A MODEST PROPOSAL

FOR REDUCING THE RATE AND DEPTH OF POVERTY

IN CANADA

A Submission to the

Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

Concerning

Poverty Reduction Strategies

By

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INTRODUCTION

This brief addresses the third main area of focus for the Canadian Poverty Reduction Strategy; viz., Government administered savings and entitlement programs and it offers a new and innovative approach to reducing the rate and depth of poverty. It makes the following points:

1. The rate of poverty has been reduced substantially since its high point in 1996 due to a combination of improved economic circumstances and income transfer programs;
2. The decline has not been uniform such that non-elderly single persons experience both the highest rate and depth of poverty of all demographic groups, followed by single parent families.
3. The reason for the disadvantaged position of the single non-elderly person is the absence of adequate income support programs for this group;
4. One way of providing additional assistance to this demographic group is to convert the existing set of non-refundable tax credits in the personal income tax system into refundable tax credits.
5. Such a measure would improve the vertical equity of the personal income tax system and reduce both the rate and depth of poverty at a modest cost of $7.2 Billion.

CHANGES IN THE RATE AND DEPTH OF POVERTY

Statistics Canada has been tracking the rate and depth of poverty[1] since 1976. The rate of poverty fell almost continuously until 1989 when it rose due to the recession of the early 1990s and reached its peak in 1996. Since then, the rate of poverty has fallen steadily as shown in Table 1 below. For all families, the rate has fallen by almost half (42%) from 15.2 per cent to 8.8 per between 1996 and 2014. By comparison, the depth of poverty has increased slightly, largely due to the fact that those just below the poverty line have been lifted out of poverty leaving the poorest of the poor behind.

However, the decline in poverty rates has been very uneven over this eight year period. The decline in poverty rates was substantial for the single and two parent family (52%) and for the elderly single person (55%). By comparison, the rate of poverty fell by only 23 per cent for the non-elderly single person (40.4% to 31.2%), leaving this group with the highest rate of poverty in 2014. In addition, the depth of poverty was the highest for the single non-elderly person at almost 47 per cent in 2014, substantially above the depth of poverty experienced by families with children and elderly persons and couples.

[1] The 'rate' of poverty is the per cent of adults whose income falls below a given poverty line. The 'depth' of poverty is the distance the average income of poor families is below the poverty line, measured as a per cent of the poverty line.

Table 1: The Rate And Depth of Poverty by Family Type – Canada – 1996 and 2014

Type of Economic Family	Rate of Poverty		Depth of Poverty	
	1996	2014	1996	2014
All Families	15.2%	8.8%	32.5%	35.9%
Two Parent	10.7%	5.1%	29.8%	28.1%
Single Parent	49.3%	23.7%	30.2%	25.1%
Non-Elderly Singles	40.4%	31.2%	42.7%	46.8%
Non-Elderly Couples	8.4%	4.5%	34.1%	39.5%
Elderly Singles	25.4%	11.3%	15.6%	16.3%
Elderly Couples	3.0%	1.8%	24.4%	26.5%

Source: Statistics Canada, CANSIM Table 206-0042

COVERAGE AND GENEROSITY OF INCOME SUPPORT PROGRAMS

Canada has a broad range of income support programs for its citizens both at the national and provincial levels. Table 2 presents the level of federal spending by type of program and family type in 2015.

Table 2: Federal Expenditures on Income Support ($Millions) and Benefits per Adult by Type of Family and Benefit – 2015

