

NATIONAL POST

The case for income splitting

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Stephen Harper's Conservatives are reportedly open to the idea of permitting Canadian families to engage in "income-splitting," a practice that allows high earners to apportion some of their income to a lower-paid spouse for tax purposes. The practice would save middle-class families thousands of dollars per year, yet some left-leaning groups oppose it: By making life on a single-income more affordable, they argue, it might encourage some women to forsake the office in favour of domestic child-rearing.

There is a germ of truth to this: A Library of Parliament study from June 2006 indicates that family income splitting "may have a positive impact on fertility rates." On the other hand, given current population trends, it's hard to see why this is a concern. When nations are threatened with demographic decline, as Canada is today, it is in the state's interest to encourage growth: We need young workers to pay future tax bills so that Ottawa can keep funding its entitlement programs. So if family income splitting does encourage couples to have more children, so much the better.

In this regard, Canadians might want to study the example of France. Though hardly a bastion of right-wing social policy, it has chosen to implement a variety of family-friendly measures, income-splitting included.

Rare among the barren nations of Western Europe, France has a fertility rate of 1.9 children per woman, almost equal to the replacement level of 2.1. This good news became the subject of media reports in 2001, when reporters noted "France's baby boom." Researchers at the French Institute for Demographic Studies concluded that the birth rate had risen by 5% that year, and attributed this at least in part to family-friendly government policies.

In France, what we know as income splitting is referred to as the quotient familial or the family ratio. It works as follows: The family is divided into parts so that parents can split income with all members, including children. The more kids, the better the tax break.

Each parent counts as a unit; and the first and second child count as half-units. But each additional child after that counts as a full unit. The policy was formulated to encourage families to have more than two children.

This is not to say that government family policy alone can encourage big families: It's unlikely that a couple watching a news report about a change in the tax system will make a beeline for the bedroom. What is true, however, is the reverse: Plenty of couples cite financial instability as a reason to wait. A Strategic Counsel poll commissioned by Focus on the Family Canada in 2002 identified financial challenges as one of the top reasons parents give for putting off having children.

Canadian policy makers shouldn't wait for things in Canada to get as desperate as they are in, say, Russia, where the population is diving so precipitously that one Russian province offered time off from work for people to "procreate"; and promised a fridge, a washing machine or possibly a four-wheel-drive vehicle to parents who could birth a child on Russian Independence Day. Next to this, income splitting looks like a reasonable option.

Income-splitting would have other advantages as well. For one thing, it would make Canada's tax policy more fair. According to the Canadian Taxpayers Federation, an Ontario family of four with a single-earner making \$80,000 will pay \$3,000 more in taxes than a similar family in which both parents make \$40,000. Why should the same gross household income yield such different effective tax rates?

Finally, income-splitting would win votes. Whatever the rhetoric of Mr. Harper's critics, the average Canadian will appreciate a tax policy that saves him money, is more equitable, and ensures there will be enough young Canadians around to pay for his pension when its time for him to retire.

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