

# Taxation and the Family: Redefining the Model

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## FOREWARD

Is Canada's tax system fair? Are its tax rules distorted in any way? Do our tax laws respect the principle of neutrality? Under the leadership of Raymond Chabot Grant Thornton, Luc Lacombe, tax partner, and Brigitte Alepin and Manon Deslandes, professors at the Département des sciences comptables in UQAM's École des sciences de la gestion (ESG UQAM), pooled their expertise to attempt to answer these questions while focussing, in particular, on a number of tax issues that impact families. The authors sought to determine whether the tax rules are neutral where families are concerned. They concluded that given the many, and substantial, breaches of neutrality in the tax measures applying to families, the question is whether Canadian families are ultimately making decisions based on their needs or based on the tax measures that are available to them. This innovative study of the tax measures applying to Canadian families also presents some thoughts and considerations for overhauling Canada's tax system.

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## EXECUTIVE SUMMARY

Tax laws are in flux. The core principles and major schools of thought serving as the basis for the measures often date back to another time and may create distortions in the tax systems. Internationally, large institutions are rethinking tax measures. A reform to modernize tax systems and ensure compliance with tax fairness is being discussed and measures have been adopted by a number of countries. Canada's tax system needs to change as well and this study shows that Canadian families are subject to tax measures that represent a major breach of neutrality, which benefits certain families and certain family decisions.

This study examines the tax measures applying to families according to seven main themes: the economic well-being of the family, housing, children's education, retirement savings, other savings, retirement, and death. The following question was asked in each case: **Are the tax rules neutral, irrespective of the family's social profile, the couple's legal status and the family's economic class?** As shown in the table below, a breach of neutrality was noted in more than 70% of the situations analyzed and all Canadian families should expect to be affected by this breach of neutrality, sooner or later.

Tax Measures for Canadian Families			
Are the tax rules neutral, irrespective of...			
	The family's social profile?	The couple's legal status?	The family's economic class?
<b>Economic well-being</b>	No	Yes	No
<b>Housing</b>	No	No	No
<b>Children's education</b>	No	Yes	No
<b>Retirement savings</b>	No	No	No
<b>Other savings</b>	No	No	No
<b>Retirement</b>	Yes	Yes	Yes
<b>Death</b>	No	Yes	No

In view of the particular difficulties and growing challenges faced by families that own a business, the neutrality of Canada's tax system was also examined with these families in mind. More specifically, the questions were as follows: Are the tax rules neutral with regard to the transfer of a business? Are they neutral with regard to a person's decision to go into business? Does the tax system favour certain families that own a business depending on the couple's legal status? The analysis points to a breach of neutrality in each case.

Tax Measures Applying to Families That Own a Business in Canada			
Are the tax rules neutral, irrespective of ...			
	A business transfer?	The couple's legal status?	A person's decision to go into business?
<b>Family owning a business</b>	No	No	No

The main **breaches of neutrality** noted are the following:

**The family unit:** Although tax systems recognize the family unit, they determine that each taxpayer represents a taxation unit. Consequently, families with the same level of income will have a different tax burden depending on how income is split among the family members.

**Family size:** In spite of programs such as the Canada child benefit and the Québec child assistance payment, most families see a decline in economic well-being as the family grows in size. Moreover, large families have the highest marginal tax rate.

**Definition of a dependent child:** The current tax laws are based on the assumption that a child is no longer a dependent as of 18 years of age, even if the child is a student and lives with a parent. Yet, parents often provide financial support to children who are studying, often being required to pay substantial amounts. This represents a breach of neutrality because the tax laws do not recognize these children as dependents and may encourage parents to do the same. This breach of neutrality represents a particular disadvantage for low-income and lone-parent families.

**Creation of a family patrimony:** A number of tax measures and forms of tax relief exist to encourage families to create a family patrimony. However, given that many families have a limited ability to save, they are forced to make choices due to the growing number of savings plans that are available. Given the complex analyses that are involved, families may not always make the best choices and their decisions may provide less financial flexibility.

**Preserving the family patrimony after a person's death:** When a taxpayer dies, this is the last chance for the tax authorities to tax the unrealized income on the taxpayer's property. However, the tax system does allow for the family patrimony to be preserved following the death of one of the spouses, by making it possible to defer taxation until the death of the surviving spouse where this spouse inherited the property in question. However, many families are unable to preserve their family patrimony, even when the family includes minor children. This can mainly occur with lone-parent families or stepfamilies.

**Definition of the termination of the relationship:** Since 1993, the tax laws have recognized common-law spouses in the same way as married spouses. However, the termination of the relationship is recognized at different times depending on the couple's legal status (i.e. at the time of divorce for married spouses and at the time of separation for common-law spouses). This distinction in the definition of "termination of the relationship" may result in certain forms of tax relief being less accessible to married spouses following their separation.

**Transfer of the family business:** Two thirds of business owners would like the family business to stay in the family, but are faced with a tax system that favours selling the business to an unrelated third party because, unlike a sale to a family member, a sale to a third party may allow the business owner to claim the capital gains deduction, representing tax savings of up to \$225,000. Family businesses sold to a family member cannot benefit from this deduction.

Overall, there are so many breaches of neutrality in the tax measures applying to families, and these breaches are so significant, that it must be asked whether, ultimately, Canadian families are making decisions based on their needs or based on the tax measures that exist. The Canadian family has changed significantly since income tax was first introduced and it appears that the time has come to overhaul the tax measures applying to Canadian families so as to create a healthy fiscal environment and ensure that optimal and well-coordinated solutions are proposed to restore neutrality.

## Considerations

Some **ideas and approaches** that could be considered as part of the overhaul of the tax system are outlined below.

**Taxation system that is based on family income rather than an individual's income:** Consider putting in place a taxation system that is based on family income (the couple's income) rather than an individual's income. This would provide greater consistency in terms of the tax burden of families with similar levels of income, regardless how the income is split among the family members.

**Tax rate structure that is based on family size:** In order to better consider the additional obligations of larger families and to reduce the presence of very high marginal rates, consider putting in place a tax rate structure that is based on family size and that includes the advantages provided by the various tax benefits, such as the GST/solidarity tax credit, the Canada child benefit, and the Québec child assistance payment. It should be noted that this type of approach would mean having negative tax rates for certain families. In our opinion, this type of structure could make the tax system more transparent for all taxpayers.

**Registered general savings plan (RGSP):** Consider creating a registered general savings plan allowing a taxpayer to have general savings that would be available to purchase a home, support children's education, cover retirement needs or start a business.

The current tax system includes various complex savings plans that force families to choose between their different savings needs. Moreover, including the savings to start a business in this plan seems more suited to the reality of taxpayers in the 21<sup>st</sup> century, more and more of whom are deciding to start their own business.

Creating a registered general savings plan should include contemplating the need to increase the capital gains inclusion rate, to eliminate a breach of neutrality resulting from the distinction between investments providing a capital gain and other investments generating income taxed at a higher rate. Maximizing the principal residence exemption should also be contemplated.

**Revise the concept of termination of the relationship:** In 1993, the tax laws were updated to disassociate them from judicial legislation and to recognize common-law spouses. However, certain tax rules are not disassociated from the judicial legislation with regard to the recognition of the termination of the relationship. It would be necessary to review the reasons justifying such a discrepancy in recognizing the termination of the relationship for common-law spouses versus married (or civil union) spouses. The current tax rules are unfavourable for married and civil-union couples in some situations while the opposite is true in other circumstances.

**Revise the definition of dependent child:** Revise the definition of dependent child so that a child who is 18 years of age or older, who is enrolled in studies and who is dependent on his or her parents may be recognized as a dependent. This change would make it possible to adapt the tax laws to reflect the reality of Canadian families, i.e. more than 29% of two-parent families and more than 44% of lone-parent families have a child over the age of 18 living at home.

**Rollover upon a taxpayer's death to a trust set up exclusively for a dependent child:** To protect children upon a taxpayer's death and to stop inciting parents to bequeath property to one another, include the possibility of rolling over property upon a taxpayer's death into a trust set up exclusively for the dependent children. To avoid deferring the income tax payable upon the taxpayer's death for an excessively long period of time, rules should be put in place to tax the deferred income once the child reaches a certain age.

**Eligibility for the capital gains deduction upon the transfer of a business:** Facilitate the transfer of the business from one generation to the next by allowing a taxpayer to claim the capital gains deduction while limiting the possibility to unduly multiply the capital gains deduction for family members not involved in the business.

## 1 TAXATION AND THE FAMILY: FROM PAST TO PRESENT

Canada first introduced an income tax in 1917 to finance the First World War. Section 4 of the *Income Tax War Act* stated that a tax of 4% would be assessed, levied and paid upon all income exceeding \$1,500 (which is equivalent to \$24,778 in current 2017 dollars)<sup>1</sup> in the case of unmarried persons and widows or widowers without dependent children. Any other persons were taxed on income exceeding \$3,000 (\$49,557 in 2017 current dollars).

When income tax was introduced by way of the *Income Tax Act*, the impact of families was not fully considered in determining a taxpayer's ability to pay. Canada's Finance Minister at the time, Sir Thomas White (1911-1919), explained the situation to the House of Commons committee on July 25, 1917:

*“with regard to children, there is undoubtedly also the fact as to dependents, but I think that if \$3,000 could be regarded as a fair exemption in the case of the average man, if we put aside the question of dependents—because that would really necessitate an inquiry as I stated—it might be reasonable to provide that the exemption should be increased somewhat in case of those who have a family, say, of six children.”*  
(Burns, 1917)

It was only in 1927, 10 years after income tax came into effect, that the number of children in a family began to be considered in assessing income taxes payable by a taxpayer. Over the course of this 10-year period, large families paid more income tax than smaller families, based on the ability to pay. The failure to recognize the number of children in a family, in determining a taxpayer's ability to pay, is not the only instance where income tax law does not reflect the reality of Canadian families.

Tax policies have been out of step with the changing Canadian family for the past 100 years. For example, until 1982, the child care expense deduction could only be claimed by men who were single or separated, or if their spouses were either in prison or incapacitated. Yet, at that time, nearly 50% of women were in the workforce (Usalcas and Kinack, 2017). Moreover, it was only in 1993 and 1998 respectively that common-law spouses and same-sex couples were recognized in the ITA. Yet, in 1993 more than 12% of couples were living common law<sup>2</sup> and, in 2001, just under three years after same-sex common-law spouses were legally recognized, 0.5% of couples were same-sex couples (Statistics Canada, 2012b). This nuance was not necessary when the ITA was initially drawn up in 1917. However, it took on all of its importance with the passage of time and given the millions of additional taxpayers who are impacted by the measures. This failure to reflect the reality of common-law spouses resulted in costs for the public treasury as well as costs for certain families.

In order to understand the current situation, it is important to know the major trends in terms of how the Canadian family has changed over the years and how these changes have influenced (or failed to influence) tax law since it was introduced in Canada.

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<sup>1</sup> Unless otherwise indicated, the rates used to convert dollars into 2017 current dollars are those on the Bank of Canada website: <https://www.bankofcanada.ca/rates/related/inflation-calculator>

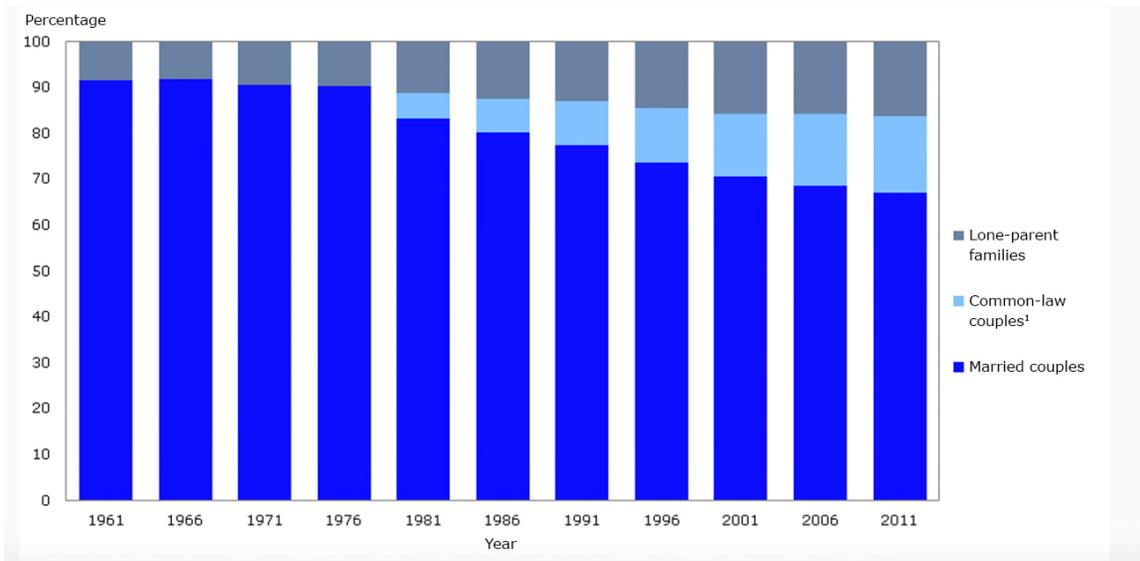
<sup>2</sup> According to Statistics Canada, Table 051-0042, 1,686,871 persons were living common law in 1993 and 11,805,904 were married and not separated.

## 1.1 How the Family Has Changed in the Past 100 Years

### 1.1.1 Social and Legal Profile

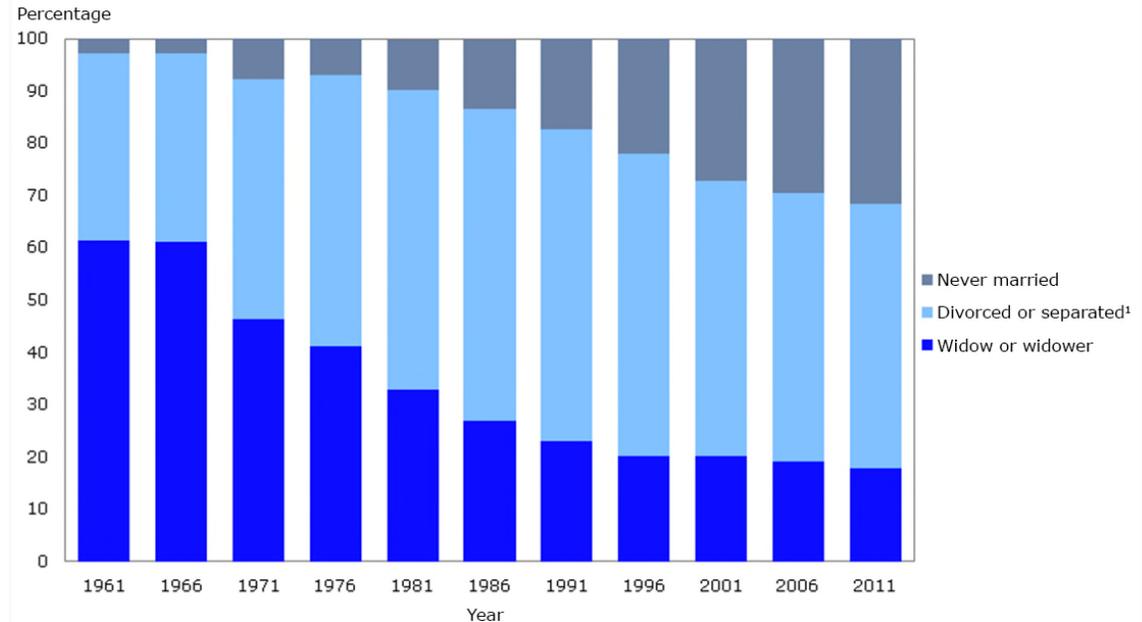
When income tax was first introduced in Canada in 1917, couples generally started families after getting married. Marriage was more of an economic choice than one based on love. Canada's economic situation at the time therefore had a major influence on marriage rates and the age at which couples decided to get married in the 19<sup>th</sup> and early 20<sup>th</sup> centuries. The *Divorce Act* passed in 1968 and amended in 1986 also had a major impact on the marital status of Canadians. From this moment on, a growing number of Canadians chose to live common law instead of getting married. Moreover, after the *Divorce Act* was passed more Canadians decided to get divorced and formed stepfamilies. Divorce replaced death as the main cause of lone-parent families. Figures 1.1.1.1 and 1.1.1.2 show how the Canadian family changed between 1961 and 2011.

**Figure 1.1.1.1 – Distribution (in percentage) of census families by family structure, Canada, 1961 to 2011**



Source: Statistics Canada (2012) – Figure 1

**Figure 1.1.1.2 – Distribution (in percentage) of the legal marital status of lone parents, Canada, 1961 to 2011**



Source: Statistics Canada (2012) – Figure 2

At the end of the 19th century, new laws governing work performed by children and mandatory schooling until the age of 16, combined with an exodus from rural areas of the country, resulted in families becoming smaller (Milan, 2000). Legal access to the contraceptive pill in 1960 also resulted in a decline in the birth rate in the second half of the 20th century. The average number of children per family decreased from 2.7 in 1961 to 1.9 in 2011. During the same period, the average number of family members declined 30%, from 3.9 in 1961 to 2.9 in 2011 (Statistics Canada, 2012a).

### 1.1.2 Economic Profile

The economic profile of Canadian families has changed as well. According to Palacios et al. (2015), the average income of the Canadian family rose from \$5,000 in 1961 to \$79,010 in 2014, as shown in table 1.1.2.1. This means that, in terms of constant dollars, the average family income doubled during this period. During the same period, the cost of necessities<sup>3</sup> rose only by 30%. However, the various income and other taxes rose by more than 150%. Figure 1.1.2.2 shows that income and other taxes now represent the largest expense in the Canadian family budget (Palacios et al., 2015). Yet, the total cost of necessities and income and other taxes now accounts for 79% of family income, compared to 90% in 1961. The economic situation of families has therefore improved. One reason for this improvement could be the increased presence of women in the labour market since the 1960s, as shown in figure 1.1.2.2.

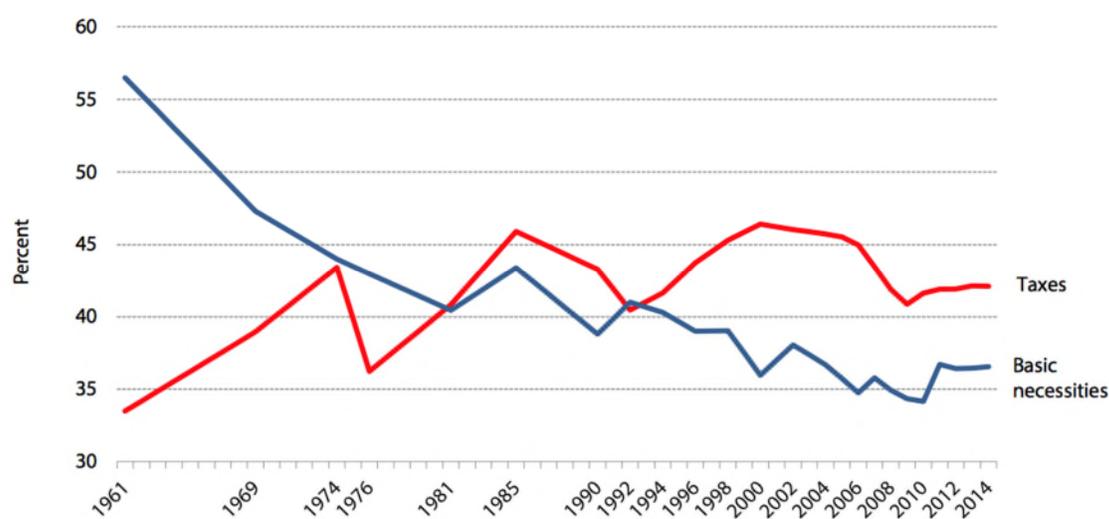
<sup>3</sup> Food, shelter and clothing.

**Table 1.1.2.1 – Changes in family income and income taxes**

Income before income taxes/income taxes/expenditures						
Year	Income		Income tax		Food/shelter/clothing	
	\$	Constant \$	\$	Constant \$	\$	Constant \$
1961	5,000	39,860	1,675	13,353	2,824	22,513
1969	8,000	50,826	3,117	19,803	3,785	24,047
1974	12,500	59,714	5,429	25,935	5,500	26,274
1976	16,500	66,403	5,979	24,062	7,091	28,537
1981	27,980	70,749	11,429	28,899	11,320	29,614
1985	32,309	64,187	14,834	29,470	14,024	27,861
1990	43,170	68,915	18,693	29,841	16,755	26,747
1992	43,516	64,839	17,612	26,242	17,846	26,591
1994	44,095	64,399	18,366	26,823	17,774	25,958
1996	45,370	63,876	19,844	27,938	17,702	24,922
1998	45,105	61,831	20,438	28,017	17,608	24,138
2000	52,509	68,890	24,374	31,978	18,888	24,781
2002	54,742	68,514	25,205	31,546	20,836	26,078
2004	58,616	70,070	26,811	32,050	21,505	25,707
2006	64,889	71,182	29,194	33,496	22,548	24,735
2008	70,245	75,487	29,441	32,296	24,543	26,375
2010	71,871	77,235	29,921	32,154	24,555	26,388
2012	75,904	78,077	31,826	32,737	27,653	28,445
2013	77,385	78,851	32,617	33,235	28,212	28,747
2014	79,010	79,010	33,272	33,272	–	–

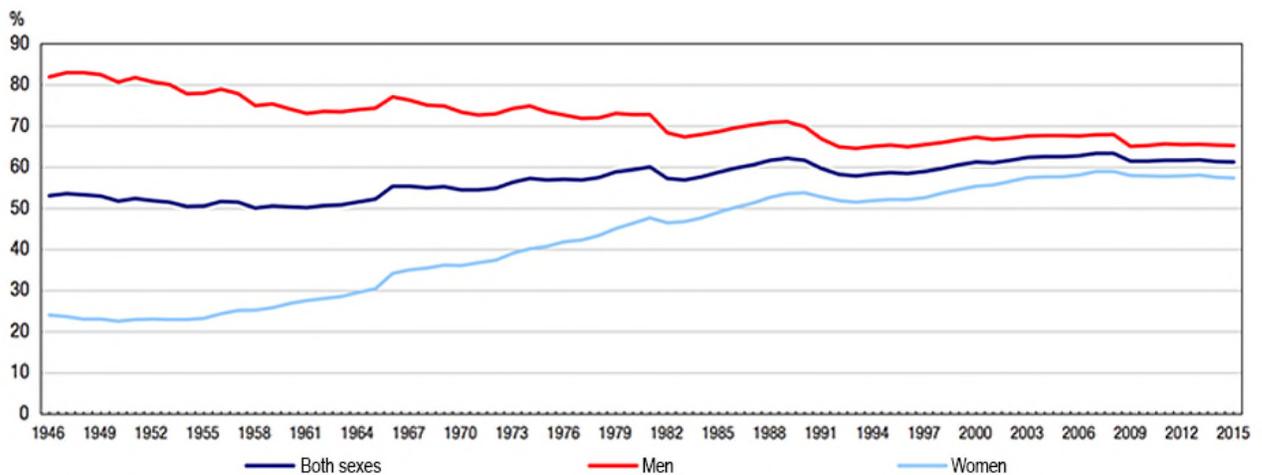
Source: Palacios, Lammam and Ren (2015).

**Figure 1.1.2.1 – Cost of necessities and income tax based on income**



Source: Palacios, Lammam and Ren (2015) – Figure 4.

**Figure 1.1.2.2 – Changes in employment rates according to sex (1946 to 2015)**



Notes: From 1946 to 1965, the rates are based on the population that is 14 years of age and older. From 1966 to 2015, they are based on the population that is 15 years of age and older. Newfoundland is included in the fourth quarter of 1949.

Source: Usalcas and Kinack (2017)-Graph 3 (unofficial translation)

The economic situation of the various types of families has changed in recent decades. Delorme and St-Cerny (2014) suggest that there has been no erosion of the middle class in Québec and show that, in 2010, Québec's middle class was less homogenous than in the 1970s. Among other things, the authors state that although two-parent families continue to represent a significant portion of the middle class, lone-parent families are becoming more common. In addition, a decrease in the percentage of low-income families has been noted for each family model. In fact, the largest decrease was noted for lone-parent families, where the rate decreased from 59.1% in 1976 to 39.1% in 2010. However, it is important to note that the analysis of changes to the middle class from 1976 to 2010 was based on median after-tax income. Considering market income, i.e. all sources of family income (employment, business and investment income), but excluding government transfers, the middle class has shrunk. Consequently, the State appears to have adapted, to a certain degree, to the changing family.

An analysis of after-tax family income, as calculated by Statistics Canada (Statistics Canada, 2009), shows that family income rose much more significantly for affluent families as compared to poor families, between 1989 and 2007. The poorest families saw their after-tax income rise by 14.2%, from \$14,100 in 1989 to \$16,100 in 2007. On the other hand, the after-tax income of the wealthiest families rose much more quickly. For example, the after-tax income of families in the fifth quintile increased by 31% between 1989 and 2007.

Economic well-being can be determined based on several factors. The first is obviously income, but the family patrimony should be taken into account as well. Family patrimony is defined as a family's total assets, minus total debts. This allows the family to own the home where they live and can be converted into cash and can be used to finance a business. Age, property ownership, ability to generate income and access to credit (which depends in part on income) are all factors relating to the life cycle on which the patrimony is based.

Uppal and LaRochelle-Côté (2015) assess changes to the family patrimony between 1999 and 2012. They note that the patrimony of higher-income families has increased much more quickly than for lower-income families during this period. Families in the highest income quintile have seen their patrimony increase by an average of 80%, while the patrimonies of families in the lowest income quintile rose only by 38%. In 2012, families in the top income quintile held 47% of the total patrimony of Canadian families (an increase of 2% compared to 1999), while those in

the bottom quintile only held 4% of the total patrimony of Canadian families (a decrease of 1% compared to 1999). In other words, the patrimony of families in the top income quintile was more than ten times as large as that held by families in the bottom income quintile, even though each quintile represents the same number of families. This phenomenon undoubtedly explains why a proportion of low-income families has no patrimony. Between 1999 and 2012, 3% to 4% of Canadian families had no patrimony. Younger families, recent immigrants to Canada, lone-parent families and unattached individuals are the most likely to find themselves in this situation.