		Type of Nuclear Family					
	Total	Single Parent	Two Parent	Single Non-Elderly	Couple Non-Elderly	Single Elderly	Couple Elderly
Old Age Security	$36,478.8	$30.5	$110.6	$0.0	$0.0	$15,452.3	$20,885.4
Guaranteed Income Supplement	$10,280.8	$19.8	$80.7	$0.0	$0.0	$6,641.2	$3,539.1
Spouse's Allowance	$696.4	$0.0	$4.1	$267.4	$0.0	$0.0	$424.9
Canada Child Benefit	$5,743.0	$1,434.8	$4,308.3	$0.0	$0.0	$0.0	$0.0
National Child Benefit Supplement	$3,302.3	$1,413.4	$1,888.9	$0.0	$0.0	$0.0	$0.0
Universal Child Care Benefit	$7,634.3	$1,065.1	$6,569.2	$0.0	$0.0	$0.0	$0.0
Employment Insurance	$16,907.4	$723.7	$6,435.6	$4,811.9	$4,408.7	$12.4	$456.3
Goods & Services Tax Credit	$4,285.9	$378.8	$486.9	$1,944.9	$311.4	$782.0	$382.0
Working Income Tax Benefit	$1,426.5	$149.7	$191.3	$875.1	$197.0	$2.7	$10.4
TOTAL ($Millions) **% Adults Receiving Any Benefit**	**$82,443.7** **63%**	**$4,801.5** **100%**	**$19,588.8** **71%**	**$5,969.2** **71%**	**$4,607.4** **18%**	**$22,168.5** **98%**	**$25,315.3** **86%**
Average Per Adult Receiving Benefits	**$4,516**	**$6,599**	**$4,445**	**$1,008**	**$3,592**	**$8,972**	**$7,334**
Average Benefit for All Adults	**$2,865**	**$6,599**	**$3,144**	**$714**	**$663**	**$8,800**	**$6,328**

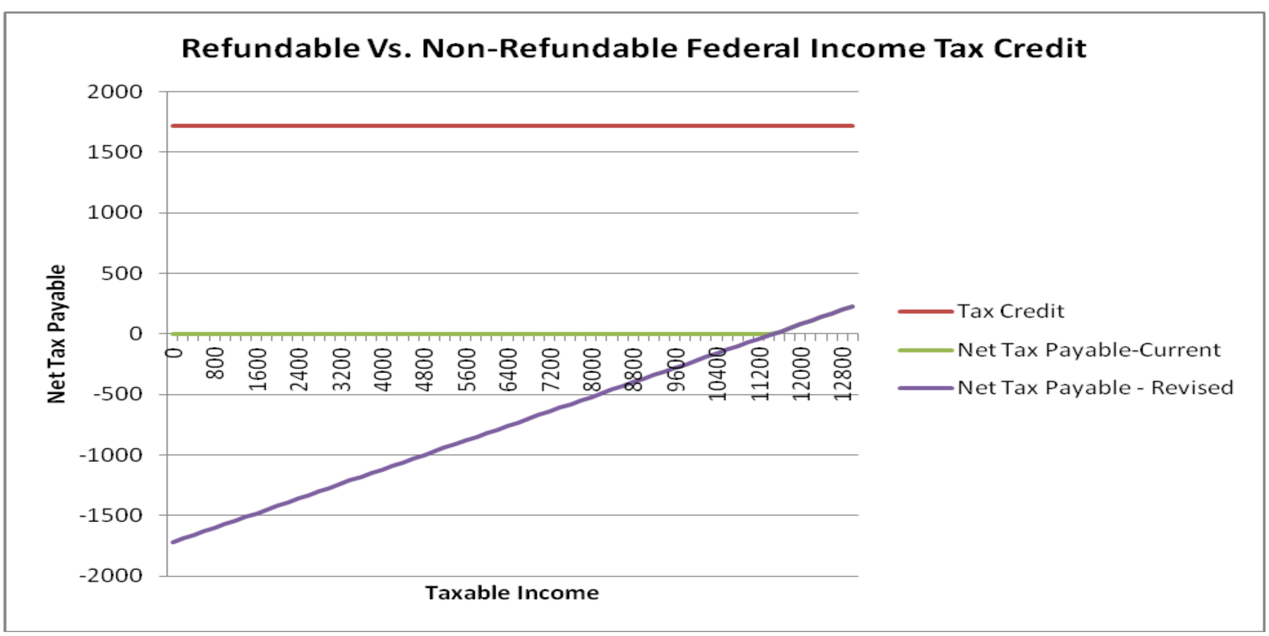
Source: Statistics Canada Social Policy Simulation Database and Model (SPSDM) Version 22.1.
Calculations by the author.

