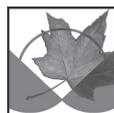


# Time to Grow Up

Family Policies for the Way We Live Now

Kate McInturff and David Macdonald





CCPA

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# Executive Summary

FAMILY LIFE ISN'T the same today as it was thirty years ago. With nearly 2.5 million more women in the workforce, Mom is far more likely to work than she was a generation ago. Women's incomes are filling an important gap, given that men working full time have seen their median inflation-adjusted incomes increase by less than 5% in thirty years. It is perhaps no surprise then that in households where there is a working male parent, the mothers of young children are *more* likely to work and the majority of those mothers work full time.

Family incomes are further handicapped by the persistence of the wage gap. Even working full time, in the same industry, with the same education, women are consistently paid less than men. The so-called 'motherhood penalty' means that when those women have children they will see a further 8% decrease in their earnings.

More than half of the 1.9 million children under the age of five in Canada live in families with two working parents. There are currently only enough regulated childcare spaces for half of that group of children. Pre-kindergarten enrolment fills in only a fraction of the shortfall, leaving 361,000 children out in the cold.

Families are working hard to meet the challenges of a changing socio-economic landscape. Governments have an important role to play in supporting them. Childcare, parental leave, and economic policies that level the playing field (rather than tilting heavily in favour of more choice for the

highest income earners) can all make a substantial difference to the quality of family life in Canada.

The experience of the Quebec government demonstrates that where there is affordable and accessible childcare, parents and children benefit. Since the introduction of the Quebec childcare program women's employment levels have increased by 18% and fertility rates have increased by 5%. Increased employment has been a net gain to the economy. The Quebec childcare program is now producing more in tax and other government revenues than the program costs — bringing in an estimated annual net gain of over \$200 million to the provincial government.

Quebec has also been a policy leader in responding to the desire of fathers to spend more time with their children. Quebec offers leave specifically for fathers, in addition to leave available to both parents and maternity leave. Five years after Quebec introduced paternity leave, 76% of fathers in Quebec were taking leave, compared to 26% of fathers in the rest of the country.

The current federal government's approach to family policy is falling short of the needs of parents. It does nothing to address the shortfall in the number and affordability of safe childcare for the children of working parents. Nor has it made any effort to address the wage gap, which is hampering the economic security of families. Perhaps most worryingly, the recently introduced program of income-splitting for parents with children under 18 is set to widen inequalities between families and increase inequality within families, all at a high cost to the treasury and the Canadian economy.

The federal government's income splitting policy is designed to benefit families where there is one middle- or high-income earning parent and one parent with little or no income. In application, for 83% of families that qualify, both parents work, but with a large pay gap. In only 17% of families is there a single (usually male) earner. The benefits of income splitting are highly concentrated among high-income families — whose incomes already make it possible for one parent to forgo paid work to spend more time with their children. Only 52% of families with children under 18 will receive \$1 or more from income splitting — and that is only if they can navigate the 85 additional steps on their tax forms. Of that 52% who gain, 20% will receive roughly a dollar a day.

The small or non-existent benefit to low- and middle-income families and zero benefit to single parents mean that the families whose choices are most constrained by economic conditions will not see a benefit sufficient to allow them to forgo further hours of earned income in order to spend more time with young children.

Income splitting will also have a significant negative effect on Canada's labour force and on the economic security of women. In every industrialized country where income splitting has been introduced, the result is a decrease in female labour force participation, with little or no impact on male labour force participation. A reduction in female labour participation without a parallel rise in male labour force participation will leave Canada with a smaller and less flexible labour supply. It will also tilt the playing field heavily in favour of women staying out of paid work for longer periods of time — with negative consequences for their long-term economic security and that of their children.

Further, income inequality within families has been repeatedly demonstrated to have a negative impact on marital satisfaction and stability. Financial decisions have long been a source of conflict among married couples. However, when conflicts over financial decisions are resolved as a result of one spouse exercising a disproportionate level of control over the decision (because they are the sole or major contributor to family finances), both spouses are less satisfied with the outcome. The result: both spouses report lower levels of marital satisfaction in the long term.

Federal and provincial governments have an opportunity to make the struggle to balance work and family life easier. Neither work nor family life looks the same today as it did a generation ago. It is time for our policies to catch up with the way families live now, by providing solutions to the problems families are facing today.

# What Has Changed for Work and Family Life

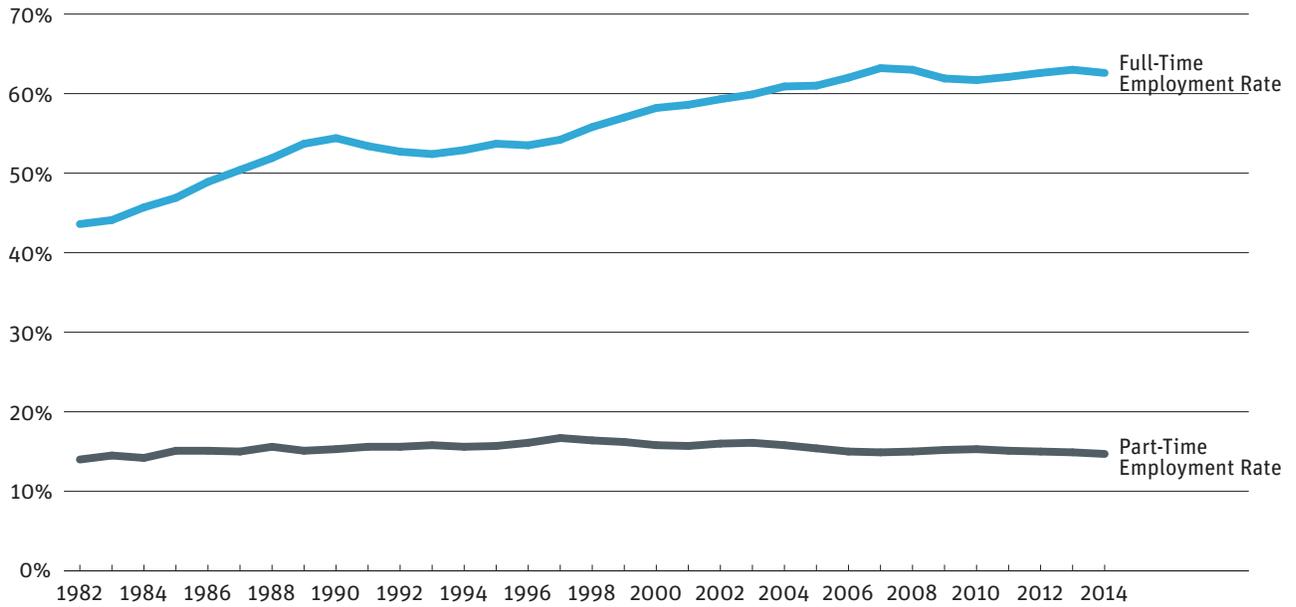
ONE OF THE most significant changes in the lives of Canadians over the past three decades has been the increase in women's participation in paid work. In 1985, 3.3 million women (ages 25 to 54 years) were in the workforce.<sup>1</sup> By 2014, that number had risen to 5.7 million.<sup>2</sup> Much of that increase has come from women taking full-time jobs. In 1985, less than half of women worked full time; today, two-thirds of women (ages 25 to 54 years) hold down full-time jobs.<sup>3</sup>

Women entering the workforce are not replacing men. Today 85% of core working age men are employed — precisely the same share that were employed thirty years ago.<sup>4</sup> The most significant shift in male employment rates has been a 2.5% decline in men's participation in full-time work and a parallel 2.2% increase in their participation in part-time work.<sup>5</sup>

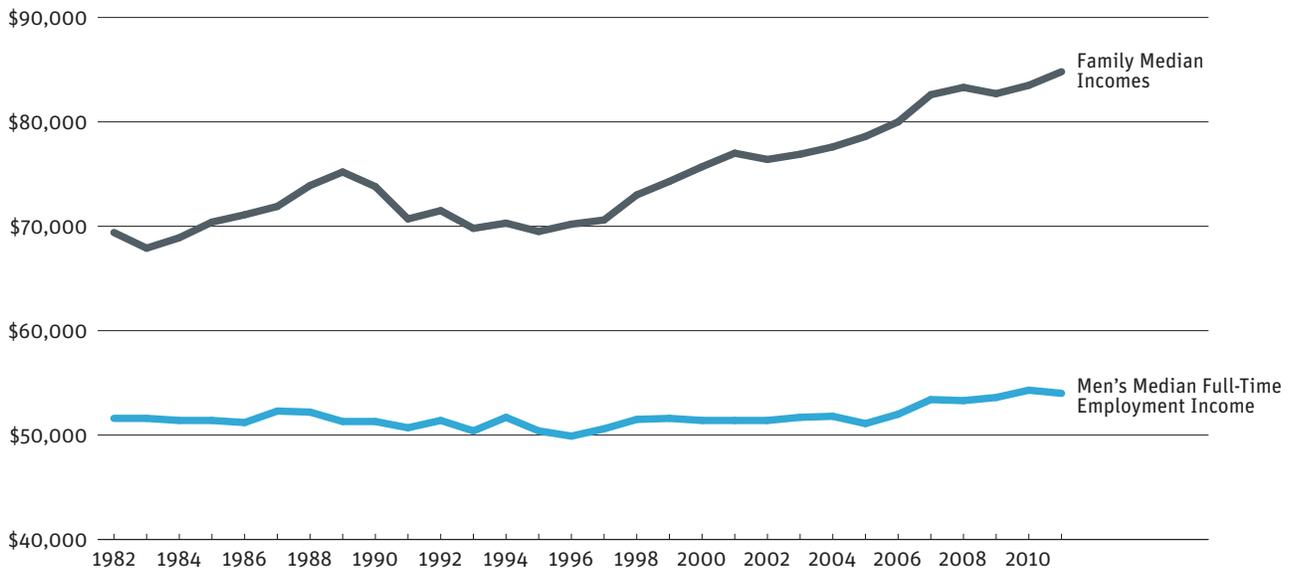
The movement of women into the workforce has changed the working and family lives of Canadians. It has helped families compensate for the lack of growth in men's earnings. It has increased the financial security of working women and their children. It has also created a time deficit for many working parents and left families with young children struggling to meet the demands of their employers and the needs of their children.