### 1.1.3 Snapshot of Today's Family

Table 1.1.3.1 presents the social and legal profile of Canadian families<sup>4</sup> based on the 2016 census. This shows that the majority of couples (80%) are married. However, there is a constant increase in the number of couples living common law. The census data shows that, in 1991, just over 11% of couples were living common law. The percentage rose to just over 16% in 2001 and 21% of couples were living common law in 2016. The majority of families with children (72%) were two-parent families. Lone-parent families account for more than one quarter of families with children (i.e. 25%).

**Table 1.1.3.1 – Social and legal profile of families in 2016**

	Number
Couples	8,227,920
Married	6,474,000
Common law	1,753,920
With children	4,203,615
Without children	4,024,305
Lone parent	1,612,805
Parent – Woman	1,262,335
Parent - Man	350,464
Total number of families	9,840,725
Total number of families with children	5,816,420

Source: Statistics Canada – Catalogues 98-400-X2016028 and 98-400-X2016024

Table 1.1.3.2 shows the prevalence of stepfamilies.<sup>5</sup> In 2016, stepfamilies accounted for 12% of families with children living at home. Most of these families (61%) were simple stepfamilies, i.e. the couple has no children together and the children in the stepfamily are the children of only one spouse.

**Table 1.1.3.2 – Traditional families vs. Stepfamilies in 2016**

	Number	Percentage
Couple with children	4,203,615	
Traditional family	3,686,105	88%
Stepfamily	517,510	12%
Simple	317,020	61%
Complex	200,490	39%

Source: Statistics Canada – Catalogue 98-400-X2016024

<sup>4</sup> A family is composed of a married or common-law couple, with or without children, or of a lone parent living with at least one child in the same dwelling. Couples can be of the opposite sex or of the same sex.

<sup>5</sup> A stepfamily is a family with at least one child and where there are stepchildren present.

Tables 1.1.3.3 and 1.1.3.4 show the presence of children<sup>6</sup> in Canadian families. Just over half of couples (51%) have children. On average, two-parent families have more children than lone-parent families. The age of the children differs depending on the type of family. A total of 64% of two-parent families have children under the age of 18 living at home, as compared to 50% of lone-parent families. Moreover, 29% of two-parent families have children over the age of 17 living at home, as compared to 44% of lone-parent families.

**Table 1.1.3.3 – Families with at least one child 24 years of age or less in 2016**

	Number	Percentage
Two-parent	3,721,250	
1 child	1,248,200	34%
2 children	1,711,330	46%
3 or more children	761,715	20%
Lone-parent	1,216,845	
1 child	637,345	52%
2 children	413,285	34%
3 or more children	166,215	14%

Source: Statistics Canada, Catalogue 98-400-X2016024

**Table 1.1.3.4 – Age of children in families in 2016**

	Number	Percentage
Two-parent	4,203,615	
At least one child under 18	2,687,120	64%
All children are under 18	2,167,945	52%
At least one child 18 or over	1,221,760	29%
All children are 18 or over	979,380	23%
At least one child over 25	616,360	15%
Undetermined	304,495	7%
Lone-parent	1,612,805	
At least one child under 18	808,760	50%
All children are under 18	693,715	43%
At least one child 18 or over	712,230	44%
All children are 18 or over	646,450	40%
At least one child over 25	436,250	27%
Undetermined	93,280	6%

Source: Statistics Canada, Catalogue 98-400X2016024

<sup>6</sup> According to the census, to be included children must live in the same dwelling as the family, with no married spouse, common-law partner or children living in the same dwelling. In a census family, children may be by birth, marriage, common-law union or adoption.

Table 1.1.3.5 presents total family income depending on social profile. The income of lone-parent families is substantially less than that of two-parent families, even after adjustments to take family size into account. The income of lone-parent, single-earner-female families is also much lower than that of lone-parent, single-earner-male families.<sup>7</sup>

Uppal (2015) reports that 69% of two-parent families with children under the age of 16 have two working spouses. In families with two working spouses, these spouses work full time in 75% of cases. In comparison, in 1976, 36% of families had two working spouses.

Based on the after-tax low income cut-off (LICO), 4.8% of Canadian families with children were low-income families in 2015.<sup>8</sup> However, this rate rises to 16.1% for lone-parent families and to 17.3% in the case of lone-parent, single-earner-female families.<sup>9</sup>

**Table 1.1.3.5 – Total family income in 2015**

Couple

Total income	Without children	1 child	2 children	3 + children
Less than \$25,000	8%	5%	3%	3%
\$25,000 to \$40,000	14%	6%	4%	5%
\$40,000 to \$60,000	19%	11%	9%	12%
\$60,000 to \$100,000	29%	27%	23%	26%
\$100,000 to \$150,000	18%	26%	28%	25%
\$150,000 to \$200,000	7%	13%	17%	14%
\$200 000 to \$250,000	3%	5%	8%	7%
Over \$250,000	3%	5%	8%	9%
Median income	\$71,390	\$99,890	\$116,680	\$106,780
Adjusted median income	\$50,993	\$58,759	\$58,340	\$46,426

<sup>7</sup> Based on 2016 census families, the total median income (median after-tax income) of lone-parent, single-earner-female families was \$49,352 in 2015 (\$46,040) while that of lone-parent, single-earner-male families was \$65,685 (\$56,551) (Statistics Canada: catalogue 98-400-X2016125).

<sup>8</sup> A number of measures are used to classify low-income individuals. The low income cut-off (LICO) is an income threshold below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing than the average family. In addition to LICO, the low-income measure (LIM) and the market basket measure (MBM) are used. The LIM is equivalent to one-half of the median household income of individuals of all ages. The MBM is based on a measurement of the cost of goods and services to be included in a “market basket” deemed essential for a reference family, which includes two parents (between 25 and 49 years of age) and two children (a thirteen-year-old boy and a nine-year-old girl) to cover its living expenses and social integration costs (Source: Institut de la statistique du Québec website).

<sup>9</sup> Source, Statistics Canada, 2016 census— catalogue 98-400-X2016132: Using the MBM, the rates would respectively be 7.51% and 25.6% and 27.44% (catalogue 98-400-X2016149). For the LIM, the rates would be 8.81% for couples and 30.26% for lone-parent families (catalogue 98-400-X2016132).

## Lone-parent family

Total income	1 child	2 children	3 + children
Less than \$25,000	26%	21%	19%
\$25,000 to \$40,000	20%	22%	28%
\$40,000 to \$60,000	21%	23%	26%
\$60,000 to \$100,000	21%	21%	18%
Over \$100,000	12%	13%	9%
Median income	\$43,210	\$45,660	\$41,600
Adjusted median income	\$30,864	\$26,859	\$20,800

Source: Statistics Canada – Table 111-0013

Total income includes the various sources of income and government benefits. Adjusted median income takes family size into account. The Statistics Canada method is used. Adjusted median income corresponds to median income divided by adjusted family size. To determine the adjusted family size, the first adult is counted as 1.0, each additional adult and each child 16 years of age and over as 0.4 and each child less than 16 years of age as 0.3 (except in a lone-parent family where the first child is counted as 0.4).

## 1.2 Changes in Tax Law Over the Past 100 Years

Changes in Canadian tax law over the past 100 years reveal that Canada is making efforts to adapt to the changing family but is out of step with the changes. As a result, it can take years for a change in a family unit to be reflected by tax measures.

### 1917-1971

Prior to 1917, the government of the Dominion of Canada had already introduced a series of taxes, including a luxury tax on tobacco and alcohol and a Dominion tax on transport tickets, telegrams, money orders, cheques and patent medicines, tea and coffee. In 1916, the *Business Profits War Tax* was introduced, requiring all Canadian corporations having \$50,000, or more, in capital (approximately \$1 million current 2017 dollars) to file a yearly tax return.

The *Income War Tax Act* was introduced in 1917, applying at a rate of 4%, with a \$3,000 exemption for married individuals. This exemption for married individuals was reduced to \$2,400 in 1932, to \$2,000 in 1933, and to \$1,500 in 1940, then being raised to \$2,000 in 1948.

Under the first income tax act in 1917, the *Income War Tax Act*, Subsection 4(4) provided an attribution rule whereby if a person transferred property to a husband, a wife or another family member, this person would be taxed as though this transfer had not been made. It is important to note that, at the time, there was an incentive for taxpayers to split their income to bring the income below the basic exemption.

The initial income attribution rules became more sophisticated in the 100 years that followed, in order to make adjustments for the changing family and to be functional in dealing with the growing number of legal measures used to split a family's income. The most recent major changes were introduced in 2014, when Steven Harper's government broadened the application of income splitting with minor children, and in 2017, when Justin Trudeau's government broadened the application of income splitting with spouses and children over the age of majority in some circumstances.

In 1927, an exemption for each dependent child was introduced in the act and each dependent child under the age of 21 qualified for a \$500 exemption. In 1932, this exemption was reduced to \$400 per child. In 1946, it was amended so that an amount of \$100 would be attributed to each child, in addition to an amount not exceeding \$300 paid by a taxpayer during the taxation

year to support any other dependent child. In 1952, these amounts were increased from \$100 to \$150 and from \$300 to \$400.

#### From 1972 until today

The Report on the Royal Commission on Taxation (Carter Report) was tabled in 1965. This comprehensive analysis of Canada's tax system proposed substantial changes to tax policies, including tax measures applying to families. Some of the proposals in the Carter Report were reflected in the 1971 tax reform, which took effect on January 1, 1972.

One of the four main objectives in the Carter Report was that the tax system should ensure that the flow of goods and services be distributed equitably among individuals and groups of Canadians. To achieve this objective, the report suggests that a family's ability to pay, considered separately from that of the individual family members, should be recognized while considering families as taxable units. The report justifies this recommendation, in particular on the basis of the following explanation: "the family is today, as it has been for many centuries, the basic economic unit of society... It is the continued income and financial position of the family which is ordinarily the primary concern, not the income and position of the individual members."

The reform came into effect without this recommendation, notably because the introduction of the notion of the family as a taxable unit was considered to be a form of "marriage tax" to the extent that, in a system with graduated tax rates, family income is often taxed at a higher marginal rate than if the individual incomes were not combined.

Before 1972, childcare expenses were considered a personal expense that was not recognized for tax purposes. Until 1982, the child care expenses deduction, which was also introduced with the 1972 tax reform, could only be claimed by men who were single or separated, or whose spouses were in prison or incapacitated.

As of January 1, 1972, one half of capital gains became taxable and, for the purpose of applying this new rule, the family unit was indirectly recognized since transfers of capital property between a husband and a wife were not taxable. In other words, the disposition of capital property between living spouses or between spouses following one spouse's death would not be taxable and the income tax would be deferred until the death of the surviving spouse or until this spouse disposes of the property.

Starting in 1972, a principal residence has been excluded from the taxation of capital gains. Until 1982, families owning two properties considered to be "principal residences" could "double" their exemption and avoid paying taxes on the capital gains realized on two properties. The 1981 budget included a new rule under which only one house could be designated as a principal residence by the taxpayer, the taxpayer's spouse and an unmarried child of the taxpayer less than 18 years of age. Given that, until 1993, the definition of spouse did not include common-law spouses, from 1981 to 1993 these spouses had an advantage over married couples.

Although central to the application of income tax, the concept of "married" individuals was never defined in the Act, and it was only in 1993 and 1998 respectively that common-law spouses and same-sex couples were recognized in the definition of spouse.

Common-law spouses also benefitted from a different tax treatment than married spouses where the taxation of alimony or support income is concerned. Prior to 1979, the tax system for including and deducting alimony or support income applied only to married individuals. Starting on December 12, 1979, this tax treatment also applied to common-law spouses

although a number of taxpayers, including those in Québec, could not avail themselves of the measures. It was only in 1988 that common-law spouses could clearly include and deduct such payments.

On May 25, 1995, a majority of the Supreme Court judges confirmed the validity of the inclusion and deduction of such amounts in *Thibaudeau v. R.*<sup>10</sup> but Canadians continued to be unhappy and no longer accepted that former spouses would be taxed on child support payments. This led to an amendment to tax laws applying to child support payments, which was announced in the federal budget tabled on March 6, 1996. As a result of this amendment, support payments were no longer deductible and taxable for ex-spouses.

The reforms for the tax laws applying to individuals introduced in Canada and Québec in 1988 also had an impact on the taxation of families, by converting personal exemptions (basic exemption, exemption for married persons or dependents, the seniors exemption) and certain deductions (support payments, education and tuition fees, medical expenses, etc.) into non-refundable tax credits. This transformation of deductions into tax credits increases the amount of income tax, is favourable to low-income families and increases the amount of tax payable by middle-income and higher-income families.

Tax measures had fallen far behind the reality of families between the introduction of income tax to the thoughts and comments that resulted from the Carter Commission, which proposed considering the family as a taxation unit. Although this proposal was not adopted, a number of initiatives have been put in place as a result of the reform, and since then, to ensure that families are fully recognized by tax law. However, is this enough?

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<sup>10</sup> (1995), 12 R.F.L. (4<sup>th</sup>) 1.

## 2 ARE THE TAX LAWS APPLYING TO FAMILIES NEUTRAL?

Have tax laws been adapted to reflect the Canadian family, as defined in 2017? This is an important question because, as shown earlier in this study, in the 100 years since its introduction, income tax law has been out of step with the reality of Canadian families.

Tax law has become much more complex in the past 100 years. Neutrality tests are therefore useful in providing a well-argued response to the above question. Do the tax measures provide the same results regardless of the type of family and regardless whether the parents are married or living common law, whether this is a traditional family, a stepfamily or a lone-parent family, or whether the family is rich, middle class or low income?<sup>11</sup> Tax laws are not adapted to reflect today's family if they are not neutral and if they influence families in making choices and decisions.

The neutrality tests were applied based on the tax rules pertaining to the economic well-being of the family, retirement needs, needs following a person's death, the financing of children's education, investment income, housing affordability and the needs of families owning a business.

### 2.1 Economic Well-being of the Family

The neutrality objective should ensure that the tax system allows families to preserve their economic well-being so as not to influence a taxpayer's decision whether to form a union with someone, to start a family, or to work. This section begins by presenting the various mechanisms included in the tax system to take the particularities of families into account. The study then analyzes whether the neutrality objective has been achieved.

#### 2.1.1 Description

In Canada and Québec, the unit of taxation for income tax is the individual, not the family, which could suggest that our tax system ignores the existence of the family by imposing a tax burden that fails to take a taxpayer's family obligations into account. Moreover, this unit of taxation could suggest that our tax system is tailored more to families with only one bread winner. However, although the unit of taxation is the individual, the mechanisms included in personal tax returns and certain government benefits (e.g. the Canada child benefit) make it possible to consider a family's needs and the family's ability to pay, rather than the individual's, ability to pay. These mechanisms and benefits are outlined below. It should be noted that the government benefits do not fall directly under tax law. However, they should be taken into account when calculating a family's standard of living.<sup>12</sup>

#### Non-refundable tax credits

Both tax systems allow a taxpayer to transfer the non-refundable tax credits that he or she cannot use to his or her spouse. This makes it possible to recognize that the financial resources needed to meet a couple's basic needs are the same, regardless whether both spouses are earning an income.

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<sup>11</sup> However, it should be noted that this analysis does not address the situation of low-income families receiving benefits under the social solidarity program.

<sup>12</sup> Government benefits may represent a substantial portion of a family's total income. According to Statistics Canada, government transfers represented, on average, more than 50% of the total income of lower-income families in 2011 (Statistics Canada: Table 202-0301).

In addition, both the federal and provincial tax systems<sup>13</sup> acknowledge that persons living alone and lone-parent families have additional costs to pay. According to Hourriez and Olier (1998), a household with several people has economies of scale, mainly due to the sharing of property that can be used collectively, such as housing. The federal government recognizes this fact by way of the tax credit for eligible dependents, which applies only to lone-parent families. The provincial government recognizes this fact by way of the tax credit for persons living alone, which applies only to people living alone and lone-parent families.

Considering only the basic personal credits and the tax credits for persons living alone (or tax credits for lone-parent families), table 2.1.1.1 presents the maximum amount of income tax savings for each type of household and the minimum income required to achieve these savings since these tax credits are non-refundable. This amount is often referred to as the zero-tax threshold.

**Table 2.1.1.1 – Personal tax credits – maximum amount**

	Federal		Québec	
	Tax savings (\$)	Minimum family income required (\$)	Tax savings (\$)	Minimum family income required (\$)
Person living alone	1,745	11,635	2,490	16,597
Couple with no children	3,491	23,270	4,467	29,780
Couple with one child	3,491	23,270	4,467	29,780
Couple with two children	3,491	23,270	4,467	29,780
Couple with three children	3,491	23,270	4,467	29,780
Lone-parent family – one child	3,491	23,270	2,490	16,597
Lone-parent family – 2 children	3,491	23,270	2,490	16,597
Lone-parent family – 3 children	3,491	23,270	2,490	16,597

According to amounts applicable for the 2017 taxation year.

**Canada child benefit (CCB)<sup>federal</sup> / Child assistance payment<sup>provincial</sup>**

Government benefits were introduced to help families meet the needs of children under 18 years of age. These benefits make it possible to consider the fact that families have additional obligations when children are present. The benefits operate differently for federal and provincial purposes. At the federal level, the amount of benefit varies according to the age of the child. In 2017-2018,<sup>14</sup> it is \$5,400 for a child between 6 and 18 years of age and \$6,400 for a child less than 6 years of age. The amount of the benefit is reduced based on a threshold, referred to as the phase-out threshold. The phase-out rate varies depending on the number of children. At the provincial level, the amount is determined based on the number of children. In 2017-2018, the amount was \$2,410 for the first child, an additional \$1,204 per child for the second and third child, and \$1,806 per child for all other children. The amount obtained is increased for lone-parent families and the amount of increase is not dependent on the number of children. As is the case at the federal level, the amount of the benefit is reduced based on a family income threshold. However, all families will receive a minimum amount as a child assistance payment regardless of their income. These amounts are non-taxable.

<sup>13</sup> Only the province of Québec has been analyzed.

<sup>14</sup> Payments are made from July 1 to June 30.

Table 2.1.1.2 presents the maximum and minimum benefit amounts, depending on the type of family, the family income threshold as of which the payment is reduced and the threshold as of which the family receives the minimum amount.

**Table 2.1.1.2 – CCB and child assistance payment – maximum amount**

	Amount		Family income	
	Maximum (\$)	Minimum (\$)	Phase-out threshold (\$)	Minimum credit (\$)
<b>Federal (Canada child benefit)</b>				
Couple with one child	5,400	0	30,000	157,188
Couple with two children	10,800	0	30,000	171,579
Couple with three children	16,200	0	30,000	184,375
Lone-parent family- one child	5,400	0	30,000	157,188
Lone-parent family- two children	10,800	0	30,000	171,579
Lone-parent family - three children	16,200	0	30,000	184,375
<b>Québec (Child assistance payment)</b>				
Couple with one child	2,410	676	47,868	91,218
Couple with two children	3,614	1,301	47,868	105,693
Couple with three children	4,818	1,926	47,868	120,168
Lone-parent family- one child	3,255	1,013	34,824	90,874
Lone-parent family- two children	4,459	1,638	34,824	105,349
Lone-parent family - three children	5,663	2,263	34,824	119,824

According to amounts applicable from July 1, 2017 to June 30, 2018. CCB amounts will be indexed starting July 1, 2018. Child assistance payments are indexed annually.

In 2017-2018, the maximum amount of benefits for a family with a child between 6 and 18 years of age would be \$7,810 for a couple and \$8,655 for a lone-parent family. Based on Sarlo (2013), these amounts would make it possible to ensure a child's healthy development. By updating the figures in the Sarlo study (2013), the basic marginal expenses required in 2017 to ensure a child's healthy development are estimated to total between \$3,200 and \$4,800 per year.<sup>15</sup>

**Goods and services tax credit (GST credit)<sup>federal</sup> / Solidarity tax credit<sup>provincial</sup>**

These credits help individuals as well as low-income or modest-income families to recover the amounts of certain taxes paid (i.e. GST, QST and property tax), in whole or in part.<sup>16</sup>

Table 2.1.1.3 presents the maximum amount of these credits, the family income threshold as of which the credit is reduced and the threshold below which the credit is fully eliminated for the various types of households.

<sup>15</sup> The study estimated that these amounts totalled between \$3,000 and \$4,500 in 2013.

<sup>16</sup> The solidarity tax credit also provides an amount to individuals living in northern villages to offset the higher cost of living. This component has not been taken into account.

**Table 2.1.1.3 – GST Credit and Solidarity Tax Credit– Maximum Amount**

	Maximum amount (\$)	Family income – threshold	
		Phase-out (\$)	Elimination of credit (\$)
<b>Federal (GST credit)</b>			
Person living alone	427	36,429	44,969
Couple with no children	560	36,429	47,629
Couple with one child	707	36,429	50,569
Couple with two children	854	36,429	53,509
Couple with three children	1,001	36,429	56,449
Lone-parent family – one child	574	36,429	47,909
Lone-parent family – two children	721	36,429	50,849
Lone-parent family – three children	868	36,429	53,789
<b>Provincial (Solidarity credit)</b>			
Person living alone	973	33,935	50,152
Couple with no children	1,240	33,935	54,602
Couple with one child	1,358	33,935	56,568
Couple with two children	1,476	33,935	58,535
Couple with three children	1,594	33,935	60,502
Lone-parent family – one child	1,091	33,935	52,118
Lone-parent family – two children	1,209	33,935	54,085
Lone-parent family – three children	1,327	33,935	56,052

According to amounts applicable from July 1, 2017 to June 30, 2018.

Working income tax benefit (WITB)<sup>federal</sup> / Work premium <sup>provincial</sup>

These refundable tax credits aim to provide tax relief to working low-income individuals and their families. They can encourage a taxpayer to remain in the workforce, or to join the workforce. The maximum amount of the credit is determined based on the taxpayer's employment income, the presence of a spouse and the presence of children. The amount of the credit obtained is reduced based on family income. Table 2.1.1.4 presents the maximum credit amount, the family income threshold as of which the credit is reduced and the threshold below which the credit is fully eliminated for various types of households.

**Table 2.1.1.4 WITB and Work Premium – Maximum Amount**

	Maximum amount (\$)	Family income - threshold	
		Phase-out (\$)	Elimination of credit (\$)
<b>Federal (Working income tax benefit)</b>			
Person living alone	1,662	12,309	20,618
Couple with no children	2,593	18,910	31,874
Couple with one child	1,012	18,992	24,051
Couple with two children	1,012	18,992	24,051
Couple with three children	1,012	18,992	24,051
Lone-parent family – one child	973	12,348	17,212
Lone-parent family – two children	973	12,348	17,212
Lone-parent family – three children	973	12,348	17,212
<b>Québec (Work premium)</b>			
Person living alone	730	10,506	17,801
Couple with no children	1,138	16,248	27,631
Couple with one child	3,162	16,248	47,868
Couple with two children	3,162	16,248	47,868
Couple with three children	3,162	16,248	47,868
Lone-parent family – one child	2,432	10,506	34,824
Lone-parent family – two children	2,432	10,506	34,824
Lone-parent family – three children	2,432	10,506	34,824

Based on amounts applicable for 2017.

In spite of similar objectives, the federal benefit seems more geared towards persons living alone and couples without children. On the other hand, the provincial benefit seems more targeted to couples with children and lone-parent families.

## 2.1.2 Neutrality Analysis

### 2.1.2.1 Based on the Family's Social Profile

#### Based on family size

To ensure neutrality, the tax system should allow families to maintain their level of economic well-being, regardless of their size. A family's economic well-being is measured two ways for the purpose of comparing families. The first way consists in measuring disposable after-tax income, adjusted according to family size.<sup>17</sup> This measure of adjusted income makes it possible to consider the fact that family needs increase as the family grows and that this is not a linear increase given the economies of scale for shared expenses. The second measure consists in evaluating the family's disposable income after applying the after-tax low income cut-off (LICO).<sup>18</sup> LICO is an income threshold below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing than the average family.<sup>19</sup> This measure can therefore be an indicator of the amount available to the family for savings and discretionary spending.<sup>20</sup>

According to table 2.1.2.1, disposable after-tax income increased based on the number of children in all scenarios. For example, a couple with two working spouses and pre-tax income of \$60,000 would have disposable after-tax income of \$46,269 if there are no children present. This amount rises to \$51,500 if there is one child, to \$56,212 if there are two children and to \$61,200 if the couple has a third child. These results show that the tax system considers, at least in part, the additional costs that come with having a child.

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<sup>17</sup> The method used by Statistics Canada has been applied. According to this method, the adjusted disposable amount is obtained by dividing the disposable amount by the adjusted family size. This adjusted family size is established as follows: the first adult is counted as 1.0, each additional adult and each child 16 years of age and over as 0.4 and each child less than 16 years of age as 0.3 (except in a lone-parent family where the first child is counted as 0.4).

<sup>18</sup> LICO used is the 2015 cut-off for Canada (Statistics Canada: Table 206-0092). The amounts were adjusted to consider the consumer price index and are presented in Appendix I. LICO is calculated for different community sizes. In this analysis, the rate used is the one applying to communities with more than 500,000 inhabitants, which is the type of community with the highest LICO.

<sup>19</sup> For more information on LICO, go to the Statistics Canada website:  
<http://www.statcan.gc.ca/pub/75f0002m/2010005/lico-sfr-fra.htm>

<sup>20</sup> The MBM, rather than LICO would be a more appropriate measure for determining discretionary cash since it includes more expenses. However, given that the analysis is being performed for the province of Québec, the MBM for all regions of the province is less than LICO. Accordingly, measurement of discretionary cash in a Québec context remains reliable where LICO is used.

