Taking all of these factors into the calculus, it is by no means clear that the single-earner couple is treated disadvantageously relative to the equal-income dual-earner couple without income splitting.[13]

Pooling, Sharing, and Scale Economies

Taxing couples based on their combined incomes implicitly assumes that income pooling and sharing and egalitarian decision-making on spending are near-universal among couples.[14] However, survey evidence finds that these behaviour patterns are highly varied, with many

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[12] Additional payroll taxes arise for a couple when the higher earner exceeds the maximum taxable levels (in 2014, \$48,600 for Employment Insurance and \$52,500 for Canada Pension Plan); see Laurin and Kesselman (2011). CPP also provides single-earner couples a potential benefit relative to dual-earner couples, who gain less from the spousal survivor benefit feature despite having paid more in lifetime premiums.

[13] For calculations and illustrations of this comparison, see Laurin and Kesselman (2011). These general points have long been recognized in the research literature. They were also cited in the report of a Parliamentary committee that was set up to investigate Reform Party assertions of tax "unfairness" toward single-earner couples (Canada 1999).

[14] The Conservative Party of Canada's 2011 campaign platform described its proposal as "a historic step forward to achieve … *income-sharing* for couples" (p. 26, emphasis added).

couples keeping separate bank accounts or the higher-earning spouse exercising disproportionate discretion over spending.[15] If that situation is a closer approximation to typical behaviour, the horizontal equity rationale for income splitting is diminished. But proceeding on the assumption that full income pooling and sharing are the norm would require consideration of the scale economies that the partners enjoy in living together. Two people together can achieve the same real living standard with less money income than they would need in living apart; these economies arise from items such as shared living space, furnishings, and utilities. A common estimate is that they would require only about 70 percent of what they would need separately.

The horizontal equity criterion along with the assumption of full sharing implies that tax policy should consider the greater real resources enjoyed by a couple with the same money income as two single individuals. The implication is that couples where the partners have similar incomes should pay more combined taxes when living together (married or common-law) than if they were living apart.[16] This outcome is commonly called a "marriage tax" although in Canada it would apply equally to common-law partners. In short, judged on these principles, pure income splitting would be unduly generous even for equal-earning partners. For consistency, couples should instead be treated under a system of joint taxation, in which the tax brackets are *less than twice as wide* as the counterpart tax brackets for single individuals.[17] Combined with progressive tax rates, such a system yields both marriage taxes for spouses with similar earnings and marriage bonuses for spouses with significantly divergent earnings.[18] Income splitting, in contrast, is selective in its application of the horizontal equity principle and disregards scale economies, thus yielding only marriage bonuses and no marriage taxes.[19]

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[15] See the findings from studies by Kornhauser (1993), Vogler and Pahl (1994), and Phipps and Burton (1998).

[16] Although an advocate of income splitting, Mintz acknowledges "Like a family with one single earner, two earners living together should also pay more per capita tax than a single individual living on their own" (2008, p. 16). This statement mirrors the Carter Commission's view that "when two people with the same income marry, the total tax on the couple should be greater than the sum of the taxes they paid when single" (Canada 1966, vol. 3, p. 15).

[17] Unconstrained income splitting is equivalent to providing a couple the option of joint filing with tax brackets twice as wide as those allowed for individual filers.

[18] The Carter Commission recommended mandatory joint filing with such a "marriage tax," which might be a reason that the proposal was rejected (Canada 1966, vol. 3, pp. 166, 190). The US federal system of joint married filing has periodically imposed a marriage tax at all income levels, although today it remains only for high-income couples. For a chronology of the associated policy instability in the US tax, see Kesselman (2008, pp. 12-14).

[19] The current tax-transfer system does embody significant "marriage taxes" particularly at lower incomes in the aggregation of spouses' incomes with respect to income-tested credits and transfer payments. However, the current use of the individual as the taxable unit does not assume full income sharing and thus eschews the need to consider scale economies enjoyed by couples in joint consumption.

Benefit Unconditional on At-Home Spouse's Activity

Under the CPC scheme, the option for couples to split their income is conditioned only on the presence of a child under age 18 and is completely independent of the lower-earning spouse's activities. While the cited second rationale for the proposal is to support or encourage one of the parents to remain at home for child rearing, the scheme itself has no such requirement. The lower-earning, non-working, or at-home spouse may choose to devote their time to anything besides child minding, such as hobbies, shopping, travelling, volunteering, entertaining, or assisting the working spouse.[20] Given that financial pressures induce most mothers to return to work not long after giving birth, these leisure-type options are most open to spouses with high-earning partners. Thus, the largest tax savings from income splitting will most often be exploited by spouses who would have remained out of the labour force even without a tax windfall—and irrespective of whether their time is spent minding children.

Barriers to Women's Working and Economic Efficiency

Under the current tax system, each individual is entitled to a "basic personal amount," which for 2015 is projected to be $11,351. This provision relieves up to that amount from tax at the 15% bottom-bracket rate; thus, it does not act as a deduction from taxable income yielding larger tax savings for taxpayers in higher rate brackets. For a spouse with income below the basic amount, the unused portion can be transferred as a spousal amount to the higher-income spouse's return.[21] Therefore a couple garners the full benefit of two times the basic personal amount, either on the tax returns of each spouse (when both have incomes above the basic amount) or on the tax return of the higher-earning spouse. This result follows regardless of the earnings of the lower-income spouse. A non-working spouse who considers entering the labour force faces the bottom-bracket rate of 15% on initial earnings and successively higher bracket rates on higher earnings.[22] Thus, the tax rate facing each partner is independent of the earnings of their spouse.[23]

Income splitting can substantially alter the choices facing spouses who are at the margin of entering or leaving the labour force. The non-earning spouse now faces the marginal tax rate

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[20] Philipps (2011) cogently argues that an at-home spouse who is actively assisting an employed spouse in conduct of their employment duties should be allowed some income splitting for tax purposes, as is currently permitted for a spouse working in a family business; the mechanics and monitoring of such a scheme are unsettled.

[21] We shall refer to the "spouse or common-law partner" credit as simply the spousal credit, which is sometimes described as an exemption-equivalent "spousal amount," but this figure is applied as a credit valued at the federal bottom-bracket tax rate of 15%.

[22] This presumes that the spouse has enough taxable income to take full advantage of the spousal credit.

[23] This conclusion abstracts from various other provisions of the tax and transfer system such as transferable credits and deductions and transfer provisions that hinge on joint incomes.

of the higher-earning spouse on her initial earnings. Similarly, a working lower-earning spouse will also face a marginal tax rate based on the split-income of the higher-earning spouse. So instead of a 15% tax rate on initial earnings, a lower-earning spouse can face a rate of up to 29% when splitting with a high-earning spouse (and up to 50% in some provinces if they were to join splitting). This situation can impose a significant disincentive for labour-force entry and work by lower-earning spouses with higher-earning partners. Simulations of the CPC scheme reveal increased marginal effective tax rates (METRs) on work for lower-earning spouses at many income levels, with some offset in the form of lower METRs for their higher-earning partners.[24]

This finding has implications for economic efficiency. Empirical studies of the labour supply of married men and women estimate that wives, who are most often the lower-earning spouse, are much more responsive to tax rate variations such as those from income splitting. Two sophisticated empirical studies have estimated that the joint or split-income taxation systems of several countries substantially reduce married women's labour-force participation rates and their work hours relative to taxing spouses on an individual basis as in Canada.[25] Thus, we would expect that under the CPC scheme many wives will curtail their work hours or withdraw from (or not enter) the labour force, while their husbands are likely to show little response. As a result overall work hours will decline, with adverse effects on the economy's efficiency.[26] For optimal efficiency, the lower-earning spouse should face a lower tax rate and the higher-earning spouse should face a higher tax rate, which is precisely what a progressive income tax based on the individual (without income splitting) achieves.

