

Strengthening Canada's Workforce through Tax Indexing

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

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

Current deductions for child care, only applicable for children under six years of age, are capped at \$8,000 per year. While this deduction limit was recently increased from the 1998 level of \$7,000 per year, the amount of the increase is neither in line with inflation nor the substantial rise in child care costs. (Average annual rate of inflation 1998-2014 – 1.96%)¹. A parent returning to the work force must make a financial decision of how much their take-home income is benefiting the family versus the cost of being away from the children and paying for care. This chart demonstrates the average cost of full time child care across Canada².

If families across Canada are paying an average of \$872 per month on child care, the median Canadian monthly wage is \$3,279 before tax, and the maximum deduction is \$8,000 (\$667/month), there leaves little incentive for that person to enter the workforce unless absolutely necessary³. With chronic skilled labour shortages across Canada persisting, it is incumbent upon government to make workforce engagement as appealing as possible to young parents. According to a study from the University of Sherbrooke, lower costs for child care in Quebec have had a significant positive economic impact⁴.

On the other end of the workforce lifecycle is the issue of Canada Pension Plan (CPP) contributions. Recently, the new CPP contribution limits were announced recognizing the inflation-indexing adjustment to the contribution limits⁵.

Since 1997 the maximum annual pensionable earnings has increased due to indexing by \$17,800. The basic exemption has increased by a comparative number of \$0. The employee/employer matched contributions have increased by \$1,480.72, a 162-per-cent increase over the past 18 years.

Canadians and their employers are paying an ever-increasing cost to fund CPP. The government has taken credit for holding the contribution rate on CPP steady through the recent downturn in the financial markets and world economies. However, the indexing of the maximum contribution amount and the non-indexing of the basic exemption has actually raised payroll taxes substantially at a time where few can afford it.

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

Recommendation

That the federal government apply indexing to all exemptions, deductions and contribution limits applicable in the *Tax Act* so Canadians and businesses are not unfairly taxed.

¹ "Inflation Calculator." <http://www.bankofcanada.ca/rates/related/inflation-calculator/> Bank of Canada. Retrieved on 10 February 2015.

² "Child Care Costs in Canada." <http://www.godaycare.com/child-care-cost> Go Day Care. Retrieved on 10 February 2015.

³ "Median total income, by family type, by province and territory." <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/famil108c-eng.htm> Retrieved on 10 February 2015.

⁴ Pierre Fortin, Luc Godbout, Suzie St-Cerny. "Impact on Quebec's Universal Low-Fee Childcare Program on Female Labour Force Participation, Domestic Income, and Government Budgets," University of Sherbrooke: Sherbrooke, Quebec. Retrieved from http://www.oise.utoronto.ca/atkinson/UserFiles/File/News/Fortin-Godbout-St_Cerny_eng.pdf 28 May 2015.

⁵ "CPP contribution rates, maximums and exemptions." <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/cpp-rpc/cnt-chrt-pf-eng.html#nt1> Canada Revenue Agency. Retrieved on 10 February 2015.