**Table 2.1.2.1 – Economic well-being of families**

		Without children			1 child			2 children			3 children		
		Disposable income (\$)	Adjusted income (\$)	Amount exceeding LICO (\$)	Disposable income (\$)	Adjusted income (\$)	Amount exceeding LICO (\$)	Disposable income (\$)	Adjusted income (\$)	Amount exceeding LICO (\$)	Disposable income (\$)	Adjusted income (\$)	Amount exceeding LICO (\$)
<b>\$25,000</b>	<b>Couple – 1 income</b>	26,790	19,136	1,626	35,595	20,938	4,260	42,460	21,230	3,368	49,337	21,451	4,823
	<b>Couple – 2 incomes</b>	27,013	19,295	1,850	35,818	21,069	4,484	42,708	21,354	3,616	49,610	21,570	5,096
	<b>Adult living alone</b>	21,516	21,516	840	33,496	23,925	8,332	40,373	23,749	9,038	47,238	23,619	8,146
<b>\$40,000</b>	<b>Couple – 1 income</b>	34,170	24,407	9,007	42,732	25,137	11,398	49,273	24,636	10,181	55,612	24,179	11,098
	<b>Couple – 2 incomes</b>	34,852	24,895	9,689	43,522	25,601	12,187	50,064	25,032	10,972	56,404	24,523	11,890
	<b>Adult living alone</b>	30,625	30,625	9,949	40,123	28,659	14,959	46,338	27,258	15,004	52,653	26,326	13,561
<b>\$60,000</b>	<b>Couple – 1 income</b>	44,713	31,938	19,549	49,981	29,401	18,647	54,631	27,316	15,539	59,600	25,913	15,086
	<b>Couple – 2 incomes</b>	46,269	33,049	21,105	51,500	30,294	20,165	56,212	28,106	17,120	61,200	26,609	16,686
	<b>Adult living alone</b>	41,616	41,616	20,940	48,645	34,747	23,482	53,295	31,350	21,961	58,257	29,129	19,165
<b>\$80,000</b>	<b>Couple – 1 income</b>	57,235	40,882	32,071	60,869	35,805	29,534	64,831	32,415	25,739	69,161	30,070	24,647
	<b>Couple – 2 incomes</b>	58,937	42,098	33,773	62,583	36,814	31,249	66,558	33,279	27,466	70,900	30,826	26,386
	<b>Adult living alone</b>	54,138	54,138	33,462	59,533	42,523	34,369	63,495	37,350	32,160	67,825	33,912	28,733
<b>\$120,000</b>	<b>Couple – 1 income</b>	79,397	56,712	54,233	81,259	47,799	49,924	83,633	41,816	44,541	86,527	37,620	42,013
	<b>Couple – 2 incomes</b>	83,595	59,711	58,431	85,469	50,276	54,135	87,856	43,928	48,764	90,762	39,462	46,248
	<b>Adult living alone</b>	76,300	76,300	55,624	79,935	57,096	54,771	82,321	48,424	50,986	85,191	42,595	46,099
<b>\$150,000</b>	<b>Couple – 1 income</b>	94,327	67,377	69,164	95,229	56,017	63,895	96,853	48,427	57,761	99,009	43,048	54,495
	<b>Couple – 2 incomes</b>	101,878	72,770	76,715	102,780	60,459	71,446	104,404	52,202	65,312	106,560	46,331	62,046
	<b>Adult living alone</b>	91,230	91,230	70,554	93,905	67,075	68,742	95,541	56,201	64,207	97,685	48,843	58,593
<b>\$200,000</b>	<b>Couple – 1 income</b>	118,936	84,954	93,772	119,608	70,358	88,274	120,232	60,116	81,140	120,868	52,551	76,354
	<b>Couple – 2 incomes</b>	130,437	93,169	105,273	131,109	77,123	99,775	131,733	65,867	92,641	132,369	57,552	87,855
	<b>Adult living alone</b>	115,839	115,839	95,163	118,284	84,488	93,120	118,920	69,953	87,586	119,544	59,772	80,452
<b>\$250,000</b>	<b>Couple – 1 income</b>	142,283	101,631	117,119	142,955	84,091	111,621	143,579	71,789	104,487	144,215	62,702	99,701
	<b>Couple – 2 incomes</b>	156,947	112,105	131,783	157,619	92,717	126,285	158,243	79,121	119,151	158,879	69,078	114,365
	<b>Adult living alone</b>	139,186	139,186	118,510	141,631	101,165	116,467	142,267	83,686	110,933	142,891	71,445	103,799

This assessment was based on the tax rules in effect for the 2016 taxation year. Disposable income refers to the disposable amount after taxes, payroll taxes (QPP, EI, QPIP) and other tax benefits (GST credit, solidarity credit, CCB, child assistance payment, WITB and the work premium). Adjusted income refers to disposable income divided by the adjusted family size. The amount exceeding LICO refers to the amount by which disposable income exceeds the low-income cut-off (LICO). For comparison, we have included lone-parent families with income of \$150,000, \$200,000 and \$250,000. However, according to 2014 statistics, barely 8% of lone-parent families have income exceeding \$100,000 compared to 49% of couples with children.

However, when the measures of economic well-being are used, economic well-being is preserved or improves after the arrival of a child for only some families. In particular, when adjusted disposable income is used, only couples with income of \$25,000 or \$40,000 and lone-parent families with income of \$25,000 maintain their economic well-being when children are present. When LICO is used, lone-parent families with income of \$40,000 and \$60,000 would also maintain their economic well-being if children are present. All other families see a decline in their economic well-being after the arrival of a first child and this decline becomes more pronounced if a second and a third child are present.

Although the tax system takes into account the additional costs resulting from the arrival of a child, it only maintains the economic well-being of a limited number of families. Consequently, the structure of Canada's tax system could deter couples from having a child.

### Two-parent families versus lone-parent families

According to table 2.1.2.1, Canada's tax system considers the additional costs that come with living alone since the economic well-being of a lone-parent family is comparable to, and even better than, the economic well-being of a couple with the same level of income.<sup>21</sup> This relates to the principle of fairness in the tax system.

However, table 2.1.2.2. shows that, due to this structure, net disposable income is reduced when a couple is formed. The decrease in the disposable after-tax amount after a couple is formed is greater in situations where at least one of the spouses had a low income, allowing him or her to claim tax benefits. The tax rules are unlikely to deter two people from forming a couple, although they could encourage taxpayers not to notify the tax authorities if there is a change in their marital status.

**Table 2.1.2.2 – Family composition**

Each spouse's income (\$)	One spouse with one child			Each spouse has one child		
	Disposable income (\$)		Variance (\$)	Disposable income (\$)		Variance (\$)
	No stepfamily	Stepfamily		No stepfamily	Stepfamily	
25,000	55,012	46,745	-8,267	66,991	52,326	-14,665
40,000	70,748	62,908	-7,840	80,246	66,832	-13,414
60,000	90,261	85,094	-5,167	97,291	87,468	-9,822
80,000	113,670	108,947	-4,723	119,065	110,231	-8,834

This table compares the total disposable income for the two spouses who have not formed a family (no stepfamily column) and which have formed a stepfamily (stepfamily column). Disposable income refers to the amount available after income taxes, payroll taxes (QPP, EI and QPIP) and other tax benefits (GST credit, solidarity tax credit, Canada child benefit, child assistance payment, working income tax benefit and work premium).

### The traditional family<sup>22</sup> versus stepfamilies

At first glance, there is no difference in tax treatment for traditional families versus stepfamilies.

#### 2.1.2.2 Treatment based on a family's legal status

Given that common-law spouses are recognized in the Canadian and Québec tax systems, a family's legal status has no impact on neutrality.

<sup>21</sup> When LICO is used, the economic well-being of a single adult with no children, and income of \$25,000, is less than for a couple with no children and income of \$25,000.

<sup>22</sup> The traditional family is defined as opposed to stepfamilies. The traditional family is composed of a couple with at least one child and no stepchildren.

### 2.1.2.3 Treatment based on the family's economic class

#### Single-income versus two-income couples

Table 2.1.2.1 shows that the economic well-being of a family with a given income improves when both spouses work. These results suggest that the tax system considers the additional costs<sup>23</sup> that are incurred by a family with two working spouses. However, the increase is more significant as family income rises. For example, in the case of a couple with one child, disposable after-tax income increases by 0.6% (\$223) where they have a total income of \$25,000 and by 10.3% (\$14,664) where they have a total income of \$250,000. The increase in income for families with two working spouses could be representative of the consideration of the additional costs related to carrying on a profession, particularly for certain families rather than all families.

#### Based on level of income

The income tax rate structure suggests that the average tax rate and the marginal rate applicable for an individual increase based on income to allow lower-income families to maintain a certain level of economic well-being. However, in order to better interpret the impacts of tax laws based on family income, it is important to consider the various tax benefits that are available, in addition to the income tax rate. Figures 2.1.2.1 and 2.1.2.2 respectively present the average and marginal tax rates based on income for the various types of families. The changes in the average tax rate based on income are in keeping with this structure.

However, the evolution of the marginal tax rate presents a totally different structure. In particular, an increase in the marginal rate is recognized for the first income brackets. This increase is followed by a decrease and, finally, an increase for higher income brackets. Moreover, the family's marginal tax rate exceeds the psychological threshold of 50% for a number of families, sometimes even exceeding 80%. The marginal tax rate structure could deter some families from working and could even encourage people to work under the table.

The marginal tax rate structure is explained by the fact that a number of social benefits and tax credits are reduced based on income. To rectify this situation in part, the government introduced the tax shield whose aim is to "render work effort more appealing". The tax shield makes it possible to "offset, further to an increase in work income, a part of the loss of the socio-fiscal transfers designed to incentivize work".<sup>24</sup> However, this measure only rectifies the situation in part.

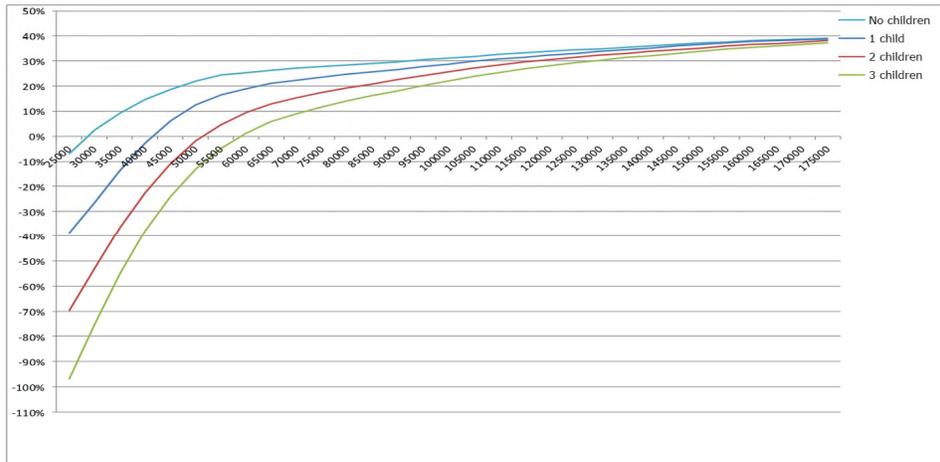
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<sup>23</sup> Such as transportation, clothing and work to be assigned to others.

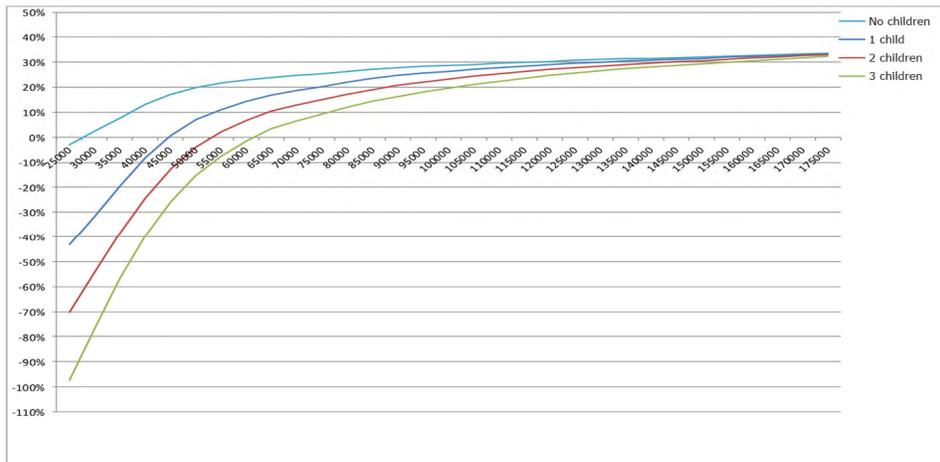
<sup>24</sup> Source: Finance Québec (2015), 2015-2016 Budget: Additional Information, page A-12.

**Figure 2.1.2.1 – Average family tax rate based on income**

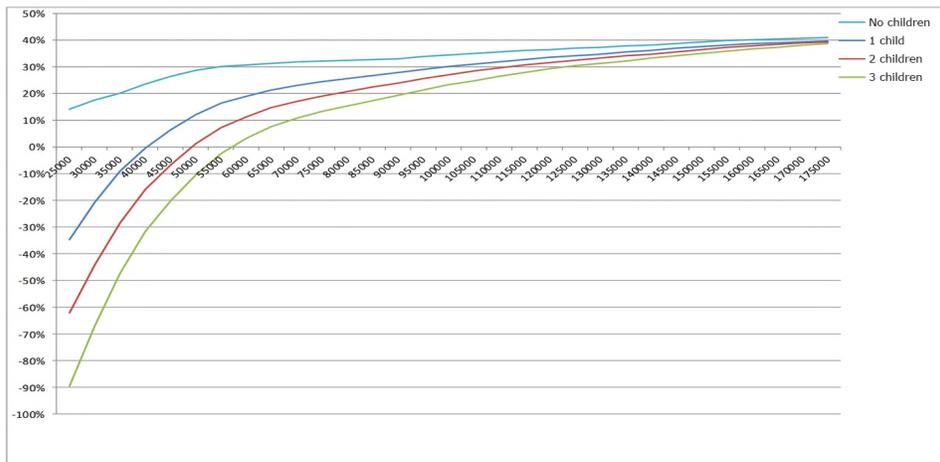
Couple – one income



Couple – two incomes



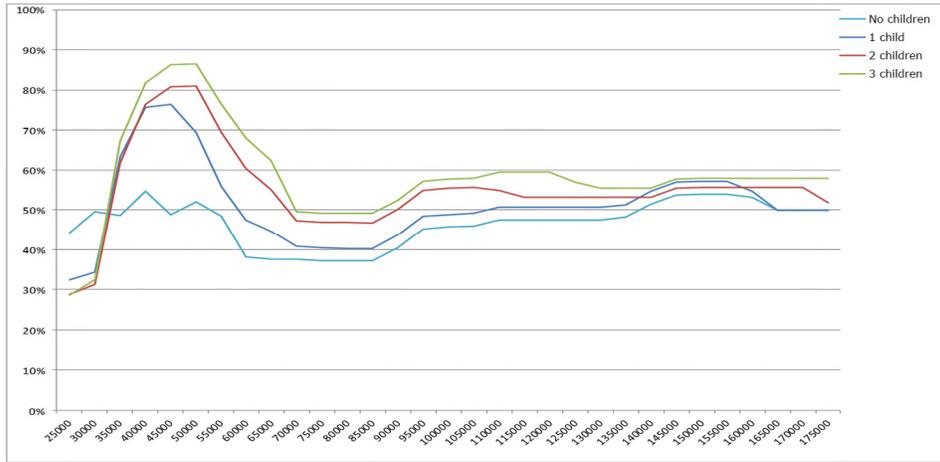
Lone-parent



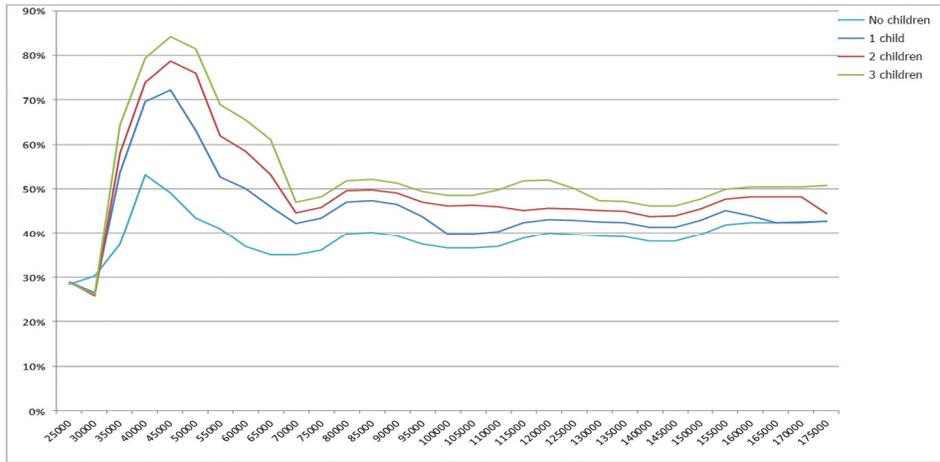
Average tax rates for 2016. Basic data used taken from Claude Laferrière's 2016 curves (Centre québécois de formation en fiscalité (CQFF), 2017).

**Figure 2.1.2.2 – Marginal tax rate of families based on income**

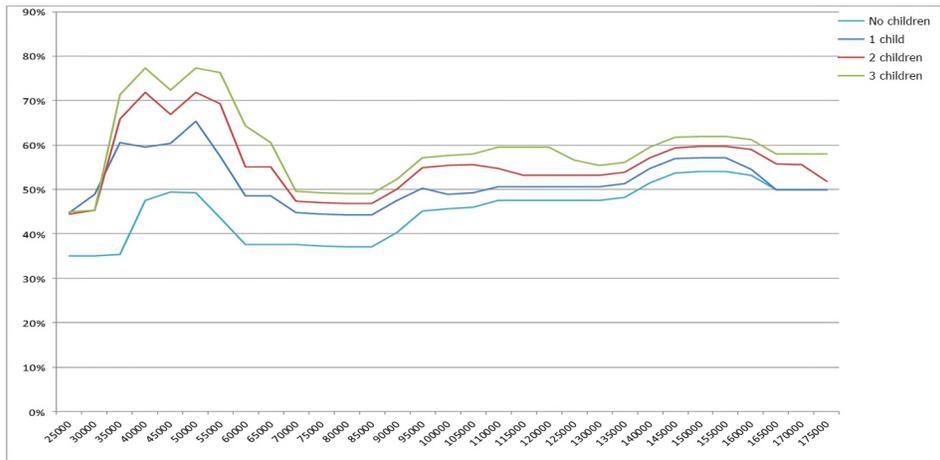
**Couple – one income**



**Couple – two incomes**



**Lone-parent**



Average tax rates for 2016. Basic data used taken from Claude Laferrière's 2016 curves (CQFF, 2017).

### 2.1.3 Summary

To summarize, although the tax system considers that families with children must incur additional expenses, it only makes it possible for a limited number of families to maintain a standard of living comparable to couples or individuals without children. Moreover, it is much more difficult for families with children to improve their economic well-being by increasing their working income since they have a higher marginal tax rate than couples or individuals without children. The situation becomes more pronounced as the number of children increases.

	Are the tax rules neutral irrespective of...		
	The family's social profile?	The couple's legal status?	The family's economic class?
<b>Economic well-being of the family</b>	No	Yes	No

## 2.2 Housing

Housing is a concern for the federal government, as well as for provincial and municipal administrations, and housing policies are a key and popular tool intended to address this matter.

The tax measures pertaining to housing have been reviewed as part of this study in order to determine whether they make housing affordable for all or only certain families (and if so, which families benefit the most from the measures).

The tools relating to the tax policy for housing are presented in table 2.2.1.<sup>25</sup> These tools are grouped into two main families: those supporting property owners and those supporting tenants. The tax tools are more significant for property owners. The 2016 census<sup>26</sup> showed that 67.8% of Canadian households owned their own home.

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<sup>25</sup> Other federal and Québec programs exist to make housing more affordable for low-income families, such as AccèsLogis Québec, low-rent housing and the temporary support program for housing organizations and the rent supplement. These programs are not discussed in this study.

<sup>26</sup> Statistics Canada – Housing in Canada: Key results from the 2016 census. Source: <https://www150.statcan.gc.ca/n1/daily-quotidien/171025/dq171025c-eng.htm>

**Table 2.2.1 – Tax Measures for Housing**

Policy	Recipient (owner/tenant)	Objective of the measure
Principal residence exemption (PRE)	Owner	“This measure recognizes that principal homes are generally purchased to provide basic shelter and not as an investment, and increases flexibility in the housing market by facilitating the movement of families from one principal residence to another in response to their changing circumstances.” <sup>27</sup>
Home Buyers' Plan (HBP)	Owner	“The Home Buyers' Plan (HBP) is a program that allows you to withdraw up to \$25,000 in a calendar year from your registered retirement savings plans (RRSPs) to buy or build a qualifying home for yourself or for a related person with a disability.” <sup>28</sup>
GST/HST/QST rebate	Owner	“The GST/HST new housing rebate allows an individual to recover some of the goods and services tax (GST) or the federal part of the harmonized sales tax (HST) paid for a new or substantially renovated house that is for use as the individual's, or their relation's, primary place of residence, when all of the other conditions are met.” <sup>29</sup>
First-time Home Buyers' Tax Credit	Owner	This measure helps first-time home buyers to cover the cost of such a purchase (budget 2009). <sup>30</sup>
RénoVert tax credit	Owner	“The RénoVert refundable tax credit was introduced on a temporary basis to encourage individuals to invest in recognized eco-friendly home renovation work that has a positive environmental impact and improves their dwelling's energy efficiency.” <sup>31</sup>
Tax Credit for the Upgrading of Residential Wastewater Treatment Systems	Owner	This credit seeks to provide financial assistance to property owners who are required to undertake work on systems for the discharge, collection and disposal of waste water in an eligible dwelling. <sup>32</sup>
Shelter Allowance Program	Owner/Tenant	“The Shelter Allowance Program provides financial assistance for low-income households that spend an excessive portion of their budget on rent.” <sup>33</sup>
Solidarity Tax Credit – Housing Component	Owner/Tenant	“The solidarity tax credit is a refundable tax credit for low- and middle-income families.” <sup>34</sup>

<sup>27</sup> <https://www.fin.gc.ca/taxexp-defisc/2017/taxexp1706-eng.asp>

<sup>28</sup> <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/what-home-buyers-plan.html>

<sup>29</sup> <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/gst-hst-home-construction/gst-hst-new-housing-rebate.html>

<sup>30</sup> <https://www.fin.gc.ca/taxexp-defisc/2017/taxexp1706-fra.asp#Non-imposition-des-gains-en-capital-sur-les-residences-principales>

<sup>31</sup> <https://www.revenuquebec.ca/en/citizens/tax-credits/renovert-tax-credit/>

<sup>32</sup> <http://www4.gouv.qc.ca/FR/Portail/Citoyens/Evenements/acheter-renover-maison/Pages/credit-assainissement-eaux-usees.aspx>

<sup>33</sup> [http://www4.gouv.qc.ca/EN/Portail/Citoyens/Evenements/DevenirParent/Pages/progr\\_aloct\\_logmn.aspx](http://www4.gouv.qc.ca/EN/Portail/Citoyens/Evenements/DevenirParent/Pages/progr_aloct_logmn.aspx)

<sup>34</sup> <https://www.revenuquebec.ca/en/citizens/tax-credits/solidarity-tax-credit/>

## 2.2.1 Description of the Tax Measures

### 2.2.1.1 Principal residence exemption

The principal residence exemption allows a taxpayer to realize a tax-free capital gain on the sale of a principal residence. A residence can generally be considered a principal residence<sup>35</sup> for a given year if it is designated as such by the taxpayer, if the residence is owned by the taxpayer alone or jointly with another person and if the residence is ordinarily inhabited by the taxpayer or by certain members of the taxpayer's family. Since 1983, it is only possible to designate one principal residence per *family unit*, which is defined as the individual, the individual's spouse and any unmarried children under 18 years of age.

### 2.2.1.2 Home Buyer's Plan

The Home Buyer's Plan (HBP) allows first-time homebuyers to withdraw up to \$25,000 from their registered retirement savings plan (RRSP) in order to buy or build a qualifying home for themselves, or for a related person with a disability. One fifteenth of the total amount withdrawn from the RRSP must be repaid in each taxation year, over 15 years, to avoid being taxed on this amount.

An individual will qualify for the HBP if he or she or his or her spouse or common-law spouse, did not own a principal residence during the year in which the amount was withdrawn from the RRSP and the four preceding calendar years.

### 2.2.1.3 First-time Home Buyers' (FTHB) Tax Credit – Federal

The first-time home buyers' tax credit is aimed at helping first-time home buyers<sup>36</sup> to cover the costs that come with buying a home, such as legal fees, initial disbursements and property transfer fees. This non-refundable tax credit is calculated by multiplying the lowest personal income tax rate for the year by \$5,000, which represents \$750 (\$629 for Québec residents).<sup>37</sup>

The individual will qualify for the credit if he or she has acquired a qualifying home and if neither the individual nor his or her spouse or common-law spouse, owned another home in which he or she was living during the calendar year in which the qualifying home was purchased or during the four preceding calendar years.

Where an individual has a change in status during the year, it is specified that the spouse at the time that the home was acquired should be considered in verifying whether the criteria

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<sup>35</sup> Principal residence can refer to a house, apartment or unit in a duplex, apartment building or condominium, a cottage, trailer or mobile home, a houseboat, a leasehold interest in a housing unit, a share of the capital stock of a co-operative housing corporation, if such share is acquired for the sole purpose of obtaining the right to inhabit a housing unit owned by that corporation.

<sup>36</sup> The home should be a single-family home, a semi-detached home, a mobile home, a condominium unit or apartment in a duplex, triplex, fourplex or apartment building, a share in a cooperative housing corporation that entitles the individual to possess a housing unit located in Canada or a home under construction. The individual should intend to make this home his or her principal residence, which therefore excludes secondary residences.

The first-time home buyers' tax credit may also be granted to an individual who already owns property, but only in respect of the purchase of housing that is more accessible or functional by an individual qualifying for the disability tax credit (DTC) or by a relative of a disabled person, for this person's benefit.

<sup>37</sup> It should be noted that it is not necessary to incur costs as such to qualify for the tax credit. The credit may be obtained in respect of property received as an inheritance or acquired for \$1 (federal interpretation #2013-0478221E5) or donated property (federal interpretation #2016-0674851C6) where the individual qualifies for the measure.

have been met.<sup>38</sup> It is therefore possible for an individual to acquire a home qualifying for the FTTHB when he or she was single and for this person to have a spouse at the end of the year while still qualifying for the credit.