Overall, the Federal government spent $82.444 Billion on income transfers to Canadians in 2015 of which $16.9 Billion came from the contributory EI program. Sixty-three (63) per cent of all adults received an average of $4,516. However, across family types, the coverage and generosity of the income transfers varied greatly. Virtually all single elderly persons and single parent families received an average benefit of $8,972 and $6,599, respectively, with 86 per cent of elderly couples receiving an average benefit of $7,334 each. By comparison, only 71 per cent of single non-elderly persons received an income transfer for an average value of only $1,008. The non-elderly couple fared even worse with only 18 per cent of them receiving an average income transfer of $3,592.

CONVERTING NON-REFUNDABLE TO REFUNDABLE TAX CREDITS

The Mechanics

One way of improving the vertical equity of the personal income tax system and delivering more benefits to the lowest income tax filers is to convert the existing set of non-refundable tax credits into refundable tax credits. As it now stands, anyone with no gross tax payable gets no benefit from the set of non-refundable tax credits as their sole function is to reduce the gross amount of tax payable. And, anyone whose gross tax payable is less than the value of the non-refundable tax credits gets only partial value of the non-refundable tax credits. However, were non-refundable tax credits treated as refundable tax credits, then those with no tax payable would get the full value the tax credits rebated to them and the value of the rebate would decline at the rate of 15 per cent of taxable income and reach $0 at the point that taxable income was equal to the combined value of the tax credits. The following diagram shows how the conversion would work for an adult claiming only the Basic Personal Tax Credit of $11,474.



For those with a taxable income of less than the value of the Tax Credit ($11,474), they pay no income tax, as the value of the non-refundable tax credit ($1,721.1), which is equal to 15% of the gross tax credit, is greater than their tax payable (15% of taxable income). Thus, the only value of the non-refundable tax credit is to reduce their tax payable to $0.

By comparison, if the tax credit was made refundable, then those with a taxable income less than the value of tax credit would receive a negative amount which would gradually decline in value as taxable income rose. Below the value of the tax credit, their tax payable would be negative, resulting in a rebate. Above the value of the tax credit, their tax payable would be positive.

Converting the current non-refundable tax credits into refundable tax credits would involve one simple change to Schedule T1-2016: On line 52 where Basic Federal Tax is calculated, for those whose amount in line 51 is greater than the gross tax payable amount on line 47, the negative amount is entered, instead of "0". This negative amount is then carried forward and results in a rebate instead of an amount owing.

The Impacts and Cost

The result of such a simple change to the tax schedule is a decline in both the rate and depth of poverty. In a report co-authored by myself and Wayne Simpson[2] we found that such a change to the way taxes are calculated would have cost the federal treasury some $6.62 Billion in 2013 and would have resulted in a drop of 0.9 percentage points in the rate of poverty and a 7.1 percentage point decline in the depth of poverty (see, Table 2, Option Without Exemption). This would be the impact for just federal taxes payable. Were provinces to do likewise, the total impact would be greater.

We noted that the cost of the change could be met in several ways including the elimination of some non-refundable tax credits like the age and pension amount which treat those with the same income differently depending on their age or interest on student loans and the public transit and fitness tax credits which reduce taxes payable by about $6.8 Billion.

CONCLUSION

The non-elderly single adult is the forgotten and neglected demographic group in the current mix of anti-poverty programs. Converting non-refundable tax credits to refundable would be a simple step to take and would reduce both the rate and depth of poverty at a very modest cost.

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[2] Simpson, Wayne and Harvey Stevens (2015) "The Impact of Converting the Federal Non-refundable Tax Credits Into Refundable Credits," University of Calgary School of Public Policy Research Papers 8(29) at: http://www.policyschool.ucalgary.ca/?q=content/impact-converting-federal-non-refundable-tax-credits-refundable-credits