Women's hours of household and care work have not fallen as their hours of paid work have increased. Today women are putting in 3.9 hours a day, compared to 4.2 hours a day twenty years ago — only now that four hours

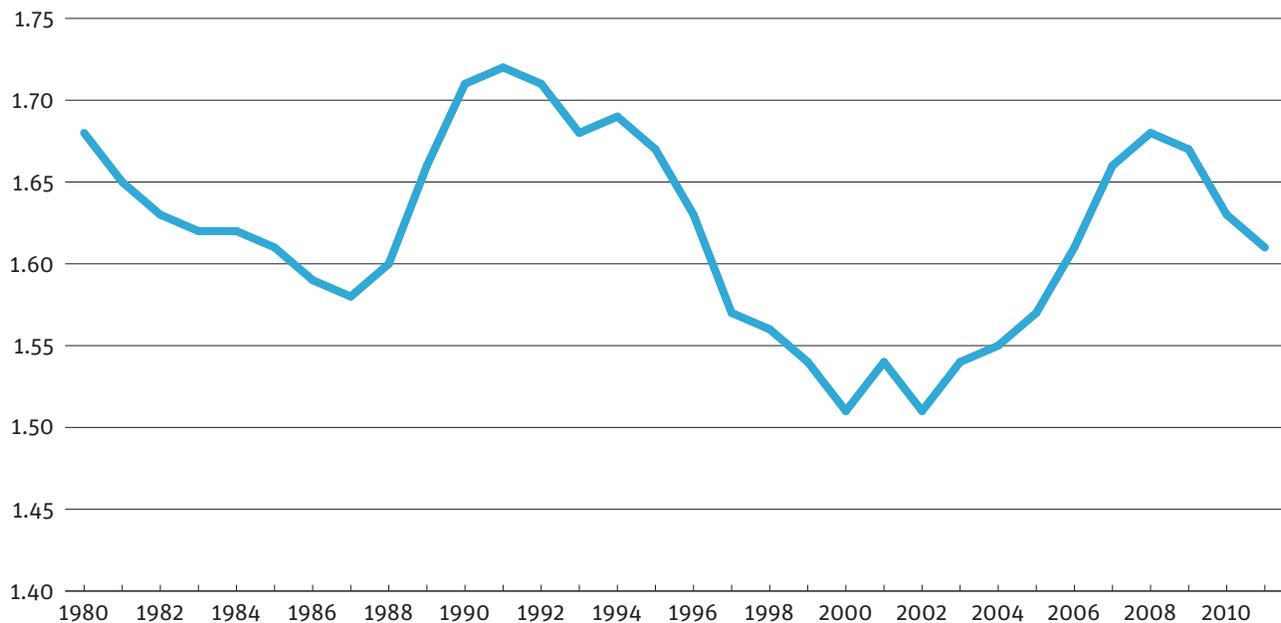
**FIGURE 1** Labour Force Participation, Women (Ages 25 to 54 Years)



**FIGURE 2** Median Incomes in Constant Dollars



**FIGURE 3** Fertility Rate, Canada (Average Number of Children)



comes on top of a full day of paid work for the majority of women (including for the majority of women with young children).<sup>6</sup> Women continue to spend nearly twice as much time on household and care work as do men.<sup>7</sup>

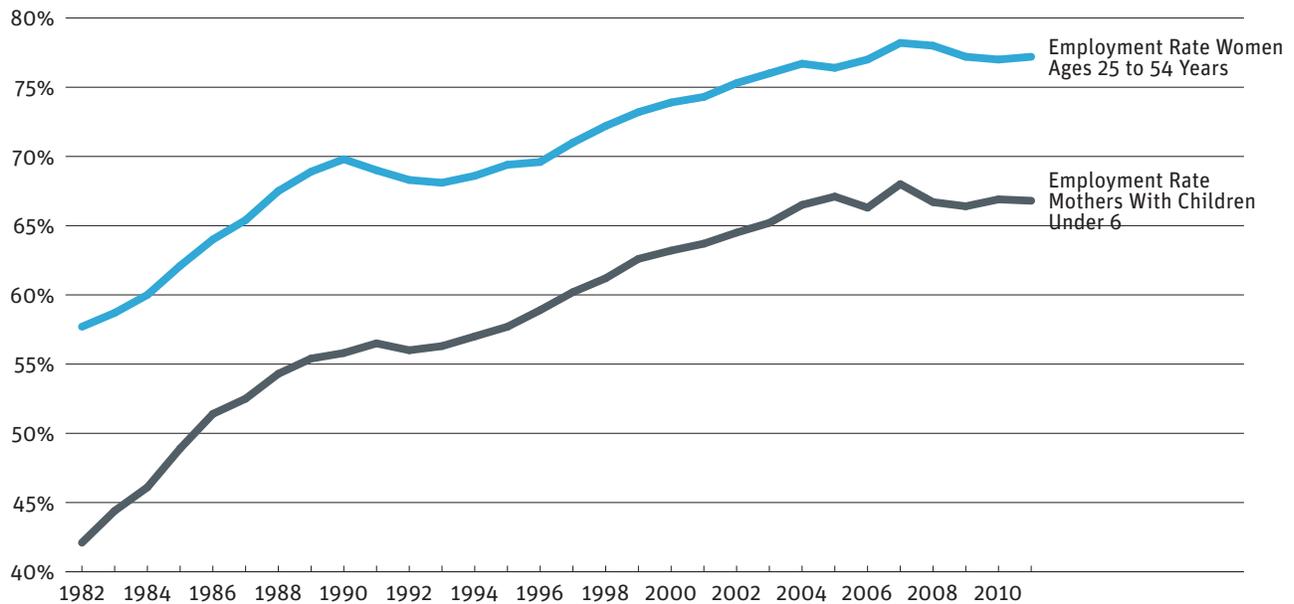
The majority of Canadians continue to live together as couples and to have children. The share of Canadians who live as married or common-law partners today stands at 57%, representing a 3% decline over the past two decades.<sup>8</sup>

Nor have fewer families chosen to have children as more women found paid work outside of the home. Fertility rates have varied over the past three decades, but variations in fertility levels do not correspond with the steady rise in women's employment. Fertility rates today are only slightly below where they were thirty years ago.<sup>9</sup> What has changed is that most of those children will now have two working parents.

The employment rates of mothers of children under age 6 has risen steadily over the past three decades.<sup>10</sup> In households where there is a working male parent, the mothers of young children are *more* likely to work and the majority of those mothers (63%) work full time.<sup>11</sup>

All of these changes add up to new challenges and new priorities for families. Families in Canada need government policies and programs that re-

**FIGURE 4** Employment Rate, Women (Ages 25 to 54 Years) and Mothers (Children Under Age 6)



spond to the way that they live now. New parents want to spend time with their children – both mothers and fathers need parental leave policies that meet the pressures of work and family life. Families with two working parents need to know that their children will be looked after in a safe and supportive environment while they work. Fathers and mothers need economic policies that allow them both to contribute to their family’s economic security. Government policy has an important role to play in helping families meet these needs.

# Childcare

THE COST AND availability of childcare have a demonstrable impact on the choices families are able to make. These choices include when and how many children to have, the distribution of unpaid and paid work between parents (in two-parent households), and the financial security of families (particularly in single-parent households).

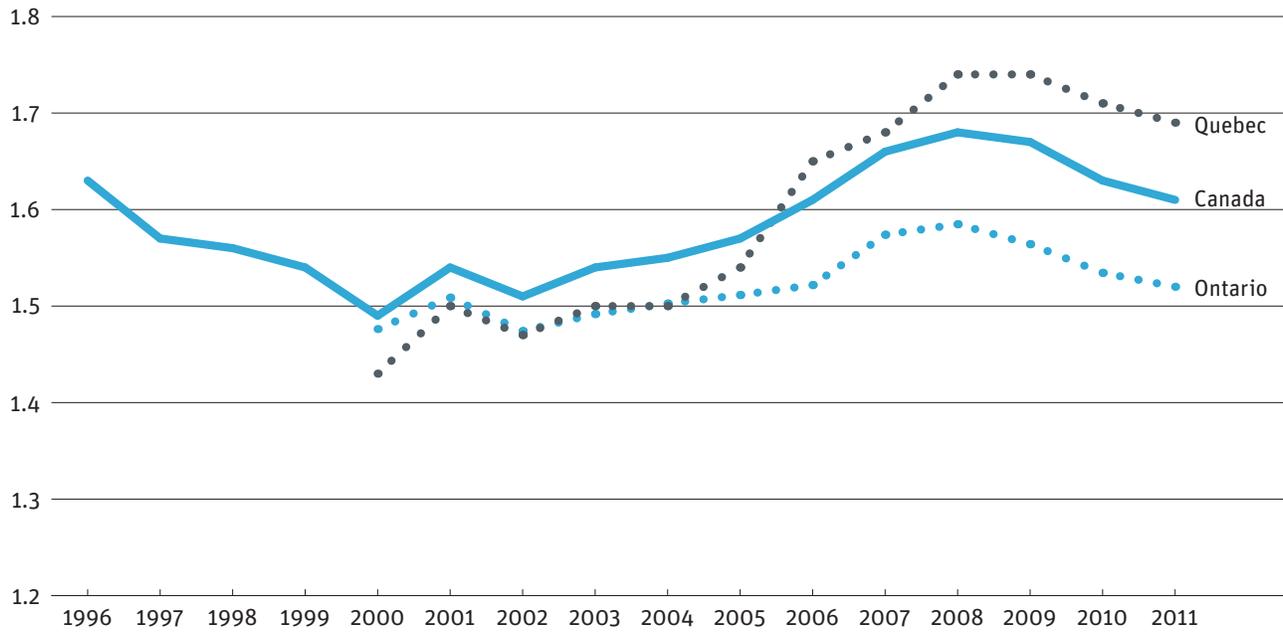
A review of the experiences of other industrialized, high-income countries finds that when childcare is both affordable and readily available more women work and they are more likely to have children.<sup>12</sup> Childcare subsidies that are conditional upon employment also contribute to increased female labour force participation.<sup>13</sup>