#### 2.2.1.4 GST/QST New Housing Rebate or Rebate for Substantially Renovated Housing

When a new home is purchased or built, GST and QST apply on the selling price. To help taxpayers purchase a home, the tax authorities provide a partial tax rebate to home buyers where certain conditions are met.<sup>39</sup>

This rebate is geared towards the middle class, which means that there are limits to the value of a property that can qualify for the measures. The GST rebate is reduced in the case of properties with a fair market value of at least \$350,000 and disappears completely for properties with a fair market value of at least \$450,000. Where the QST is concerned, a property's fair market value should not exceed \$300,000. However, a rebate applying at a lower rate may be obtained when housing for rent is being built (36% rebate for housing that costs less than \$200,000, with a partial rebate for property costing up to \$225,000).

#### 2.2.1.5 RénoVert Tax Credit – Québec

The RénoVert tax credit is offered to individuals who incurred expenses no later than December 31, 2018 in connection with eco-friendly renovations to their primary or secondary residence (e.g., winterization).

To qualify for this credit equivalent to 20% of the portion of qualifying expenses exceeding \$2,500, and totalling a maximum of \$10,000 per eligible dwelling, the individual must have completed the construction of the residence prior to 2016. Moreover, in order for an individual to qualify for this tax credit, the contractor hired must agree to perform the work and must complete the work between March 17, 2016 and April 1, 2019. The work in question must meet the Québec government's energy efficiency or environmental standards.

#### 2.2.1.6 Tax Credit for the Upgrading of Residential Wastewater Treatment Systems– Québec

This credit is equivalent to 20% of qualified expenditures over \$2,500, for a maximum of \$30,000, or \$5,500 per dwelling. It is available to individuals who incurred expenditures<sup>40</sup> no later than December 31, 2022 for the purpose of upgrading residential wastewater treatment systems.

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<sup>38</sup> Federal interpretation #2010-0357071E5.

<sup>39</sup> To qualify, the dwelling must be a single-unit residential complex, a duplex or a residential unit held in co-ownership and the individual must own the land before construction begins. The individual must also be the first person to occupy the premises after construction begins. If these criteria are not met, the individual may still qualify for the GST/HST rebate if the conditions are met by a related person.

Save for certain rare exceptions, you must apply for the credit no later than two years after you began occupying the premises or after construction was completed.

An individual who co-owns a property with another person who is not an individual does not qualify for this rebate.

<sup>40</sup> Work qualifying for the credit generally includes work related to the construction, renovation, modification or rebuilding of a system for the discharge, collection and disposal of waste water, toilet effluents or grey water. In addition, the contractor hired by the individual must agree to perform the work, which must be completed between March 31, 2017 and April 1, 2022.

### 2.2.1.7 Shelter Allowance Program

The shelter allowance program aims to support low-income households that spend too much of their budget on rent. This program is administered by Revenu Québec and is geared towards people who are 50 years of age or older and low-income families with dependent children who spend more than 30% of their income on rent. The assistance varies according to the cost of rent, the number of people in the household, the type of household and household income. It can total up to \$80 per month, based on the number of people in the household, the type of household, household income and monthly rental payments.

### 2.2.1.8 Solidarity Tax Credit and Housing Component

As discussed briefly in section 2.1.1 dealing with the economic well-being of the family, the solidarity tax credit is paid monthly, quarterly or annually and is reduced where a family's net income exceeds \$33,935. The solidarity tax credit has three components: the QST component, the housing component and the component for individuals living in northern villages.

The housing component applies to owners or tenants who live in an "eligible dwelling", which excludes low-rent housing, subsidized reception centres, and subsidized housing in a housing cooperative. The individual must be able to prove that he or she owns, leases or subleases the housing, either alone or jointly with another person.

## 2.2.2 Neutrality Analysis

The neutrality analysis for this section focusses primarily on the impact of tax tools on a family's disposable cash that can be used to purchase a home.

### 2.2.2.1 Based on the family's social profile

#### Based on family size

Housing needs and costs vary according to the number of people in a family. Therefore, to be neutral housing-related tools put in place should vary according to family size. Yet, only the shelter allowance program and the solidarity tax credit include measures that provide more support for larger families. Consequently, the other measures indirectly encourage smaller families, which receive increased assistance per person.

#### Two-parent versus lone-parent families

The various tax measures relating to housing will generally have similar impacts for lone-parent as compared to two-parent families.

#### Traditional families versus stepfamilies

There is no difference in tax treatment of traditional families versus stepfamilies.

### 2.2.2.2 Based on the Family's Legal Status

The tax rules relating to housing generally do not differentiate according to a couple's legal status.

However, the situation could be problematic for the Home Buyers' Plan and the first-time home buyers' tax credit because the rules do not recognize "former spouses" who are separated but not yet divorced. These individuals are therefore still considered to be married and may unduly be disallowed these measures.

The Home Buyers' Plan can also be problematic for divorced individuals, as stated by the Canadian Real Estate Association.<sup>41</sup> Such individuals often face urgent housing needs at a difficult time in their lives. The Home Buyers' Plan fails to take such situations into account. For example, a couple that sells its first home financed using the Home Buyers' Plan will recoup its investment when the property is sold. On the other hand, when a couple gets divorced, with each former spouse recouping a portion of the investment (depending on the agreement signed by the couple), the individuals will have limited resources to find new housing and will have to wait four years before being able to avail themselves of the Home Buyers' Plan again.

### 2.2.2.3 Based on the family's economic class

The various housing-related measures that exist are more favourable for current or future property owners. The 2011 census data show that home ownership increases as income rises.<sup>42</sup> Consequently, since the tax measures mainly affect home owners, the measures are more favourable for individuals with a higher income. Moreover, the principal residence exemption is a tax-free investment vehicle used by the wealthiest families, in addition to RRSPs, the Tax-Free Savings Account (TFSA) and Registered Education Savings Plans (RESPs).

Middle-income families, for their part, must choose between investing in an RRSP, a TFSA, an RESP and the family home. However, these families can use the HBP. It is important to note that the HBP has a more limited economic scope than when it was implemented in 1992 and that this particularly impacts middle-income and low-income families, which have difficulty saving enough money for a down payment on a house. In 1992, the maximum eligible amount of \$20,000 for the HBP represented more than 13% of the average home price in Canada whereas, in 2018, an amount of \$25,000 represents not even 5% of the average home price.<sup>43</sup>

Low-income families can benefit from the Shelter Allowance Program, the solidarity tax credit as well as other housing assistance programs that do not fall under the responsibility of the tax authorities.

Families that would have the means to purchase a home but that choose to live in rental housing do not benefit in any way from the federal government's tax policy for housing since they fall in an area that is not covered by any tax policy (home ownership and housing support).

The principal residence exemption, the HBP and most tax measures relating to housing do not take family income into account whereas housing needs are less critical as family income rises. Therefore, with no limits for the principal residence exemption, as is the case for the other measures (e.g., the HBP, the GST/QST new housing rebate), wealthy families are able to exempt substantial amounts of income from income tax, a larger portion of which may be invested in savings.

The existing housing-related tax measures are not neutral based on family income to the extent that they favour families that can afford a home and high-income families.

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<sup>41</sup> Canadian Real Estate Association, Help Homeowners Through Life Changes.

<https://www.crea.ca/fr/federal-affairs/help-homeowners-through-life-changes/629537553762715/>

<sup>42</sup> A Statistics Canada report on home ownership states that 37% of households with an income of \$20,000 could afford their home in 2011, whereas the figure was 90.6% for families with an income of \$100,000 or more.

<https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-014-x/99-014-x2011002-eng.pdf>

<sup>43</sup> [http://cms.centris.ca/medias/nouvelles/2017-03-23\\_budget\\_federal\\_fr.pdf](http://cms.centris.ca/medias/nouvelles/2017-03-23_budget_federal_fr.pdf)

### 2.2.3 Summary

The tax policy relating to housing is not neutral depending on a family's social profile, legal status and economic class.

Where a family's social profile is concerned, most of the tools put in place do not vary according to family size and are favourable to smaller families.

Where a family's legal status is concerned, there are a number of problematic situations relating to the HBP and the new housing tax credit since the rules fail to recognize "former spouses" who are separated but not yet divorced. Moreover, the HBP does not recognize the urgent housing needs of divorced individuals, where each former spouse recoups a portion of the investment and often has limited resources to find a new place to live.

Where economic class is concerned, the tax measures related to housing provide an advantage to families that own their own home (and, therefore, higher-income families). For these families, the principal residence exemption represents a tax-free investment vehicle, in addition to TFSAs, RRSPs and RESPs. Moreover, with no limits for this measure, high-income families can benefit more than other families.

Middle-income families must choose between investing in a TFSA, an RRSP, an RESP and the family home, although they can avail themselves of the HBP.

Families that live in rental housing do not see as many benefits from the housing-related tax measures. In 2011, approximately 51% of lone-parent families in Québec were tenants, as compared to 81% of couples with children.<sup>44</sup>

	Are the tax rules neutral, irrespective of...		
	The family's social profile?	The couple's legal status?	The family's economic class?
Housing	No	No	No

## 2.3 Children's Education

Mechanisms have been put in place to support children's post-secondary education. Some tax measures make it possible to reduce the tax burden for the family or the student so as to take into account additional costs that are incurred when a family member is enrolled in studies. The RESP aims to encourage taxpayers to put aside money for education when children are very young. Finally, government loan and bursary programs were introduced to make post-secondary education more easily accessible to children in lower-income families.

This section presents a brief description of the various incentives that have been implemented and analyzes whether they encourage post-secondary education for children in all families or whether they are more favourable for certain families.

<sup>44</sup> Source: Société d'habitation du Québec (2015), L'habitation en bref.  
<http://www.habitation.gouv.qc.ca/fileadmin/internet/publications/0000024027.pdf>

## 2.3.1 Description

### 2.3.1.1 Tax Measures

The federal and provincial tax systems recognize that families must incur additional costs when a family member is enrolled in post-secondary studies. Each system recognizes this via non-refundable tax credits.

The federal tuition tax credit provides tax relief equivalent to 15 % of eligible tuition fees. Where the child's tax burden is insufficient for the purpose of absorbing the amount of the credit, the unused credit amount can be transferred to the parent or carried forward. In addition, the tax credit for interest on student loans provides tax relief to students, once they have completed their studies, equivalent to 15% of interest paid on the student loans that they received.

Like the federal government, Québec also offers a tax credit for tuition fees and a tax credit for interest paid on student loans. These credits provide tax relief equivalent to 8% of eligible tuition fees<sup>45</sup> and 20% of interest paid. The federal and Québec credits operate in similar ways. Moreover, Québec also offers a tax credit to parents with a child under 18<sup>46</sup> or 18 or over<sup>47</sup> enrolled in full-time post-secondary studies.<sup>48</sup> The credit amount is reduced by the child's income. Table 2.3.1.1 presents the maximum amount for these credits and the child's income threshold below which the credit is fully eliminated. Finally, where lone-parent families are concerned, the tax credit for persons living alone is increased<sup>49</sup> when there is a child 18 years of age or over enrolled in full-time post-secondary studies. However, the parent cannot obtain this increased credit if he or she also has dependent children under 18. The amount of the credit is reduced based on the parent's income.<sup>50</sup>

**Table 2.3.1.1 – Credit for child enrolled in post-secondary studies – maximum amount**

	Maximum amount (\$)	Elimination of credit based on child's income (\$)
Child under 18	858	5,722
Child 18 years of age (with no GST credit)	1,533	10,222
Child 19 years of age and +	1,256	8,374

Based on amounts applicable for 2017.

The maximum amount is for a child enrolled in full-time studies during at least two semesters during the year.

Finally, to encourage people to study, student bursaries are not taxable. This particular measure is not considered in this study.

<sup>45</sup> Considering annual tuition fees of \$310 (\$155/semester) for college-level studies and of \$3,400 (\$1,700/semester) for undergraduate-level university studies, the combined tax credits (federal and provincial) would total \$64 and \$698 respectively.

<sup>46</sup> Referred to as the amount "for a child under 18 enrolled in post-secondary studies".

<sup>47</sup> Referred to as the amount "transferred by a child 18 or over enrolled in post-secondary studies".

<sup>48</sup> Secondary studies for vocational training also qualify.

<sup>49</sup> The maximum credit amount was \$316 in 2017. This amount is reduced when the person's income exceeds \$42,732 and is fully eliminated once income exceeds \$51,833.

<sup>50</sup> Secondary studies for vocational training also qualify.

### 2.3.1.2 Registered Education Savings Plan (RESP)

The purpose of an RESP is to encourage families to set aside money to fund children’s post-secondary education when the children are young. A family can contribute a maximum of \$50,000 to an RESP set up for a child. The federal and provincial governments then contribute to the RESP by paying a subsidy. All amounts in the RESP accrue tax free. When the child enrolls in post-secondary education, the funds in the RESP may be obtained by way of contribution withdrawals for the subscriber and through educational assistance payments (EAPs) for the child.<sup>51</sup> EAPs are provided by returns and subsidies and are taxable in the hands of the child.

The maximum amount of subsidies that can be paid into a child’s RESP is \$10,800 (\$7,200 for federal purposes and \$3,600 at the provincial level). The subsidy is paid annually based on the contribution amount. Lower-income families receive a higher annual subsidy to take into account their limited savings ability. The annual subsidies paid are as follows:

	Federal	Provincial
<b>Basic amount</b>	20% of the contribution (maximum: \$500)	10% of the contribution (maximum: \$250)
<b>Additional amount</b>		
<b>Annual income – low-income family<sup>52</sup></b>	20% of the contribution (maximum: \$100)	10% of the contribution (maximum: \$50)
<b>Annual income – middle-income family<sup>53</sup></b>	10% of the contribution (maximum: \$50)	5% of the contribution (maximum: \$25)

Considering that a family will contribute annually to the RESP set up for a child, over a period of 18 years (0 to 17 years of age), a high-income family will need to contribute a total of \$36,000 to receive the maximum subsidy, i.e. an average of \$2,000 per year. On the other hand, middle-income families will need to contribute a total of \$31,500, i.e. an average of \$1,750 per year, while a low-income family will have to contribute a total of \$27,500, or an average of \$1,500 per year.

Moreover, low-income families qualify for the Canada Learning Bond (CLB). The CLB is an amount deposited automatically into a child’s RESP, with the family not being required to make a contribution. The total amount of CLB deposits for a child can be up to \$2,000. Deposits are made annually, i.e. \$500 in the year in which the RESP is set up and \$100 annually for subsequent years.

<sup>51</sup> Source: Section 2.1 of the “Canada Education Savings Program: Summative Evaluation Report” prepared by Employment and Social Development Canada.

<sup>52</sup> In 2017, a family qualified for this additional amount if its annual income was less than \$45,916.

<sup>53</sup> In 2017, a family qualified for this additional amount if its annual income was between \$45,916 and \$91,831.

### 2.3.1.3 Québec Loans and Bursaries Program

The Québec loans and bursaries program seeks to provide easier access to post-secondary studies to children in lower-income families. Under this program, students are offered financial assistance in the form of loans and bursaries to help them cover their expenses. The amount of assistance is based on expenses incurred (hereafter referred to as eligible expenditures), the contribution made by the student and the contribution by the student's parents.<sup>54</sup> Eligible expenditures include tuition<sup>55</sup> and living expenses.<sup>56</sup>

The student's contribution is determined on the basis of income. As a general rule, this contribution is equivalent to 50%<sup>57</sup> of the student's employment income<sup>58</sup> and his or her total other income. Such income includes bursaries, other than those received under the program, in excess of \$5,000, and excludes any educational assistance payments received through an RESP.

The parental contribution is based on the parents' total income. This includes total declared income within the meaning of the *Income Tax Act* as well as certain non-taxable benefits, including the Québec child assistance payment and the Canada child benefit. An exemption is then provided for each dependent child, other than the student. A graduated rate is applied to total income to determine the amount of contribution. The table of graduated rates differs depending on a family's situation, i.e. whether the parents live together or not. Where the child's parents do not live together, only the income of one parent is taken into consideration, regardless whether this parent has a spouse.

### 2.3.2 Neutrality Analysis<sup>59</sup>

The neutrality analysis focusses primarily on the impacts on a family's cash situation of the tax measures that are available to encourage children's post-secondary education. Appendix IV presents the impacts of the various tax measures and the loans and bursaries program on the cash situation of various types of families.

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<sup>54</sup> Where the amount of financial assistance determined according to the above rules is below certain pre-established amounts, alternative methods will be used to assess the amount of financial assistance to be provided to the student. In such cases, the student's employment income will not be considered and/or the parental contribution may not be taken into account. However, the amount of financial assistance received cannot exceed the pre-established amounts.

<sup>55</sup> Tuition includes amounts charged by the educational establishment and a lump sum to purchase textbooks and school supplies.

<sup>56</sup> This includes the cost of food, lodging, personal expenses and transportation costs. The amount provided will vary depending on whether the student lives with his or her parents during the period of studies. Other expenses can be considered as well, such as living expenses for students deemed enrolled, living expenses and childcare expenses, expenses for lone-parent families, and expenses for peripheral regions. These expenses are not considered in this study.

<sup>57</sup> 40% if the student was not a program recipient in the preceding year.

<sup>58</sup> However, this income is reduced by an amount equivalent to 30% of safe income. Safe income totals \$1,134 per number of months during which no tuition expense was recognized.

<sup>59</sup> In this section, we disregarded the fact that a child enrolled in studies can meet part of his or her needs by having an income. Unless indicated otherwise, this would not affect our conclusions.

### 2.3.2.1 Based on the Family's Social Profile

#### Based on family size

##### *Tax measures*

The various tax measures put in place to consider the additional costs incurred by families when a child is continuing his or her education are not adjusted according to family size. With all things being equal, the impact on the cash situation of a family with a given level of income, when a child begins post-secondary studies, would be the same regardless whether there are other children in the family.<sup>60</sup> This initial observation therefore suggests that the tax measures would be neutral where family size is concerned. However, if it is considered that, with equal income, a family's economic well-being declines as the family grows, the tax measures favour small families.

The situation becomes more complex when the child enrolled in studies reaches 18 years of age. The provincial tax credit that can be claimed by parents then increases.<sup>61</sup> However, parents are no longer able to claim the various child benefits, such as the Canada child benefit and the Québec child assistance payment, even if the child in question is still a dependent. On the other hand, the child will henceforth be able to claim certain benefits, such as the solidarity tax credit and the GST credit.<sup>62</sup> Once again, the impact of the tax measures put in place to encourage studies is the same, regardless of family size. However, the amount of tax benefits that the parents lose will differ depending on the size of the family. The amount lost by lower-income families will be greater if the student is the only child in the family. The amount lost by middle-income families increases if the family includes other children.

As a general rule, the tax measures that have been implemented to encourage studies are not neutral depending on family size.

##### *RESP*

RESPs take family size into account, given the fact that the maximum amount of contributions and subsidies is determined for the child, not for the family unit. This means that larger families receive higher amounts. Where a family has the means to use this type of savings vehicle, the RESP is neutral based on family size. It is also neutral for low-income families since the CLB is provided to each child rather than to a family unit.

However, families with a limited ability to save will receive a smaller subsidy as the family grows. This is due to the fact that 1) the amount of contributions required per child to receive the maximum subsidy for a given child varies only based on a family's level of income;<sup>63</sup> 2) the amount of excess cash of families with the same level of income is reduced based on family size in the case of most families.<sup>64</sup>

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<sup>60</sup> The impact on the family cash situation where a child is enrolled in studies takes into account additional costs, such as tuition fees, the cost of textbooks, etc., as well as the tax savings resulting from tax incentives. It should be noted that the additional costs that are incurred when a child is enrolled in studies vary depending on the program of study, not on a family's income.

<sup>61</sup> Refer to the scenarios in Appendix IV for comparisons.

<sup>62</sup> At 19 years of age.

<sup>63</sup> However, there is tax relief for families with four or more children.

<sup>64</sup> Refer to table 2.1.2.1.

Similarly, when the marginal tax rate for families is analyzed, it becomes evident that this rate is higher for larger families, which could prompt these families to set aside money for retirement by investing in an RRSP as compared to saving for children's education by contributing to an RESP.<sup>65</sup>

As a general rule, RESPs take family size into account. However, given that the surplus cash of families with the same level of income is reduced based on their size, it becomes more difficult for larger families to contribute enough in order to receive the full amount of the subsidy.

#### *Loans and bursaries program*

Family size is considered when calculating the parental contribution. First of all, parental income used for the purpose of calculating the parental contribution is reduced<sup>66</sup> for each dependent child other than the student. The loans and bursaries program therefore takes into account the more limited ability of larger families to contribute to the education of one of their children. However, this income is added to the amount of the Canada child benefit and the child assistance payment received by the family. The amount added to the parents' income for the purpose of calculating parental income has the overall impact of increasing the estimated parental contribution for some families, which may reduce the amount of financial assistance received by the student.

As a general rule, the loans and bursaries program takes family size into account. However, contrary to expectations, the amount of financial assistance received by the student may be reduced, rather than increased, depending on the size of the family.<sup>67</sup>

#### Two-parent families versus lone-parent families

##### *Tax measures*

The impacts of the various tax measures put in place to consider the additional costs incurred by a family when a child is enrolled in post-secondary studies are similar for lone-parent and two-parent families. The only difference is the higher credit for persons living alone. The impact of the tax measures on the cash situation of two families, for a given level of income, would be similar for two-parent and lone-parent families<sup>68</sup> when the child enrolled in studies is less than 18 years of age.

When the child enrolled in studies reaches 18 years of age, the impact of the tax measures put in place to foster education is generally similar from one type of family to the next, except in the case where the child enrolled in studies is the only dependent child in the family. In such situations, the tax benefits no longer available to lone-parent families are greater than for two-parent families. This is explained by the fact that the parent in the lone-parent family is losing the federal credit for an eligible dependent. This means that the tax measures put in place to support education are not neutral. The dependent child in a lone-parent family is at a disadvantage compared to a dependent child in a two-parent family when enrolled in education after 18 years of age.

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<sup>65</sup> This matter is discussed in section 2.4 "Retirement Savings and Retirement Income".

<sup>66</sup> The reduction was \$3,020 for 2017-18.

<sup>67</sup> For families with a dependent child other than the student, disadvantaged families are those with income of between \$45,000 and \$90,000. In the case of families with two other dependent children, disadvantaged families are those families with income between \$40,000 and \$98,000.

<sup>68</sup> Refer to the scenarios in Appendix IV for comparisons.

## *RESP*

Assuming that, with equal income, lone-parent families have a similar ability to save and, since the RESP rules do not differ depending on the type of family, the RESP is neutral.

### *Loans and bursaries program*

The type of family is taken into consideration in calculating the parental contribution to be used as the basis for establishing the amount of financing to be obtained by the student. The Québec loans and bursaries program considers that, if income is equal, the parental contribution for a lone-parent family will be higher. Consequently, a student from a lone-parent family could receive less financial assistance than a student from a two-parent family with a similar level of income. Assuming that, if income is equal, the economic well-being of lone-parent and two-parent families is comparable, the loans and bursaries program is more favourable for two-parent families.

### Traditional family versus stepfamilies

#### *Tax measures*

There is no difference in tax treatment for traditional families as compared to stepfamilies. The impact on the family's economic well-being when a child enrolls in studies is the same, regardless of the type of family.

#### *Registered Education Savings Plan*

There do not appear to be any differences in the treatment of RESPs that would provide more benefits to one family versus another.

### *Loans and bursaries program*

The loans and bursaries program has a different treatment for parental contributions made for a child in a stepfamily. The parental contribution is estimated based on the parent's income, not family income, while using the rules applicable to lone-parent families. Consequently, with equivalent family income, the child in a stepfamily may receive more or less financial assistance. The impact will depend on the parent's share of the family income. In some circumstances, this could even result in a different parental contribution for children within the same stepfamily.

#### 2.3.2.2 Based on the Legal Status of the Family

Neutrality seems to be maintained with regard to the tax measures, the registered education savings plan and the loans and bursaries program.

#### 2.3.2.3 Based on the Family's Economic Class

##### Single-income versus two-income couple

Assuming that the economic well-being of a single-income couple is comparable to that of a two-income couple, all of the measures put in place to encourage children's education will have the same impact, regardless whether a couple has one or two incomes.<sup>69</sup>

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<sup>69</sup> However, as noted in Section 2.1, two-income families have more surplus cash than single-income families. The rules are neutral if surplus cash is equivalent to the additional costs incurred to earn additional income. Otherwise, the measures will favour one type of family or another, as the case may be.

## Based on level of income

### *Tax measures*

The various measures put in place to take into account the additional costs incurred by a family with a child enrolled in studies are not generally impacted by the parents' level of income. With all things otherwise being equal, the impact of a child's enrollment in post-secondary studies on a family's cash situation would be the same for most families.

When the child enrolled in studies reaches 18 years of age, the situation changes since, as shown previously, families can no longer claim a number of tax benefits. Once again, the impact of the tax measures put in place to support education is the same for most families. However, the tax benefits lost by the parents are much more significant the lower the family's income and the benefits lost often exceed the amount of tax incentives. Consequently, a number of families see a decline in their economic well-being. As a general rule, the tax measures put in place to support education are not neutral depending on the level of family income and favour high-income families.

### *RESP*

RESPs take family income into account and, as discussed previously, the amount of the contribution that a family must make to obtain the maximum subsidy decreases based on family income. Moreover, low-income families receive CLBs, even when they make no RESP contribution.

Table 2.3.2.1 presents the amount that would be paid for education if the family had made annual contributions allowing it to obtain the total amount of the subsidy. With a rate of return of 3.5%, the amount paid for education available to the child would be comparable for the different families. However, the variance grows in favour of high-income families as the return on investment increases. Consequently, this suggests that the RESP is a relatively neutral incentive for all families.

**Table 2.3.2.1 – RESP – Amount of educational assistance payments**

3.5% rate of return

	Family income		
	Low	Average	High
Annual contribution	\$1,500	\$1,750	\$2,000
Total contribution	\$27,000	\$31,500	\$36,000
CLB	\$2,000	\$0	\$0
Subsidy	\$10,800	\$10,800	\$10,800
Interest	\$14,614	\$15,274	\$16,899
Educational payment	\$27,414	\$26,074	\$27,699

### 10% rate of return

	Family income		
	Low	Average	High
Annual contribution	\$1,500	\$1,750	\$2,000
Total contribution	\$27,000	\$31,500	\$36,000
CLB	\$2,000	\$0	\$0
Subsidy	\$10,800	\$10,800	\$10,800
Interest	\$62,330	\$64,858	\$71,758
Educational payment	\$75,130	\$75,658	\$82,558

However, RESPs are more accessible to high-income families. These families have more surplus cash and, therefore, have a greater financial ability to contribute to their children's RESP. Also, lower-income families may have more incentives to invest in an RRSP as compared to contributing to an RESP since they have a higher marginal tax rate than do high-income families, as shown in graph 2.1.2.2.

