Enhancing the Working Income Tax Benefit

Presentation to the All-Party Anti-Poverty Caucus

by

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Thank you for the invitation to meet with you today. We were delighted to attend the launch last June of this All-Party Anti-Poverty Caucus and we congratulate you on your efforts to put poverty back on the federal agenda.

Ottawa has at its disposal several important levers currently in place to tackle poverty and to make a significant dent in the problem. It is those levers and one in particular – the Working Income Tax Benefit – on which we will focus our remarks today.

While WITB is a promising instrument to help reduce poverty, it is not the only available tool. There is no single magic-bullet solution to poverty and inequality. We were pleased to see the emergence of provincial and territorial poverty reduction strategies throughout the country as various jurisdictions try to pull together disparate policies and programs into a coherent whole. The federal government should consider a similar initiative to consolidate its diverse measures and to ensure a coordinated pan-Canadian approach to tackling poverty.

But governments are not the only players. A key lesson from our work over the past 20 years is that poverty is not just the concern of government. All sectors can play a role in addressing this tough problem.

The private sector can help by paying reasonable wages and providing associated benefits, where possible. The voluntary sector can deliver many important services, such as educational and training programs and high-quality child care. Local governments contribute by ensuring access to affordable public transportation and recreational programs. While interventions are required by all sectors, our presentation today focuses specifically on the federal role.

**Poverty at a glance**

At last count in 2010, 9.0 percent of Canadians lived on low incomes. While this number is the lowest since consistent data were collected in 1976, the fact remains that one in ten Canadians live below the poverty line.

Moreover, this national average masks the fact that certain groups – notably Aboriginal Canadians, new immigrants and visible minorities, persons with disabilities and single-parent families led by women – face an even greater risk of poverty. They tend to be poor longer, suffer more frequent bouts of low income and face diminishing chances of escaping poverty the longer they remain below the poverty line. The good news is that single-parent families led by women have seen a marked reduction in their low income rate in recent years as increasing numbers join the workforce and as stronger child benefits supplement their earnings.

Child poverty is of particular interest to your deliberations because of the potentially devastating impact of low income on healthy child development. It is also an area in which Parliament has taken a special interest. In 1989, the House of Commons passed an all-party
unanimous resolution calling for movement toward the eradication of child poverty by the year 2000.

Not only did Canada not reach this ambitious goal but child poverty still remains significant, especially for single parents. At last count in 2010, the poverty rate for all children was 8.1 percent – 5.1 percent for children in two-parent families and 21.8 percent for children in female single-parent families.

Since Canada started tracking poverty trends in 1976, we have seen the poverty rate rise and fall with the ups and downs of the economy. Thankfully, the poverty rate has declined since the mid-1990s and, at 8.1 percent for children, is lower than the 11.8 percent rate that triggered the 1989 House of Commons resolution.

The poverty rate for female single parents has plummeted from 58.7 percent in 1976 to 21.8 percent in 2010. But despite movement in the right direction, the current level is not acceptable for a country like Canada, which has powerful levers at its disposal to make a significant dent in this problem right now.

Factors linked to poverty

There are strong forces that fuel persistent low income, which are deeply rooted in the economy, labour market and society.

Most Canadians rely on employment as their chief source of income. Bouts of unemployment and underemployment, not surprisingly, raise the risk of falling below the low income line. As noted, the rate of poverty rises and falls with the ups and downs of economic cycles. When unemployment goes up as it did in the recessions of the past few decades, more widespread and deeper low income typically follows.

But unemployment is not the only feature of the economy that contributes to poverty. The labour market itself is a prime driver of low income. Right now, one in four workers make just $10 an hour or less and close to half of low-income households include at least one working adult. They are known as the ‘working poor.’ They work full time in the labour market but do not earn enough money to lift them out of poverty.

The problem is due partly to the growth of nonstandard work, which includes part-time, seasonal and temporary work. There has been corresponding erosion of middle-wage employment, including middle management positions and well-paid blue-collar jobs in traditional industries, such as manufacturing.

Globalization has seen the movement of many manufacturing jobs offshore. These were jobs that came with better salaries and associated benefits. They comprised the backbone of the
middle class, which has been hollowed out not only in Canada but in much of the developed world as well.

