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Many strings attached to Harper's Family Tax Cut plan

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Income-splitting for families with dependent children under 18 is a huge policy initiative for Stephen Harper's majority-hungry Conservative party.

So huge you wonder why it wasn't the centrepiece of last week's dead-on-arrival federal budget.

But the Family Tax Cut plan announced by Mr. Harper Monday in Saanich, B.C. wouldn't come into effect until the federal budget is balanced, which could be years from now. Like pension splitting before it, splitting earned or other income for tax purposes would benefit only some families and be no help at all to singles, including single parents. To get the full benefit, even qualifying families would have to have a large income disparity between the higher and lower wage earners. Even then, a maximum of $50,000 of household income would be splittable for tax purposes .

Mr. Harper says 1.8 million families would qualify, saving on average $1,300 a year.

Under existing rules, the graduated income tax system puts a bigger tax bite on a single large income than two smaller incomes. Examples cited Monday show one parent earning $70,000 a year pays $8,695 in federal tax, while a husband and each earning $35,000 now pay a combined $6,703, a difference of almost $2,000. Add in provincial taxes of roughly half as much again, and the punishing tax treatment on the single high income would be even more pronounced.

The logic of the new measure is that "if one spouse or partner is staying at home with the kids, you tax them more preferentially, letting them split their income between the two," said Jamie Golombek, managing director tax for CIBC Wealth Management in Toronto.

Of course, families whose children reach 18 by the time this kicks in will be out of luck, along with singles and any family with double large incomes. If we're going to permit full income-splitting for tax purposes, the fair thing would be to introduce the practice for all couples, not just senior couples or young families.

Canada could emulate the United States, which gives couples the option of filing joint tax returns and treating a family as a single economic unit for tax purposes. In Canada, current policy treats each individual as a single economic unit, Golombek says. "This may allow couples to be considered akin to one economic unit for the child-raising years."

Since economic decisions are generally made as a family unit, "sharing income earned by family members for tax purposes makes sense," says Evelyn Jacks, president of Winnipeg-based The Knowledge Bureau. Canada already uses family net income to calculate entitlements on the Child Tax Credit, "so we would not have to add much more complexity to the completion of the tax return," Ms. Jacks said. However, on the minus side, "This leaves singles out."

Seniors already benefit from splitting pension income, a move championed by former Tory MP Garth Turner in 2007. At the time he said extending it to married couples with kids was the next logical step. However, he said Monday, "I don't think it ever made it into policy format" with the party.

"It's a family-friendly middle-class issue that's appropriate to their base."

Turner, now a licensed independent investment advisor, concedes the partial measure introduces a "huge unfairness gap that will have to be addressed by someone with political smarts."

If implemented, it "will be good news for Canadians families," says Dave Quist, executive director for The Institute of Marriage and Family Canada. However, in a blog Monday the Canadian Centre for Policy Alternatives cited Osgoode Hall Law School tax-law expert Lisa Philipps to the effect the biggest winners from income-splitting are higher-income male breadwinners: "A man can reduce his taxes by shifting them to the primary caregiver in the family but he has no legal obligation to give her the actual income." The CCPA warns this "tax giveaway for affluent couples" will put a big dent in federal finances.

The Tories project it to cost $2.5 billion a year once implemented -- "when the budget is balanced within our next full term of office," the party's news release says.

"When's that going to happen?," says a skeptical Paul Hickey, tax partner with KPMG, "The devil is in the details."