Marital/Cohabitation Neutrality

The option to split incomes under the CPC proposal increases an existing incentive, or distortion, in the tax system favouring marital and common-law relationships.[27] Thus, it increases a bias

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[24] See Laurin and Kesselman (2011, Table 7, p. 15) for simulation results, which reflect the METR impacts of federal plus provincial income splitting under the CPC format plus the impacts of income-tested tax-related transfer provisions. Also see the analysis in Gugl (2013).

[25] Guner et al. (2012, p. 1115) estimate the impacts of the United States undertaking a revenue-neutral shift from joint taxation of married couples to individual taxation: married women's labour-force participation rises by 10.4 percent, with an even greater rise of 18.8 percent for those with children; male work hours remain almost unchanged; and aggregate economic output rises by 4 percent. Using data from multiple countries with varying types of tax units, Bick and Fuchs-Schündeln (2014) estimate large impacts on annual work per woman in shifting from current joint or split-income tax systems to individual taxation: Portugal and France (more than 100 hours), the US (120 hours), Ireland (140 hours), Denmark (170 hours), Belgium (240 hours), and Germany (a massive 300 hours). These annual impacts are affected more by labour-force choices than hours choices of the employed .

[26] See the discussion and references in Kesselman (2008, pp. 31-32).

[27] This bias contrasts with that arising in the US tax system that allows favourable joint tax filing mainly for married couples (though common-law marriages recognized in 10 states also qualify), which poses significant bonuses for

affecting individuals' relationship choices. Current Canadian tax treatment of couples provides a small bonus for marriage or cohabitation where one partner has zero or very low income; it allows any unused part of the basic filer credit amount of $11,351 (2015 projected amount) to be transferred to the higher-earning partner in the form of a spousal credit, which would be "wasted" if that person remained alone. The maximum value of this credit is $1,703 (the filer amount times the 15% bottom-bracket rate). In contrast, the CPC proposal allows both the transfer of the spousal credit *and* the splitting of up to $50,000 income, which yields a potentially much larger bias in marital and cohabitation choices for non-cohabiting persons with divergent incomes. This policy would constitute a major shift of the Canadian tax system from its basic use of the individual as the taxable unit, which is the practice followed by most countries.[28]

Gender Neutrality and Individual Autonomy

The CPC splitting proposal exerts obstacles for gender neutrality and individual autonomy at several levels. To the extent that it creates disincentives for the lower-earning spouse to enter or re-enter the labour force, splitting will reduce not only their current earnings but also their work experience and long-run earnings potential. Given that the lower earner is most often the woman—whether a wife or cohabiting spouse—this situation poses obvious issues of gender equity. This outcome will reduce women's options in the event of future marital dissolution, and their lack of current earnings reduces their autonomy and bargaining power within the relationship. Lacking earnings, the non-working spouse may also have less access to funds and less discretion over family spending decisions in non-egalitarian relationships. Inducing women to stay at home rather than work outside the home will also leave them assuming a much larger share of the housework than in dual-earner couples; this specialization of responsibilities will compromise gender-equal relationships that extend to parental as well as housekeeping roles.[29]

If earnings are split solely on tax returns, similarly to current pension-income-splitting provisions, the CPC proposal poses further threats to gender neutrality and autonomy. Most often being the lower-earning spouse, women in couples splitting their incomes will be liable for tax on the income shifted from their higher-earning spouse, who in turn receives the direct tax relief from splitting. A key point is that the shifts of income from splitting are purely notional

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marriage versus unmarried *and* most common-law relationships (see Kesselman 2008, note 40, p. 41).

[28] See Kesselman (2008, Table 2, p. 15).

[29] These aspects of income splitting are assessed in models of bargaining between spouses; see Gugl (2009, 2013).

and do not put money in the pocket of the lower-income spouse.[30] While both spouses must certify their agreement to electing such splitting, the lower-income spouse still may need to bargain to secure a proper share of the joint gains from the splitting despite their liability for paying additional taxes.[31] This way of implementing the income splitting can also give rise to what has been called the "innocent spouse" problem. In cases of misrepresentation by the higher-earning spouse, the lower-earning spouse can get stuck with unwarranted tax liability, particularly in the aftermath of marital separation.[32]

Vertical Distribution of Benefits

Critiques of the CPC proposal—both by tax analysts and political and media commentators—have focused on the vertical distribution of the tax savings. Even Finance Minister Flaherty observed that income splitting "benefits some parts of the Canadian population a lot and other parts of the Canadian population virtually not at all."[33] The CPC scheme's benefits would go disproportionately to higher-income "families," with nothing going to low- and moderate-income couples or to single-parent households. Table 2 presents our simulation results of the scheme for 2015 disaggregated by non-gainer and gainer households and the amounts of tax savings among the gainers. Of all Canadian households fully 87 percent would gain nothing, while 13 percent would enjoy some tax savings. Among those 13 percent of households gaining, nearly 6 percent would gain just $500 or less, often as an incidental tax effect rather than the splitting itself, and 5 percent of households that are couples with a child under 18 would gain nothing. Thus, the zero- and low-gainers among households otherwise eligible for splitting would outnumber the mere 7 percent of all households gaining more than $500. The table's last column shows that among gainer households the amount of gain rises with incomes. Average household income for those receiving the largest gains of more than $5,000 exceeds $311,000.

A fuller picture of the distribution of benefits from the CPC scheme emerges when disaggregating eligible "families" by the earnings split between the spouses. The three panels of Table 3 undertake this grouping into families where the lower-income parent earns from 0 to 15

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[30] Philipps (2011) argues that income splitting might be justified as a way to "incentivize" egalitarian transfers between spouses but only if the policy requires that the shifts of income or assets generating the income be real rather than notional. In practice this approach might be difficult to monitor and enforce on a wide basis.

[31] Both spouses must sign a joint certification on Canada Revenue Agency Form T1032 stating, "We understand that we will be jointly and severally liable for any amounts of tax, interest and penalties that may be owing as a result of this election."

[32] See Woolley (2007) and Philipps (2013).

[33] Greenwood (2014).

percent of family income (mostly single-earner couples), from 15 to 35 percent, and from 35 to 50 percent. Each group constitutes roughly one-third of all such families. The first group approximates the case of one-earner couples and will be labelled as such in our discussion; we will call the third group equal-earner couples, for whom income-splitting potential is far more limited. Table 3A presents the breakdown of average federal tax savings (in both dollars per couple and percent reduction) and fiscal cost for the three groups. Average tax savings are more than nine times as large for one-earner couples as for equal-earner couples, and in terms of percentage tax reduction they are eight times as large. The CPC scheme's fiscal cost arises nearly two-thirds from the one-earner group, even though they are just one-third of the couples.