In Canada the affordability of childcare varies considerably from province to province.<sup>14</sup> Three Canadian provinces set maximum fees for childcare: Quebec, Manitoba and Prince Edward Island. Quebec's childcare program is the most heavily subsidized and, as a result, offers the lowest fees in the country at \$7.30/day (although this policy is currently being reviewed by the provincial government).<sup>15</sup>

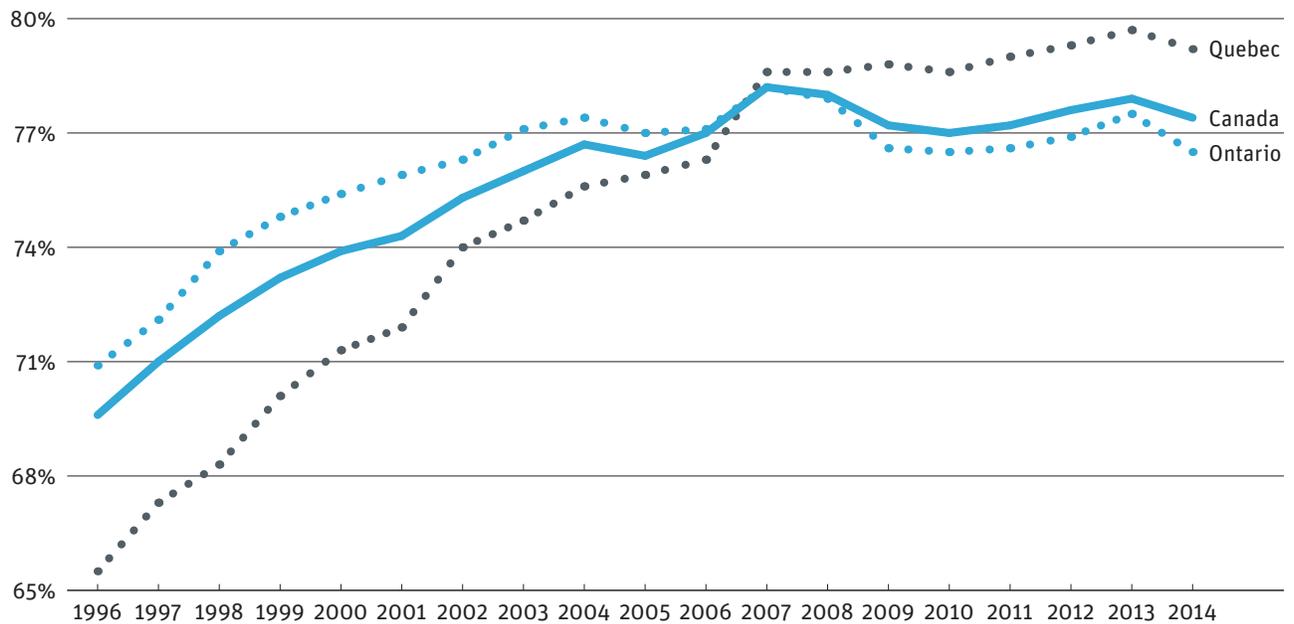
Over the period since the introduction of Quebec's childcare program in 1997, fertility rates have also increased in Quebec, now exceeding those of the rest of the country.<sup>16</sup> This pattern is in keeping with the trend in European countries that provide similar levels of subsidized childcare and paid parental leave.<sup>17</sup>

Women's labour force participation in Quebec has increased at a faster rate than in the rest of Canada (since 1997). Several economic studies

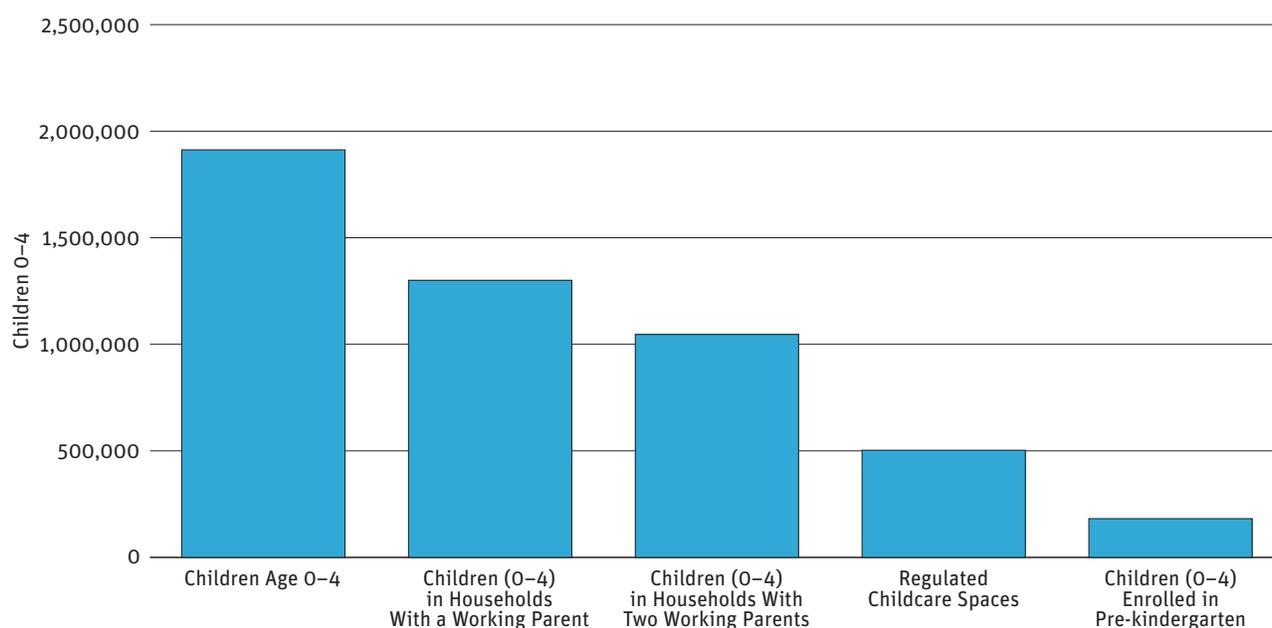
**FIGURE 5** Fertility Rates



**FIGURE 6** Employment Rates Women (Ages 25 to 54 Years)



**FIGURE 7** Children and Working Families in Canada (2012)<sup>22</sup>



have found that a significant portion of this increase in employment levels is directly attributable to the affordability and accessibility of childcare in Quebec.<sup>18</sup> Women's employment rates also held steady during and after the 2008 recession in Quebec, in contrast to women's employment in Ontario, for example. This suggests that consistent access to affordable childcare played an important role in lessening the impact of the economic downturn on families in Quebec.

The Quebec childcare program has also had a demonstrable impact on employment levels for the families most likely to live in low income – single parent households. Single mothers of young children in Quebec have seen their employment rates increase from 38% in 1996, the year prior to the introduction of the program, to 68% in 2014.<sup>19</sup> Single female parent households have also seen their poverty rates decline from 52% in 1996 to 31% by 2011 – moving 104,000 single mothers and their children out of poverty.<sup>20</sup>

The affordability of childcare by itself, however, cannot deliver the results evident in Quebec. Availability is also key. Across Canada there is a huge gap in the number young children in households with working parents and the number of regulated childcare spaces. In 2012, there were 1.9 million children under the age of five, and just over half a million regulat-

ed, centre-based childcare spaces in Canada.<sup>21</sup> A million of those children lived in families with two working parents.

Less than 10% of those children (half of all 4 year olds) are enrolled in pre-kindergarten (which is not necessarily full-day), some are being cared for by extended family members, some are in unregulated childcare. However, the size of the shortfall suggests a significant unmet need for childcare among families where both parents work — above and beyond those parents who are not working but who would work if childcare were affordable and available.

It is worth noting that childcare is also important for parents who don't work or who work part time. Under Quebec's program, parents who do not work can and do access childcare.<sup>23</sup> Many parents, whether they are in paid work or not, see childcare as an important social and educational benefit for their children — a perception that is supported by the evidence on childhood development and educational outcomes.<sup>24</sup> Further, access to childcare can help stay at home parents who are ready to transition back into paid work — providing important time for training and job seeking.<sup>25</sup>

The broader economic benefits of low-cost, high-quality childcare are also significant. The presence of affordable and available childcare stimulates economic growth by increasing employment and therefore spending and tax revenues. Estimates suggest that the Quebec program has contributed as much as 1.7% in increased economic growth annually to Quebec's economy.<sup>26</sup> Additional benefits to government revenues come from cost savings that result from lower rates of social assistance and other benefits provided to low-income families who are able to move out of poverty as a result of access to childcare. The result is that the Quebec program is now contributing more in increased government revenues than the program costs — providing an estimated annual net gain of over \$200 million to the provincial government.<sup>27</sup> Increased employment resulting from the program also provides increased tax revenues to the federal government — providing the federal government with an estimated net gain of \$650 million annually.<sup>28</sup>

Childcare is perhaps the most significant lever available to governments seeking to help parents balance work and family life. However, the impact of affordable and accessible childcare can be amplified or suppressed depending on how governments treat other policy levers — including parental leave and family tax policies.

