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Now You See It, Now You Don't

How federal and provincial benefits get wiped out with wage increases

By Michael Goldberg and Steve Kerstetter

Imagine a low-income family working hard day after day to make ends meet.

Both the parents in the family have full-time, full-year jobs, although they are the low-wage jobs that are all too common in Canada.

Both parents get raises that boost their gross family earnings by \$6,370 a year.

And the final result of their efforts to succeed? A loss of \$213 in disposable income.

This perversion of public policy is sometimes known as "stacking." Increases in wages are eroded or erased by a combination of increases in taxes and other payroll deductions, along with reductions in benefits from government programs that were set up mainly to help low-income people in the first place.

Stacking affects most low-income Canadians and many middle-income Canadians in one way or another. It affects low-income seniors who get the federal government's Guaranteed Income Supplement. It affects low-income and some middle-income parents who get the Canada Child Tax Benefit. It affects people living in subsidized housing. And it affects recipients of many of the different benefit programs financed by provincial and territorial governments.

Take the example above, using a family of two parents and two children in British Columbia in 2008. Details of the impact of stacking on a family of two parents and two children in British Columbia are shown in Table 1.

The parents in the family started out with jobs that paid \$8.50 an hour and \$10 an hour. That brought in \$33,670 in gross earnings. Their salaries were increased to \$10 and \$12 an hour. That boosted their gross earnings by \$6,370 to \$40,040.

The problem of stacking begins with the non-taxable benefits the family receives. The family escapes any cuts in the federal GST credit or the basic benefit under the Canada Child Tax Benefit. With slightly higher income levels, however, they get trimmed back by both programs.

The big loss in benefits is in the federal National Child Benefit Supplement, which gets cut by \$1,623.84. The supplement is viewed in some quarters as the federal government's only significant effort in recent years to combat child poverty, but it certainly isn't much help to this family after the cut.

Total family income with earnings and government benefits now is \$45,203.84. That's not far above Statistics Canada's before-tax poverty line of \$41,198 for a family of four in a large city in 2008.

Table 1: Stacking with B.C. two-earner couple, two children ages 7 and 4

	\$8.50 & \$10 per hour	\$10 & \$12 per hour	Difference
Income from Employment	33,670.00	40,040.00	6,370.00
Universal Child Care Benefit	1,200.00	1,200.00	0.00
Taxable Income Before Deductions	34,870.00	41,240.00	6,370.00
Non-Taxable Benefits			
GST Credit	738.00	738.00	0.00
Canada Child Tax Benefit	2,613.96	2,613.96	0.00
National Child Benefit Supplement	2,235.72	611.88	-1,623.84
BC Earned Income Benefit	0.00	0.00	0.00
BC Sales Tax Credit	0.00	0.00	0.00
TOTAL INCOME	40,457.68	45,203.84	4,746.16
Payroll Deductions			
Federal Income Tax	369.37	1,316.97	947.60
BC Income Tax	62.34	449.81	387.47
Canada Pension Plan Contributions	1,320.17	1,635.48	315.31
Employment Insurance Contributions	582.49	692.69	110.20
Total Deductions	2,334.37	4,094.95	1,760.58
DISPOSABLE INCOME	38,123.31	41,108.89	2,985.58
Percent Employment Income Retained			47%
Rent Geared to Income (30% of Gross)	10,101.00	12,012.00	1,911.00
DISPOSABLE INCOME AFTER RENT	28,022.31	29,096.89	1,074.58
Percent Employment Income Retained			17%
Child Care Subsidy	6,600.00	6,090.00	-510.00
Percent Employment Income Retained			9%
Medicare Premium Assistance	776.60	0.00	-776.60
DISPOSABLE INCOME AFTER ALL FEDERAL AND BC CUTS	21,995.91	21,782.89	-213.02
Percent employment income retained			-3%

Now take away the increases in federal and B.C. income taxes and additional contributions to the Canada Pension Plan and Employment Insurance. All these increases are unavoidable under our current system of income taxes and contributory programs.