Tables 3B and 3C follow the same three groups of couples by income splits and further disaggregate them by family income quartile. Thus each of the cells in these tables constitutes about one-twelfth of all families with two parents and a child under age 18. The combination of single-earner attribute and high family income (top quartile) now can be seen as generating outsize benefits and draw on revenue cost. Comparing the one-earner Q4 couples with the equal-earner Q1 couples, the former gain more than 100 times as much in dollars of tax savings per family (Table 3B) and draw more than 100 times as much in fiscal cost (Table 3C) as the latter group. Although they constitute just one-twelfth of all families eligible for income splitting, the one-earner Q4 couples consume more than one-quarter of the entire fiscal cost of the CPC scheme. In moving across the income splits from one-earner couples to equal-earner couples (reading down each column), the average dollar savings per family decline steadily (Table 3B) and the fiscal cost per group falls dramatically (Table 3C). All of these results confirm our earlier qualitative observations.

VARIANTS OF THE CPC SCHEME

Several commentators and tax policy analysts have opined that the CPC income-splitting scheme is basically sound but would benefit from some "tweaks" or structural changes. One observer suggested "tinkering with the policy to ensure better balance" such as restricting splitting to a lower limit of $25,000 per year or to families with a child under age 6 (Heath 2014). We explore the revenue cost and distributional implications of these restrictive variants. We also assess the attributes of expansive variants that might evolve from an implemented CPC scheme to eliminate the dollar cap on income splitting or the requirement that couples have children in order to split incomes. Other analysts have suggested modifying the treatment of the marital tax credit in order to reduce the CPC proposal's deficiencies with respect to horizontal equity and barriers to working for married women. We consider two versions of modifications to the spousal exemption in terms of those properties as well as their cost and distributional implications. Table 4 summarizes the revenue cost and other findings related to variants of the CPC proposal.

Expansive Variants of CPC Scheme

If income splitting such as the CPC scheme were implemented, one potential development would be elimination of the $50,000 cap on the amount of income that can be shifted between spouses. Without any limit the revenue cost to the federal treasury would rise from $2.88 billion to $3.12 billion. This comparatively small increase in forgone revenue would accrue mainly to very-high-income couples and heavily to single-earners among them. For single-earner couples the maximum tax savings increases from $6,636 to $10,885 and arises for taxable incomes above $277,748 rather than $188,874 in the original CPC scheme.[34] Since such high incomes occur disproportionately for older couples, many with only grown children, retaining the requirement of having a child under age 18 helps to constrain the incremental revenue cost. This variant would have no impact on the proportion of households gaining from splitting, but the 1.2 percent of households affected by lifting the dollar cap have average taxable incomes of $291,229.

If the requirement of having a child under age 18 were eliminated from the CPC scheme, this more expansive notion of "family" would greatly expand the number of eligible couples. The provision would then encompass some younger couples who have not yet had children, many older couples whose children have all passed age 18, and couples who never have children. The revenue cost would just more than double to $5.85 billion. In addition to the large increase in number of eligible couples with 33 percent of households now gainers, part of this cost increase stems from the earnings patterns that individuals typically experience over their life cycles with peak levels in the 50s. Depending on the divergence between partners' earnings, more high-income mature couples will then garner the largest tax savings from income splitting.

Eliminating the dependent child condition would make the first rationale for income splitting paramount and abandon the second rationale since families could split incomes even without a child. That characterizes the Ontario Conservative Party's 2011 campaign promise for provincial income splitting. If the federal government were to proceed with the Family Tax Cut as originally envisioned, provinces might follow that course in due time. And if the horizontal equity rationale as formulated by income-splitting advocates became widely accepted, the dollar

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[34] Because of the federal tax abatement, the corresponding maximum federal tax savings figure for Quebec taxpayers is $9,089.

limit on splitting could also give way. The ultimate result would be income splitting at both the federal and provincial levels with no child requirement and no dollar limit. The total annual revenue cost would exceed $10 billion.[35] Couples earning over $1 million in Ontario, with its highly progressive rate structure, could then save nearly $25,000 annually in total taxes.

Restrictive Variants of CPC Scheme

The CPC proposal could alternatively be modified in restrictive ways, such as reducing the cap on allowable income splitting to $25,000 per year. This change would reduce the revenue cost moderately, to $2.24 billion, because only a limited number of couples have sufficiently high and divergent incomes to utilize the full $50,000 allowed under the CPC scheme. This variant of the proposal would reduce the maximum tax savings for one-earner couples from $6,636 to $4,886, and that maximum benefit would arise at and above taxable incomes of $163,874 rather than $188,874.[36] Those affected by this restriction constitute 4.3 percent of all households and have an average taxable income of $170,561.

An alternative way to modify the CPC proposal would be to restrict eligibility to couples with at least one child under age 6 while retaining the $50,000 limit on splitting. This approach would give some weight to the second rationale for splitting, as pre-school children have more need for an at-home parent, or one parent with reduced working time, than families with only school-age children. This restriction would cut the scheme's cost by more than half to an estimated $1.38 billion. The reduced revenue cost stems from both the narrower definition of "family" (and thus fewer eligible for splitting) and the typically lower incomes of couples earlier in their working lives when they are more likely to have children of pre-school ages. This restriction would reduce the proportion of all households who gain from splitting to about 6 percent, and those excluded have an average household income of $122,541.

Variants Altering Treatment of Spousal Amount

None of the preceding variants of the CPC proposal would materially address any of its key deficiencies such as horizontal and vertical inequities, barriers to work, economic inefficiency, and gender biases. In an attempt to mitigate some of these deficiencies, a proposal has been advanced to modify the treatment of the spousal credit,[37] which we label the K-M variant after its

[35] The federal revenue cost alone would be $6.34 billion (see Table 4).

[36] Because of the federal tax abatement, the corresponding maximum federal tax savings figure for Quebec taxpayers is $4,079.

[37] The spousal credit has been criticized as an unwarranted fiscal support for stay-at-home spouses, particularly

proponents Matt Krzepkowski and Jack Mintz.[38] The K-M variant would eliminate the current spousal credit for couples that opt to split incomes, making the basic personal amount usable only against employment earnings and non-transferable to the higher-income spouse. Couples opting not to split their incomes would see no change. We estimate that this modification of the CPC scheme would reduce revenue cost to $1.82 billion ("spousal variant " in Table 4). The proportion of households with any gain under the K-M variant would fall to 9 percent, and the average income of households affected by its restriction is $101,797.

Under the K-M variant, a one-earner couple would need to forgo the entire spousal credit,[39] worth $1,703 in 2015, so the impacts on tax savings are proportionately greatest for moderate-income couples that would otherwise benefit from income splitting. The average tax saving would be reduced by 77 percent for the lowest family income quartile, 61 percent for Q2, 34 percent for Q3, and 27 percent for the top quartile. Thus, while the CPC scheme's average tax savings would be reduced by 37 percent, these losses would fall much more heavily on lower- than higher-income couples, exacerbating the adverse vertical distribution of the original scheme. By barring transferability of the lower-earner spouse's unused basic personal amount, the K-M variant raises the minimum taxable income at which splitting provides *any* benefit for a single-earner couple from $44,793 to $69,122.[40] Therefore, one-earner couples even at median earnings would not benefit from the K-M variant of income splitting.

