St. Christopher House

Community Undertaking Social Policy (CUSP) Project
with Richard Shillington

What Could Be Done
A very unstructured list

1. Remove the overlap of people receiving the Guaranteed Income Supplement (GIS) and paying income tax

Background: Currently about one third of GIS recipients (an income support for low-income seniors) also pay income tax. This ensures that their effective marginal tax rate (MTR) is at least 75% (ie. for every dollar of income they lose 50 cents to a reduced GIS and 25 cents in income tax).

Because of this and other design flaws in supports for low-income seniors, they get no benefit from saving for retirement through pensions or RRSP's.

Mechanism: Through changes to the income tax system, or the design of the GIS, gradually remove the overlap between GIS receipt and income tax. Or, reduce the reduction rate of the GIS to 25% for those paying income tax.

Make effective savings mechanisms available for the poor; (in the U.S. they are called Roth Accounts). Contributions are not deductible; they grow tax free but are not income at retirement.

Who: The federal government

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2. Allow the locking-in of RESP'S so that social assistance recipients can save for their children's education

Background: Currently social assistance recipients cannot have any significant amount of financial assets. This makes it impossible to have an education fund for children.

Mechanism: Exclude RESP's from the asset test for social assistance recipients. This could be facilitated if federal tax regulations allowed people to 'lock-in' RESP's and if provinces exclude such RESP's from asset limits for welfare.

Who: Federal and provincial governments.

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3. Change the administration of the Millennium Scholarships so that all recipients are better off

Background: Currently those who win a Millennium Scholarship have it applied against their student loan. Thus, $3,000 of student loan is replaced by scholarship income which may be taxable and which may reduce income-tested social benefits.

Some students are actually made worse off for receiving the funds.

Further, some provinces, like Ontario, reduced the grant portion of the student loan (which was not repayable). Again, the student is no better off.

Mechanism: Instead of giving scholarship income and reducing the student loan by the same amount; simply reduce the repayable portion of the student loan by the amount of the scholarship.

Who: The provincial and federal governments.

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4. Currently the Child Tax Benefit increases are 'clawed-back' from disabled welfare recipients

Background: This is done to reduce the so-called 'Welfare Wall' – the perceived disincentive to employment for welfare recipients.

The claw-back also applies to ODSP recipients – welfare recipients with disabilities - for whom employment may be unlikely.

Mechanism: Cancel the 'claw-back' for ODSP recipients

Who: The provincial government.

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5. Take-up issues for the GST Credit, Child Tax Benefit and Guaranteed Income Supplement

Background: HRDC and Revenue Canada can identify those who would appear to be eligible for the GST Credit, Child Tax Benefit and Guaranteed Income Supplement based on the income tax return. Currently they do not receive the support unless they apply (update: now HRDC is remedying this re: GIS).

Mechanism: Have HRDC and Revenue Canada provide benefits to all those who would appear to be eligible.

Who: The federal government.

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6. Ensure that undue financial hardship is not caused to those who do not file an

income tax return.

Background: Eligibility for several income-tested benefits is determined based on the income tax return; this includes the GST Credit, the CTB, and the GIS. A significant proportion of the most vulnerable and marginalized members of society do not regularly file income tax returns, losing out on these valuable supports.

Mechanism: Develop mechanisms so that these benefits can be delivered to these most marginalized of citizens. .

Who: Governments at all levels, and NGOs.

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7. Ensure that GIS recipients have ample warning that they will lose their GIS if they do not file an income tax return.

Background: HRDC recently started a provision so that GIS recipients do not need to apply each year for GIS. Renewal is automatic based on their income tax return. But this has had the effect that many thousands of seniors lose GIS if they are late filing their income tax return. In July 2001 almost 100,000 seniors lost their GIS for a month or two because they had not filed their income tax return. This must have caused significant concern and hardship.

Mechanism: Ensure that GIS recipients are adequately warned that a late income tax return will delay their GIS payments.

Who: The federal government.

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8. Increase retroactive payments for income supports

Background: Currently, retroactive payments are only allowed for 11 months for the OAS, GIS, CPP and the CTB. In the case of the CTB, Revenue Canada will go back farther if asked under particular sections of the act. Ontario recently identified more than 50,000 families who were eligible for the CTB but not receiving it – they were identified because Ontario wanted to apply the CTB claw-back to their social assistance receipts.

Mechanism: Have Revenue Canada and HRDC go back farther for retroactive payments as a matter of practice. This would be predicated that there is no evidence that one knowingly did not apply in order to manipulate benefit regulations.

Who: The federal government; with provinces in the case of CPP .