# Parental Leave

THE IMPACT OF parental leave on the choices individuals and families make about how to balance work and family care is highly dependent on the nature of that leave. Many governments offer a mixture of leave available only to mothers (maternity leave), and leave that can be taken by either parent (parental leave). A growing number of European countries have begun to offer an additional period of leave available only to fathers (paternity leave). A very few countries offer leave that can be taken by both parents simultaneously.

Women still make up the vast majority of parents taking parental leave — in Canada and elsewhere. The impact of parental leave on the working lives of mothers depends on the length of the parental leave provided as well as the income and educational level of the parent. Economic analysis consistently finds that up to six months of parental leave has a positive impact on female labour force participation for both part-time and full-time workers, across educational levels. Where women are guaranteed job security and provided with some level of income for a period of up to six months, they are more likely to return to the workforce, than if there is no parental leave present.<sup>29</sup>

The impact of longer periods of leave is different for different groups of women. A study of 21 high-income countries found that for less educated mothers, longer periods of parental leave have either a neutral or positive impact on the longer-term employment and earnings of those mothers.<sup>30</sup> Highly educated mothers see a negative impact on their earnings and employment when they take periods of leave exceeding six months.

Women across the economic and educational spectrum experience a long-term lag in their earnings after having children. The so-called ‘motherhood penalty’ means that women in Canada will see an estimated 8% decrease in their earnings, even when differences in age, employment level (part-time or full-time) and education are accounted for.<sup>31</sup> In order to minimize the unintended negative consequences of having children, parental leave policies need to be accompanied by policies that directly address gendered wage gaps and the different needs of women with different levels of education.

Currently Canada provides 15 weeks of maternity leave and 35 weeks of parental leave for those parents that qualify under Canada’s Employment Insurance program. This means that only those parents who have worked at least 600 hours in the year prior to a child’s birth are eligible. Those that do qualify, receive 55% of their average insurable weekly earnings up to a maximum of \$514 per week.<sup>32</sup> For low-income families (those with total family earnings below \$25,921) their incomes can be replaced at a rate of up to 80%. Parental benefits are subject to taxation. The average benefit received is just under \$400 per week.<sup>33</sup>

Women make up 93% of the recipients of parental benefits provided through Canada’s EI program.<sup>34</sup> However, the difference between the rates at which men and women access parental leave programs cannot be ascribed to choice alone. Men and women respond to parental leave policies differently. Different policies produce different results.

Men are significantly more likely to take parental leave when it comes with a substantial level of income replacement and when there are additional, targeted, paternity leave benefits available to them. For example, in Sweden, Norway and Iceland, which all offer high wage replacement rates, the majority of fathers take parental leave. In countries with low wage replacement rates, including Belgium, Austria and France, less than ten percent of fathers take parental leave.<sup>35</sup> When Germany shifted to a parental leave program that replaced earnings at a higher level (67%), the percentage of fathers participating tripled.<sup>36</sup> Sweden, Norway and Iceland also all have targeted paternity leave benefits. When Sweden introduced paternity leave, the percentage of fathers taking leave rose from 9% to 47%.<sup>37</sup>

Quebec is the only province in Canada that offers targeted paternity leave — providing five weeks available only to fathers, in addition to 32 weeks that can be shared between parents and 17 weeks of maternity leave.<sup>38</sup> The Quebec program replaces between 70–75% of the father’s earnings (depending on the length of leave taken) up to a maximum of \$1007/week.<sup>39</sup> The Quebec Parental Insurance Plan also differs from the federal program in

offering benefits to the self-employed and requiring fewer minimum hours of employment to qualify.

The impact of the Quebec Parental Insurance Plan on patterns of parental leave has been significant. The same pattern that can be seen in European countries with paternity leave programs is evident in Quebec. Five years after Quebec introduced paternity leave, 76% of fathers in Quebec were taking leave, compared to 26% of fathers in the rest of the country.<sup>40</sup> Those fathers also took longer periods of leave — averaging 5.6 weeks compared to 2.4 weeks nationally.<sup>41</sup>

The three-fold increase in the share of fathers taking leave in Quebec demonstrates that there is a significant unmet need for parental leave that responds to the distinct economic and social pressures faced by men. The difference that targeted paternity leave makes, as opposed to parental leave, suggests that the ‘use it or lose it’ nature of paternity leave may be lessening the social and economic pressure on fathers to stay at work following the birth of a child. The lowering of barriers to qualify for parental leave and the higher rate of wage replacement are also clearly offsetting the financial costs to two-parent families of fathers taking leave.

The presence of subsidised childcare policy and paternity leave has not resulted in fewer women taking parental leave or in those women taking shorter periods of leave. Quite the opposite. Women in Quebec are more likely to take parental leave than are their peers in the rest of Canada (with 99% of mothers who worked prior to having a child taking leave in Quebec compared to 90% nationally).<sup>42</sup> In Quebec, 97% of those mothers qualified for paid leave, compared to 83% in the rest of Canada — suggesting that women are also more likely to take leave where there is some level of income replacement available to them.<sup>43</sup>

Women in Quebec do not have to work as many hours in order to qualify for the Quebec Parental Insurance Program as they do for the EI program in the rest of Canada. Because women perform fewer hours of paid work on average, and are three times as likely to work part time, they are less likely to have the minimum number of hours of paid work to qualify for EI and parental leave than are men. With a lower threshold for qualification, more women are able to access the Quebec program. This may also account for the fact that women in Quebec take longer parental leaves than do their counterparts in the rest of the country (at 48 weeks compared to 44 weeks on average).

Contrary to the experiences of other European countries, in Quebec the longer periods of leave have not resulted in lower rates of female employ-

ment. This suggests that the effects of the childcare program and paternity leave may have offset the potential loosening of female labour force attachment that occurs elsewhere, where parental leaves exceed six months.

The comparison provided by the Quebec example provides several lessons for policy makers. First, men and women both choose to take parental leave under the right conditions. Second, men and women have distinct needs with respect to parental leave. For women, a lower threshold for qualification is important; for men, income replacement and targeted paternity leave is important. Third, parental leave by itself can have a negative impact on the economic security of families if it is not accompanied by other policies and programs, particularly affordable and accessible childcare. Where these policies are offered in unison, parents are able to take longer periods of leave after their children are born and are more likely to return to work at the end of that leave.

# Child and Family Tax Policies

CANADA UTILIZES A number of different child and family tax benefits, including several new benefits that come into effect in 2015. These include direct income transfers, tax credits, and joint taxation. These policies all have distinct impacts on how families spend their time (in work and at home). These policies also have an impact on the quality of family life.

Since 1993, the Canada Child Tax Benefit (CCTB) program has provided a direct payment to qualified families with children under the age of 18. Families whose net income exceeds a set amount receive no payment. Those who do qualify receive payments tied to family income. For example, a family with two children, whose net income was below \$116,253 in 2013, would qualify for a CCTB payment in 2014 of up to \$1,446.<sup>44</sup> The Child Disability Benefit is also available to families that qualify for the CCTB and who care for a child with a disability.

In 1998, Canada introduced the National Child Benefit Supplement (NCBS), an income transfer targeted specifically to low-income families. The NCBS supplements the amount available through the CCTB for low-income families. A family with two children, who have a net family income of less than \$25,584, would receive up to an additional \$1,982 in 2014.<sup>45</sup> Provinces treat these benefits differently, in some cases deducting the benefit from other social assistance benefits, in other cases tying benefits to the age of the child.

These programs have had a positive impact on educational, social and health outcomes for low-income children.<sup>46</sup> They also have a strong positive correlation with increased labour force participation for low-income parents. The benefits correlate to a 3–4% increase in the employment levels of single mothers in particular.<sup>47</sup>

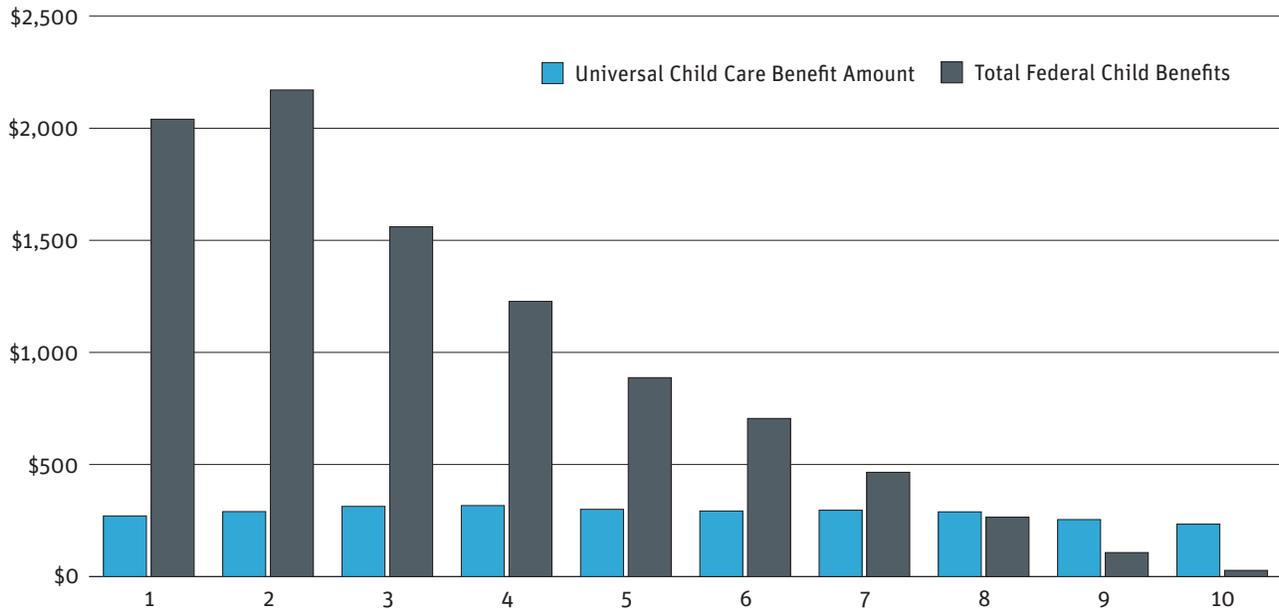
In 2007 the government introduced the children's arts tax credit and the children's fitness tax credit. These allow parents to claim a 15% non-refundable tax credit for fees paid for eligible sports and arts activities. The maximum benefit per child per credit is \$75. In order to realize the \$75 tax benefit parents have to spend \$1000 on eligible activities. Given the high level of spending required in order to realize the relatively small credit, these tax benefits have disproportionately gone to high-income families. The impact on the well-being of children is minimal, as the families that are eligible and most likely to use the tax credits are those who already have the means to support those activities.<sup>48</sup>