#### *Loans and bursaries program*

The loans and bursaries program provides financial assistance to help lower-income families pay for the cost of education. Due to its nature, this program is not revenue neutral since it is geared towards low-income families. However, the neutrality analysis can be based on the various measures as a whole. Consequently, considering that the tax measures and the RESP seem to favour higher-income families, the loans and bursaries program may be considered neutral if it makes it possible to mitigate the situation.

The conclusions are as follows, based on the scenarios presented in Appendix IV. For children under the age of 18 enrolled in post-secondary studies, the loans and bursaries system offers lower-income families a supplemental amount to cover the cost of education. For children over 18 years of age enrolled in post-secondary education, the loans and bursaries program generally makes it possible to offset benefits that can no longer be claimed and offer additional cash to help the student cover the additional costs. However, a portion of the amounts lost will be offset by a student loan, which the student will be required to repay. On the other hand, if the student is enrolled in studies other than at the university level, the loans and bursaries program does not make it possible to offset the amounts lost and results in a decline in the economic well-being of the family.

This analysis is based on the assumption that the student had no income. The fact that the student is working and earning income would have the following impacts. The parents would receive a lower education tax credit and the amount of the reduction would be the same for most families. Also, the amount of financial assistance received by the student could be lower, and the amount of this reduction will increase the lower the family income (i.e. for families for which the child's contribution is required). Consequently, considering the loans and bursaries program, the student would have a higher marginal tax rate if he or she comes from a low-income family.

#### 2.3.3 Summary

This section shows the complexity of the system. It also shows how it becomes very difficult for families to analyze the impacts of the various measures. It becomes clear that the tax measures mainly have the effect of discouraging post-secondary studies when a child reaches 18 years of age, particularly in the case of lone-parent families and lower-income families. However, the loans and bursaries program mitigates the situation.

Although the RESP still appears to be more accessible to high-income families, the increased subsidies encourage lower-income families to save for their children’s education. Finally, the loans and bursaries program could make it possible to offer complementary financing in some situations. However, the student’s age, the program of study chosen, the type of family (i.e. traditional or stepfamily) and the student’s income could significantly influence the amount of assistance received.

	Are the tax rules neutral irrespective of...		
	The family’s social profile?	The couple’s legal status?	The family’s economic class?
<b>Tax measures</b>	No	Yes	No
<b>RESP</b>	No	Yes	No
<b>Loans and bursaries</b>	No	Yes	No

## 2.4 Retirement Savings and Retirement Income

Mechanisms have been put in place to help families maintain their standard of living when they retire. First, government pension plans were introduced to ensure the Canadians receive a minimum retirement income. Second, savings incentives were also put in place to encourage people to save, in particular for retirement.

This section outlines the various plans and incentives that have been implemented and analyzes whether families face different pressures that could influence how they save for retirement as well as their ability to maintain their standard of living once they retire.

### 2.4.1 Description

#### 2.4.1.1 Government Pension Plans

##### Old Age Security (OAS)

The objective of the OAS program is to provide a basis upon which individuals can add income from other sources to address their particular financial needs, depending on the circumstances.<sup>70</sup> The OAS pension is the first component of this program. The basic OAS pension is provided to all seniors aged 65 and over.<sup>71</sup> The amount is fixed and indexed annually. However, the amount of the OAS pension is reduced for high-income seniors. The second component is the Guaranteed Income Supplement (GIS), which is a benefit provided to low-income OAS recipients living in Canada. The amount of GIS is also indexed annually.

Table 2.4.1.1 presents the maximum amount of pension payments, the threshold below which pensions are reduced and the threshold below which pensions are cancelled.

<sup>70</sup> Source: Government of Canada website – Employment and Social Development Canada.

<sup>71</sup> Certain restrictions apply regarding the taxpayer’s legal status and place of residence.

**Table 2.4.1.1 – Maximum amount of Old Age Security pension**

	Maximum amount (\$)	Income <sup>1</sup> – Threshold	
		Phase-out (\$)	End of credit (\$)
<b>Old Age Security pension</b>			
Taxpayer	7,005	74,788	121,279
<b>Guaranteed income supplement</b>			
Person living alone	10,462	7,005	24,693
Couple (each member over 65)	12,596	14,010	37,386

The amounts for 2017 were used.

<sup>1</sup> The OAS pension is reduced based on the taxpayer's, not the family's, income. The GIS is reduced based on family income.

Consequently, a person living alone with no other source of income will receive an OAS pension totalling \$17,467; couples will receive \$19,601.

#### Québec Pension Plan (QPP)

The QPP complements federal old age security. It is a mandatory public insurance plan for workers 18 years of age or older. The plan provides persons who currently work or who previously worked in Québec, as well as their families, with basic financial protection upon a person's retirement or in the event of death or disability. (Source: Retraite Québec website).

The plan provides a retirement pension to Québec workers equivalent to 25% of their average insurable employment income earned during their working lives.<sup>72</sup> Insurable employment income in 2017 totals \$55,300. Consequently, a taxpayer who earned annual employment income in excess of \$55,300 during his or her working life (in 2017 dollars) should receive the maximum pension. QPP contributions are split equally between the employee and the employer.

Table 2.4.1.2 presents the maximum amount of government pensions received by the different types of families with no other income. Considering that, in order to maintain their standard of living during retirement, taxpayers will need to have income equivalent to 70% of their gross annual employment income, as suggested by the Québec Pension Board, government pension plans enable families with a low income during the members' working lives to maintain their standard of living after retiring. Other families will need to rely on their savings in addition to receiving government pensions.

<sup>72</sup> Working life used is between 18 and 65 years of age, i.e. 564 months. However, the pension amount is calculated based on average insurable employment income over a period of 479 months, i.e. just over 40 years. Working life is reduced to take into account periods of disability or maternity leave.

**Table 2.4.1.2 – Pension income of families with no other source of income**

		OAS (\$)	GIS (\$)	QPP (\$)	Total (\$)
<b>\$25,000</b>	<b>Couple – 1 income</b>	14,010	8,924	6,250	29,184
	<b>Couple – 2 incomes</b>	14,010	8,924	6,250	29,184
	<b>Adult living alone</b>	7,005	6,286	6,250	19,541
<b>\$40,000</b>	<b>Couple – 1 income</b>	14,010	6,686	10,000	30,696
	<b>Couple – 2 incomes</b>	14,010	6,686	10,000	30,696
	<b>Adult living alone</b>	7,005	3,958	10,000	20,963
<b>\$60,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	4,190	15,000	33,200
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533
<b>\$80,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	1,694	20,000	35,704
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533
<b>\$120,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	0	25,370	39,380
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533
<b>\$150,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	0	26,740	40,750
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533
<b>\$200,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	0	26,740	40,750
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533
<b>\$250,000</b>	<b>Couple – 1 income</b>	14,010	5,030	13,370	32,410
	<b>Couple – 2 incomes</b>	14,010	0	26,740	40,750
	<b>Adult living alone</b>	7,005	2,158	13,370	22,533

Amounts for 2017 were used. The assumption was as follows for QPP calculations: taxpayers were active during their total active lives as prescribed in the Act (i.e. a period of 479 months) and received, during this period, a salary in constant current dollars.

#### 2.4.1.2 Savings Incentives

Savings incentives such as RRSPs<sup>73</sup> and the TFSA<sup>74</sup> were introduced to encourage families to save for retirement. RRSPs encourage families to create their own retirement fund and earn pension income over and above income received through government pension plans. TFSAs aim to help families to set aside savings to meet their different objectives at the various stages of their lives. (Department of Finance, 2008). Due to their objective, TFSAs are more flexible than RRSPs. The main features of RRSPs and TFSAs, as well as the statistics for their use, are presented in appendices II and III.

<sup>73</sup> Other measures exist, in particular RPPs and DPSPs. Since RRSPs are a substitute for RPPs, only RRSPs have been considered.

<sup>74</sup> Other measures exist, such as the Registered Disability Savings Plan (RDSP) and the Registered Education Savings Plan (RESP), which is discussed in Section 2.3 of this document.

The tax benefit provided by an RRSP is that tax is deferred on the amount of savings (i.e., the RRSP contributions) and on the income generated until the amounts are withdrawn from the RRSP. The advantage of a TFSA is that income generated in the TFSA is tax exempt. In spite of the various tax incentives, these two plans provide equivalent results when a person's marginal tax rates at the time of saving and upon retirement are the same. However, if a person's marginal tax rate upon retirement is lower, the tax deferral provided by RRSPs generates more savings. Moreover, if the person's marginal tax rate at the time of withdrawal is higher, TFSAs provide more savings.<sup>75</sup> When analyzing the best savings vehicle to use (RRSP or TFSA), it is important to consider that the tax deferral provided by an RRSP, at the time of saving, may make it easier for an individual to access certain government benefits, such as the GST credit and the solidarity tax credit, since the RRSP contributions serve to reduce the taxpayer's income. However, the tax deferral provided by the RRSP may reduce a person's access to pension income and government benefits when amounts are withdrawn from the plan. On the other hand, any contributions made to, or amounts withdrawn from, a TFSA have no impact on accessibility of government pensions and benefits. In other words, the marginal tax rate used in the analysis must consider all government benefits, in addition to the income tax rate.

#### 2.4.1.3 Particular Rules for Families

Although insurable earnings through the QPP and RRSP and TFSA savings room apply to each individual taxpayer, and given that the unit of taxation in Canada is the individual taxpayer, the neutrality analysis for these measures for a family must consider the implications of marriage (or a civil-union relationship) as well as the particular rules put in place to allow the splitting of pension income between spouses. For married or civil-union spouses, the family patrimony in Québec and the matrimonial regime (i.e. the partnership of acquests, separation as to property and community of property)<sup>76</sup> will require that the value of certain savings vehicles be shared equally in the event of the breakdown of the relationship, as shown in table 2.4.1.3. This table shows that all married or civil-union couples will be required to divide insurable earnings for QPP purposes and the value of their RRSPs equally when they decide to separate. On the other hand, the funds in a TFSA must only be shared if the matrimonial regime is the partnership of acquests or the community of property. Common-law couples are not subject to the family patrimony and have no matrimonial regime. Consequently, they are not required to split the value of savings vehicles when they decide to separate, unless they have agreed to split the amounts.

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<sup>75</sup> In the case of a \$2,000 RRSP contribution, a 4% rate of return, withdrawal in 10 years and a 40% marginal tax rate, the amount in the RRSP upon the withdrawal will total \$2,960, or \$1,776 after taxes if the marginal rate at the time of withdrawal is still 40%. On the other hand, since the TFSA does not allow for tax to be deferred in the year in which the deposit is made, the amount invested in the TFSA will total \$1,200 (\$2,000, after taxes at the rate of 40%). At the time of withdrawal, an amount of \$1,776 will be in the TFSA. This amount is tax free. If, at the time of withdrawal, the marginal tax rate was 30%, the RRSP would provide an after-tax amount of \$2,072 compared to \$1,776 for the TFSA. However, if a 50% marginal tax rate applied at the time of withdrawal, the RRSP would provide an after-tax amount of \$1,480 compared to \$1,776 for the TFSA.

<sup>76</sup> The partnership of acquests applies automatically to all marriages in Quebec since July 1, 1970. Prior to that date, the matrimonial regime of community of property applied.

**Table 2.4.1.3 – Apportionment at time of separation**

	Marriage or civil union				Common law
	Family patrimony	Partnership of acquests	Separation as to property	Community of property	
<b>QPP</b>	Yes	Yes	No*	Yes	No
<b>RRSP</b>	Yes	Yes	No*	Yes	No
<b>TFSA</b>	No	Yes	No	Yes	No

\* However, since the family patrimony takes precedence, this property will have to be divided.

Finally, although the tax rules generally do not allow for income splitting between spouses, certain specific tax measures allow for a certain splitting of savings or pension income. First of all, when setting aside money for savings, it is possible for a taxpayer to contribute to his or her spouse's RRSP or TFSA,<sup>77</sup> thereby splitting the savings between the spouses.<sup>78</sup> Secondly, upon retirement it is possible to split certain earned income between the two spouses. The Québec Pension Plan allows spouses to split pension income.<sup>79</sup> The ITA allows a taxpayer to attribute up to 50% of pension income to his or her spouse.<sup>80</sup>

#### 2.4.2 Neutrality Analysis

The decision to save, particularly for retirement, and the choice of vehicle (TFSA or RRSP) can be influenced by a number of factors. First of all, a family may be limited in its decision as to whether to save for retirement due to financial considerations. Secondly, this decision may also be influenced by financial needs during retirement, which are not covered by government programs. The choice of vehicle used to accumulate retirement savings may be impacted by the variance between a taxpayer's marginal tax rate when the money was set aside as savings and the marginal tax rate that would apply when the taxpayer retires, in addition to the likelihood of amounts being withdrawn prior to the taxpayer's retirement.

The sources of income required for the different types of families upon retirement have been analyzed for the purposes of the neutrality analysis. It was assumed that, in order to maintain its standard of living during retirement, the family will need taxable income equivalent to 70% of its gross employment income. Table 2.4.2.1 presents the sources of retirement income required by each type of family in order to achieve this objective, the disposable after-tax amount and economic well-being measured based on adjusted income and the amount exceeding the low income cut-offs.

<sup>77</sup> Subsection 146.2(2) ITA does not allow a taxpayer to contribute directly to a spouse's TFSA. However, under paragraph 74.5(12)(c), it is possible for a taxpayer to give an amount to his or her spouse so that the spouse can contribute to his or her TFSA without triggering the attribution rules.

<sup>78</sup> A taxpayer may contribute to the RRSP of his or her own spouse using his or her own contribution room. This contribution is deducted from the contributor's income. On the other hand, if the subsequent withdrawals are made within the prescribed deadlines, they will be taxed on the hands of the beneficiary. Unlike RRSPs, contributions made to a spouse's TFSA will be made using the account holder's contribution room, rather than the contribution room of the contributing spouse.

<sup>79</sup> The pension is split based on the time that the people live together. The rate could therefore be less than 50%.

<sup>80</sup> Eligible pension income does not include government pensions and varies based on the age of the spouse making the transfer.

**Table 2.4.2.1 – Pension income**

		Taxable income	GIS	OAS	QPP	Savings	Disposable income	Adjusted income	Amount exceeding LICO
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>\$25,000</b>	Couple – 1 income	20,000	9,118	13,758	6,250		30,472	21,766	5,308
	Couple – 2 incomes	20,000	9,118	13,758	6,250		30,472	21,766	5,308
	Adult living alone	17,500	3,357	6,879	6,250	4,371	22,249	22,249	1,573
<b>\$40,000</b>	Couple – 1 income	28,000	4,698	13,758	10,000	4,242	33,713	24,081	8,549
	Couple – 2 incomes	28,000	4,698	13,758	10,000	4,242	33,713	24,081	8,549
	Adult living alone	28,000		6,879	10,000	11,121	26,711	26,711	6,035
<b>\$60,000</b>	Couple – 1 income	42,000		13,758	13,110	15,132	41,005	29,289	15,841
	Couple – 2 incomes	42,000		13,758	15,000	13,242	41,005	29,289	15,841
	Adult living alone	42,000		6,879	13,110	22,011	35,506	35,506	14,830
<b>\$80,000</b>	Couple – 1 income	56,000		13,758	13,110	29,132	49,412	35,294	24,248
	Couple – 2 incomes	56,000		13,758	20,000	22,242	49,412	35,294	24,248
	Adult living alone	56,000		6,879	13,110	36,011	43,168	43,168	22,492
<b>\$120,000</b>	Couple – 1 income	84,000		13,758	13,110	57,132	68,193	48,709	43,029
	Couple – 2 incomes	84,000		13,758	25,110	45,132	68,193	48,709	43,029
	Adult living alone	84,000		5,061	13,110	65,829	59,545	59,545	38,869
<b>\$150,000</b>	Couple – 1 income	105,000		13,758	13,110	78,132	80,988	57,849	55,824
	Couple – 2 incomes	105,000		13,758	26,220	65,022	80,988	57,849	55,824
	Adult living alone	105,000		1,311	13,110	90,579	71,121	71,121	50,445
<b>\$200,000</b>	Couple – 1 income	140,000		13,758	13,110	113,132	102,083	72,916	76,919
	Couple – 2 incomes	140,000		13,758	26,220	100,022	102,083	72,916	76,919
	Adult living alone	140,000			13,110	126,890	89,308	89,308	68,632
<b>\$250,000</b>	Couple – 1 income	175,000		8,922	13,110	152,968	122,721	87,658	97,557
	Couple – 2 incomes	175,000		8,922	26,220	139,858	122,721	87,658	97,557
	Adult living alone	175,000			13,110	161,890	105,556	105,556	84,880

Based on the rules in effect in 2016.

Taxable income during retirement is equivalent to 70% of the annual family income during the members' active lives. It includes the various sources of income (OAS, QPP and income from savings), but excludes GIS. Disposable income is equivalent to income after taxes and government benefits upon the family members' retirement. Adjusted income is equivalent to disposable income adjusted to family size. The amount exceeding LICO is equivalent to the disposable amount after taking the family's low income cut-off into account.

The level of savings required annually during a person's working life to achieve this objective, and the cost of these savings for the family, were also assessed. Table 2.4.2.2 presents the amount that each family needs to save annually and the cost of savings while prioritizing the best vehicle depending on the situation (i.e. an RRSP or a TFSA).

**Tableau 2.4.2.2 – Retirement savings**

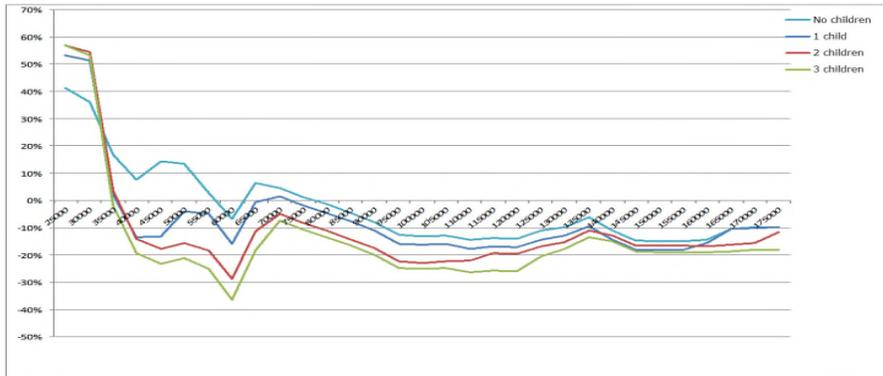
	Contribution room	Contribution room		Annual savings required			No child				1 child				2 children				3 children			
		RRSP (\$)	TFSA (\$)	If via RRSP (\$)	If in TFSA (\$)	Outside plan (\$)	Priority	Amount exceeding LICO			Priority	Cost of savings (\$)	Amount exceeding LICO		Priority	Cost of savings (\$)	Amount exceeding LICO		Priority	Cost of savings (\$)	Amount exceeding LICO	
								Before savings (\$)	After savings (\$)	Before savings (\$)			After savings (\$)	Before savings (\$)			After savings (\$)	Before savings (\$)			After savings (\$)	
\$25,000	Couple – 1 income	4,500	11,000						1,626	1,626			4,260	4,260			3,368	3,368			4,823	4,823
	Couple – 2 incomes	4,500	11,000						1,850	1,850			4,484	4,484			3,616	3,616			5,096	5,096
	Adult living alone	4,500	5,500	1,835	824		T	824	840	16	T	824	8,332	7,508	T	824	9,038	8,214	T	824	8,146	7,322
\$40,000	Couple – 1 income	7,200	11,000	1,781	800		T	800	9,007	8,207	R	561	11,398	10,836	R	551	10,181	9,630	R	453	11,098	10,645
	Couple – 2 incomes	7,200	11,000	1,781	800		T	800	9,689	8,889	R	672	12,187	11,516	R	593	10,972	10,379	R	495	11,890	11,394
	Adult living alone	7,200	5,500	4,668	3,290		R	2,787	9,949	7,162	R	2,225	14,959	12,734	R	1,657	15,004	13,347	R	1,400	13,561	12,161
\$60,000	Couple – 1 income	10,800	11,000	6,352	4,392		R	3,966	19,549	15,583	R	3,370	18,647	15,277	R	2,553	15,539	12,986	R	2,068	15,086	13,018
	Couple – 2 incomes	10,800	11,000	5,559	3,843		T	3,843	21,105	17,262	R	3,178	20,165	16,987	R	2,712	17,120	14,408	R	2,325	16,686	14,361
	Adult living alone	10,800	5,500	9,240	5,137		T	5,137	20,940	15,803	R	4,805	23,482	18,677	R	4,206	21,961	17,755	R	3,348	19,165	15,817
\$80,000	Couple – 1 income	14,400	11,000	12,229	7,863		R	7,690	32,071	24,381	R	7,298	29,534	22,236	R	6,504	25,739	19,235	R	6,222	24,647	18,424
	Couple – 2 incomes	14,400	11,000	9,337	6,004		T	6,052	33,773	27,721	R	5,620	31,249	25,629	R	5,386	27,466	22,080	R	5,172	26,386	21,215
	Adult living alone	14,400	5,500	15,117	8,768		T	9,043	33,462	24,419	T	8,646	34,369	25,723	R	8,039	32,160	24,121	R	7,691	28,733	21,041
\$120,000	Couple – 1 income	21,600	11,000	23,983	15,973		R	12,936	54,233	41,297	R	12,244	49,924	37,680	R	11,704	44,541	32,836	R	10,344	42,013	31,669
	Couple – 2 incomes	21,600	11,000	18,946	12,618		R	12,611	58,431	45,820	R	11,532	54,135	42,603	R	11,532	48,764	37,232	R	10,338	46,248	35,910
	Adult living alone	21,600	5,500	27,634	14,135		R	14,435	55,624	41,189	R	13,743	54,771	41,027	R	13,203	50,986	37,783	R	11,843	46,099	34,256
\$150,000	Couple – 1 income	25,370	11,000	32,799	20,007		R	16,211	69,164	52,952	R	15,394	63,895	48,501	R	15,780	57,761	41,981	R	15,197	54,495	39,299
	Couple – 2 incomes	27,000	11,000	27,295	16,636		R	16,617	76,715	60,098	R	15,078	71,446	56,368	R	15,078	65,312	50,234	R	14,457	62,046	47,589
	Adult living alone	25,370	5,500	38,023	16,882	30,500	R	16,568	70,554	53,986	R	16,568	68,742	52,173	R	15,938	64,207	48,269	R	15,357	58,593	43,237
\$200,000	Couple – 1 income	25,370	11,000	47,491	28,495	46,867	R	30,067	93,772	63,705	R	30,067	88,274	58,207	R	30,067	81,140	51,073	R	30,067	76,354	46,287
	Couple – 2 incomes	36,000	11,000	41,988	25,193	39,753	R	22,759	105,273	82,514	R	22,759	99,775	77,015	R	22,759	92,641	69,882	R	22,759	87,855	65,096
	Adult living alone	25,370	5,500	53,266	24,521	42,815	R	30,101	95,163	65,062	R	30,101	93,120	63,019	R	30,101	87,586	57,484	R	30,101	80,452	50,351
\$250,000	Couple – 1 income	25,370	11,000	64,213	31,529	54,265	R	40,641	117,119	76,478	R	40,641	111,621	70,980	R	40,641	104,487	63,846	R	40,641	99,701	59,060
	Couple – 2 incomes	43,370	11,000	58,710	28,827	48,170	R	30,729	131,783	101,054	R	30,729	126,285	95,555	R	30,729	119,151	88,421	R	30,729	114,365	83,635
	Adult living alone	25,370	5,500	67,959	33,979	58,350	R	44,404	118,510	74,106	R	44,404	116,467	72,064	R	44,404	110,933	66,529	R	44,404	103,799	59,395

Contribution room includes RRSP and TFSA contribution room acquired during the year under the ITA. Annual required savings refer to the amount of savings required for the family to achieve its pension income objective if it was doing so totally by way of an RRSP or a TFSA. These amounts were calculated taking into account the family's marginal tax rate, 2% inflation, a 3.5% rate of return, a life expectancy of 90 years of age, and annual systemic savings over 35 years. The inflation rates and rates of return used are those proposed by the Institut québécois de planification financière (IQPF) in 2014. The 3.5% rate of return is the rate after commissions for a balanced portfolio. The priority refers to whether the family should opt for an RRSP or a TFSA to accumulate savings. It was determined by comparing the family's marginal rate over the members' active lives and during retirement. The cost of savings refers to the family's decrease in cash after saving for retirement.

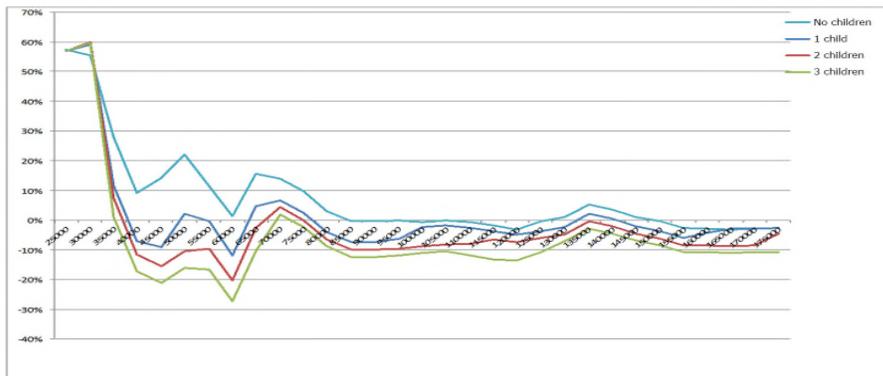
The best retirement savings vehicle was determined based on the variance between the marginal tax rate when the family is retired and the marginal tax rate during the family members' active working lives. RRSPs should be the preferred vehicle in cases where the tax rate applying when the family is retired is lower than when the family members are working (negative variance). TFSA's should be the preferred vehicle in the opposite case (positive variance). Figure 2.4.2.1 presents the variance between the tax rate during retirement and the tax rate when the family members are part of the workforce.