While the K-M variant seeks to remedy the original scheme's failure to adjust properly for home-produced goods and services, disallowance of the $11,351 spousal amount understates the true value of time for a non-working spouse versus a full-time working spouse. K-M estimate this differential value at about $11,000 per year in 2011 dollars, but this figure is based on a survey over 20 years old and on the "average value of unpaid work of a stay-at-home wife without children [relative to an employed wife]" (2013, p. 9). When keeping one spouse at home can save the family daycare charges for one or two pre-school children, this figure greatly understates the requisite adjustment even ignoring other home-based production and saving of

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when they have no young children; see Law Commission of Canada (2001), Duff (2002), and Kershaw (2002).

[38] The analysis and proposal are very similar in Krzepkowski and Mintz (2013) and Krzepkowski (2014). This proposal has close similarities to an earlier proposal by Hartle (1971), who also had major input to ideas on this topic as research director for the Carter Commission (Canada 1966).

[39] In addition, all two-parent couples would forego the opportunity to claim the basic personal exemption against income from sources other than employment, for example taxable government benefits such as the UCCB.

[40] That is, the $44,793 + $1,703/0.07, where the value of the basic credit is divided by 0.07, which is the differential between the 15% and 22% rate brackets for valuing the split income.

work-related expenses. Therefore, while the K-M variant partially addresses horizontal inequities by attributing some value to home-produced goods and services, full remediation would require a much larger adjustment than simply denying the spousal credit.[41]

By eliminating the spousal credit for splitting couples, the K-M variant further seeks to address the tax-related barrier to women's work arising with the CPC scheme. It would reduce the tax rate on the lower-earning spouse's first $12,499 to zero,[42] lowering taxes paid on the employment earnings of most lower-earning spouses. Since labour market participation of stay-at-home spouses is partly influenced by the average tax rate, the scheme could encourage greater work participation (at least part-time work) by the lower-earning spouses. But earnings beyond this threshold would still face the full METR of the higher-earning partner, with negative impact on the choice of additional paid work hours by the lower-earning spouse. Thus, the K-M scheme would only partially address the disincentive to women's work that arises with the CPC scheme. In addition, it fails to remedy other deficiencies of the original CPC scheme such as gender biases, and it would exacerbate the scheme's vertical inequities by further concentrating benefits among the highest income couples.

The original CPC proposal and the K-M variant would likely follow the structure that has been used for pension income splitting. That is, the split income would be added to taxable income of the lower-income spouse and subtracted from taxable income of the higher-income spouse. This shift invokes the cited gender-related issues about liability for the additional tax, and it also might incline the provinces with federal tax collection agreements (all except Quebec) to follow with income-splitting in their own provincial taxes, since they build upon taxable income as defined federally.[43] Such a system also creates opportunities to generate tax benefits beyond differences in spouses' tax rates. For example, higher tax liabilities may enable the lower-income spouse to claim otherwise wasted tax credits, deductions, or losses. It may also

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[41] A Statistics Canada (1995) study (the source cited by K-M) provides estimates for 1992 that yield a much higher estimate of the differential value of unpaid work by an employed wife versus a not-employed wife both with children. The corresponding figures are 1,691 hours and 2,718 hours, yielding an annual differential of 1,027 hours (Table A.2, p. 67). Valued at a recent average hourly wage for women of $22.69 (CANSIM table 282-0073 for August 2014), this differential equates to $23,300 per year, or more than double the figure cited by K-M. Moreover, the estimate would be even larger if the sample were restricted to employed wives working full-time, with at least one child of pre-school age, and employee benefits were included.

[42] The existing federal employment tax credit can already be claimed on the first $1,148, so the tax rate would be reduced to zero for incomes ranging from $1,149 to $12,499.

[43] With either the original CPC scheme or the K-M variant, provinces could opt out of income splitting by simple adjustments in their tax collection agreements. Provincial tax computation would begin with federal taxable income of the two spouses, and the shifted income would be subtracted from the lower-income spouse and restored to the taxable income of the higher-income spouse.

enable some families to optimize their use of the child care expense deduction, the medical expense tax credit, and the refundable medical expense supplement.

One way to avoid these outcomes, and the added complexity of the K-M scheme, while still restricting the use of the basic or spousal amount to income of the lower-earning spouse would be to structure it as a credit on the higher-earning spouse's tax return. The higher-income spouse would choose between the current spousal tax credit and a new splitting tax credit based on the higher-income spouse's tax savings from having up to $50,000 of income taxed at the (lower) marginal tax rate of the lower-income spouse.[44] This modification of the K-M variant would avoid placing additional tax liability on the lower-earning spouse of an income-splitting couple. Mostly because there would be no change to sources of income that could be sheltered under the basic personal amount, this proposal would raise the revenue cost relative to K-M by about $260 million to $2.08 billion. Despite its higher revenue cost and larger average tax savings for splitting couples, the benefits would be even more concentrated among higher-income couples than with the K-M scheme, thus worsening the vertical equity outcome.[45]

ALTERNATIVE FAMILY TAX CUTS AND BENEFIT HIKES

Our analysis next explores a range of policy alternatives that expand the concept of "family" to include single-parent as well as two-parent households.[46] In this exercise, we dispense with the horizontal equity rationale for income splitting and focus on policies that would support families in their care for children. Unlike income splitting, most of these alternatives are not structured to bias parents' choices between providing their children's care at home or in daycare, although two are favourable to more work and thus more paid care. All these alternatives avoid the work disincentives, inefficiencies, and gender biases implicit in the CPC scheme. We consider tax provisions, tax-based benefit provisions, and non-tax benefit programs, since tax expenditures and cash benefit programs perform similarly in their economic and fiscal properties.[47] Most of

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[44] Mechanically, this would be achieved by calculating basic federal income tax (before credits are applied) for each spouse using their actual taxable incomes and summing the results; then they would recalculate their basic tax after splitting incomes up to the $50,000 limit and summing the results; next, the difference between a couple's total basic tax payable before versus after splitting would become a splitting credit for the higher-earning spouse replacing the spousal credit. Krzepkowski suggests an analogous structure for federal income splitting but with the tax savings from the splitting being shifted to the lower-income spouse's return, in which case it would need to be refundable (2013, p. 693). Johal (2014) also suggests a tax-credit approach for federal income splitting to insulate provinces from bearing any revenue costs on account of their tax collection agreements.

[45] Relative to the K-M variant, this alternative way of modifying the spousal amount yields gains for only the top two income quartiles, with Q2 losing about one-third of its tax savings and Q1 losing virtually all tax savings.

[46] Of all households with a child under age 18, 80 percent are two-parent and 20 percent one-parent families.

[47] See Kesselman (1990) for analysis of the equivalences and differences between the various types of programs and

the alternatives could be implemented as simple add-ons or enrichments to existing programs, and they would impose minimal administrative, compliance, and information burdens.