Technological developments are also driving the increasing division of the labour market into so-called good jobs and bad jobs – with high-skilled, high-paying jobs at one of the spectrum and less skilled, lower-paying jobs at the other. These developments mean that greater educational attainment and technological competence are required in order to qualify for the better jobs.

Social factors are also major contributors to poverty. Bearing and raising children play an important part in making women vulnerable to low income, especially if they are raising children on their own.

Marital status is another major factor. Separation and divorce typically produce a decline in the income of mothers and their children. Not only do they lose the income of the (usually) higher-earning husband. Support payments to the mother and children generally do not make up for the lost income of the ex-spouse and are sometimes in default.

So tackling poverty means countering these powerful forces. More good jobs. Investment in workers through education and higher levels of knowledge and skill. Equal pay for work of equal value. Enforcement of child support agreements – to name just a few vital actions.

But while such remedies will prevent poverty for some Canadians, they cannot reduce poverty for others. Recessions continue to take their toll and bad jobs are now a permanent feature of the labour market.

Moreover many of these measures, particularly with respect to human capital investment, take time to effect. The reality for many Canadian households is that they are facing hardship right now. This is where the federal government is uniquely placed to intervene.

**Powerful federal levers to combat poverty**

The federal government already has key levers – income security programs and a progressive income tax system – at its disposal to combat poverty throughout Canada. Despite the important role of the income tax system, income security programs do the heavy lifting in terms of redistribution. Income security programs fall into two categories: income supplementation and income replacement.

Income supplementation programs bolster low income. The Working Income Tax Benefit and Canada Child Tax Benefit are the two major supplementation programs operated by the federal government. They boost low earnings and low income, respectively. The provinces and territories also contribute to poverty reduction through their own child benefits, income supplements and refundable tax credits.
Income replacement programs replace income which has been lost as a result of such commonplace conditions as unemployment, disability and retirement. Employment Insurance, Old Age Security/Guaranteed Income Supplement and the Canada Pension Plan/Quebec Pension Plan comprise the core income replacement programs in Canada. Provinces and territories operate another major income replacement program, social assistance (welfare).

While substantial work is required to improve income replacement programs, we will focus our remarks today on the income supplementation function. If the federal government were to do nothing else but improve its key supplementation measures, it could make a bigger dent in poverty.

The Canada Child Tax Benefit is the most substantial income supplementation program in our income security system and delivers cash payments to more than 90 percent of families with children. In addition to a base benefit for most families, it pays a supplement to low- and modest-income households. The design of the program is progressive in that benefits decline as incomes rise. All of the provinces and territories (except for PEI) also provide income-tested child benefits.

Caledon has proposed major improvements to the Canada Child Tax Benefit that would do more to bolster low incomes, reduce poverty and help welfare recipients get over the welfare wall and into the labour force. While we will not be discussing the Canada Child Tax Benefit today, we certainly would be prepared to come back to talk about how it can be strengthened.

The other major income supplementation program in the country is the Working Income Tax Benefit, popularly known as WITB. Introduced in the 2007 federal Budget, WITB supplements low earnings. The Working Income Tax Benefit has two key objectives – to reduce disincentives to work for Canadians stuck behind the welfare wall and to enhance incentives to work among the working poor.

The term ‘welfare wall’ refers to the conundrum that some welfare recipients can end up worse off financially if they leave social assistance for the workforce. They may forfeit cash benefits for spouses and allowances for children; special benefits; and valuable services such as supplementary health, dental and drug benefits, subsidized housing and access to supports for recipients with disabilities. They see their typically low earnings from work reduced by federal and provincial/territorial income taxes and payroll taxes (Canada and Quebec Pension Plan contributions and Employment Insurance premiums). They face work-related expenses such as clothing, transportation and child care.

The Working Income Tax Benefit aims at lowering the welfare wall by supplementing low earnings from employment to ‘help make work pay.’ WITB helps social assistance recipients make the difficult move from welfare to work by topping up their typically low earnings.