**Figure 2.4.2.1 – Variance between marginal tax rate upon retirement and during the family's active life, based on income during active life**

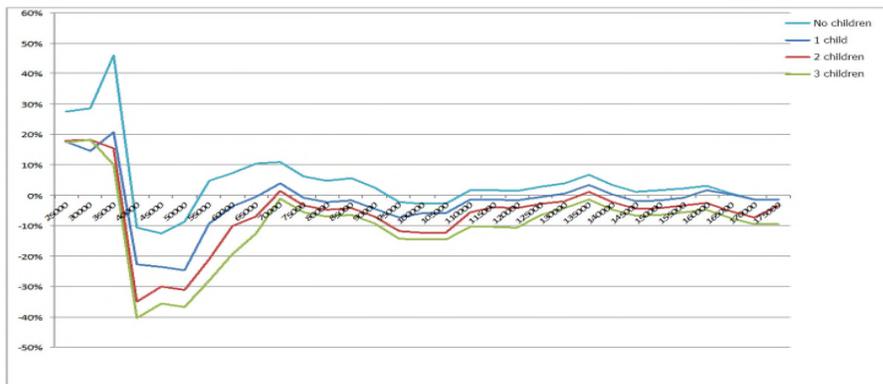
Couple – one income



Couple – two incomes



Lone-parent family



Basic data taken from Claude Laferrière's 2016 curves (CFQQ, 2017), after making several adaptations to reflect certain tax changes. Estimated taxable income upon retirement is equivalent to 70% of income during the family's active working life.

### 2.4.2.1 Based on the Family's Social Profile

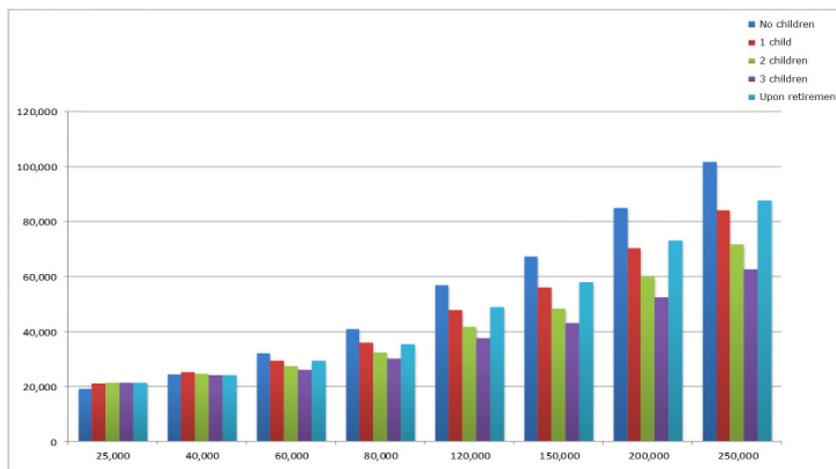
#### Based on family size

Figure 2.4.2.2 presents the adjusted after-tax disposable income of families when they are part of the workforce and when they retire. As a general rule, families would maintain or even improve their level of well-being upon retirement, regardless of family size. However, couples without children and persons living alone would see their economic well-being decrease upon retirement.

The level of savings required to maintain retirement income equivalent to 70% of active income is in no way influenced by family size. Consequently, regardless of family size, the amount of annual savings should be the same. However, as noted previously, most families part of the workforce will see their discretionary cash<sup>81</sup> decrease as the family grows. This means that larger families need to save more for retirement. However, some of this pressure is reduced when these families invest in an RRSP since they generally have a higher marginal tax rate, as mentioned previously. For example, table 2.4.2.2 presents the case of a couple with two working spouses and income of \$60,000. This couple should save \$5,559 annually through an RRSP or \$3,843 through a TFSA. If the family opts for a TFSA, the impact on cash will be a reduction in savings (\$3,843). On the other hand, if the family opts for an RRSP, the impact on the family's cash will be a decrease of \$3,178 for a couple with one child and a reduction of \$2,325 for a couple with three children. Families with more children should opt for RRSPs over TFSAs, even if this means losing flexibility regarding their savings.

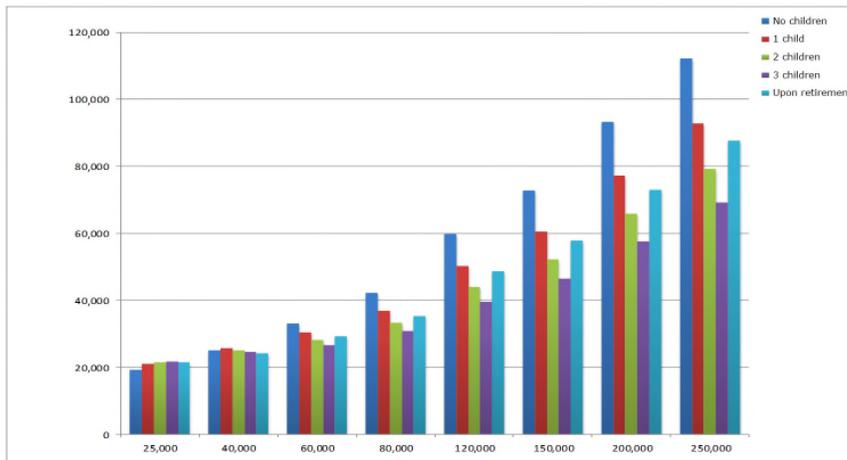
**Figure 2.4.2.2 – After-tax disposable income – adjusted to family size**

Couple – one income

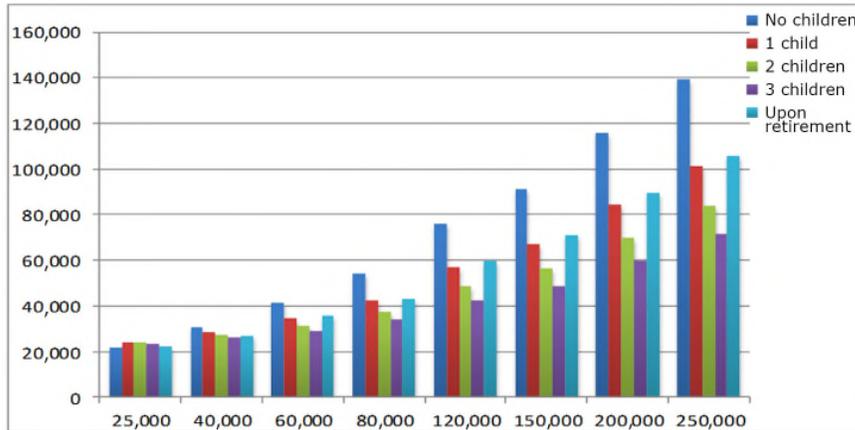


<sup>81</sup> Measured as the amount by which disposable after-tax amounts exceed LICO.

## Couple – two incomes



## Lone-parent family



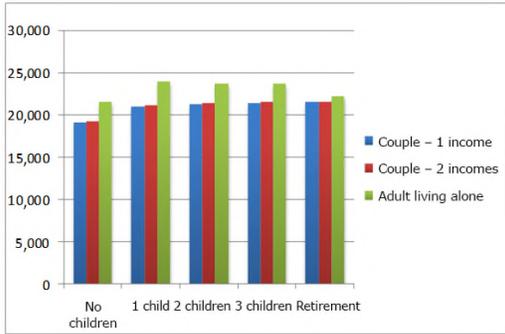
These graphs present the after-tax disposable income, adjusted to family size during the family's active working life and during retirement. When the family is retired, it has no children and earned income is equivalent to 70% of annual gross employment income.

## Two-parent versus lone-parent families

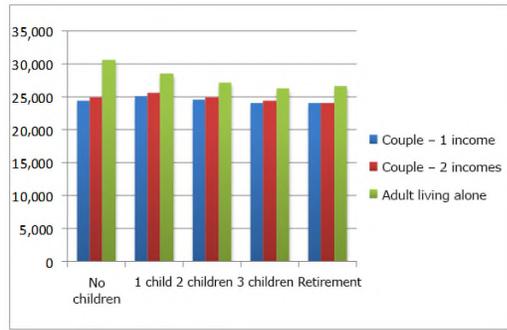
Earlier in this study, it was mentioned that the tax system considered the additional costs assumed by people living alone and that, with equal income, the economic well-being of lone-parent families was comparable to or better than the economic well-being of the couple while the members were part of the workforce. Figure 2.4.2.3 shows that this situation would persist when the people retire since, with equal income while the people were part of the workforce, the economic well-being during retirement of an adult living alone would be slightly better than that for a couple with the same level of income. However, table 2.4.2.1 shows that an adult living alone will need to save more than a couple to have a pension income equivalent to 70% of gross annual income. This is mainly attributable to the fact that the OAS does not take a taxpayer's marital status into account. This puts more pressure on lone-parent families to save for retirement.

**Figure 2.4.2.3 – Adjusted disposable income – Lone-parent family vs. couple**

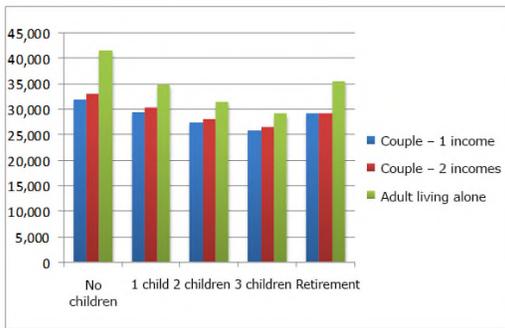
Family income – \$25,000



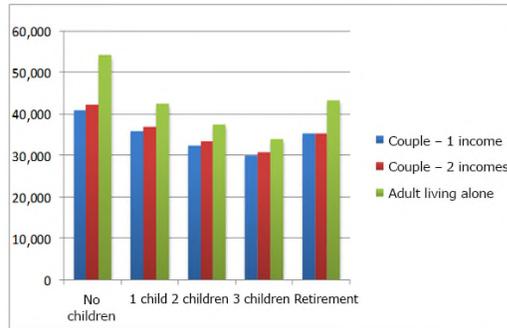
Family income – \$40,000



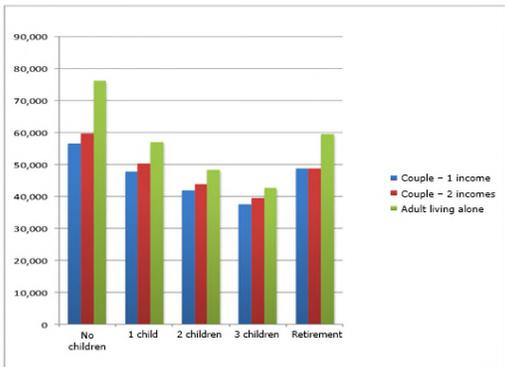
Family income – \$60,000



Family income – \$80,000



Family income – \$120,000



These graphs present after-tax disposable income adjusted according to family size during the family’s active period and during retirement.

Upon retirement, a family does not include any children and earned income is equivalent to 70% of annual gross employment income.

### Traditional family versus stepfamilies

At first glance, there is no difference in tax treatment for traditional families versus stepfamilies. However, stepfamilies may face more pressure to save than a traditional couple. The new couple's retirement savings could be less since income splitting rules applied when the previous couples separated.

#### 2.4.2.2 Based on the Family's Legal Status

If only the tax measures are taken into consideration, the tax system is neutral with regard to the savings and retirement measures put in place since common-law spouses are recognized in the same way as married and civil-union couples. However, given that married and civil-union couples are required to split the value of certain savings vehicles equally when they decide to separate, some couples that may want to avoid sharing certain savings vehicles in the event of separation may decide to change their savings behaviour.<sup>82</sup>

Married or civil-union couples who opted for the matrimonial regime of separation of property could turn away from RRSPs to avoid splitting savings equally in the event of separation. These families could opt more for TFSAs as a retirement savings vehicle, even though an RRSP is the best savings vehicle for them.

Moreover, a taxpayer can contribute to the RRSP or the TFSA of his or her spouse. This provides tax savings for a couple, particularly where the two spouses have different levels of income or cash.<sup>83</sup> However, these spousal RRSP and TFSA contributions consist in an actual transfer made to the spouse, such that the contributor loses "ownership" of the contribution made and the income generated thereon. Since RRSPs must only be divided in the event of separation in the case of married or civil-union couples, the spousal RRSP contribution should be used more by married or civil-union couples than by common-law spouses, who are not required to divide these amounts.<sup>84</sup> On the other hand, given that TFSAs must be divided only for couples married under the regime of partnership of acquests or the community of property, spousal contributions to a TFSA should be used more by these couples, than by common-law spouses or couples married under the regime of separation as to property.

#### 2.4.2.3 Based on the Family's Economic Class

##### Single-income versus two-income couples

The splitting of pension income between retired individuals, the splitting of QPP payments between spouses and the possibility for an individual to contribute to the RRSP or TFSA of his or her spouse are all mechanisms put in place that generally make it possible for spouses with similar levels of income to have comparable after-tax disposable income during retirement, regardless whether one or both spouses were part of the workforce. This is presented in table 2.4.2.1. However, the fact of having only one working spouse as compared to two working spouses will have an impact on the family's ability to save during its active years, on the level

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<sup>82</sup> Pensionable earnings (for QPP purposes) are also included in the family patrimony and are divided if a couple decides to separate. This should not influence a taxpayer's behaviour in choosing retirement savings vehicles. However, the division of pensionable earnings, which increases the pension of one spouse while reducing the pension of the other spouse, can also reduce the total amount of pension paid in some situations.

<sup>83</sup> Spousal RRSPs make it possible for families where one spouse has a high income, with the other spouse having a low or no income, to split the retirement income between the spouses while benefiting from greater tax savings when the contribution is made. Contributing to a spouse's TFSA makes it possible for a couple to maximize the amount of contributions made to the TFSA, even when one of the spouses does not have enough cash to do so, and therefore to make the most of the tax exemption for the income generated.

<sup>84</sup> However, this distortion is less significant given that individuals over 65 years of age are able to split their pension income with their spouse.

of savings required to maintain the same standard of living, and on the choice of savings vehicle that will provide the most tax benefits, as presented in tables 2.4.2.1 and 2.4.2.2.

First of all, families with two working spouses have higher after-tax disposable income during their working lives than families with only one working spouse. In addition, where one of the spouses has sufficient income to maximize his or her RRSP contribution, families with two working spouses will have more RRSP contribution room, making it more possible for them to save using accounts that provide tax benefits. Consequently, with equal levels of income, families with two working spouses would find it easier to save for retirement. This is even true for high-income families.

Secondly, many families with two working spouses need to save less for retirement. This is because both spouses are contributing to the Québec pension plan and is the case when the couple's income exceeds the maximum insurable amount. Consequently, these families need to save less during their active working years than families with one working spouse, even if the families with two working spouses have more cash. In other words, families with only one working spouse face more pressure to save in order to maintain their standard of living when they retire.

However, since families with only one working spouse have a higher marginal tax rate, their cost of making an RRSP contribution is lower. Consequently, it would be better for these families to use RRSPs as a savings vehicle to reduce the impact that saving will have on their cash.

#### Based on level of income

First of all, as presented in table 2.4.2.2, the amount that a family needs to save to maintain its standard of living during retirement increases based on family income, which relates directly to the family's ability to save during the spouses' active working lives.

Taking only the tax considerations into account, choosing between an RRSP or a TFSA as the preferred savings vehicle should be based on the difference between the taxpayers' marginal tax rate during their active working lives and during retirement. Graph 2.4.2.1, which presents the difference between the tax rates during the taxpayers' working lives and during retirement, suggests that RRSPs do not benefit families with income of less than \$40,000. In the case of families with children, RRSPs would provide the most benefits when a family's income is between \$40,000 and \$75,000, depending on the type of family.<sup>85</sup>

Finally, when RRSP contribution room is compared to amounts that families are required to save, it becomes clear that contribution room would exceed the amount that most families would need to save. This suggests that an amount of savings equivalent to 18% of annual income is more than enough for these families.<sup>86</sup> However, the vested rights are insufficient for higher-income families. This may be the case for families with one member having income in excess of \$141,000, since an RRSP contribution cap has been introduced (\$25,370 in

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<sup>85</sup> This situation is not consistent with what is often presented in publications or in the media. For example, Messacar (2017) states that indique "(a)mong low-income individuals, RRSPs offer a weak incentive to save given that contributors' marginal tax rates are already low. In addition, RRSP distributions in retirement crowd out public pension benefit entitlements—specifically, the Guaranteed Income Supplement (GIS)—whereas the same is not true of TFSA distributions." Although this is accurate, when government benefits during the period of active employment are taken into account, the marginal rate for low-income individuals is very high.

<sup>86</sup> For example, families with an income of \$25,000 would accumulate annual RRSP contribution room of \$4,500 but would not be required to save for retirement. Families with an income of \$60,000 would accumulate \$10,800 in RRSP contribution room annually, although couples with two working spouses would be required to save \$5,559.

2007). The vested rights for lone-parent families with income of \$80,000 and \$120,000 and families with only one working spouse, but income of \$120,000, are also insufficient. This shows that these families have a higher cost of saving.

### 2.4.3 Summary

To summarize, although Canada's tax system includes mechanisms designed to help families to maintain their standard of living during retirement, some families face different pressures.

First of all, the choice of retirement savings vehicle could differ depending on the family. RRSPs, in particular, should be the preferred vehicle for most families with children, since they reduce the cost of saving. This is especially the case for families with income between \$40,000 and \$75,000. However, this situation cuts both ways, since these families could opt for TFSAs instead, which provide more flexibility to deal with the unexpected. Moreover, due to their legal status, married or civil-union spouses may choose TFSAs over RRSPs, thereby increasing their cost of saving for retirement.

Secondly, larger families, lone-parent families and families with only one working spouse face more pressure to save during the members' active working lives. Yet, it is these same families that have less of an ability to save.

However, the tax measures appear to be fairly neutral once families are retired.

	Are the tax rules neutral irrespective of...		
	The family's social profile?	The couple's legal status?	The family's economic class?
When saving for retirement	No	No	No
During retirement	Yes	Yes	Yes

## 2.5 Other Savings

This study reviews tax measures that allow families to save other than via the various registered plans (i.e. RRSPs, TFSAs and RESPs) in order to determine whether they are favourable for all families or whether some families are favoured over others (and, if so, which ones).

### 2.5.1 Description

#### 2.5.1.1 Taxation of the Various Types of Investments

Families can use different types of investment vehicles. Table 2.5.1.1 shows that each type of investment will generate different types of income during the time that it is held. Most investments could generate a capital gain or loss upon their disposal.

**Table 2.5.1.1 – Income generated according to type of investment**

Type of investment	Income generated
Guaranteed investments	Interest
Bonds	Interest Capital gain (loss) upon disposition
Public company shares	Dividends as per company's dividend payment policy Capital gain (loss) upon disposition
Real estate assets	Rental income Capital gain upon disposition

Each type of investment income has a different tax treatment. Interest income, which is usually generated by less risky investments, is added to the individual's income and taxed at the person's marginal rate.

Like interest income, rental income is added to the individual's income and taxed at the person's marginal rate. However, over the years the individual may deduct the cost of rental property acquired from his or her rental income through amortization expenses. When the property is sold, the cost of the property deducted may have to be included as rental income in the person's income. In other words, the amortization expense makes it possible to defer income tax. This treatment is similar to the treatment of RRSP contributions and generally provides benefits when the individual has a high marginal tax rate.

Dividend income is subject to different tax rules under the principle of integration in Canada's tax system.<sup>87</sup> Public corporations generally pay eligible dividends. The individual will be required to add the grossed-up dividend amount to his or her income. This grossed-up amount will then be taxed at the person's marginal rate. The individual will then be eligible to claim a tax credit on the grossed-up amount.<sup>88</sup> Due to the gross-up and the tax credit, the dividend is taxed at a lower rate than the rate applicable to interest income.

Finally, capital gains benefit from a favourable tax treatment since only 50% of the capital gain is included in the taxpayer's income. Other tax benefits also exist for certain types of capital gains, in particular the capital gains exemption on a principal residence, which is discussed in the housing section of this study, and the capital gains deduction following the disposal of small business corporation shares or farm property, discussed in the section on family-owned businesses.

Table 2.5.1.2 presents the highest marginal tax rates that apply to the various types of income from savings that may be earned by an individual in Québec.

<sup>87</sup> Although the question could be asked whether it is appropriate to apply the principle of integration to dividends received from public corporations, this matter is not addressed in the current study.

<sup>88</sup> The gross-up rate for eligible dividends is 38%; the tax credit rate is 15.02% of the grossed-up amount for federal purposes and 11.9% of the grossed-up amount for provincial purposes.

**Table 2.5.1.2 – Marginal tax rates of income from savings**

Income from savings	Highest marginal tax rate
Interest	53.31%
Rental income	53.31%
Eligible dividends	39.83% <sup>89</sup>
Capital gains	26.66%

Finally, since all amounts invested in the various deferred income plans receive the same treatment regardless of the type of income being generated, when investing in deferred income plans and outside of such plans a family should prioritize investments that provide tax benefits outside of these plans. To illustrate this, table 2.5.1.3 presents the after-tax disposable amount after 1 year, 3 years, 5 years and 10 years, if the taxpayer invests \$1,000, before tax, in an RRSP, and an equivalent amount after tax when investing in a TFSA or outside deferred income plans. The table presents two types of investment: the first generates 5% annual interest<sup>90</sup> while the second generates 5% annual gain. The table suggests that investing in an RRSP or a TFSA makes it possible to earn a higher after-tax amount. However, it also shows that an RRSP or a TFSA has fewer advantages when the investments generate gains rather than interest income.

**Table 2.5.1.3 – Disposable after-tax amount**

Investments generating 5% annual interest				
	1	3	5	10
Savings outside plan	\$618	\$656	\$969	\$806
TFSA	\$630	\$695	\$766	\$977
RRSP	\$630	\$695	\$766	\$977
Investments generating a 5% annual gain				
	1	3	5	10
Savings outside plan	\$624	\$676	\$733	\$902
TFSA	\$630	\$695	\$766	\$977
RRSP	\$630	\$695	\$766	\$977

Amount of \$1,000 invested before taxes. The taxpayer is taxed at the rate of 40% at the time of the investment and when the amount is withdrawn.

### 2.5.1.2 Consideration of the Family Unit

The tax authorities consider the presence of a family unit when property is transferred among family members as well as the income generated by the property and the amounts of cash transferred.

As a general rule, any transfer of property by way of sale or donation results in the disposal of the property at FMV, with the appropriate tax consequences (i.e. capital gain/loss and recapture/terminal loss). However, the tax authorities consider that a transfer is without tax consequences (tax roll-over)<sup>91</sup> if it is made to a spouse, to a former spouse in settlement of rights arising out of the union or to a trust set up for the spouse. The tax consequences will occur when the property is transferred to a third party. However, the spouses may decide to trigger the tax consequences at the time of transfer, thereby recognizing the capital gain and

<sup>89</sup> The rate is 39.89% for eligible dividends received after March 27, 2018.

<sup>90</sup> For savings outside of a plan, the interest after-tax is reinvested in a similar manner.

<sup>91</sup> Subsection 73(1.01) ITA.

the recaptured capital cost allowance. However, the recognition of the capital losses and terminal losses will mandatorily be deferred when the property is transferred to a third party.<sup>92</sup>

To prevent income splitting between family members, income attribution rules apply to income generated by property or by money transferred to a family member. These rules result in taxing the income generated in the hands of the transferor rather than on the hands of the recipient. Among other things, the income attribution rules apply in the case of property transferred to a spouse, to a related person under 18 years of age or to a nephew or niece. Where property or money transferred to a spouse are concerned, the rules apply to all income, except for business income. The rules apply until a couple decides to separate. This is the case for all income, except for capital gains for married couples. In this case, the income attribution rule for capital gains will cease to apply when the couple decides to separate if both spouses elect to do so. Otherwise, the rule will cease to apply when the couple is divorced. Where property or cash transferred to a person under 18 years of age are concerned, the rules will apply to all income generated, except for business income and capital gains. The rules will cease to apply in the year during which the child reaches 18 years of age.

It is possible to avoid the income attribution rules. To do so, the conditions for the transfer must resemble those that would have applied with a third party. The legislation assumes that the conditions are similar if the property was sold at fair market value, that the transferor was taxed at the time of sale and that a reasonable rate of interest applies in the event of a balance of sale.<sup>93,94</sup>

## 2.5.2 Neutrality Analysis<sup>95</sup>

### 2.5.2.1 Based on the Family's Social Profile

#### Based on family size

As discussed previously, larger families generally have less discretionary cash. Moreover, larger families need to save as much as, or even more than, smaller families. Finally, larger families have the highest marginal tax rate. They will therefore have to choose between different types of savings that are either within or outside deferred income plans. It will generally be more advantageous for these families to choose to invest in an RRSP or an RESP even if it means losing flexibility in how they use their savings. In addition, by investing in RRSPs or RESPs more often, large families will have less access to tax benefits provided by certain savings outside of registered plans.

#### Lone-parent versus two-parent families

The impacts of the various tax rules with regard to savings outside of deferred income plans are similar for lone-parent and two-parent families.

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<sup>92</sup> Using the rules that apply to property transferred among affiliated persons, i.e. the superficial loss (Section 54 ITA) and losses on certain transfers (Subsection 13(21.2) ITA).

<sup>93</sup> Subsection 74.5(1) ITA.

<sup>94</sup> Subsection 74.5(1) ITA designates the prescribed rate that was in effect at the time the indebtedness was incurred as a reasonable rate. Since January 2014, the prescribed rate is 1%. This means that many taxpayers were able to structure transfers during this period to substantially mitigate the impact of the income attribution rules for the current and future years.

<sup>95</sup> In this section, we have disregarded the fact that the child enrolled in studies may meet some needs by having an income. Unless otherwise indicated, this will not impact our conclusions.

### Traditional family versus stepfamilies

By recognizing stepfamilies as a family unit, like traditional families, the tax rules applying to savings outside of deferred income plans do not appear to be more favourable to any given type of family.