Most of the alternatives have been simulated to estimate the benefit levels that would carry the same revenue cost as the $2.88 billion of the CPC scheme. Table 5 presents the distribution of average benefits per family under each alternative based on quartiles of family income for households with at least one child under age 18.[48] The results also reflect the differing number of children in single- versus two-parent families in each income class. For comparison, the table shows the average benefits per family (two-parent households only) under the CPC plan; it also shows the maximum benefit per family under the CPC for a one-earner couple at the top of the income quartile. Not surprisingly, the maximum benefits are much higher than the average benefits, given the variation of incomes and earnings splits within each income class. Average benefits of $909 per family under the CPC plan exceed those under each of the alternative reforms, because the latter include one-parent households along with couples.

Expand Child Tax Credit

The Canadian tax system provides a nonrefundable child tax credit of a projected $2,298 amount per child under age 18 for 2015. The credit is valued at the 15% bottom-bracket rate for a tax savings of $345 per child. While the non-refundable feature yields no tax savings to a non-taxable filer, any unused credit amounts can be transferred between spouses. Applying the $2.88 billion to expansion of the child tax credit in 2015, its amount could be raised by 167 percent to $6,135 per child, yielding a tax savings of up to $920 or an increase of up to $575 per child. Table 5 shows this increase in tax savings per one- and two-parent family, with the bottom quartile families gaining much less on account of many being nontaxable. For higher income quartiles, the slightly rising pattern of tax savings reflects families having more children. Thus, the overall pattern is a nearly flat amount of tax savings per family, with the exception that low-income families who owe little or no tax would receive little or no savings.

Expand Canada Child Tax Benefit

The Canada Child Tax Benefit (CCTB) provides monthly payments to families with children under age 18 regardless of whether one or two parents are present. The basic benefit per child is

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alternative ways of structuring such tax-transfer provisions. Often the choice to use a tax provision or a cash transfer hinges on considerations of administration or take-up rather than any inherent economic feature.

48 Note that the income ranges for quartiles differ as between Tables 3 and 5, since the latter include single-parent households, whose average incomes fall well below those of two-parent households (see Table 2).

$1,446 per year with an extra $100 for the third and each additional child.[49] These basic benefit levels are reduced for families with combined net incomes exceeding $44,794, so that the benefits are eliminated for higher-income families. The clawback rates are 2% for families with one child and 4% for families with two or more children. The $2.88 billion of the CPC scheme could be devoted to expanding the CCTB in either of two polar ways: 1) enrich the basic benefit levels while maintaining the clawback rates; or 2) leave the benefit levels unchanged and reduce the clawback rates. Of course, reforms that combine these two measures could be pursued such as raising basic benefits by less than version 1 and using the balance of revenues forgone to reduce clawback rates by less than version 2.

Table 5 displays the equal-cost results for each of the polar ways of expanding the CCTB. Version 1 raises the basic benefit level by one-third to $1,965 per child.[50] It delivers the largest gains to families (both single- and dual-parent) in the lower three quartiles, with the major drop in gains not arising until the top quartile. That reform would also impose the CCTB clawback rates over a higher range of family incomes that would get benefits. Version 2 allows the benefit clawback rates to be reduced from 4% and 2% to 0.9% and 0.45%, respectively. These lower clawback rates cause net benefits to be paid much higher up the income scale before phasing out. CCTB expansion using version 1 concentrates most of the gains on low- and middle-income households. In contrast, CCTB expansion under version 2 provides very little gains for families in the bottom two income quartiles since it leaves the basic benefit levels unaltered; in contrast, the top quartile of families (both single- and dual-parent) reaps the largest gains.

Expand National Child Benefit Supplement

The National Child Benefit Supplement (NCBS) operates similarly to the CCTB except that its benefits are concentrated on lower-income families. The NCBS provides monthly payments with maximum annual benefits of $2,241 for the first child in a family, $1,982 for the second child, and $1,886 for each additional child.[51] Benefits are subject to clawbacks for family net incomes above a threshold of $26,073 at rates of 12.2% for families with one child, 23% for two children, and 33.3% for three or more children. These successively higher clawback rates for larger families are designed to avoid any overlap between the clawbacks of the NCBS and the

[49] These figures are annual rates projected for first half of 2015.

[50] It raises the basic benefit for third and additional children proportionately; and it also raises the benefits for children in Albertan families proportionately to their current schedule of age-linked benefit levels.

[51] These figures are annual rates projected for first half of 2015.

CCTB. As with the CCTB, we examine two polar versions of NCBS reform that would cost the same $2.88 billion: 1) enrich the basic benefit levels while maintaining the clawback rates; or 2) leave the benefit levels unchanged and reduce the clawback rates. Again, a combined reform that combined elements of both versions could be undertaken.

Results for the polar types of NCBS expansion appear in Table 5. Version 1 would raise each of the basic per-child benefit amounts by about 60 percent (details in the table notes). It delivers large gains to families in the bottom income quartile, smaller gains to the next quartile, and minimal gains to the top two quartiles. Of all the policy alternatives in Table 5, this reform yields the most redistributive pattern with notably large gains for single-parent families. Version 2 would allow the NCBS's relatively high clawback rates to be reduced by three quarters, which would be positive for incentives. Lower clawback rates would also cause net benefits to be paid at incomes exceeding the CCTB clawback threshold, which means the CCTB and NCBS would be simultaneously clawed back over family incomes ranging from $44,794 to $95,411. This reform version would provide the largest gains to families in income quartile Q2, still substantial gains to those in quartiles Q1 and Q3, and almost nothing to families at the top quartile.

Expand Universal Child Care Benefit

The Universal Child Care Benefit (UCCB) is an amount paid to all families for each child aged under 6, with a monthly amount of $100 that is not indexed to inflation. Receipt of the UCCB is deemed taxable to the lower-income spouse for couples, and single parents have a special option for the tax treatment. UCCB is paid regardless of whether the child receives care at home or in organized daycare facilities.[52] Applying the $2.88 billion to expansion of the UCCB would permit the monthly payments to more than double to $217, yielding an annual increase of more than $1,400 per child under age 6 before netting out taxes.[53] Table 5 presents the net benefit pattern declining progressively as one moves up the family income quintiles for both single- and dual-parent households. In distinction to the preceding policy alternatives shown in the table, the UCCB is paid only for children under age 6 rather than for families with children under age 18.

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[52] Schirle (2014) finds that UCCB payments exert significant negative effects on the labour force participation and work hours of lower-educated mothers in two-parent families, with lesser negative impacts on fathers and more highly educated mothers. These impacts would be expected to decrease the demand for paid childcare, thus illustrating the indirect effects of various tax and transfer policies.

[53] In the aftermath of the 2014 budget, one media commentator stated that the finance minister and prime minister concurred that the funds originally intended for the Family Tax Cut should be used to expand the UCCB (Ivison 2014).

Expand Working Income Tax Benefit

The Working Income Tax Benefit (WITB) supplements the earnings of low-income households including both single individuals and couples. The WITB structure is more complex than most other cash benefit schemes, having five parameters with values varying across household type and for some provinces.[54] In essence the program provides a 25 percent subsidy on earnings above a specified low threshold, rising to a maximum dollar benefit that remains constant over a further range of earnings, and declining at 15 percent of income above a specified higher threshold. For 2014 the maximum benefit levels for earners in most provinces are $998 for single individuals with no children and $1,813 for single parents and couples with or without children. The WITB could be expanded in a multitude of ways, with emphasis on raising the maximum benefit levels and linking those maxima to the number of children.[55] With a revenue cost of $1.125 billion in 2013 (Canada 2014a, p. 19), the WITB could be expanded by nearly 250 percent in 2015 using the $2.88 billion that would be consumed by the CPC scheme.