A wage supplementation program like the Working Income Tax Benefit should be directed not only to social assistance recipients leaving welfare for work, but also to the many working
poor families and individuals who never or rarely turn to social assistance. Thus the other aim of the Working Income Tax Benefit is to increase incentives for people to join the workforce, keep working (even for low earnings) and not have to fall back onto the tangled safety net of welfare. Some of these workers eventually will be able to climb the earnings ladder and escape poverty.

WITB provides benefits to single persons and families. It also gives an additional payment to WITB recipients with disabilities. The provinces and territories are allowed to vary the design of WITB in order to harmonize it with their own income security systems. To date, Quebec, BC, Alberta and Nunavut have opted to vary their WITB benefit structure. We look at this variability later.

While promising in theory, the Working Income Tax Benefit in its first year delivered a meagre payment of up to just $500 annually for single workers and $1,000 for single parents and couples. The program was targeted so far down the income range that it excluded many of the working poor.

We praised the federal government’s announcement of this long-awaited initiative and advised it to bolster the WITB by increasing its amount and extending it higher up the earnings scale in order to assist more working poor Canadians. Ottawa responded in 2009 by enhancing the benefit by a substantial 85 percent for singles and 68 percent for families, and expanding its reach.

However, the Working Income Tax Benefit still sits in 2012 at a modest maximum $970 for a single worker per year ($1,762 for a family) and cuts out at a low net income of $17,478 ($26,952 for a family). This measure needs a healthy, multi-year injection of funds before it becomes a major weapon in the war on poverty and inequality. But at least the foundation is in place on which to build.

One final word before we look at the WITB in more detail and offer illustrative options to strengthen the program. Caledon has always been conscious of the cost of any new proposal and we recognize that this is a tough time to be recommending new expenditures. But there are several areas of wasteful spending which deliver substantial benefits to high-income households. We believe that these funds can be better directed toward packing a solid punch on poverty. The foundations to do so are already in place.

**WITB past, present and future**

Because our time today is short, we will only briefly sketch out the mechanics of the Working Income Tax Benefit and offer some illustrative options for a bigger and better program.

Figure 1 shows how WITB operates for single recipients. The blue line shows benefits in 2007, when the program began. Note that amounts have been adjusted to inflation. Benefits...
phased in above earnings of $3,000 and rose until $5,800. The maximum benefit, $543, was payable between earnings of $5,800 and net income of $10,324, above which payments were gradually reduced as net incomes rose. Eligibility for benefits ended at net family income of $13,946.

The red line shows the distribution of benefits under this year’s (2012) WITB. Benefits phase in above $3,000, the same level as the inaugural 2007 version. But they reach a higher peak of $970 at earnings of $5,800 and remain at that level until net income of $10,324, above which they decline to end at net income of $17,478.

The federal government substantially increased WITB in 2009 and has indexed it over the years – except for the $3,000 phase in earnings level, which has been frozen since its inception so that over time it effectively reaches more and more of the poorest workers. The red line in Figure 1 reflects both the 2009 increase and annual indexation adjustments. The graph shows clearly that WITB has grown in both amount of benefits and reach. But it still does not reach the low income cut-off ($19,690) or the average minimum wage ($20,730).

Figure 1
WITB for single persons, 2007 (in constant 2012 dollars) and 2012

Figure 2 shows how WITB operates for families (single parents and couples). The blue line shows benefits in 2007, when the program began (amounts have been adjusted to inflation). Benefits phased in above earnings of $3,000 and rose until $8,694. The maximum benefit, $1,087, was payable between $8,694 and $15,758, above which payments were gradually reduced as net incomes rose. Eligibility for benefits ended at net family income of $23,003.

The red line shows the distribution of benefits to families under this year’s (2012) WITB. Benefits phase in above $3,000, the same as the original 2007 version. But they reach a higher
peak benefit of $1,762 at earnings of $10,048 and remain at that level until net income of $15,205, above which they decline to end at $26,952.

Figure 2
WITB for families, 2007
(in constant dollars) and 2012

Figure 2 for families, like Figure 1 for single persons, shows that WITB has grown both in amount of benefits and reach. WITB pays more to its recipients today and the program has added more recipients since 2007, namely families with net incomes between $23,003 and $26,952.
But even with the increase in 2009, WITB still excludes almost all single minimum workers. Figure 3 compares the disappearing point for WITB – i.e., the income level above which single persons do not qualify for benefits (shown in red) – to the minimum wage for a worker employed full-time year-round in the provinces and territories (shown in blue).

