
Backgrounder

Tax Fairness for One-Earner and Two-Earner Families: An Examination of the Issues

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The Canadian tax system is based on the individual as the tax unit. Therefore, the amount of tax a family pays depends on the incomes earned by each individual rather than the total amount of family income.

The current Canadian income tax system does not disadvantage one-earner families with children in favour of two-earner families with children. In fact, one-earner families have more consumable income left after taxes and work-related expenditures than do two-earner families with the same money income. On top of that, the non-taxation of household production is an important, though rarely considered, tax advantage for one-earner families.

The Child Care Expense Deduction is an important element of our current tax system, which partially corrects for this tax advantage, that is, for the horizontal tax inequity between families in which one parent stays at home and those in which parents enter paid work. This deduction permits employed parents to deduct a necessary work-related expense from income before tax rates are applied. The Child Care Expense Deduction allows us to correctly calculate the appropriate taxable income in two-earner families. One-earner families should not be eligible for this deduction because, in general, they do not have work-related child care expenses.

Reintroducing a tax exemption (or tax credit) for dependent children can be justified on the basis of horizontal equity in the tax system, but it should not be financed by any change in the Child Care Expense Deduction. Furthermore, it would not guarantee that the majority of tax savings would be spent on children.

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