We're now down to income that is only 47% of the original increase in earnings. And it gets much worse.

This particular family is living in subsidized housing with rent geared to income, and the increase in earnings makes the family eligible for only a small amount of assistance. It's now down to 17% of the earnings increase.

An increase in child care costs because of reduced provincial subsidies lowers the percentage to 9%.

Finally, premium assistance to defray the cost of B.C. Medicare premiums disappears.

The family with an original increase of \$6,370 in earnings winds up \$213 worse off in disposable income because of stacking.

Conversations with colleagues in other parts of Canada tell us that few government departments or agencies really take a serious look at stacking. A more pressing concern is to limit the cost of individual programs to government by establishing very low "turning points."

Turning points are the income levels for maximum benefits under any given program. People with higher incomes see their benefits trimmed or erased.

There are no simple answers to the problems of stacking, but there are some possible ways of easing the pain.

The first question worth pondering is that there are sometimes far better ways of delivering benefits. The B.C. premium assistance program is a classic case. Premiums are a truly stupid way of raising money for Medicare—something Social Credit, NDP, and Liberal governments in B.C. have all managed to ignore over the years. The logical alternative is to raise the same amount of money through provincial income taxes, where the cost of Medicare is apportioned on ability to pay—the way virtually all other provinces pay for their health care services.

Some programs deliver such small benefits that they almost cry out for alternatives. The B.C. Sales Tax Credit has a small maximum benefit and a turning point of \$18,000 for a family of four, and the B.C. Earned Income Benefit has a small benefit and a turning point of \$21,490. Wouldn't it make more sense to have one way of helping low-income people rather than having multiple programs that also contribute to stacking?

Some programs already make a difference in the lives of Canadians, but they need to have their parameters improved. Some child advocates, for example, are calling for an increased and unified federal child benefit. The current National Child Benefit Supplement has a turning point of \$21,287 in net family income for a family of four. That's far too low, and it also adds greatly to the stacking problem for many families with children.

Part of the problem with new government programs is the long-standing practice of budget secrecy. In the old days, budgets often were reasonably boring. Now they include all kinds of benefits—benefits which are developed under the veil of budget secrecy and without any public input about stacking or other possible problems. In reality, governments would have better programs, and they would get more credit for better programs, if they were developed with public

consultation and announced during the course of the year rather than all together on Budget Day.

Finally, there is the issue of whether governments might agree among themselves to some reasonable arrangements to obtain staggered and more appropriate turning points in their programs to minimize stacking, and whether they also might consider keeping their own reduction rates reasonably low. One idea that might help is to channel the energies of the federal, provincial, and territorial governments into more discrete areas of social policy. Perhaps the federal government should focus on payments to individuals, such as child benefits. Perhaps provinces and territories should have full rein over programs such as child care.

At a minimum, stacking effects will only be mitigated if the designers of programs see beyond the optics of advertising the grand visions of their governments and seriously consider potential unintended consequences as well.

To us, it seems ludicrous for governments to remain obsessed with treating upper-income Canadians with extreme care at a time when the top federal tax bracket is only 29% and the top B.C. income tax bracket is 14.7%. In addition, well-to-do taxpayers have the capacity to claim many other tax benefits to defray their taxes. Comparatively, the effective marginal tax rate is over 70% for the various low-income family configurations we examined as part of the research for this paper.

As we have shown, the equivalent impact of government policies on some lower-income taxpayers can be in excess of 100%. People who are doing their best to succeed at very low income levels certainly need a break or two from government—including some relief from the financial penalties caused by stacking.

(Michael Goldberg and Steve Kerstetter are freelance researchers and research associates with the CCPA's B.C. Office. Goldberg was formerly research director for the Social Planning and Research Council of B.C., and Kerstetter was formerly director for the National Council of Welfare.)