In every jurisdiction except Nunavut, eligibility for WITB ends below the minimum wage. Nunavut is an outlier: It has chosen to redesign WITB so that it reaches much further up the income scale to cover more recipients, and it also has the highest minimum wage in Canada.

Caledon has called for the federal government to build WITB into a much more powerful instrument, both in terms of increasing benefits and extending the program higher up the income scale. Today we show you several illustrative options that do just that.

Note that these various options are intended only to demonstrate different ways that WITB could be enhanced based on the structure and aims of the program; government options would have to be developed, costed and implemented over time through a succession of incremental increases. Thus we refer to the various options shown below as ‘target options’ to be implemented over several years.

We focus here on WITB for single persons. We discuss WITB for families later.

The first group of options increases the amount of the maximum benefit paid under WITB to low-income workers.

The second group of options leaves the current benefit level in place but shows what happens with changes in design that extend the reach of the program to include more low-income workers.

The third group of options combines an increase in both benefit level and reach. But a design change is introduced in the current figuration (the program’s reduction rates, explained below) in order to reduce the scope and associated costs of this proposed type of reform.

Option #1: Increase the maximum benefit

There is no ideal set level of benefit. But the current amount is without question still very low, even after the 2009 increases. We therefore decided to explore what the current benefit would look like if it were increased by 50 percent (the 1.5 option) and by 100 percent (the 2.0 option, which doubles the value of the current benefit). The 1.5 option would increase the maximum annual payment from its current $970 to $1,455, while it would go up to a maximum $1,940 under the 2.0 option.

Figure 4 compares the two target options to the current program. The current WITB for single persons is shown in blue; its maximum amount is $970 a year. Under the 1.5 option, indi-
cated in green, the maximum payment would be $1,455 (50 percent more than the current level) and it would go to workers with earnings between $8,820 and net income of $16,000; benefits would diminish above $16,000 in net income to end at $25,700. The 2.0 option, shown in red, would reach a maximum benefit of $1,940 at earnings of $10,760 and stay at that level until net income reaches $16,000, above which benefits would decline and reach the disappearing point at $28,933.

![Figure 4](image)

We mark on Figure 4 the low income cut-off for one person living in a metropolitan centre of 500,000 or larger, an estimated $19,690 for 2012. WITB under the current design ends at $17,478, which is $2,212 below the low income cut-off. However, WITB under option 1.5 would end at $25,700 or $6,010 above the low income cut-off. Under option 2.0, WITB would end at $28,933, a sizeable $9,243 above the low income cut-off.

We also compare WITB’s cut-off point to the average full-time all-year minimum wage, $20,730. Under the current WITB, benefits end at $17,478 or $3,252 below the average minimum wage. But under option 1.5, eligibility for benefits would end at $25,700, which is $4,970 above the minimum wage. Under option 2.0, benefits would end at $28,933 or a substantial $8,203 over the minimum wage. Minimum wage workers would receive some benefits from WITB under our two options – $750 under option 1.5 and $1,235 under option 2.0. WITB’s reach would be considerably extended under these two illustrative options – from $17,478 to $25,700 under option 1.5 and from $17,478 to $28,933 under option 2.0.

So using two common indicators – the low income cut-off and minimum wage – our options would significantly extend WITB’s reach and add many workers to the program.
Figure 5 shows benefits under the current WITB and our two options, for five earnings levels. The blue bars show current WITB payments. The red bars indicate benefits under option 1.5, while the green bars show benefits under option 2.0. There are no blue bars for the $20,000, $25,000 and $30,000 workers because the current WITB ends at the low level of $17,478. Our WITB options provide benefits at all earnings levels except $30,000, since they end at $25,700 for option 1.5 and $28,933 for option 2.0.

Figure 6 shows total income, current WITB and options 1.5 and 2.0, single persons, by earnings, 2012.
Figure 6 shows total income – earnings plus WITB – for the five income levels. The blue bars illustrate total incomes under the current WITB, while the red bars indicate incomes under our WITB 1.5 option and the green bars represent total income under option 2.0. The increases that even a boosted WITB would make to total income are modest.