Expand Maternity Benefits

Employment Insurance provides maternity and parental benefits to covered workers, accounting for about $3.3 billion (18 percent) of the program's total annual expenditures of $18.4 billion (Receiver General for Canada 2013). The CPC splitting scheme's $2.88 billion could be used, in whole or part, to increase the benefit levels, durations, or accessibility. Business organizations have long criticized the EI program for using employer and worker premiums to finance these "special benefits" and proposed that they be financed out of general revenues. However, channeling public benefits for maternity through EI restricts it to mothers who have been employed in the period preceding their pregnancy, and a more general delivery vehicle might be desirable. One policy alternative would be to make payments to all parents of a newborn child in the period preceding and following the birth. The $2.88 billion could finance a nontaxable benefit of $7,000 for each of the roughly 415,000 Canadian births per year (Statistics Canada 2010, p. 95), paid as a supplement to the UCCB. This Baby Bonus could be paid over the 10 to 15 month period surrounding the birth to assist in the costs of good nutrition, furnishings, and supplies for each expectant mother and newborn.

Modify Child Care Expense Deduction

Canadian federal income tax provides a Child Care Expense Deduction (CCED) to reflect the

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[54] For parameter values including provincial variations, see http://www.cra-arc.gc.ca/bnfts/wtb/fq_pymnts-eng.html

[55] See Battle and Torjman (2012) for several proposals for enhancement of the WITB.

costs of paid childcare needed to allow a parent to work. This provision is a deduction from the taxable income, usually limited to two-thirds of the earnings, of the lower-income parent. The maximum allowable annual deduction is $7,000 for a child aged 6 or less at the end of the tax year and $4,000 for an older child aged up to 16 years. These limits are far below actual daycare costs particularly for infants and young children, and they are not indexed and have not been increased for many years. The Canada Department of Finance projects the revenue cost of the CCED for 2013 at $955 million (2014a, p. 15). Thus even one-third of $2.88 billion could finance a doubling of the CCED to reflect contemporary daycare costs. For example, allowable deductions could be sharply increased, particularly for pre-school children; the deduction could be allowed up to the full earnings of the lower-income spouse; and/or the deduction could be converted into a system of income-tested tax credits.[56]

Summary of Alternative Policies

The cited policies offer varied choices in terms of their distributional impacts and linkages to income, earnings, children, and childcare choices of families. Unlike the CPC scheme, all of these alternatives are equally accessible to single parents and couples. Three of the policy options—the Child Tax Credit, UCCB, and WITB—were innovations of Conservative budgets of 2006 and 2007 under Finance Minister Flaherty. The most redistributive options would be enrichment of the NCBS or the WITB. Most beneficial to parents who choose to continue working would be enrichment of the CCED and, for poorer families, the WITB. An enriched UCCB or a new Baby Bonus would be neutral to the childcare choices of families and, as flat payments unrelated to income, relatively favourable to lower- and moderate-income families. The least redistributive choices would be to increase the Child Tax Benefit or to reduce the CCTB phase-out rate with no hike to the base benefit. Enhancing maternity and parental benefits would give far stronger and more inclusive support for families to keep a parent at home with infants than the CPC scheme.

GENERAL TAX CUTS

The most inclusive notion of "family" would encompass all types of households—regardless of whether they have any dependent children and whether they comprise one or more adults. In short, an inclusive "family tax cut" would extend to all Canadian taxpayers. Such general tax

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[56] Income-tested credits for child care expenses are provided in the US federal tax system, and Quebec offers a refundable credit system with rates inversely related to family incomes. Quebec's credit rates range from 75% of child care expenses for incomes below $35,000 to 26% for incomes above $150,000.

cuts would not only avoid the work disincentives, inefficiencies, and gender biases of the CPC scheme; they would improve various incentives and efficiency by reducing tax rates. Some commentators have critiqued the CPC's proposed Family Tax Cut as yet another "boutique" tax measure aimed at a niche of the total taxpaying population and advocated a general tax cut that would benefit all taxpayers.[57] The key perceptual problem of pursuing broad tax cut reduction is that the rate cuts would have to be very limited unless much larger revenues were made available for that purpose. As noted by *Financial Post* columnist John Greenwood (2014), "Simply put, much as the government would like to ease the load for taxpayers across the board, to do so would be too costly. So if all it can afford to offer is income splitting, that's what it will do."

The simulated figures for 2015 in Table 6 demonstrate this situation. The revenue cost of increasing the tax thresholds is very high for the bottom bracket and successively less as one moves up the rate brackets. Raising the bottom bracket threshold by \$100 would cost \$306 million, while raising the threshold for the top bracket by \$100 would cost a mere \$2 million. As a result, devoting the CPC scheme's \$2.88 billion to raising thresholds could finance only a \$959 increase in the taxable threshold affecting all taxpayers (which otherwise would be \$11,305 in 2015). At the other pole, devoting that sum to the 4 percent of taxpayers now in the top rate bracket could practically eliminate that threshold so that the top tax rate would merge with the current 26% rate bracket. Considering what \$2.88 billion could finance in terms of rate cuts, if devoted to the bottom bracket the rate could be cut by just 0.8% to 14.2% from the current 15%, which would provide a small benefit to all taxpayers but relatively the most to lower earners. Within the limits of available funds, a government could choose between a progressive or regressive cut in tax rates. Focusing cuts on the upper rate brackets would partially reduce the alleged horizontal inequity between single- and dual-earner couples, which has been one rationale espoused for flattening the tax rate schedule or going all the way to a flat tax.[58]`

DISCUSSION AND CONCLUSION

The Conservative government remains committed to some form of "family" tax cut, as reiterated by incoming Finance Minister Oliver that "once the budget is balanced our priority will be to provide tax relief for *hardworking Canadian families*" (Canada 2014b, emphasis added). A key question in pursuing this goal is: "how inclusive a family?" The original Conservative Party

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[57] For example, see Corcoran (2011), who stated, "Harper's 'family tax cut' comes at the expense of all families."

[58] Clemens et al. (2014) reject income splitting in favour of a major flattening of the tax rate structure that would mitigate the alleged inequitable tax burden on single-earner couples; this approach echoes the Reform Party's earlier advocacy of a flat tax and in part motivated Alberta's "single rate" income tax (Kesselman 2000).

proposal would provide tax relief for a very restrictive notion of family: couples with at least one child under age 18, and within that group only partners with incomes falling in different tax brackets. This narrow notion of "family" stems from a mistaken application of the horizontal equity concept. Analysis in the present study and many preceding studies has demonstrated that the "equal-incomes" criterion fails to consider the production of valued goods and services by an at-home spouse as well as the additional work-related and childcare costs incurred when the second spouse enters paid employment. It further assumes that nearly all couples fully pool and share their incomes in egalitarian relationships, behaviour that is rejected by empirical evidence. Finally, it applies the horizontal equity concept in a selective manner by ignoring the scale economies that couples enjoy, which would dictate the use of mandatory joint filing embodying a "marriage tax" rather than income splitting that can yield only "marriage bonuses."