In 2006, the federal government introduced the Universal Child Care Benefit (UCCB). This is a taxable allowance of up to \$1200 per year for families with children under the age of 6. In 2015, the UCCB will be extended to include a benefit of up to \$720 per year for families with children between the ages of 6–17. The original UCCB of \$1200 a year will be increased to \$1800 a year. Unlike the CCTB, the UCCB provides relatively similar levels of benefit across income groups (although higher income families will see the benefit taxed back at higher rates than low-income families).

In 2014 tax year, the federal government will implement a new joint taxation policy that will allow married and common-law couples with children under the age of 18 to transfer up to \$50,000 in earned income from one spouse to the other, for a maximum tax benefit of \$2000 per year. In households where one spouse earns significantly more than the other, and is therefore taxed at a higher rate, income splitting allows that higher-earning spouse to transfer income to the lower earning spouse. The result is that the higher-earning spouse will pay taxes as a lower rate. There is no benefit to couples that earn similar amounts. Single parents do not benefit by definition. It is also important to note that the income transfer is purely nominal – no actual transfer of income is required. There is no direct benefit to the lower earning spouse.

Income splitting or joint taxation policies have been implemented in several industrialized countries over the past several decades, with similar effects. In every instance, the impact of allowing couples to treat their incomes as joint for tax purposes has resulted in a decrease in female labour

**FIGURE 8** Benefit Amount to Families with Children (By Income Decile)



force participation. The impact on male labour force participation has been minimal.<sup>49</sup>

Because on average women work fewer hours and earn less for each hour that they work, in the vast majority of families (with a male and female spouse) the lower income earning spouse is female. The choices available to that couple now come with a tax penalty for any additional income earned by the lower earning spouse once she decides to return to work. For every hour of additional work she takes on, she risks increasing the rate at which the couple is jointly taxed. This tax penalty on the lower earning (female) spouse's work drives down the labour force participation of married women.

A number of studies have looked at the impact of the introduction of joint taxation (in the U.S. for example) and at the differences between countries with similar labour market conditions but different tax policies. For example, economists estimate that imposing the joint taxation system present in Ireland on the UK (which does not currently have joint taxation) could decrease female participation in part-time work by as much as 10% and decrease participation in full-time work by as much as 13%.<sup>50</sup> A comparison of Germany and Sweden finds that imposing the German system of joint taxation on Sweden would reduce the labour force participation of married women in Sweden by as much as 20% and that, alternately, re-introducing

individual taxation in Germany would increase the labour force participation of married German women by 10%.<sup>51</sup>

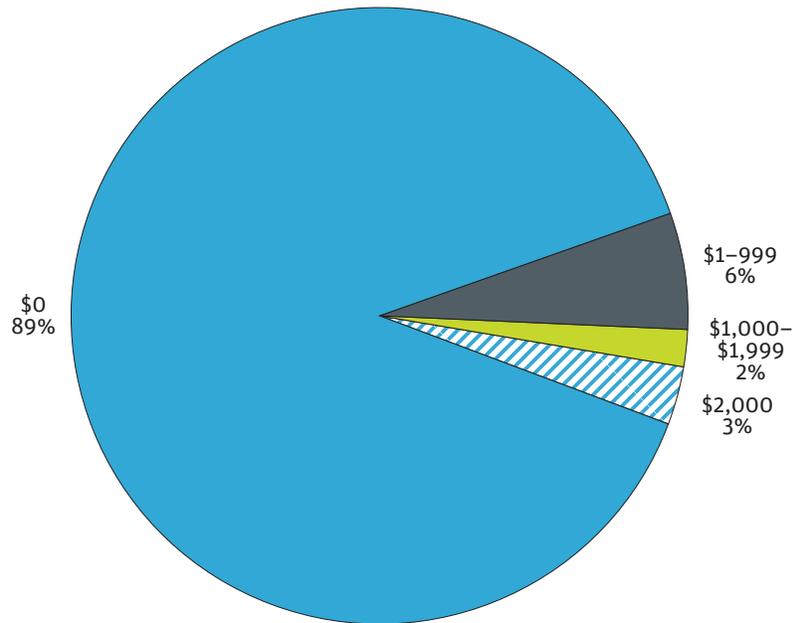
Analysis of changes to Canada's tax system come to the same conclusion. In 1988 Canada replaced a spousal tax exemption with a non-refundable tax credit. The change meant that the rate at which one spouse was taxed was no longer tied to the rate at which the other spouse was taxed. Thus a lower-earning spouse could work more hours and earn more income without causing the higher-earning spouse to pay a higher rate of tax. The impact on the labour force participation of married women was significant — causing an estimated 10% increase in married women's labour force participation.<sup>52</sup>

What historical analysis and econometric projections make clear is that the economic impact of income splitting will be negative. A reduction in female labour participation without a parallel rise in male labour force participation will leave Canada with a smaller and less flexible labour supply. It will also reduce the supply of younger workers (those in the age group most likely to have young children) at a time when the labour force is aging. Because of the segregation of the labour market, it is likely the greatest losses will be in the industries in which women are most likely to work: education, health care and social services. Income splitting will also reduce government revenues as a result of lower levels of employment income and therefore tax revenue available to the government.

Income splitting, unlike the CCTB and the NCBS, is highly regressive — benefiting most those with the highest incomes and least need. Gaining any benefit at all, much less the maximum benefit, is by no means assured. Spouses must be in different federal tax brackets. Given that the average length of parental leave is less than a year, and that parental leave will almost never exactly match a tax year, since children are not automatically born on New Year's Day, income will be lowered for the parent who stays home, but not necessarily eliminated in any given tax year.

For parents to be able to make different choices based on their benefit from income splitting, they need to be able to anticipate if they will benefit from the program. However, given that few Canadians, excluding tax experts, have any idea which tax bracket they are in, it will be very difficult for families to make different choices as a result of an anticipated benefit — simply because few will know if they will qualify. Gaining access to income splitting will also require the correct calculation of up to 85 new steps in the 2014 tax forms. Given the complexity of the benefit, not only of the calculations but even of its basic understanding, it will almost certainly be misunderstood by tax filers.

**FIGURE 9** Projected Gain of All Families from Income Splitting (2015)



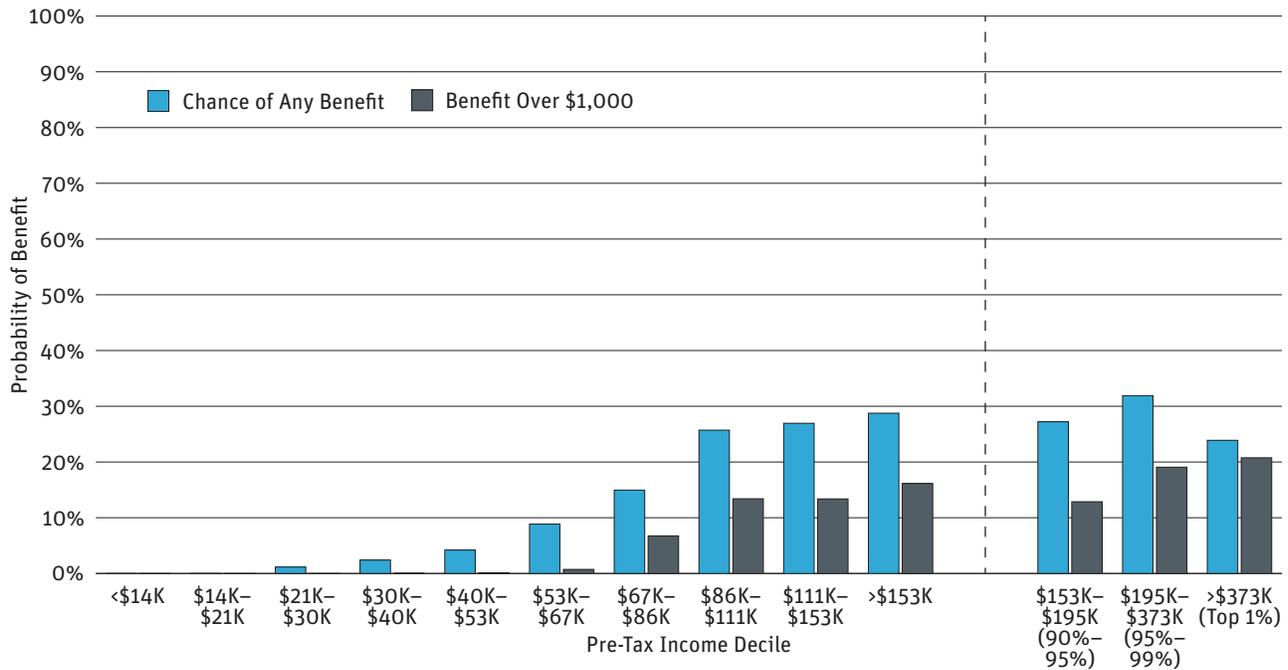
Source SPSDM 22.0 with authors calculations<sup>54</sup>

Income splitting is also expensive. The estimated cost to the federal government will be \$2 billion a year in revenue lost from income splitting.<sup>53</sup> Despite the substantial cost, the benefits are quite concentrated and exclude most families. They excluded families without children, single parent families, and two-parent families where both parents are in the same tax bracket.