These options are illustrative only. We have not shown the options for families, to save time, but the general picture would be the same as for single recipients.

A number of options would have to be explored. Cost is a major consideration. WITB cost an estimated $1.1 billion in 2010. The 2009 changes doubled the cost of the program. Not only would maximum benefits rise under the 1.5 and 2.0 options, but WITB would extend its reach and thus add many recipients to the program.

It is important to understand that, while the two options are based on increasing benefits, they automatically expand the reach of the program as well. Thus these options achieve both the adequacy and reach objectives. However, modelling of potential numbers of beneficiaries and associated costs may show that the proposed enhancements are considered too expensive.

There are several ways to deal with this problem. The first is to move toward improved adequacy incrementally over time. We propose that the federal government take a page from its development of the Canada Child Tax Benefit and phase in a series of incremental increases to reach the target design for a stronger WITB. Ongoing evaluation and resulting improvements to the program’s design are an important part of the evolution of vital social programs such as WITB and the Canada Child Tax Benefit.
The second route is to consider options that may be less broad-ranging in scope. These two options are presented below.

**Option #2: Expand the reach**

Our second set of options seeks to minimize the cost of reform by leaving the current benefit level in place and focuses instead on extending WITB’s reach to cover more low-income workers. We achieve this objective by raising the threshold above which the maximum benefit is reduced. The current threshold for single persons is $11,017. We extend this level to $13,000, $14,000 and $15,000. Figure 7 shows what happens.

Under the current design, drawn in blue, WITB starts to decline above net income of $11,017 and ends at $17,478. If we raised the threshold to $13,000, maximum benefits would be extended from $11,017 to $13,000 and WITB would end at $19,467. That is just $233 under the low income cut-off of $19,690 and $1,263 below the minimum wage.

Lifting the threshold to $14,000 would extend maximum benefits to $14,000 and WITB benefits would end at $20,467. That is $777 above the low income cut-off and $263 below the minimum wage.

Raising the threshold to $15,000 would extend maximum benefits to $15,000 and would end WITB benefits at $21,467. That is $1,777 above the low income cut-off and $737 above minimum wage.

So these options would extend the reach of WITB into poverty line and minimum wage territory. Raising the threshold also would improve the adequacy of benefits in the sense that the maximum payment level would extend higher up the income ladder.

**singles versus families**

When WITB was launched in 2007, families received double the maximum benefit as single persons – $1,000 compared to $500. The 2009 Budget boosted benefits for both singles and families, but singles now receive relatively more than families. In 2012, the maximum benefit for singles is $970 and $1,762 for families.

Figure 2 showed that WITB for families ends at $26,952. That amount is $2,988 above the low income cut-off for a family of two and $6,222 more than the average minimum wage of $20,730. So in terms of WITB’s reach, it could be argued that it already performs satisfactorily with respect to the reach indicators of low income cut-offs and minimum wages.

On the other hand, WITB is now paying families a bit less in relative terms than when the program began. If we are exploring boosted benefits for single persons, it might seem fair to also
increase benefits for families by the same ratio. But that would add substantially to costs, even if a less generous option for families were devised.

One way to address this potential problem is to modify some of the key design features of the WITB, as we illustrate below. Changes to selected design parameters of the program enable increases in benefit level and expansion of WITB.

Option #3: Increase the benefit and expand its reach

It is possible to contribute to both objectives – boosting maximum benefits and extending WITB’s reach – while containing greater costs through changes to the overall design of this measure. One way is by increasing the reduction rate (i.e., the rate at which benefits are reduced above the threshold for maximum payment). The trade-off is the loss of integration with the lowest federal marginal tax rate of 15 percent.

Figure 8 shows option 1.5 and four variants – the existing 15 percent reduction rate and benefits under a 16, 17 and 20 percent reduction rate. The higher the reduction rate, the lower the level at which eligibility for benefits ends. A steeper reduction rate means fewer recipients and lower WITB costs. Under option 1.5, WITB would end at $25,700 at the current 15 percent reduction rate, $24,094 at a reduction rate of 16 percent, $23,559 at 17 percent and $22,275 at a reduction rate of 20 percent.

