

Add Consistency to the Tax Act Though Indexing

Issue

The Canadian Department of Finance began indexing the 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.

Background

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 figures nor the substantial rise in child care costs. (Average national annual rate of inflation 1998-2017 – 1.91%)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.

Canadian Centre for Policy Alternatives reported "child care fees in much of Canada are too expensive for many, if not most families – low – and middle income alike." Median monthly fees for child care are \$980 in Calgary, \$885 in Edmonton, and have similar costs in rural parts of the country.²

The net cost to families for child care leaves little incentive for parents to enter the workforce unless absolutely necessary. With chronic skilled labour shortages across Canada persisting, it is incumbent upon government to make workforce engagement as appealing as possible for young parents.

¹"Inflation Calculator." <http://www.bankofcanada.ca/rates/related/inflation-calculator/> Bank of Canada. Retrieved on 10 February 2018.

² "Study reveals highest and lowest child care fees in Canadian cities in 2017," <https://www.policyalternatives.ca/newsroom/news-releases/study-reveals-highest-and-lowest-child-care-fees-canadian-cities-2017> Canadian Centre for Policy Alternatives. 12 December 2017.

There are many tax credits that are indexed, along with the tax brackets, yet a number of glaring areas that are not. This inconsistency adds to the complication of the Canadian tax system, costs business, and weakens Canada's workforce by discouraging labour force participation.³

The Alberta Chambers of Chamber of Commerce recommends that the Government of Canada:

1. Apply indexing to all exemptions, deductions and contribution limits applicable in the *Income Tax Act* and the *Excise Tax Act* so Canadians and businesses are not unfairly taxed.

³ "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.