In fact, 89% of all families (including families with children under 18 and couples or singles without children) gain no benefit from income splitting, as shown in *Figure 9*. Only 3% of all families in Canada will get the maximum benefit of income splitting worth \$2000.

The probability of benefit is very unequally distributed. The upper and middle upper class have a much higher probability of gaining from income splitting than do families with lower or middle class incomes. *Figure 10* shows that the families with the highest probability of gaining are those in the top 5%. Income is the best predictor of gains. The higher a family's income, the higher the likelihood that they will gain from income splitting. The top 1% of all families also has the highest probability of gaining a substantial amount (over \$1000) from income splitting. The top 20% of all families will gain at least a dollar from income splitting about a quarter of the time.

**FIGURE 10** Probability of Gaining from Income Splitting (All Families 2015)



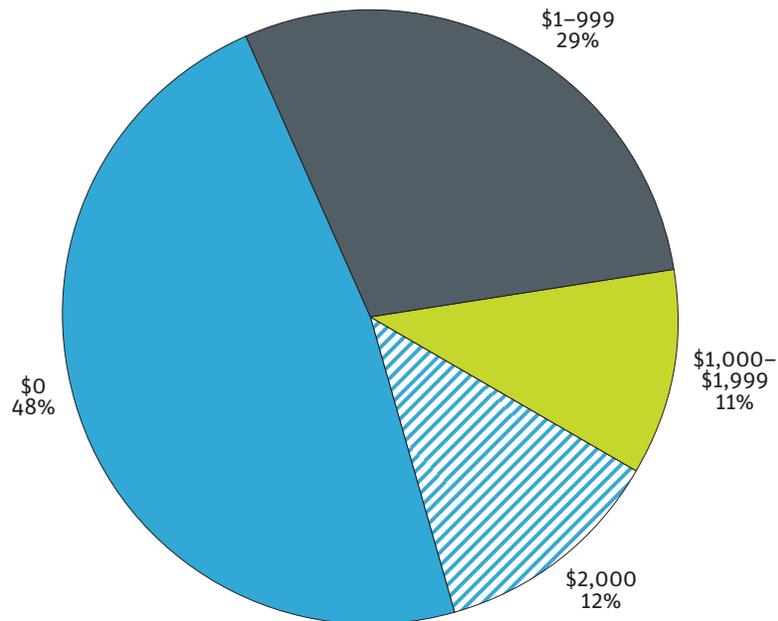
Source: SPSDM 22.0 and authors calculations

When looking at all families, the bottom 40% of families have essentially no probability of getting anything through the income splitting loophole. Roughly 5% of all middle class families in the fifth and sixth deciles will gain at least a dollar from income splitting.

The above two figures examine the benefit of income splitting across all families, including families without children under 18. The next two figures examine the benefit of income splitting across ONLY families with children under 18.

Families with children under 18 already have higher incomes compared to all families, making it more probable that they will receive a benefit from income splitting. However, even with this restriction, only 48% of families with children will receive \$1 or more from income splitting, as shown in *Figure 11*. Of that half of families with children that do gain, 20% will receive roughly a dollar a day from income splitting. While the maximum benefit of \$2000 may be desirable to families, there are few who will see that much money. Only 12% of families with children will top out at \$2000 from income splitting.

**FIGURE 11** Projected Gain for Families with Children Under 18 (2015)



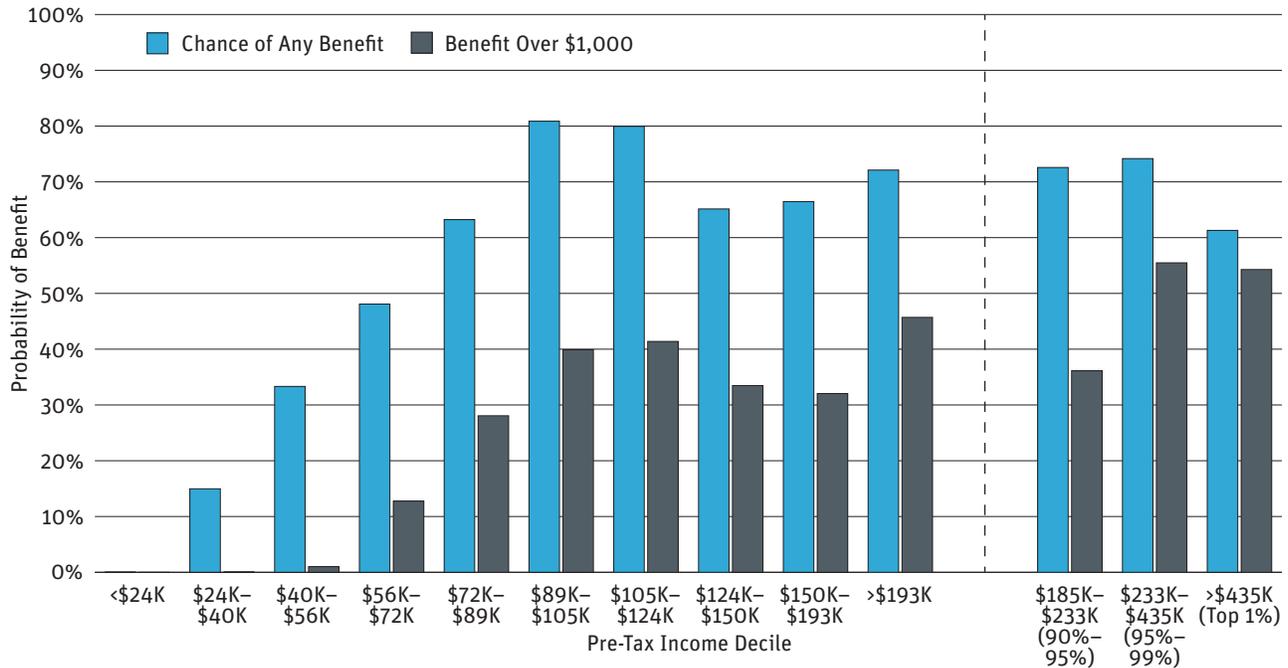
Source SPSDM 22.0 and authors calculations

The biggest benefits are reserved for families making family income over \$233,000. The richest families are most likely to make at least \$1000 from the new policy. Two out of three of the richest 1% of families will get at least \$1000 from income splitting. The chance that a middle class family will receive a benefit of \$1 is as good as a coin toss. For low-income families with children, the probability of making even \$1 is very low with only 1 in 10 getting that much. The probability of receiving at least \$1000 is vanishingly small.

The recent changes to income splitting cannot correct the fundamentally unequal nature of this tax loophole. In general, the wealthier a family is, the more likely they are to gain from income splitting and the larger their gain will be. The complexity of the loophole may well restrict its full use to those employing tax professionals.

The federal government's income splitting policy is intended to support parents who choose to stay out of the work force and care for young children. However, the benefits of income splitting are highly concentrated among high-income families — whose incomes already allow for this choice. The small or non-existent benefit to low and middle income families and single parents mean that the families whose choices are most constrained will

**FIGURE 12** Probability of Gaining \$1 or More from Income Splitting  
(Families with Children Under 18, 2015)



Source: SPSDM 22.0 and authors calculations

not see a benefit sufficient to allow them to forgo further hours of earned income in order to spend more time with young children.<sup>55</sup>

Interestingly, this version of income splitting primarily supports families with large pay gaps, but where both parents are working. Only 17% of the families that would qualify for income splitting are single earner families.<sup>56</sup> For 83% of families that would qualify for income splitting both parents are working and each makes at least \$5,000. If there are any behavioural incentives that income splitting is encouraging, it is for a large intra-household pay gap instead of a household with one employed parent and one parent caring for children full time.

The impact of income splitting will be to widen inequality of choice, not to mention after-tax income, between families. It will also contribute to greater inequality within families. For two-parent families, income splitting incentivises the higher income earner (predominantly men) to stay in the workforce and the lower income earner (predominantly women) to decrease their labour force participation. The result will be a growing gap be-

tween the incomes of men and women in families that qualify for income splitting benefits.

Income splitting or joint taxation assumes that family members act in a uniform manner — having the same preferences, making the same choices, and acting in the same way. Thus, reducing the tax burden of one family member is assumed to benefit all family members. This follows if the higher earning spouse (who receives the tax benefit) has identical aims as the lower earning spouse (whose employment income is likely to decline).

Research on how spending decisions within the household suggest that this is not the case.<sup>57</sup> Financial decisions are one of the major sources of conflict among married couples.<sup>58</sup> Those conflicts are further exacerbated by income inequality within families. The person who has the greatest earning power within a family appears consistently to have the greatest power over economic decisions.<sup>59</sup> Unequal levels of decision-making power are, in turn, correlated to decreased marital satisfaction.<sup>60</sup> That is to say, when conflicts over financial decisions are resolved as a result of one spouse exercising a disproportionate level of control over the decision, both spouses are less satisfied with the result. Although greater power over financial decision-making provides immediate benefits to the partner who exercises that power, they nonetheless report lower levels of marital satisfaction in the long term.