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9. Protect ALL new mothers from onerous new-entrant provisions under Employment Insurance

Background: The shift from U.I. to E.I. meant that eligibility for E.I. is now determined based on hours of work rather than weeks. This has meant that many fewer new-entrants to the labour force are eligible for E.I., particularly new mothers who work part-time.

New legislation passed in the spring of 2001 exempts some new mothers from more onerous E.I. provisions which apply to new-entrants.

Unfortunately, the new provisions only protect from new-entrant provisions those new mothers who received maternity benefits. It does not protect the other half of new mothers who did not get maternity benefits.

Mechanism: Protect all new mothers from new-entrant E.I. provisions.

Who: The federal government.

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10. Income definition to be used for determining access to income-tested benefits.

Background: The current reliance of agencies on income tax information has advantages and disadvantages. One of the problems is that the income definitions on the income tax form are designed for income tax purposes and not for assessing 'need'.

Mechanism: On the income tax form dividends are 'grossed-up' and capital gains are understated. Yet, arguably for accessing eligibility for supports dividends, capital gains and other income sources should be treated the same. As well, under current circumstances Canadians who have very high incomes but access to tax shelters could have very low Net Incomes – these individuals despite their high incomes have access to supports designed for the poor, the GST credit and the CTB (a recently reported in the Ottawa Citizen). This while many low-income Canadians do not receive these 'anti-poverty' benefits.

It would be useful if provincial governments and the federal government could create a measure of income appropriate for assessing 'need'. This may be total income (with dividends and the capital gains at cash values) less payroll taxes and income taxes. This definition may arguably ignore certain deductions such as RRSPs, Pensions, and Child Care. Then Revenue Canada could include such a calculated figure automatically on the Notice of Assessment which agencies could use to assess eligibility.

The development of such a common 'income' definition could be a component of a multi-government effort to co-ordinate the design and administration of income tested benefits to ensure that no one faces exorbitant marginal tax rates (particularly over 100%).

Who:. All levels of government.

11. Correct CPP credit-splitting regulations

Background: Provisions for income-splitting under CPP is meant to equalize the CPP benefits between spouses in a separating couple. One spouse, usually the women, is better off and one is worse off and the net effect is zero. In certain circumstances, under the current rule, income splitting can mean that one spouse is worse off but the other is not better off. Hence the CPP fund 'wins' but neither of the spouses wins – the 'couple' suffers a net loss.

Mechanism: A procedure for determining benefits needs to be changed so that income splitting is a zero-sum game.

Who: CPP at HRDC

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12. Correct nursing home regulations so that no one has a marginal tax rate exceeding 100%.

Background: Under Ontario regulations subsidies for nursing home fees are reduced dollar for dollar as income increases. But with dividend income used on the income tax form, the reduction is more than a dollar (100%).

Similarly, the regulations for Chronic Care Co-payments imply that many seniors will face a marginal tax rate exceeding 100%.

Mechanism: Correct regulations for the nursing home subsidies so that sources of income are treated comparably and so that no one has a MTR over 100%.

Who: Ontario government – Ministry of Health.

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13. Correct inequitable regulations for child care subsidies

Background: Ontario regulations for access to child-care subsidies make unreasonable distinctions between types of assets.

Mechanism: Under the current regulations, having an employer pension does not affect eligibility but have funds in an RRSP does. Similarly, one could own a $400,000 home and be eligible but having $5,000 in the bank would preclude eligibility.

Also, funds in an RESP are consider assets in determining eligibility for the subsidy so parents must choose between the employment facilitated by child-care and saving for a child's education.

Who: Ontario government.

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14. Encourage the creation of tax-assisted savings mechanism which work for low-income Canadians

Background: Current regulations for RRSP's and GIS mean that low-income Canadians who save using RRSP's get essentially no financial benefit at retirement.

Mechanism: One way of assisting the savings for low-income Canadians is to create a separate mechanism. In the United States, "Roth accounts" fill this role. They operate so that contributions are not tax deductible, the funds grow tax-free, the withdrawals at retirement are not included in income and thus do not reduce eligibility for income, health and social supports. This would be much better for GIS recipients than RRSP's.

The C.D. Howe Institute has advocated such a tax measure in A New Option for Retirement Savings: Tax-Prepaid Savings Plans on the basis that this would assist low-income Canadians who are not assisted by RRSP's and also high-income Canadians who have 'maxed-out' their RRSP's. In the United States, high-income taxpayers are not allowed to use Roth accounts.

The ineffectiveness of RRSP's for GIS recipients is exacerbated by the overlap between GIS and income taxes (dealt with above).

Who: The federal government could create the equivalent of Roth accounts. The inclusion or exclusion of high-income Canadians is an interesting policy and strategic question.