



INCOME SPLITTING

What is “income splitting”?

A tax planning strategy designed to avoid the application of progressive rates of tax to higher incomes. It is done by shifting income onto the tax return of a family member who is in a lower tax bracket.

Why is FAFIA talking about this issue right now?

Because the Harper Government recently changed the tax law to allow a form of income splitting for pensioners, and FAFIA is concerned the next budget may announce more moves in this direction. As with any complex tax measure there is great potential for public misunderstanding of what the current Government means by “income splitting” and how it would actually impact on income and gender equality in Canada.

Why is FAFIA opposed to income splitting?

The pension income splitting rules were badly designed from a gender and class equality perspective. Expanding them to all forms of income would vastly compound their harmful effects. There are five key problems:

- Unpaid caregivers get no direct benefit; instead they get a new tax liability without any legal right to a share of the main breadwinner’s income.
- The tax savings go mainly to higher income men.
- Income splitting discourages women’s paid workforce participation.
- It biases the tax code in favour of traditional-looking families, leaving out single parents, couples with roughly equal earnings, and many others.
- Full income splitting would cost almost \$5 billion per year, precluding more effective and equitable programs to support families and caregivers.

What is FAFIA calling on Legislators to do?

FAFIA is opposed to any expansion of pension income splitting and would instead like to see these defective rules repealed. In addition we are calling on Legislators to ensure that all future tax policy proposals undergo a rigorous gender analysis to determine their impact on women in their roles as both paid workers and caregivers.