Direct income transfers (like the NCBS) that are tied to family income levels appear to have a positive impact on family well-being and to enable the families whose choices are most constrained to invest in the well-being of their children. These income transfers are most effective where low-income parents are not penalized for seeking increased work (that is, where the benefits aren't clawed back at a low threshold).<sup>61</sup>

Tax policies that are not tied to family income levels appear to have the least benefit to family well-being and to lessening the economic constraints that prevent parents from investing time and money in the well-being of their children. More than that, tax policies that increase economic inequality within families (such as income splitting), have a negative impact on family stability and well-being.

# Jobs and Incomes

THERE ARE A wide variety of factors that contribute to the decisions parents make about who takes time away from paid work, for how long, and when (or if) they return to work. Many of these factors are personal and social. As argued above, these decisions are also shaped by the constellation of family policies employed by governments, including the availability and affordability of childcare, the type of parental leave available, and the tax incentives present.

However, broader economic conditions also shape the choices available to families. Women and men work in different sectors and for different rates of pay. As a result, sectoral development strategies, wage setting policies, and education and training programs all impact the incomes and employment levels of men and women differently – creating different constraints on the choices they make about work and family life.

In almost every industry, at every educational level, working part time or full time, women in Canada are paid less than men. In spite of the steep increase in women’s participation in paid work and their increasing levels of post-secondary education, the gap in what men and women earn has yet to close. Thirty years ago, women working full time made 36% less than their male peers. Today, they make 23% less.<sup>62</sup> At the current rate of progress it would take more than half of a century to see parity in wages.

Increasing levels of access to higher education has clearly had a positive effect on women’s incomes and on the wage gap. That said, women holding a university degree still earn 17% less than men with a university degree (working full time).<sup>63</sup> The less education men and women have, the larger

the gap in their pay — with the least-educated women in Canada earning 28% less than their male peers, working full time.<sup>64</sup>

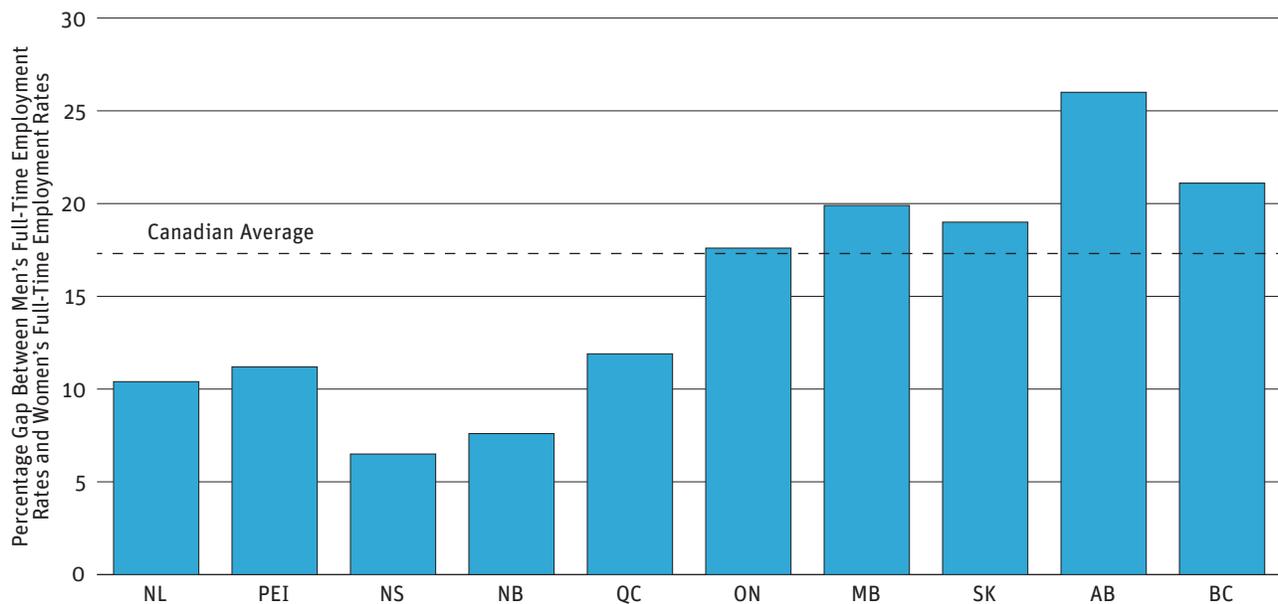
For many working mothers, the pay gap can mean the difference between earning enough to provide for her family or not. Over 1.2 million women in Canada, who work full time, still earn less than \$35,000 per year — the average cost of a ‘market basket’ of basic goods and services for a family.<sup>65</sup> Women working full time are far more likely than men to see their incomes fall below the cost of that market basket — with 30% of full-time female workers doing so, compared to 14% of male workers.<sup>66</sup> Thus, at the lower end of the income and educational scale the wage gap can turn the decision about which parent returns to the workforce after the birth of a child into a choice between living in poverty or not. For single mothers, there is no choice at all.

Wage setting policies are particularly important policy instrument in expanding the choices available to low-income mothers. Higher minimum wages and collective bargaining narrow the wage gap where it makes the biggest difference — for mothers with lower educational levels and lower earning potential.<sup>67</sup> A comparison of public and private sector wages demonstrates the impact of public sector wage setting policies on narrowing the gender wage gap in Canada.<sup>68</sup> The wage gap narrows for women at every educational level in the public sector. For the least educated women, that additional \$5,688 per year represents a 20% increase in their salaries (compared to their average private sector earnings).<sup>69</sup> It also pushes women’s earnings closer to the amount required to pay for the needs of their family. This finding is consistent across industrialised countries, where the presence of unions and a larger public sector makes one of the biggest differences in the incomes of the most vulnerable parents.<sup>70</sup>

One of the most significant reasons for persistence of the pay gap at all income and educational levels is that men and women tend to work in different industries and male-dominated industries tend to pay more than female-dominated industries. The segregation of men and women into different job sectors has changed little over the past decades, in spite of the rapid increase in the numbers of women enrolling in post-secondary education.

In 2011, women were most likely to major in Education, making up 77% of students graduating with a BA in Education. Men were most likely to major in Engineering, making up 78% of Engineering graduates.<sup>71</sup> Education graduates who pursue careers as teachers can expect to earn \$69,000 a year, working full time. Engineering graduates who work as engineers can expect to earn at least \$83,000 per year.<sup>72</sup> Post-secondary education is clearly having a positive impact on the size of women’s earnings and narrowing the gap in pay within those sectors. However, the fields in which the majority

**FIGURE 13** Gender Employment Gap (Full-Time Workers, Ages 25 to 54 Years)

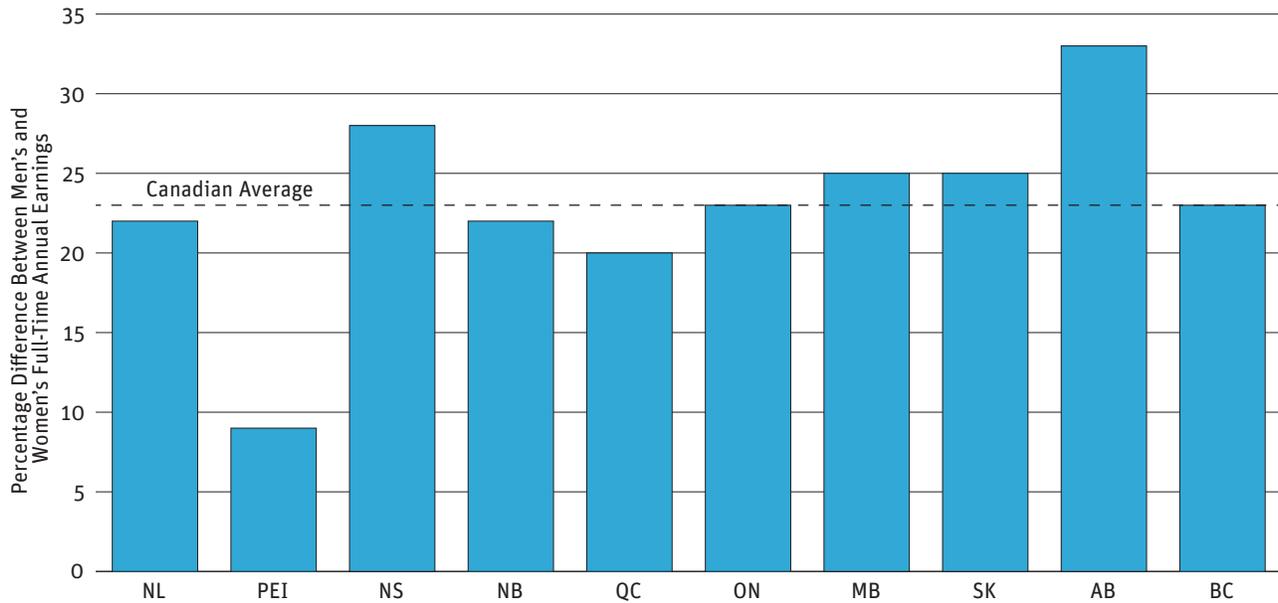


of women study and work come with smaller pay checks than the fields in which the majority of men study and work.

Attempts to increase women’s participation in male-dominated sectors face significant challenges — many of them related to the need for better family policies. Efforts to increase the presence of women in the Canadian mining sector are a good example.<sup>73</sup> Today women make up 20% of those employed in mining, oil and gas.<sup>74</sup> The wage gap in that sector remains significantly larger than the national average — with full-time women workers earning 65% of what their male peers earn in mining.<sup>75</sup> Reports by women in mining and the mining industry find that childcare and the lack of flexible work hours are the primary impediments to women’s participation in the industry.<sup>76</sup> This example demonstrates the dynamic relationship between family leave policies and broader economic policies. The success of sectoral growth strategies depends, in part, on the presence of policies that support workers with families and families depend on a narrowing of the gender gap within and between sectors.