Apart from its failure to implement properly one of its two motivating rationales—horizontal equity—the CPC plan suffers numerous other deficiencies. Most previous studies of the plan have focussed on the concentration of tax savings on high-income couples, particularly one-earner couples, and our study reinforces those findings. Yet both the CPC scheme and other income-splitting systems have additional deficiencies identified in this study:

- Pooling and sharing of incomes assumed by all couples
- Benefit unconditional on the at-home spouse's activity
- Increased barriers to working for married women
- Adverse impacts on economic efficiency
- Biases to marital/cohabitation choices of individuals
- Biases to gender neutrality and individual autonomy
- Potential adverse impacts on provincial tax revenues[59]

Our analysis has found variants of the CPC scheme—by altering the age of or requirement of children, by reducing or eliminating the dollar cap on splitting, or by barring transferability of the spousal amount—to be limited in their ability to mitigate these deficiencies and in some cases actually to exacerbate them.[60] Fiddling with the original scheme such as capping the benefit would moderate the distributional impact but do little to address the other deficiencies.

[59] As noted earlier, this impact could be avoided by framing the income split as an inter-spousal credit.

[60] As assessed earlier in this study, even the few analysts who advocate income splitting for Canada acknowledge the horizontal equity issue of home production and the desirability of recognizing couples' scale economies, but their proposed modification does not fully resolve the former issue and disregards the latter issue, while further concentrating tax savings on higher-income couples.

By prioritizing the second rationale espoused for the Family Tax Cut—assisting parents in caring for their children—policies could embrace a much more inclusive notion of "family." This shift brings into the net both single-parent households and the many couples with children where the two spouses have moderate earnings or even higher but not greatly divergent earnings. All these groups qualify as "hardworking Canadian families" by popular perceptions, and most have significantly lower incomes than those who would reap the greatest benefits under the CPC scheme. Enrichment of or changes to existing tax provisions and transfer programs—including the Child Tax Credit, Canada Child Tax Benefit, National Child Benefit Supplement, Universal Child Care Benefit, Working Income Tax Benefit, Child Care Expense Deduction, and maternity/parental benefits—offer a rich menu for policy choice. Any of these policies could be implemented through simple changes to existing programs with little additional administrative overhead. These alternatives also offer considerable choice in their targeting and could accommodate a wide range of policy objectives. The CPC scheme's $2.88 billion revenue cost could go a long way in enhancing support for parents and children in families most needing it.

While the Family Tax Cut as originally conceived is both deficient and beyond remedy, the government still has many options on how to deliver tax relief and other benefits to Canadian families and thus fulfill its electoral promise.[61] Given our estimates of the small changes in income tax rates or tax thresholds of the "most inclusive family" tax cut that could be financed for the same revenue cost as the Family Tax Cut, this course is likely to be politically appealing only if packaged as part of a much larger, multi-year tax-cutting commitment. In contrast, policies focused on single- and two-parent families with children could be much more salient at the revenue cost of the Family Tax Cut, and they could build on earlier Conservative government initiatives such as the Child Tax Credit, Universal Child Care Benefit, or Working Income Tax Benefit. Alternatively, substantial benefits could be delivered to families by combinations of proposals suggested in the present study, such as long-overdue increases in limits for the Child Care Expense Deduction with a possible shift to a credit format and implementing a new Baby Bonus payment for parents of all newborns regardless of income or family structure. Compared to the Family Tax Cut, such alternatives would disburse benefits more widely and more effectively in support of a more inclusive notion of Canadian families.

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[61] An early March 2014 survey by Abacus Data found respondents with current voting intentions of Conservative were roughly split between agreeing that the government "must go ahead with this idea [of the Family Tax Cut] and keep their [election] promise" (42 percent) and believing that the government "should choose whichever course they think makes most sense today" (48 percent). Thus, the government has considerable leeway in its choice.

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Table 1: Projected Federal Income Tax Brackets and Distribution of Taxpayers, Two-Parent Families with Children, 2015

Taxable Income Bracket ($) [a]	Tax Rate (%) [c]	% of All Returns in Bracket [d]	% of Higher-Income Partner Returns in Bracket [e]	% of All Taxable Returns in Bracket [f]	% of Non-Taxable Returns, by Bracket [g]
Less than 11,305 [b]	0	20	5	0	100
11,305-44,793	15	36	28	41	17
44,794-89,587	22	31	44	42	0
89,588-138,874	26	9	16	12	0
138,875 and higher	29	4	7	5	0
All	N/A	100	100	100	26

Notes: [a] These taxable brackets and distributions apply to individual incomes in the absence of income-splitting provisions for couples.
[b] The first $11,305 of taxable income is shielded from tax at the 15% rate on account of the basic filer amount.
[c] Statutory marginal tax rate on taxable dollars within the income range.
[d] Distribution of tax filers by income range.
[e] Distribution of families by the income of the higher earning spouse.
[f] Distribution of tax filers with positive tax liability by income range.
[g] Proportion of tax filers with zero tax owing in each income range.

Source (all tables): Authors' calculations using Statistics Canada's SPSD/M, v. 21.0, and projected indexation of tax brackets by 1.91% from 2014 to 2015; responsibility for the results and their interpretation lies with the authors.

Table 2: Gainers and Non-Gainers from Federal Income Splitting, CPC Proposal, Distribution by Type of Household, 2015[a]

Household Type	% of All Households	Average Household Income ($)
Non-gainers	**87.1**	**57,349**
Single persons	45.6	34,057
Single parents	6.2	48,467
Couples with no child under 18	30.6	90,751
Couples with child under 18	4.7	77,736
Gainers (couples with child under 18)	**12.9**	**122,744**
Gain ≤ $500	5.7	92,768
Gain $501 - $1,000	2.0	120,541
Gain $1,001 - $2,000	2.4	124,903
Gain $2,001 - $3,000	1.2	147,641
Gain $3,001 - $4,000	0.8	155,499
Gain $4,001 - $5,000	0.5	190,611
Gain > $5,000	0.4	311,790
Total	**100.0**	**65,763**

Note: [a] Households are census families. Two or more census families may share the same dwelling. Income splitting is limited to $50,000 per family with minor children and is applied to federal taxes.

Source: See Table 1.