#### 2.5.2.2 Based on the Legal Status of the Family

By recognizing common-law spouses, the tax rules are generally neutral based on a family's legal status. However, the legal status of the family results in a difference in treatment under the income attribution rules when the couple decides to separate. This difference generally results from the fact the spousal status continues until the time of divorce for married or civil-union couples. On the other hand, in the case of common-law couples the spousal status ends when the couple decides to separate.

#### 2.5.2.3 Based on the Family's Economic Class

##### Single-income versus two-income couples

The savings ability of families where only one spouse is earning an income is probably based on that spouse's income. Consequently, due to graduated tax brackets and the rules for attributing income between spouses, with equal income, the cost of saving for couples with only one income earner will be higher than the cost for a family with two income-earning spouses.

##### Based on level of income

In deciding how to save money, families may opt to use—or not to use--deferred income plans, such as RRSPs, TFSAs and RESPs. This decision may depend on a number of factors, one of which being whether any of the maximum limits allowed for the various plans is being exceeded. It could be thought that higher-income families will reach these limits, since these families have higher discretionary cash and have their RRSP contributions limited to an amount equivalent to less than 18% of their income. Consequently, these families will probably benefit more from the favourable tax treatments for certain investments held outside of deferred income plans.

#### 2.5.3 Summary

To summarize, the tax rules do not seem to respect the principle of neutrality with regard to the various types of families where savings held outside of deferred income plans are concerned. First of all, smaller and higher-income families would be most likely to avail themselves of the tax benefits provided by certain investments held outside of a deferred income plan. Secondly, although the tax system recognizes common-law spouses, the couple's legal status will result in a different application of certain tax rules in the event that the couple decides to separate.

	Are the tax rules neutral irrespective of...		
	The family's social profile?	The couple's legal status?	The family's economic class?
Other savings	No	No	No

## 2.6 Death

While the amount of tax payable on death is not substantial in Canada, in proportion to total government revenues, and considering that this tax only applies once in a taxpayer's lifetime, it may have an impact on a family's economic well-being at a critical time.

### 2.6.1 Description

Due to the very nature of income tax, any increase in the value of a property is exempt from tax during the lifetime of a taxpayer and his or her spouse where property is inherited. For the tax authorities, death provides one last opportunity to tax the increase in value of a property held by a taxpayer prior to his or her death. Retirement savings plans (RRSPs and RRIFs) are taxed on their market value immediately prior to the person's death.

Technically speaking, death triggers the deemed disposition of all property.<sup>96</sup> Any capital gain resulting from the disposal is taxed at 50% and included in the person's final tax return. Income tax is calculated at the current rate applicable to individuals. The rights and things of the deceased are part of the estate and must also be taxed. They can be dealt with in a separate tax return, which could provide a tax benefit since income is taxed according to graduated rates. Dividends that have been declared, but not yet paid, premiums or other compensation relating to the deceased person's employment (declared) prior to his or her death, but not yet paid, are examples of rights or things.

Property transferred to a common-law spouse, a spouse or a trust set up for these individuals does not trigger taxation upon a person's death (referred to as a "spousal rollover"). The income tax is deferred until such time that the spouse disposes of the property or dies. Moreover, the total amount held in a TFSA may be added to the surviving spouse's TFSA, regardless of the person's contribution limit. No income tax is payable until the asset is sold by the surviving spouse or trust (or upon the death of the surviving spouse). The Carter Report suggested that the family unit be the unit of taxation and Canada recognizes these taxation principles, to a certain degree, by considering the couple as a unit of taxation upon death.

The tax laws are less favourable when property is bequeathed to the children of the deceased. Everything is taxable with the exception, to some extent, of farming or fishing property, RRSPs and RRIFs, which can be transferred tax free to a financially dependent child or grandchild less than 18 years of age or with a physical or intellectual disability. The money in the account can be used to purchase an annuity for a period not exceeding the year of the child's 18<sup>th</sup> birthday (except for a child with a physical or intellectual disability).

Families that own a business also have a particular tax treatment upon a person's death since they can avail themselves of the capital gains deduction for gains up to \$848,252<sup>97</sup> (\$1,000,000 for farmers and fishers). For their part, farmers and fishers are able to bequeath the family business tax free to their children, grandchildren or great-grandchildren.

Life insurance is not taxable. There is no inheritance tax in Canada. The Carter Commission report recommended replacing the traditional forms of income tax (income tax on property transferred after a person's death) with a universal concept of income whereby gifts and inheritances would be included in the income tax base. The federal government refused this advice due to worries regarding double taxation that would result from levying income tax. In 1971, the federal government moved away from taxing inheritances (Goodman, 1995). Canada is now one of the rare developed countries with no inheritance or wealth tax.

### 2.6.2 Neutrality Analysis

Where death and the related tax decisions to be made are concerned, the tax system is neutral if it not does influence family members in making decisions that need to be made in anticipation

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<sup>96</sup> The taxes owed are paid by the estate, not by the beneficiaries. Most provinces charge probate fees, which never exceed an amount equivalent to 1.5% of the value of the estate. Québec does not charge probate fees.

<sup>97</sup> Amount applicable in 2018 (indexed annually).

of their death. The neutrality of the tax measures relating to a taxpayer's death is analyzed based on the family's social, legal and economic profile.

#### 2.6.2.1 Based on the Family's Social Profile

The tax rules that apply upon a person's death are not neutral and, in many cases, may influence decisions relating to bequests upon a person's death.

For example, the tax rules may encourage the spouses in a two-parent traditional or stepfamily to bequeath property to one another in order to avoid paying income tax that would apply if they bequeathed some or all of the property to the children. For families that often must deal with more than one family unit, the current system may encourage taxpayers to favour one person's well-being over someone else's interests.

Due to their very nature, lone-parent families are unable to benefit from a "spousal rollover", even if the parent who dies has minor children. The Canadian tax rules that apply upon a taxpayer's death, primarily by way of the spousal rollover, partially recognize the family as the unit of taxation, thereby allowing the economic patrimony to remain intact. However, in the case of lone-parent families, there may be a decline in economic well-being owing to the fact that the family is not considered to be a taxation unit for tax purposes, even where young children are present. This particular situation does not affect neutrality since lone-parent families cannot elect to benefit from the tax measures provided to two-parent families, although the impacts of this weakness in the tax system may be significant and suggest that the tax rules are not tailored to lone-parent families.

#### 2.6.2.2 Based on the Family's Legal Status

The tax rules applicable upon a taxpayer's death are neutral based on a family's legal status.

#### 2.6.2.3 Based on the Family's Economic Class

Life insurance that people purchase to protect a family's economic well-being upon a family member's death is not taxable. This therefore represents a significant advantage in making decisions relating to a person's death. However, life insurance can only be purchased by families with sufficient wealth to assume this additional expense.

The capital gains deduction available to people to exempt the first \$848,252 of gains realized on qualified small business corporation shares is also a major tax benefit during the lifetime of a taxpayer and upon the person's death. However, the capital gains deduction is a tax benefit only accessible to families with sufficient wealth to hold qualified small business corporation shares.

### 2.6.3 Summary

Most of the rules pertaining to taxes that apply upon a taxpayer's death date back to the Carter Commission and, unfortunately, some do not respect the neutrality rules in the context of the family in the 21<sup>st</sup> century. By allowing couples in traditional families and stepfamilies bequeath property to one another to avail themselves of the spousal rollover, they may encourage families to take steps and make decisions that do not reflect their true intentions. Moreover, these rules do not recognize lone-parent families as a family unit. Finally, the rules seem more favourable to higher-income families.

	Are the tax rules neutral irrespective of...		
	The family's social profile	The couple's legal status?	The family's economic class?
Death	No	Yes	No

### 3 FAMILIES THAT OWN A BUSINESS

Family-owned businesses are often considered one of the pillars of the Canadian economy. In all, 80% of Canadian businesses are family owned and these businesses generate 60% of Canada's annual GDP while employing 50% of the Canadian workforce.<sup>98</sup>

The analyses presented in the preceding sections apply to all families, including those that own a business. However, due to the particular nature of family businesses, it is important to verify the neutrality of the tax measures applying to business families from three main angles:

- Are the tax measures neutral where business transfers are concerned?
- Are they neutral with regard to the decision to go into business?
- Do the tax measures favour certain types of families that own a business, over others, depending on the couple's legal status?

#### 3.1 Description of Family Businesses

A family business is an economic venture in which two or more members of a family have an interest in ownership (owners) and a commitment to the continuation of the enterprise.<sup>99</sup>

Family businesses are often small or medium-sized enterprises operating in a local market. For example, even today the Canada Business Ontario website states that "(r)unning a family business is similar to running any small business."<sup>100</sup> Although it is true that most family businesses have fewer than 100 employees, this description does not reflect the key role played by these businesses, which account for 80% to 90% of all companies in the world.<sup>101</sup> Some of the largest family-owned businesses in the world include many Canadian companies, such as George Weston Ltd., Power Corp. of Canada, Husky Energy and Molson Coors.

In addition to playing a key business and economic role, family-owned businesses are more resilient in turbulent economic times.<sup>102</sup> However, one major weakness of family-owned businesses is the lack or near lack of succession planning. Passing the torch from one generation to the next is often a painful experience faced by any company. This problem is most acute in family-owned businesses where the original entrepreneur hangs on while his or her heirs feel overshadowed and frustrated.<sup>103</sup>

For centuries, family businesses have been the most enduring, prevalent and successful form of enterprise.<sup>104</sup> Today, family businesses face many traps given that 30% of such businesses make it to the second generation, 10%-15% make it to the third generation and 3%-5% make it to the fourth generation.<sup>105</sup>

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<sup>98</sup> <http://canadianentrepreneurtraining.com/6-facts-about-canadian-family-businesses/>  
<https://iatandassociates.ca/blog/2015/the-importance-of-family-business-succession-planning>

<sup>99</sup> <https://www.ffi.org/general/custom.asp?page=definitions>

<sup>100</sup> <http://www.cbo-eco.ca/en/index.cfm/managing/day-to-day-operations/managing-a-family-owned-business/>

<sup>101</sup> <https://www.forbes.com/sites/chasewithorn/2015/04/20/new-report-reveals-the-500-largest-family-owned-companies-in-the-world/#1674b61a3602>

<sup>102</sup> <https://www.credit-suisse.com/corporate/en/articles/media-releases/family-owned-businesses--comfortably-outperforming-their-peers-i-201709.html>

<sup>103</sup> <https://hbr.org/1976/07/transferring-power-in-the-family-business>

<sup>104</sup> <https://family-enterprise-xchange.com/res/pub/docs/resources/6530-KPMG-Enterprise-Canadian-Family-Business-Report-FINAL-web.pdf>

<sup>105</sup> <https://hbr.org/2012/01/avoid-the-traps-that-can-destroy-family-businesses>

## 3.2 Tax Rules Applicable to Families That Own Businesses

### 3.2.1 Legal Form

Family-owned businesses can be operated in various legal forms, in particular sole proprietorships and corporations. In Canada, family-owned businesses are generally operated through corporations and are structured in a way to be recognized as a Canadian-controlled private corporation (CCPC).<sup>106</sup>

The tax rate applicable to income earned by the business will depend on the legal form used. Income earned by a sole proprietorship will be taxed in the hands of the individual. On the other hand, income earned by an enterprise operated through an incorporated business will first be taxed at the corporate level, at the rate of 18%<sup>107</sup> (federal and Québec) for the first \$500,000 of active business income, with excess amounts being taxed at the rate of 26.7%<sup>108</sup> (federal and Québec). The entrepreneur will be taxed when amounts are received from the company in the form of salary or dividends. Under the integration principle, the tax rules result in the total amount of income tax paid by the individual and the company on the income earned by an incorporated company being the same as the amount of income tax that would have been paid by the individual had the business not been incorporated.

Despite the integration principle, incorporating the business makes it possible to defer income tax payable on active business income. This means individuals who decide to incorporate their business can defer taxes payable if they do not need all the profits generated by the company. This tax deferral is equivalent to the amount by which the individual's tax rate exceeds the company's effective tax rate.

### 3.2.2 Income Splitting Among Family Members

Income splitting makes it possible to transfer the income of one family member, who is taxed at a higher rate, to another family member, who is taxed at a lower rate. As explained in section 2.5, the tax rules generally prevent income splitting among family members. However, splitting business income with family members is a popular way to reduce the amount of income tax paid by families that own a business.

The family-owned business could hire the owner's spouse or child and pay this person a salary. The business could then deduct the salary paid as a business expense and the spouse or child will pay income tax on the salary received, at the applicable tax rate. In principle, hiring a spouse or child does not constitute income splitting among family members. However, this could become a form of income splitting if the salary paid exceeds the value of the services provided by the family. However, the tax rules penalize this type of behaviour if it is discovered.

Where incorporated family-owned businesses are concerned, it is possible to include the family members as shareholders of the company and to distribute the income that accrues by way of dividend payments made to the various family members. However, income splitting is limited by the tax on the split income. This tax on split income results in the dividend received being taxed at the highest marginal rate. This rule applies where the shareholder is less than 18 years of age. In addition, as part of tax reform introduced in the fall of 2017, the Department

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<sup>106</sup> [https://www.sunnet.sunlife.com/files/advisor/french/PDF/Leaving\\_Canadian\\_tax\\_advantages\\_behind.pdf](https://www.sunnet.sunlife.com/files/advisor/french/PDF/Leaving_Canadian_tax_advantages_behind.pdf)

<sup>107</sup> Rates of 10% for federal purposes and 8% for Québec. Both levels of government announced rate decreases for the 2019 and subsequent taxation years. The rate of 8% applied by Québec may be reduced to 4% for corporations in the primary or manufacturing sector. Moreover, only corporations that provide compensation for at least 5,500 hours during a year can avail themselves of the reduced tax rate in Québec.

<sup>108</sup> Rates of 15% for federal purposes and 11.7% for Québec. The Québec government announced rate decreases for the 2019 and subsequent taxation years.

of Finance Canada<sup>109</sup> broadened the income tax measures to include income split with individuals over 17 years of age, thereby further limiting income splitting. Shareholders related to the controlling shareholder will therefore be required to meet a “reasonability” test in order for income not to be considered “split income” that would be taxed at the maximum marginal rates for individuals. Under the “reasonability” test, the person must make, or have made, a significant contribution to the business.

### 3.2.3 Sale/transfer of the Business

The sale/transfer of the business can trigger tax consequences, which vary if the buyer is a family member or an unrelated third party.

If the business is sold to an unrelated third party, the seller will be required to pay tax on one half of the capital gain realized.<sup>110</sup> If the business is a small business corporation, it is possible to reduce the amount of tax payable on this gain by using the capital gains deduction (\$848,252 in 2018). Moreover, the seller may multiply the benefits provided by the capital gains deduction by including family members as company shareholders.<sup>111</sup> When the business is sold, each shareholder will be able to use the capital gains deduction to reduce the tax impact.

If the business is sold to a related person,<sup>112</sup> it will not be possible to take advantage of the capital gains deduction as though the buyer were a third party.

The most effective way to acquire a business, from a tax perspective, is to do so through a holding company, because it is possible to use “company” money that has not yet been taxed at a personal level to finance the purchase. However, this provides no tax benefits when the sale is between related persons since the gain realized at the time of sale will be considered a dividend under Section 84.1 of the *Income Tax Act* rather than a capital gain. The sale is therefore penalized twice, since the capital gains deduction is lost and the tax rate applying to dividends is higher than the rate for capital gains.

There is nothing in the tax rules preventing someone from selling the family business directly to a family member and claiming the cumulative capital gains exemption, provided that the buyer is making the acquisition on his or her own personal behalf, resulting in substantial additional income tax compared to when shares are acquired between unrelated persons, which can be done through a holding company. However, it is important to note that Québec has eased its rules. Since March 17, 2016, a sale made to a related person through a holding company may be treated (for provincial purposes only) as a sale to an unrelated third party if the rules in table 3.2.3.1. are met.

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<sup>109</sup> The Québec budget tabled on March 27, 2018 states that the provincial government will harmonize its own measures with the federal measure.

<sup>110</sup> If there is a balance of sale, it is possible to defer payment of the related income taxes and to declare the capital gain over the term of payments, up to five to 5 to 10 years.

<sup>111</sup> With or without the creation of a family trust or a holding company.

<sup>112</sup> If the buyer is the seller’s spouse, the resulting capital gain and income tax are deferred until the spouse disposes of the business.

**Table 3.2.3.1 Seven conditions to be met to be eligible to claim the capital gains deduction in Québec<sup>113</sup>**

1) The shares are being sold by an individual	The transferor must be an individual. A family trust that sells shares cannot benefit from these new rules.
2) The seller is playing an active role in the business prior to the transaction	The transferor, or the transferor's spouse, must play an active role in the company's operations in the 24 months preceding the sale.
3) The seller's involvement is limited after the transaction	Following the transaction, the transferor should no longer play an active role in the business, other than to ensure the harmonious transfer of his or her knowledge to the acquirer. In this respect, the person's salary must not exceed the maximum pensionable earnings under the Québec Pension Plan for the year (approximately \$55,000).
4) The seller relinquishes control following the transaction	The transferor, or the transferor's spouse, must relinquish de jure control of the company that has been sold in the month following the sale of shares. This person must not be able to exercise more than 50% of voting rights.
5) The seller cannot hold any common shares following the transaction	The transferor, or the transferor's spouse, must no longer hold any common shares in the company that was sold no later than one month following the sale. This person may therefore no longer share in earnings (other than through preferred shares) or in the company's future increase in value.
6) A residual interest may be held in the company that was sold	The transferor and the transferor's spouse may retain a residual interest in the company (in the form of shares or debt). This residual interest must have a rate of return not exceeding a reasonable market rate for cumulative dividends or interest. The value of these interests must not exceed 60% of the total share value (80% for farming or fishing businesses) at the time of the transfer. This financial interest must be reduced to 30% (50% for farming or fishing businesses) no later than 10 years following the transfer of the company.  During the 10 years following the transfer of the business, the transferor cannot demand the repayment or redemption of the residual interest (other than to satisfy the tests in the 10th year).
7) The acquirer plays an active role following the transaction	At least one person, or that person's spouse, participating in the acquirer's body of shareholders must play an active role in the company's operations immediately following the transaction.

Rather than selling company shares, families that own a business could transfer the company to the next generation by way of an estate freeze. This consists in freezing the share appreciation at a precise moment by exchanging common shares for so-called preferred shares and then issuing new common shares to the children who are becoming company shareholders. This way, any future increase in the value of the company is attributed to the new common shares now held by the children and the preferred shares held by parents are gradually bought back over the years. With this type of approach, the parents will be taxed on a deemed dividend, not a capital gain, and will not be able to claim a capital gains deduction.

### 3.2.4 Other Specific Rules Applying to Families That Own a Business

Families that own a business are subject to a number of specific tax rules, such as the rules governing transfers of property at fair market value (Section 69 ITA) and the association rules (Section 256 ITA). Most of these rules create no breach in neutrality for the tax system since they mainly are specific anti-avoidance rules aimed at ensuring that family-owned businesses

<sup>113</sup> <https://www.richter.ca/fr-CA/News-and-Media/News-and-Insights/Measures-to-Facilitate-the-Transfer-of-a-Family-Business-Are-Poorly-Adapted-to-the-Reality-of-SMEs>

do not work together to unduly benefit from Canada's tax system. However, the following rules require particular attention:

#### Breakdown of the relationship

In order to prevent the proliferation of companies held by one person or group of people to benefit from tax relief, several rules have been introduced so that associated or related corporations, as the case may be, are required to share certain credits or limits. Among other things, these rules apply to the sharing of the \$500,000 limit for the reduced tax rate applicable to business income and the limits applying to certain income tax credits, such as the scientific research and experimental development credit and the Québec tax credit for film and television productions. Consequently, if the spouses own several corporations, these rules may apply. However, if the relationship breaks down, there may be a different impact in terms of whether these rules apply, depending on the couple's legal status.

The concept of associated and related corporations refers to the definition of related persons. If a relationship breaks down, married or civil-union spouses will remain related until the time of divorce. On the other hand, common-law couples cease to be related from the time of separation.

#### Business in financial difficulty

As presented in the previous sections, various forms of relief, tax deductions and tax credits are calculated based on the family's net income. However, when a company is operating at a loss, this loss cannot be applied against the family's income, which could result in family income being overstated.<sup>114</sup> Moreover, the federal childcare expenses deduction may be claimed by the spouse with the lower income. Consequently, the tax rules may limit access to certain forms of tax relief where one of the spouses is running a business that is operating at a loss.

#### Salary versus dividend

Families that own businesses through a corporation may have more advantages in paying themselves a dividend rather than a salary. Dividends, however, may prevent business owners from availing themselves of a number of tax measures which require that an individual earn active income, such as employment and self-employment income.

#### Employment Insurance Rules

The purpose of employment insurance (EI) is to provide financial support to unemployed workers or workers who leave work for particular reasons (due to illness or pregnancy, or to care for a newborn or a newly adopted child, a gravely ill child or a family member who is either gravely ill or at the risk of dying). To be eligible to receive EI benefits, the worker and his or her employer must have paid EI premiums over the last year.

Employees are required to register for the EI program to benefit from total coverage. On the other hand, self-employed individuals may register for the program to be eligible to receive EI benefits only in the event of illness, maternity leave, or the birth or adoption of a child. Self-employed individuals pay lower premiums. Finally, incorporated business owners, as well as the persons related to them, cannot register for the EI program if they hold more than 40% of the voting shares in a company.

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<sup>114</sup> If one spouse is running a business that is operating at a loss and the other spouse is earning income, the first spouse's business loss is not taken into account in computing the family's income.

### 3.3 Neutrality Analysis

#### 3.3.1 Are the Tax Measures Neutral Where Business Transfers are Concerned?

Although two thirds of business owners would like to see their company remain in the family,<sup>115</sup> the tax system favours selling the business to an unrelated third party. When transferring the company to an unrelated third party (and where the shares qualify as small business corporation shares), the business owner will realize a capital gain and will be able to claim the capital gains deduction, representing up to \$225,000 in tax savings. In addition, the business owner can even expand the benefits of the capital gains deduction if the family owns shares in the company's share capital.

However, if the business owner transfers the business to a child, this transaction will result in a higher tax cost. To be able to claim the same benefits, the child will need to acquire shares personally rather than through a holding company, resulting in a significant amount of additional income tax.

Moreover, business owners who transfer the business to a family member want to do so gradually or to remain involved in the business until their shares are paid in full. These transfers are not considered to be a sale for tax purposes, either for federal or Québec purposes.<sup>116</sup> The business owner will therefore realize a dividend rather than a capital gain. This dividend will be taxed at a higher rate and will not qualify for a capital gains deduction.

#### 3.3.2 Is the Tax System Neutral With Regard to a Person's Decision to Go Into Business?

A number of tax provisions exist that could encourage an individual to remain employed. The tax system is therefore not neutral in this regard. First of all, the tax rules seem to increase the risks incurred by business owners. The tax rules may limit access to certain forms of tax relief where the business is operating at a loss. Secondly, due to limited access to employment insurance, business owners have less protection. As a result of the increased risks, people may have less incentive to go into business.

On the other hand, the ability to defer income tax and split business income with family members could represent a substantial benefit compared to being an employee who cannot take advantage of these measures. This could provide an incentive for people to go into business.

#### 3.3.3 Is the Tax System Neutral Based on the Legal Status of the Family Owning a Business?

Generally speaking, the tax rules are neutral based on the family's legal status. The rules put in place to prevent families owning a business from broadening their use of tax benefits apply as much to families where the couple is married as to families with common-law spouses.

However, in considering separated, but not divorced, spouses as related persons the tax measures are not neutral and require a different tax treatment depending on the couple's status when the relationship breaks down. For example, if the taxpayers have incorporated businesses and their respective companies were associated for tax purposes while the individuals were married, the companies will continue to be associated, even after the couple

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<sup>115</sup> <https://www.iqpf.org/services-au-public/conseils-et-situations-particulieres/situation-fiscale>

<sup>116</sup> In March 2016, the Québec government sought to facilitate the transfer of business to a family member. However, in practice, the rules are too restrictive for this to be effective.

separates, and will be required to share the \$500,000 business limit whereby companies may be taxed at the lower rate.

The tax rules included in Québec's Taxation Act with regard to the tax credit for independent Québec film and television productions also represent a breach of neutrality in the tax system. To claim the tax credit granted to independent producers, corporations applying for the credit must not be closely related to a broadcaster, which would make the credit dependent upon the individuals' family status.<sup>117</sup>

### **3.4 Summary**

To summarize, families that own a business must deal with a tax system that lacks neutrality. Although two thirds of families owning a business would like to transfer the business to the children, they must deal with tax rules that provide an incentive to transfer the business to an unrelated third party. In addition, before deciding to go into business, families must consider the additional risks created by the tax system and the advantages of deferring income tax and splitting income. Finally, the legal status of families that own a business may have a significant impact on the tax treatment in the event that the couple should decide to separate.

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<sup>117</sup> Statement of claims filed by Julie Snyder, Productions J inc. and its subsidiary, Productions J XIII inc., filed with Québec Superior Court on September 4, 2015.

## 4 CONSIDERATIONS

This analysis suggests that the tax measures applying to families include many breaches of neutrality which will impact all Canadian families, sooner or later. The main breaches of neutrality are as follows:

**The family unit:** Although tax systems recognize the family unit, they determine that each taxpayer represents a taxation unit. Consequently, families with the same level of income will have a different tax burden depending on how income is split among the family members.

**Family size:** In spite of programs such as the Canada child benefit and the Québec child assistance payment, most families see a decline in economic well-being as the family grows in size. Moreover, large families have the highest marginal tax rate.

**Definition of a dependent child:** The current tax laws are based on the assumption that a child is no longer a dependent as of 18 years of age, even if the child is a student and lives with a parent. Yet, parents often provide financial support to children who are studying, often being required to pay substantial amounts. This represents a breach of neutrality because the tax laws do not recognize these children as dependents and may encourage parents to do the same. This breach of neutrality represents a particular disadvantage for low-income and lone-parent families.

**Creation of a family patrimony:** A number of tax measures and forms of tax relief exist to encourage families to create a family patrimony. However, given that many families have a limited ability to save, they are forced to make choices due to the growing number of savings plans that are available. Given the complex analyses that are involved, families may not always make the best choices and their decisions may provide less financial flexibility.