Given the persistence of the segregation of male and female workers into different industries and the slow rate of change, governments also need to respond to the fact that, today, men and women are likely to hold jobs in different sectors.

**FIGURE 14** Gender Wage Gap (Full-Time Workers)



Sectoral development policies that focus narrowly on male-dominated industries contribute to widening the economic gap between men and women – creating greater inequality within families and constraining the ability of women to contribute to their own financial security and that of their families. The impact of economic strategies that focus on male-dominated sectors of the economy, without a parallel investment in female-dominated sectors, is evident in the differences between provinces. Alberta, with its strong focus on the development of the extractive sector, now has the largest gap in men’s and women’s full-time wages and the greatest gap in men’s and women’s access to full-time work compared to the rest of Canada.

In order to expand and support the choices available to Canadian families, government policies need to address both the economic differences between families and the difference in the economic constraints on men and women living together within families. The gender wage gap tilts the floor heavily in favour of women forgoing more hours of paid work, rather than men, after the birth of a child – regardless of the preferences of either parent. Lop-sided sectoral development policies further limit the ability of mothers to contribute to their own and their family’s financial security. Across sectors, women who have children find their employment options limited by the lack of childcare and flexible working hours.

# Conclusion

TODAY'S FAMILIES ARE not living in a world of limitless choices. Parents are making difficult decisions in constrained circumstances about how to do best by their children, their employers and each other. Small, complicated tax benefits that go largely to the most well-off families do nothing to make those decisions easier for the majority of families.

Economic and family policies need to respond to the differences between families and the different pressures they face — not every parent has a university degree, not every family can afford to have one parent out of the workforce, not every family has two parents. Policy makers must recognize the different needs and challenges that face mothers and fathers — who don't work in the same sectors, don't work the same number of hours, and don't get paid the same amount for the work that they do.

Governments have the means to lessen the constraints on families and to better support the decisions they are making about the way they live now. Access to affordable childcare, parental leave that fits the parent, and economic policies that level the playing field between families and between parents have all been demonstrated to provide increased support for the decisions that parents want and need to make. The work and family lives of Canadians have evolved over the past three decades. It is time our family policies grew up too.

# Notes

**1** “CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual.” Ottawa: Statistics Canada. Employment rate for women ages 25 to 54 years.

**2** “CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual.” Ottawa: Statistics Canada. Employment rate for women ages 25 to 54 years.

**3** “CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual.” Ottawa: Statistics Canada.

**4** “CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual.” Ottawa: Statistics Canada.

**5** “CAN-SIM Table 282-0002: Labour force survey estimates (LFS), by sex and detailed age group, annual.” Ottawa: Statistics Canada.

**6** “CAN-SIM Table 282-0211: Labour force survey estimates (LFS), by family type and family age composition, annual.” Ottawa: Statistics Canada.

**7** “CAN-SIM Table 282-0211: Labour force survey estimates (LFS), by family type and family age composition, annual.” Ottawa: Statistics Canada.

**8** “CAN-SIM Table 051-0042: Estimates of population, by marital status or legal marital status, age and sex for July 1, Canada, provinces and territories, annual (persons).” Ottawa: Statistics Canada.

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- 20** “CAN-SIM Table 202-0804: *Persons in low income, by economic family type, annual*. Ottawa: Statistics Canada. Poverty rate measured as Low Income Measure after tax. Data on poverty rates for single female parent households is not available after 2011.
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- 22** Sources: “CAN-SIM Table 282-0211: Labour force survey estimates (LFS), by family type and family age composition, annual.” Ottawa: Statistics Canada; “CAN-SIM Table 051-0042: Estimates of population, by marital status or legal marital status, age and sex for July 1, Canada, provinces and territories, annual (persons).” Ottawa: Statistics Canada; Friendly, Martha et al (2013). *Early Childhood Education and Care in Canada 2012* (revised 2013). Toronto: Childcare Resource and Research Unit; *Education at a Glance: 2012*. Paris: Organization for Economic Cooperation and Development; and authors’ own calculations.
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- 28** Fortin, Pierre Luc Godbout et Suzie St-Cerny (2013). “Emploi et inégalités sociales: L’impact des services de garde à contribution réduite du Québec sur le taux d’activité féminin, le revenu intérieur et les budgets gouvernementaux.” *Revue Interventions économiques*, vol. 47. Estimates for the year 2008.
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- 30** Mandel, Hadas (2012). “Winners and Losers: The Consequences of Welfare State Policies for Gender Wage Inequality.” *European Sociological Review*, vol. 28.2: 241–262.
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- 32** The maximum amount is current as of January 2014.
- 33** “CANSIM Table 276-0005: Employment Insurance Program (E.I.), benefit payments by province and type of benefit, (Terminated).” Ottawa: Statistics Canada. “CANSIM Table 276-0020: Employment Insurance program (EI), beneficiaries by province, type of income benefits, sex and age, monthly (persons).” Ottawa: Statistics Canada.
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- 39** Calculated as 75% of weekly earnings to the annual maximum insurable earnings, which are \$70,000 for the year 2015. See: “Premiums and Maximum Insurable Earnings.” Emploi et

Solidarite Social, Gouvernement du Quebec. [http://www.rqap.gouv.qc.ca/a\\_propos\\_regime/information\\_generale/cotisations\\_en.asp](http://www.rqap.gouv.qc.ca/a_propos_regime/information_generale/cotisations_en.asp)

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**41** Leanne C. Findlay and Dafna E. Kohen (2012). “Leave practices of parents after the birth or adoption of young children.” Ottawa: Statistics Canada.

**42** Leanne C. Findlay and Dafna E. Kohen (2012). “Leave practices of parents after the birth or adoption of young children.” Ottawa: Statistics Canada.

**43** Leanne C. Findlay and Dafna E. Kohen (2012). “Leave practices of parents after the birth or adoption of young children.” Ottawa: Statistics Canada.

**44** “Approximate family income level where the recipient will no longer receive the CCTB.” Ottawa: Canada Revenue Agency. Online at: [http://www.cra-arc.gc.ca/bnfts/cctb/cctb\\_ncms-eng.html](http://www.cra-arc.gc.ca/bnfts/cctb/cctb_ncms-eng.html)

**45** Amounts vary by province.

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**53** See Finance Canada costing in Table 1: [http://www.fin.gc.ca/n14/data/14-155\\_1-eng.asp](http://www.fin.gc.ca/n14/data/14-155_1-eng.asp). Note the 2014–15 year has an exaggerated total as it includes the final quarter of the 2013–14 fiscal year.

**54** This analysis is based on Statistics Canada’s Social Policy Simulation Database and model version 22.0. The assumptions and calculations underlying the simulation results were prepared by David Macdonald. The responsibility for the use and interpretation of these data is entirely that of the author’s.

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**56** This analysis is based on Statistics Canada’s Social Policy Simulation Database and model version 22.0. The assumptions and calculations underlying the simulation results were pre-

pared by David Macdonald. The responsibility for the use and interpretation of these data is entirely that of the author's.

**57** See, for example: Burton, Peter et al. (2007). "Inequality Within the Household Reconsidered," in Stephen P. Jenkins and John Micklewright, eds., *Inequality and Poverty Re-Examined*. Oxford: Oxford University Press; Vogler, Carolyn et al (2008). "Money, power and spending decisions in intimate relationships." *The Sociological Review*, vol. 56:1; Kirchler, E. et al (2001). *Conflict and Decision Making in Close Relationships*. Hove: The Psychology Press.

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**61** Jaumotte, F. (2003). "Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries." *OECD Economics Department Working Papers*, No. 376. Paris: OECD Publishing.

**62** "CAN-SIM Table 202-0102: Average female and male earnings, and female-to-male earnings ratio, by work activity, 2011 constant dollars, annual." Ottawa: Statistics Canada.

**63** 2011 National Household Survey. Ottawa: Statistics Canada.

**64** 2011 National Household Survey. Ottawa: Statistics Canada.

**65** Taken as a median of market basket measure amounts across the country. Statistics Canada. Table 202-0809 - Market Basket Measure Thresholds (2011 base) for reference family, by Market Basket Measure region and component, 2011 constant dollars, annual (dollars), CANSIM (database).

**66** 2011 National Household Survey. Ottawa: Statistics Canada.

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**68** McInturff, Kate and Paul Tulloch (2014). *Narrowing the Gap: The Difference that Public Sector Wages Make*. Ottawa: Canadian Centre for Policy Alternatives.

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**71** “CAN-SIM Table 477-0030: Postsecondary graduates, by program type, credential type, Classification of Instructional Programs, Primary Grouping (CIP\_PG) and sex, annual.” Ottawa: Statistics Canada.

**72** *2011 National Household Survey*. Ottawa: Statistics Canada.

**73** “Harper Government Supports Women in Mining.” Status of Women Canada, November 17, 2014.

**74** “CAN SIM Table 282-0008: Labour force survey estimates (LFS), by North American Industry Classification System (NAICS), sex and age group, annual.” Ottawa: Statistics Canada.

**75** *2011 National Household Survey*. Ottawa: Statistics Canada.

**76** Women in Mining Canada (2010). *Ramp Up: A Study on the Status of Women in Canada’s Mining and Exploration Sector*; Catalyst (2012). *Women in Gas, Mining & Oil in Australia, Canada, & the U.S.* <http://www.catalyst.org/knowledge/women-gas-mining-oil-australia-canada-us>



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