Even with a reduction rate of 20 percent, WITB eligibility would still be thousands of dollars higher than the low income cut-off ($19,690).
Real-life variability in WITB design

We mentioned earlier that WITB allows the provinces and territories to vary their design. One of the strengths of the Working Income Tax Benefit is its effort to fit with individual provincial and territorial income security systems that affect both the working poor and welfare recipients.

The provinces and territories have the option of tailor-making the design of the Working Income Tax Benefit to harmonize with their particular income security programs (e.g., welfare earnings supplements, wage supplements and minimum wages) and policy priorities. This is not a new idea: The old family allowances program permitted and the current Canada Child Tax Benefit allows for some variations in benefits in each province and territory.

Variations in design of the WITB must be consistent with several principles. They must:

- build on actions taken by the province or territory to improve work incentives for low-income residents
- be cost-neutral to the federal government
- provide for a minimum benefit level for all WITB recipients
- preserve harmonization of the WITB with existing federal programs.

![Figure 9: WITB for single persons, by jurisdiction, 2012](image-url)
To date, four jurisdictions – BC, Alberta, Quebec and Nunavut – have taken up the federal offer and reconfigured WITB for their low-wage workers. Figure 9 illustrates the four jurisdictions’ WITB for single persons compared to the standard configuration.

The BC, Alberta and Quebec configurations are similar variations on the standard design. They pay a higher maximum amount ($1,561 in Quebec, $1,206 in BC and $1,059 in Alberta compared to $970 under the standard scheme). Unlike the standard WITB, which resembles a plateau – maximum benefits are distributed fairly widely – the Quebec and BC versions of WITB look like a teepee, with almost no top. This design likely is necessary for cost reasons. Because they pay a higher maximum amount than the standard configuration, they cannot afford as many recipients receiving the maximum benefit.

BC’s WITB is planted higher up the income scale, presumably in an attempt to help more low-wage workers with a more secure attachment to the workforce. The current standard WITB ends sooner and so is more targeted to part-time earners. Under BC’s configuration, maximum benefits ($1,206) are paid significantly higher up the earnings ladder – they begin at $10,493 and eligibility for WITB ends at $19,153, compared to $6,880 through $17,478 under the standard configuration.

BC’s WITB has a higher earnings threshold than the standard version ($4,750 compared to $3,000). BC’s higher earnings threshold is intended, along with its higher maximum payment and greater reach, to provide incentives to full-time as opposed to part-time work, the latter often in concert with welfare.

Nunavut is the outlier in WITB design, as is clearly shown in Figure 9. It begins higher up the earnings scale, at $6,000 compared to the standard configuration of $3,000. It phases in much more slowly, at the rate of 5 percent of earnings above $6,000 in contrast to the standard version’s 25 percent. Nunavut’s maximum benefit is lower ($608 versus $970 under the standard version) and is reached at a much higher level – $18,160, versus $6,880 in the standard design. Eligibility for WITB in Nunavut ends at a relatively high $36,173 – substantially above the territory’s $22,880 minimum wage.

Nunavut’s WITB appears designed to provide an earnings supplement to workers with low or modest earnings and a strong attachment to the labour force. It must also take into account the fact that Nunavut and the other territories pay the highest social assistance rates in Canada. Making work pay better than welfare requires a WITB that delivers its benefits higher up the earnings scale.

Figure 9 shows that WITB is a flexible program that can pursue its core aims through variable designs pursuing differing policy priorities on the part of the provinces and territories. But the same applies to the federal government’s WITB design. It can redesign WITB to pursue better benefits and a higher reach depending on its policy priorities and financial capacity.
Conclusion

The Working Income Tax Benefit is a promising instrument to help recipients get off welfare and improve the incomes of the working poor. The original program of 2007 was enhanced in 2009. But it is still too lean in benefits and limited in its reach.

Caledon endorses three criteria for expanding WITB. The federal government should:

- increase maximum benefits
- widen eligibility to include all households below the low income cut-off
- expand the program to reach all households earning minimum wage.

We have explored several options and variants on them. We were able to show how benefits would be distributed under the various options. But reliable cost estimates can be done only by the federal Department of Finance, which designed the original WITB and its subsequent improvements.