**Preserving the family patrimony after a person's death:** When a taxpayer dies, this is the last chance for the tax authorities to tax the unrealized income on the taxpayer's property. However, the tax system does allow for the family patrimony to be preserved following the death of one of the spouses, by making it possible to defer taxation until the death of the surviving spouse where this spouse inherited the property in question. However, many families are unable to preserve their family patrimony, even when the family includes minor children. This can mainly occur with lone-parent families or stepfamilies.

**Definition of the termination of the relationship:** Since 1993, the tax laws have recognized common-law spouses in the same way as married spouses. However, the termination of the relationship is recognized at different times depending on the couple's legal status (i.e. at the time of divorce for married spouses and at the time of separation for common-law spouses). This distinction in the definition of "termination of the relationship" may result in certain forms of tax relief being less accessible to married spouses following their separation.

**Transfer of the family business:** Two thirds of business owners would like the family business to stay in the family, but are faced with a tax system that favours selling the business to an unrelated third party because, unlike a sale to a family member, a sale to a third party may allow the business owner to claim the capital gains deduction, representing tax savings of up to \$225,000. Family businesses sold to a family member cannot benefit from this deduction.

Overall, there are so many breaches of neutrality in the tax measures applying to families, and these breaches are so significant, that it must be asked whether, ultimately, Canadian families are making decisions based on their needs or based on the tax measures that exist. The Canadian family has changed significantly since income tax was first introduced and it appears

that the time has come to overhaul the tax measures applying to Canadian families so as to ensure that the Act makes it possible to maintain a healthy fiscal environment. The final section of this study will present some ideas and approaches that could be considered as part of the overhaul of the tax system.

**Taxation system that is based on family income rather than an individual's income:**

Consider putting in place a taxation system that is based on family income (the couple's income) rather than an individual's income. This would provide greater consistency in terms of the tax burden of families with similar levels of income, regardless how the income is split among the family members.<sup>118</sup>

**Tax rate structure that is based on family size:** In order to better consider the additional obligations of larger families and to reduce the presence of very high marginal rates, consider putting in place a tax rate structure that is based on family size and that includes the advantages provided by the various tax benefits, such as the GST/solidarity tax credit, the Canada child benefit, and the Québec child assistance payment. It should be noted that this type of approach would mean having negative tax rates for certain families. In our opinion, this type of structure could make the tax system more transparent for all taxpayers.

**Registered general savings plan (RGSP):** Consider creating a registered general savings plan allowing a taxpayer to have general funds that would be available to purchase a home, support children's education, cover retirement needs or start a business.

The current tax system includes various complex savings plans that force families to choose between their different savings needs. Moreover, including the savings to start a business in this plan seems more suited to the reality of taxpayers in the 21<sup>st</sup> century, more and more of whom are deciding to start their own business.

Creating a registered general savings plan should include contemplating the need to increase the capital gains inclusion rate, to eliminate a breach of neutrality resulting from the distinction between investments providing a capital gain and other investments generating income taxed at a higher rate. Maximizing the principal residence exemption should also be contemplated.

**Revise the concept of termination of the relationship:** In 1993, the tax laws were updated to disassociate them from judicial legislation and to recognize common-law spouses. However, certain tax rules are not disassociated from the judicial legislation with regard to the recognition of the termination of the relationship. It would be necessary to review the reasons justifying such a discrepancy in recognizing the termination of the relationship for common-law spouses versus married (or civil union) spouses. The current tax rules are unfavourable for married and civil-union couples in some situations while the opposite is true in other circumstances.

**Revise the definition of dependent child:** Revise the definition of dependent child so that a child who is 18 years of age or older, who is enrolled in studies and who is dependent on his or her parents may be recognized as a dependent. This change would make it possible to adapt the tax laws to reflect the reality of Canadian families, i.e. more than 29% of two-parent families and more than 44% of lone-parent families have a child over the age of 18 living at home.<sup>119</sup>

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<sup>118</sup> Some people could claim that this type of measure provides less incentive to work. Other measures could therefore be added to encourage people to work.

<sup>119</sup> Statistics Canada, Catalogue 98-400-X2016024.

**Rollover upon a taxpayer's death to a trust set up exclusively for a dependent child:**

To protect children upon a taxpayer's death and to stop inciting parents to bequeath property to bequeath property to one another, include the possibility of rolling over property upon a taxpayer's death into a trust set up exclusively for the dependent children. To avoid deferring the income tax payable upon the taxpayer's death for an excessively long period of time, rules should be put in place to tax the deferred income once the child reaches a certain age.

**Eligibility for the capital gains deduction upon the transfer of a business:** Facilitate the transfer of the business from one generation to the next by allowing a taxpayer to claim the capital gains deduction while limiting the possibility to unduly multiply the capital gains deduction for family members not involved in the business.

## 5 LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation/acronym	Definition
<b>CCB</b>	Canada child benefit
<b>CCPC</b>	Canadian-controlled private corporation
<b>CLB</b>	Canada Learning Bond
<b>DPSP</b>	Deferred Profit Sharing Plan
<b>DTC</b>	Disability tax credit
<b>FTHB</b>	First-time Home Buyers' Tax Credit
<b>GIS</b>	Guaranteed Income Supplement
<b>GST</b>	Goods and services tax
<b>HBP</b>	Home Buyers' Plan
<b>HST</b>	Harmonized sales tax
<b>IQPF</b>	Institut québécois de planification financière
<b>ITA</b>	Income Tax Act
<b>LICO</b>	After-tax low income cut-off
<b>LIM</b>	Low-income measure
<b>MBM</b>	Market basket measure
<b>OAS</b>	Old Age Security
<b>PRE</b>	Principal residence exemption
<b>QPP</b>	Québec Pension Plan
<b>QST</b>	Québec sales tax
<b>RDSP</b>	Registered Disability Savings Plan
<b>RESP</b>	Registered Education Savings Plan
<b>RGSP</b>	Registered general savings plan
<b>RPP</b>	Registered pension plan
<b>RRSP</b>	Registered Retirement Savings Plan
<b>TFSA</b>	Tax-Free Savings Account
<b>VRSP</b>	Voluntary Retirement Savings Plan
<b>WITB</b>	Working income tax benefit

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**Statistique Canada.** *Tableau 202-0301 - Transferts gouvernementaux, selon le type de famille économique et les quintiles de revenu après impôt, dollars constants de 2011,* annual, CANSIM (database).  
<http://www5.statcan.gc.ca/cansim/a26?id=2020301&retrLang=fra&lang=fra>

**Statistique Canada.** *Tableau 206-0011 - Revenu du marché, transferts gouvernementaux, revenu total, impôt sur le revenu et revenu après impôt, selon le type de famille économique, Canada, provinces et certaines régions métropolitaines de recensement (RMR),* annual, CANSIM (database).  
<http://www5.statcan.gc.ca/cansim/a05?lang=fra&id=2060011>

**Statistique Canada.** *Tableau 206-0041 - Statistiques du faible revenu selon l'âge, le sexe et le type de famille économique, Canada, provinces et certaines régions métropolitaines des recensement (RMR),* annual, CANSIM (database).  
<http://www5.statcan.gc.ca/cansim/pick-choisir?id=2060041&p2=33&lang=fra&retrLang=fra>

**Statistique Canada.** *Tableau 206-0092 – Seuils de faible revenu (SFR) avant et après impôt selon la taille de la communauté et de la famille en dollars constants de 2015,* CANSIM (database).  
<http://www5.statcan.gc.ca/cansim/a05?id=2060092&retrLang=fra&lang=fra>

## Websites

### **Government of Canada: Employment and Social Development Canada Canada**

<https://www.canada.ca/fr/emploi-developpement-social/programmes/securite-vieillesse.html>

### **Institut de la statistique du Québec**

<http://www.stat.gouv.qc.ca/statistiques/conditions-vie-societe/revenu/faible-revenu/cdmi.html>

### **Retraite Québec**

[http://www.rrq.gouv.qc.ca/fr/programmes/regime\\_rentes/Pages/regime\\_rentes.aspx](http://www.rrq.gouv.qc.ca/fr/programmes/regime_rentes/Pages/regime_rentes.aspx)

## APPENDICES

### Appendix I – Low income cut-off according to family size

LICO used is the 2015 cut-off for Canada (Statistics Canada: table 206-0092). Amounts were adjusted to take the 2016 consumer price index into account.

Number of people	LICO (\$)
1 person	20,676
2 people	25,164
3 people	31,334
4 people	39,092
5 people	44,514

## Appendix II – RRSP and TFSA – Main technical features

The principal features of RRSPs are as follows:

- Each year, every Canadian taxpayer under 72 years of age accumulates RRSP contribution room. The new contribution room that a taxpayer accumulates for a given year will be equivalent to 18% of the person's earned income<sup>120</sup> in the preceding year, not exceeding \$26,010 in 2017. This ceiling limits the contribution room for individual earning income in excess of \$144,500.<sup>121</sup> Moreover, this contribution room is reduced where the taxpayer is contributing to a registered pension plan (RPP), a deferred profit-sharing plan (DPSP) or a voluntary retirement savings plan (VRSP) offered by his or her employer.
- The premiums paid during a year serve to reduce the individual's net income.<sup>122</sup> Any unused contribution room is accumulated and may be used in future years.
- The income generated by investments (i.e., capital gains, interest, dividends, etc.) held in the RRSP is not taxed capital.
- Save for exceptions, any amount withdrawn from the RRSP is included in the taxpayer's net income in the year during which the withdrawal is made. In addition, amounts withdrawn may not be re-contributed to the RRSP.

The principal features of TFSAs are as follows:

- Each year, every Canadian taxpayer who is 18 years of age or older accumulates TFSA contribution room. The new contribution that may be accumulated by a taxpayer for a given year amounts to \$5,500 in 2017.<sup>123</sup>
- The amounts contributed during a year do not reduce the individual's net income. Any unused contribution room is accumulated and may be used in future years.
- The income generated by the investments (i.e. capital gains, interest, dividends, etc. held in the TFSA is not taxed.
- Any amount withdrawn from the TFSA is not included in the taxpayer's net income in the year during which the withdrawal is made, nor is it taken into account in calculating eligibility for benefits and for credits based on income. Moreover, the amounts withdrawn create an equivalent amount of contribution room for future years.

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<sup>120</sup> Earned income is limited to certain types of income, in particular employment income, business income for self-employed individuals and rental income.

<sup>121</sup> These amounts are indexed annually. In 2018, the ceiling will be \$26,230, which will limit individuals with earned income exceeding \$145,722.

<sup>122</sup> The individual may deduct the contribution during the current year or a future year.

<sup>123</sup> Amount indexed based on inflation (multiples of \$500). Since being introduced in 2009, the ceiling was set at \$5,000 from 2009 to 2012, \$5,500 from 2013 to 2014 and from 2016 to 2018, and exceptionally at \$10,000 in 2015.

## Appendix III – RRSP and TFSA – 2015 Statistics

### Statistics based on income

	Below \$20,000	\$20,000 to \$40,000	\$40,000 to \$60,000	\$60,000 to \$80,000	Above \$80,000	Total
Number of taxfilers	8,379,763	6,808,558	4,713,617	2,618,676	3,666,146	26,186,760
Percentage of taxfilers	32%	26%	18%	10%	14%	
<b>RRSP</b>						
Number of taxfilers who contributed during the year	179,694	958,370	1,497,453	1,197,962	2,156,332	5,989,810
Percentage of taxfilers who made an RRSP contribution	2.1%	14.1%	31.8%	45.7%	58.8%	22.9%
Average contribution	\$2,181	\$2,453	\$3,402	\$4,906	\$11,812	\$6,542
<b>TFSA</b>						
Number of taxfilers who contributed during the year	1,323,160	1,909,050	1,643,650	1,036,640	1,669,850	7,912,450
Percentage of taxfilers who made a TFSA contribution	20.5%	28.0%	34.9%	39.6%	45.5%	30.2%

### Statistics based on age

	Less than 25 years of age	25 to 34 years of age	35 to 44 years of age	45 to 54 years of age	55 to 65 years of age	Over 65 years of age	Total
Number of taxfilers	3,142,411	4,189,882	4,189,882	4,451,749	4,451,749	5,499,220	26,186,760
	12%	16%	16%	17%	17%	21%	
<b>RRSP</b>							
Number of taxfilers who contributed during the year	179,694	1,078,166	1,377,656	1,617,249	1,377,656	299,491	5,989,810
Percentage of taxfilers who made an RRSP contribution	5.7%	25.7%	32.9%	36.3%	30.9%	5.4%	22.9%
Average contribution	\$2,181	\$3,998	\$5,404	\$7,027	\$8,817	\$11,776	\$6,542
<b>TFSA</b>							
Number of taxfilers who contributed during the year	643,790	1,379,000	1,132,040	1,292,970	1,468,210	1,996,440	7,912,450
Percentage of taxfilers who made a TFSA contribution	20.5%	32.9%	27.0%	29.0%	33.0%	36.3%	30.2%

Sources: Statistics Canada, tables 111-0039 and 111-0041 and Canada Revenue Agency. Tax-free savings account statistics (2015 taxation year).

#### **Appendix IV – Education– Impact on family cash<sup>124</sup>**

This appendix presents the impacts of the tax measures as well as the loans and bursaries program on cash for the different types of families. Three scenarios are presented:

1. Child under 18 years age pursuing college-level studies
2. Child over 18 years of age pursuing college-level studies
3. Child over 18 years of age pursuing university-level studies

Our assumptions were as follows for these scenarios:

- The child is studying full time;
- The child is a dependent during his or her studies and has no other source of income
- The child is residing with his or her parents;
- Tuition fees are estimated to \$155 per semester for college-level studies and \$1,700 per semester for university-level studies;
- The amount of loans and bursaries was obtained using the financial assistance simulator.

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<sup>124</sup> Calculations were based on the rules in effect for the 2016 taxation year and the financial assistance for education expenses calculator for the 2017-18 school year.

## Scenario 1 – Child under age of 18 enrolled in college-level studies

	Couple (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$0	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$0</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$2,073						
<b>Net impact after loans and bursaries</b>	<b>\$4,504</b>	<b>\$5,023</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
	Couple (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$0	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$0</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$1,521						
<b>Net impact after loans and bursaries</b>	<b>\$4,504</b>	<b>\$4,471</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
	Couple (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$0	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$0</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$1,519						
<b>Net impact after loans and bursaries</b>	<b>\$4,504</b>	<b>\$4,469</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
	Lone parent (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$852	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$64	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$1,004						
<b>Net impact after loans and bursaries</b>	<b>\$5,420</b>	<b>\$3,954</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
	Lone parent (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$852	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$64	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$453						
<b>Net impact after loans and bursaries</b>	<b>\$5,420</b>	<b>\$3,403</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
	Lone parent (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child under 18 -studies (Québec)	\$852	\$852	\$852	\$852	\$852	\$852	\$852	\$852
Tax credit for post-secondary studies	\$64	\$64	\$64	\$64	\$64	\$64	\$64	\$64
<b>Net impact of tax measures</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$1,916	\$1,000					
Bursaries	\$2,330	\$0						
<b>Net impact after loans and bursaries</b>	<b>\$5,280</b>	<b>\$2,832</b>	<b>\$1,916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>	<b>\$916</b>

## Scenario 2 – Child over age of 18 enrolled in college-level studies

	Couple (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$0	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$8,075	-\$7,375	-\$5,225	-\$3,595	-\$1,866	-\$906	-\$676	-\$676
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$7,510	-\$6,810	-\$4,660	-\$3,030	-\$1,301	-\$341	-\$111	-\$111
<b>Net impact of tax measures</b>	<b>-\$7,510</b>	<b>-\$5,504</b>	<b>-\$3,354</b>	<b>-\$1,724</b>	<b>\$5</b>	<b>\$965</b>	<b>\$1,195</b>	<b>\$1,195</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,654					
Bursaries	\$2,470	\$2,470						
<b>Net impact after loans and bursaries</b>	<b>-\$3,006</b>	<b>-\$1,000</b>	<b>-\$1,700</b>	<b>-\$1,724</b>	<b>\$5</b>	<b>\$965</b>	<b>\$1,195</b>	<b>\$1,195</b>
	Couple (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$0	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,219	-\$4,654	-\$3,954	-\$2,375	-\$1,625	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,654	-\$4,089	-\$3,389	-\$1,810	-\$1,060	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$6,304</b>	<b>-\$4,348</b>	<b>-\$2,783</b>	<b>-\$2,083</b>	<b>-\$504</b>	<b>\$246</b>	<b>\$1,246</b>	<b>\$1,246</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,245					
Bursaries	\$2,470	\$2,470						
<b>Net impact after loans and bursaries</b>	<b>-\$1,800</b>	<b>\$156</b>	<b>-\$1,538</b>	<b>-\$2,083</b>	<b>-\$504</b>	<b>\$246</b>	<b>\$1,246</b>	<b>\$1,246</b>
	Couple (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$0	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,319	-\$4,984	-\$4,334	-\$2,842	-\$2,145	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,754	-\$4,419	-\$3,769	-\$2,277	-\$1,580	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$6,304</b>	<b>-\$4,448</b>	<b>-\$3,113</b>	<b>-\$2,463</b>	<b>-\$971</b>	<b>-\$274</b>	<b>\$1,246</b>	<b>\$1,246</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,245					
Bursaries	\$2,470	\$2,470						
<b>Net impact after loans and bursaries</b>	<b>-\$1,800</b>	<b>\$56</b>	<b>-\$1,868</b>	<b>-\$2,463</b>	<b>-\$971</b>	<b>-\$274</b>	<b>\$1,246</b>	<b>\$1,246</b>

	Lone parent (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$335	\$335						
Amount child over 18 -studies (Québec)	\$896	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$39	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$1,270	\$1,641	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$10,640	-\$9,733	-\$6,985	-\$5,355	-\$3,640	-\$2,680	-\$2,450	-\$2,450
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$10,075	-\$9,168	-\$6,420	-\$4,790	-\$3,075	-\$2,115	-\$1,885	-\$1,885
<b>Net impact of tax measures</b>	<b>-\$8,805</b>	<b>-\$7,527</b>	<b>-\$5,114</b>	<b>-\$3,484</b>	<b>-\$1,769</b>	<b>-\$809</b>	<b>-\$579</b>	<b>-\$579</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$2,470						
<b>Net impact after loans and bursaries</b>	<b>-\$4,301</b>	<b>-\$3,023</b>	<b>-\$4,114</b>	<b>-\$3,484</b>	<b>-\$1,769</b>	<b>-\$809</b>	<b>-\$579</b>	<b>-\$579</b>
	Lone parent (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$0	\$0						
Amount child over 18 -studies (Québec)	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$25	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$1,267	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,219	-\$4,654	-\$3,954	-\$2,375	-\$1,625	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,654	-\$4,089	-\$3,389	-\$1,810	-\$1,060	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$5,037</b>	<b>-\$4,348</b>	<b>-\$2,783</b>	<b>-\$2,083</b>	<b>-\$504</b>	<b>\$246</b>	<b>\$1,246</b>	<b>\$1,246</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$1,582						
<b>Net impact after loans and bursaries</b>	<b>-\$533</b>	<b>-\$732</b>	<b>-\$1,783</b>	<b>-\$2,083</b>	<b>-\$504</b>	<b>\$246</b>	<b>\$1,246</b>	<b>\$1,246</b>
	Lone parent (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$0	\$0						
Amount child over 18 -studies (Québec)	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$25	\$64	\$64	\$64	\$64	\$64	\$64	\$64
	\$1,267	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,319	-\$4,954	-\$4,334	-\$2,835	-\$2,145	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,754	-\$4,389	-\$3,769	-\$2,270	-\$1,580	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$5,037</b>	<b>-\$4,448</b>	<b>-\$3,083</b>	<b>-\$2,463</b>	<b>-\$964</b>	<b>-\$274</b>	<b>\$1,246</b>	<b>\$1,246</b>
<b>Loans and bursaries</b>								
Loans	\$2,034	\$2,034	\$1,000					
Bursaries	\$2,470	\$1,031						
<b>Net impact after loans and bursaries</b>	<b>-\$533</b>	<b>-\$1,383</b>	<b>-\$2,083</b>	<b>-\$2,463</b>	<b>-\$964</b>	<b>-\$274</b>	<b>\$1,246</b>	<b>\$1,246</b>

### Scenario 3 – Child over age of 18 enrolled in undergraduate-level university studies

	Couple (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$0	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$8,075	-\$7,375	-\$5,225	-\$3,595	-\$1,866	-\$906	-\$676	-\$676
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$7,510	-\$6,810	-\$4,660	-\$3,030	-\$1,301	-\$341	-\$111	-\$111
<b>Net impact of tax measures</b>	<b>-\$7,510</b>	<b>-\$4,870</b>	<b>-\$2,720</b>	<b>-\$1,090</b>	<b>\$639</b>	<b>\$1,599</b>	<b>\$1,829</b>	<b>\$1,829</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,504	\$3,123				
Bursaries	\$5,106	\$5,106	\$2,256					
<b>Net impact after loans and bursaries</b>	<b>\$100</b>	<b>\$2,740</b>	<b>\$2,040</b>	<b>\$2,033</b>	<b>\$639</b>	<b>\$1,599</b>	<b>\$1,829</b>	<b>\$1,829</b>
	Couple (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$0	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,219	-\$4,654	-\$3,954	-\$2,375	-\$1,625	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,654	-\$4,089	-\$3,389	-\$1,810	-\$1,060	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$6,304</b>	<b>-\$3,714</b>	<b>-\$2,149</b>	<b>-\$1,449</b>	<b>\$130</b>	<b>\$880</b>	<b>\$1,880</b>	<b>\$1,880</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,504	\$3,123				
Bursaries	\$5,106	\$5,106	\$1,847					
<b>Net impact after loans and bursaries</b>	<b>\$1,306</b>	<b>\$3,896</b>	<b>\$2,202</b>	<b>\$1,674</b>	<b>\$130</b>	<b>\$880</b>	<b>\$1,880</b>	<b>\$1,880</b>
	Couple (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Amount child over 18 -studies (Québec)	\$0	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$0	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$0	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,319	-\$4,984	-\$4,334	-\$2,842	-\$2,145	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,754	-\$4,419	-\$3,769	-\$2,277	-\$1,580	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$6,304</b>	<b>-\$3,814</b>	<b>-\$2,479</b>	<b>-\$1,829</b>	<b>-\$337</b>	<b>\$360</b>	<b>\$1,880</b>	<b>\$1,880</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,504	\$3,123				
Bursaries	\$5,106	\$5,106	\$1,542					
<b>Net impact after loans and bursaries</b>	<b>\$1,306</b>	<b>\$3,796</b>	<b>\$1,567</b>	<b>\$1,294</b>	<b>-\$337</b>	<b>\$360</b>	<b>\$1,880</b>	<b>\$1,880</b>

	Lone parent (1 child)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$335	\$335						
Amount child over 18 -studies (Québec)	\$896	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$426	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$1,657	\$2,275	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$10,640	-\$9,733	-\$6,985	-\$5,355	-\$3,640	-\$2,680	-\$2,450	-\$2,450
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$10,075	-\$9,168	-\$6,420	-\$4,790	-\$3,075	-\$2,115	-\$1,885	-\$1,885
<b>Net impact of tax measures</b>	<b>-\$8,418</b>	<b>-\$6,893</b>	<b>-\$4,480</b>	<b>-\$2,850</b>	<b>-\$1,135</b>	<b>-\$175</b>	<b>\$55</b>	<b>\$55</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,504	\$3,123				
Bursaries	\$5,106	\$5,106	\$1,306					
<b>Net impact after loans and bursaries</b>	<b>-\$808</b>	<b>\$717</b>	<b>-\$670</b>	<b>\$273</b>	<b>-\$1,135</b>	<b>-\$175</b>	<b>\$55</b>	<b>\$55</b>
	Lone parent (2 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$0	\$0						
Amount child over 18 -studies (Québec)	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$86	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$1,328	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,219	-\$4,654	-\$3,954	-\$2,375	-\$1,625	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,654	-\$4,089	-\$3,389	-\$1,810	-\$1,060	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$4,976</b>	<b>-\$3,714</b>	<b>-\$2,149</b>	<b>-\$1,449</b>	<b>\$130</b>	<b>\$880</b>	<b>\$1,880</b>	<b>\$1,880</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,504	\$3,123				
Bursaries	\$5,106	\$4,218	\$836					
<b>Net impact after loans and bursaries</b>	<b>\$2,634</b>	<b>\$3,008</b>	<b>\$1,191</b>	<b>\$1,674</b>	<b>\$130</b>	<b>\$880</b>	<b>\$1,880</b>	<b>\$1,880</b>
	Lone parent (3 children)							
	\$25,000	\$40,000	\$60,000	\$80,000	\$120,000	\$150,000	\$200,000	\$250,000
<b>Tax incentives for education</b>								
Increase in tax credit for person living alone	\$0	\$0						
Amount child over 18 -studies (Québec)	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242	\$1,242
Tax credit for post-secondary studies	\$86	\$698	\$698	\$698	\$698	\$698	\$698	\$698
	\$1,328	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940	\$1,940
<b>Child over 18 – changes to benefits/credits</b>								
Loss of benefits/credits for parents	-\$6,869	-\$6,319	-\$4,954	-\$4,334	-\$2,835	-\$2,145	-\$625	-\$625
New benefits/credits for child	\$565	\$565	\$565	\$565	\$565	\$565	\$565	\$565
	-\$6,304	-\$5,754	-\$4,389	-\$3,769	-\$2,270	-\$1,580	-\$60	-\$60
<b>Net impact of tax measures</b>	<b>-\$4,976</b>	<b>-\$3,814</b>	<b>-\$2,449</b>	<b>-\$1,829</b>	<b>-\$330</b>	<b>\$360</b>	<b>\$1,880</b>	<b>\$1,880</b>
<b>Loans and bursaries</b>								
Loans	\$2,504	\$2,504	\$2,695	\$3,123				
Bursaries	\$5,106	\$4,218	\$532					
<b>Net impact after loans and bursaries</b>	<b>\$2,634</b>	<b>\$2,908</b>	<b>\$778</b>	<b>\$1,294</b>	<b>-\$330</b>	<b>\$360</b>	<b>\$1,880</b>	<b>\$1,880</b>