Table 3: Distribution of Benefits and Costs of CPC Scheme by Family Earnings Splits and Income Quartiles, 2015

3A: Cost to Federal Government and Distribution by Earnings Splits within the Family

Families Where the Lower-income Parent Earns …	Average Federal Tax Savings ($)	Average Federal Tax Reduction (%)	Federal Fiscal Cost ($M)	Proportion of Families (%)
from 0% to 15% of family income	1,771	–8.8	**1,800.0**	33.1
from 15% to 35% of family income	929	–3.3	**859.8**	30.2
from 35% to 50% of family income	192	–1.1	**216.1**	36.7
All	**937**	**–4.3**	**2,875.8**	**100.0**

3B: Average Federal Tax Savings ($) per Family by Earnings Splits and Family Income Quartile

Families Where the Lower-income Parent Earns …	Family Income and Quartile [a]				
	0-58,000 Q1	58,001-94,000 Q2	94,001-139,000 Q3	139,001-Max Q4	All
from 0% to 15% of family income	190	1,597	3,142	4,368	1,771
from 15% to 35% of family income	119	656	1,259	1,425	929
from 35% to 50% of family income	41	128	221	288	192
All	**140**	**760**	**1,276**	**1,567**	**937**

3C: Federal Fiscal Cost ($M) by Earnings Splits and Family Income Quartile

Families Where the Lower-income Parent Earns …	Family Income and Quartile [a]				
	0-58,000 Q1	58,001-94,000 Q2	94,001-139,000 Q3	139,001-Max Q4	All
from 0% to 15% of family income	79.6	380.0	576.5	763.9	**1,800.0**
from 15% to 35% of family income	20.0	167.3	337.5	335.0	**859.8**
from 35% to 50% of family income	7.3	34.9	70.8	103.0	**216.1**
All	**106.9**	**582.2**	**984.9**	**1,201.8**	**2,875.8**

Notes for Table 3

[a] Income for tax purposes excluding Universal Child Care Benefit payments received; quartiles are defined over income distributions of two-parent families with one or more child under age 18 years.

Source: See Table 1.

Table 4: Federal Revenue Cost and Beneficiary Measures for Variants of CPC Proposal, 2015

CPC variant	Revenue Cost ($millions)	% of Households with Gain of		Households Affected by Variation[a]		Single-Earner Couples[b]		
		Nil	>$1,000	% of All Households	Average Income[e]	Maximum Gain ($)	Income for Max Gain	Minimum Inc. for Gain
CPC original	2,876	87.1	5.3	NA	NA	6,636	188,874	44,793
Expansive variants								
No $ limit	3,120	87.1	5.4	1.2	291,229	10,885	277,748	44,793
No child required	5,851	66.7	11.7	19.8	114,439	6,636	188,874	44,793
No $ limit and no child required	6,342	66.7	11.8	21.0	124,205	10,885	277,748	44,793
No $ limit, no child required, fed + provincial[c]	10,299	61.2	15.4	22.8	121,884	24,796[d]	1,047,826[d]	40,889[d]
Restrictive variants								
$25,000 limit	2,240	87.1	5.3	4.3	170,561	4,886	163,874	44,793
Child < 6 years	1,375	93.7	2.6	6.6	122,541	6,636	188,874	44,793
Spousal variant	1,821	90.7	3.7	7.2	101,797	4,933	188,874	69,122

Notes: [a] Relative to CPC original formulation.

[b] These figures are computed for the gain from income splitting alone without including any indirect effects on tax liabilities; the figures differ for taxpayers in Quebec (see text).

[c] This variant assumes that all provinces offer income splitting along with the federal government; all other variants in the table assume solely federal income splitting.

[d] Results shown for Ontario, which is the province with the maximum gain for a couple; figures differ for other provinces.

[e] All income figures in the table refer to combined taxable incomes of couples.

Source: See Table 1.

Table 5: Average Benefits Per Family under Alternative Equal-Cost Schemes, by Family Income Quartile and Number of Parents, 2015

	CPC Scheme		Child Tax Credit[d]		Child Tax Benefit (version 1)[e]		Child Tax Benefit (version 2)[f]	
Number of Spouses	**2**	**2**	**2**	**1**	**2**	**1**	**2**	**1**
Family Income[a]	**Average[b]**	**Maximum[c]**						
Q1 0-42,000	70	0	172	87	959	763	6	1
Q2 42,001-81,000	462	2,507	899	688	879	714	325	146
Q3 81,001-128,000	1,212	4,668	976	776	874	717	1,141	752
Q4 128,001-max	1,429	6,636	1,000	868	372	240	1,592	1,344
All	**909**	**–**	**835**	**336**	**735**	**729**	**894**	**153**

	NCB Supplement (version 1)[g]		NCB Supplement (version 2)[h]		Universal Child Care Benefit[i]	
Number of Spouses	**2**	**1**	**2**	**1**	**2**	**1**
Family Income[a]						
Q1 0-42,000	2,331	1,906	651	271	1,140	571
Q2 42,001-81,000	704	1,003	1,964	1,695	885	279
Q3 81,001-128,000	20	67	523	759	751	158
Q4 128,001-max	4	4	18	15	626	201
All	**556**	**1,432**	**747**	**687**	**808**	**443**

Notes for Table 5

[a] Income for tax purposes excluding UCCB payments received; quartiles are defined over income distributions of one- and two-parent families with one or more child under age 18 years.

[b] Average tax benefit including indirect effects of CPC income-splitting proposal for couples with children.

[c] Maximum possible tax benefit of CPC proposal for couples with children and income at top of quartile range under simplifying assumptions that ignore the indirect effects of income splitting; for Quebec the corresponding figures are $0, $2,093, $3,898, and $5,564 for the respective quartiles.

[d] Child Tax Credit amount is increased by 167 percent, from $2,298 to $6,135 (2015 projections).

[e] Child Tax Benefit base amount per child increased by a third, from $1,446 to $1,965 (2015 projections) and commensurate increases to per-child amounts in Alberta.

[f] Child Tax Benefit clawback rates cut by more than three-quarters, from 4 and 2 percent to 0.9 and 0.45 percent, respectively.

[g] NCB Supplement maximum amounts raised by nearly 60 percent; for first child from $2,241 to $3,575, for the second child from $1,982 to $3,161, and for the third and additional children from $1,886 to $3,008.

[h] National Child Benefit Supplement clawback rates reduced by 73 percent, from 12.2% to 3.3% for families with one child, from 23.0% to 6.2% for families with two children, and from 33.3% to 9.0% for families with more than two children.

[i] Universal Child Care Benefit more than doubled from $100 a month per child to $217.50.

Source: See Table 1.

Table 6: Revenue Impacts and Affected Taxpayers from Federal Income Tax Cuts, 2015

Tax Parameter Change	Revenue Cost ($millions)	Average Income of Affected Taxpayers[b] ($)	% of All Tax Returns Affected	% of Taxable Returns[c] Affected	Change Financed by $2.88 billion
Increase threshold by $100 for					**Raise one bracket threshold by**
15% bracket[a]	306	59,210	65	100	$959
22% bracket	63	88,073	33	50	$4,890
26% bracket	9	165,106	8	12	$69,513 (which would raise top-bracket threshold by $19,794)
29% bracket	2	288,661	3	4	$4.5 million (bracket could be merged with 26% bracket)
Cut 1 percentage point on rate for					**Cut one bracket rate by**
15% bracket	3,577	59,074	65	100	0.8%
22% bracket	2,206	88,126	32	49	1.3%
26% bracket	638	164,891	8	12	4.5% (which would reduce rate below 22% bracket)
29% bracket	953	275,501	3	4	3.0% (could merge with 26% bracket)

Notes: [a] Implemented as raising the basic personal and spousal amounts by $100.

[b] Income measure is net income on taxable returns; affected taxpayers means tax filers whose tax burden is reduced as a result of the change. Filers are adults in a household (and their spouses) and children who have income for tax purposes.

[c] Taxable returns are tax filers with positive federal income tax payable.

Source: See Table 1.