

Women and Employment:
Removing Fiscal Barriers
to Women's Labour Force Participation

by

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ABSTRACT

Women in Canada continue to have lower shares of income than men throughout their lives. At the same time, women continue to bear disproportionately larger shares of unpaid, poorly paid, part-time and other forms of irregular work. This study analyzes how Canadian fiscal policy reinforces the many social, economic and legal barriers women face when they try to gain equal access to full-time work with equal pay, and examines structural proposals that would remove or reduce these barriers to women's labour force participation. The author concludes that four basic structural changes should be made at once to reduce those barriers as much as possible: recast all the joint provisions in tax and social assistance law as individual provisions, permit secondary earners to claim all the actual costs of work-related expenses, reduce the marginal tax rates imposed on low incomes and eliminate the bias against women caused by the rules governing employee fringe benefits, employment insurance and retirement pensions. Failing the political will to take all these steps, the author proposes the enactment of an earned income credit that can be claimed by all secondary earners to ameliorate the existing fiscal barriers to women's labour force participation. Only such a credit system would counterbalance the unrelenting pressure on women to substitute unpaid work for paid work at the margins.

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LIST OF ACRONYMS

AFDC	Aid to Families with Dependent Children
CACSW	Canadian Advisory Council on the Status of Women
CCRA	Canadian Customs and Revenue Agency
CPP	Canada Pension Plan
CTB	Child Tax Benefit
DPSP	Deferred Profit Sharing Plan
EI	Employment Insurance
EITC	Earned income tax credit
FAIA	Canadian Feminist Alliance for International Action
GIS	Guaranteed Income Supplement
GST	Goods and Services Tax
HRSDC	Human Resources and Skills Development Canada (formerly HRDC Human Resources Development Canada)
JOBS	Job Opportunity and Basic Skills
LCC	Law Commission of Canada
LICO	Low Income Cut-off
LIM	Low-income Measure
MBM	Market Basket Measure
MCSS	Ministry of Community and Social Services
NCB	National Child Benefit
OAS	Old Age Security
OECD	Organization for Economic Co-operation and Development
QPP	Quebec Pension Plan
RCSW	Royal Commission on the Status of Women
RIF	Retirement Income Fund
RRSP	Registered Retirement Savings Plan
SPA	Spousal Pension Allowances
SPSD/M	Social Policy Simulation Data Base and Model
TANF	Temporary Aid to Needy Families

PREFACE

Good public policy depends on good policy research. In recognition of this, Status of Women Canada instituted the Policy Research Fund in 1996. It supports independent policy research on issues linked to the public policy agenda and in need of gender-based analysis. Our objective is to enhance public debate on gender equality issues in order to enable individuals, organizations, policy makers and policy analysts to participate more effectively in the development of policy.

The focus of the research may be on long-term, emerging policy issues or short-term, urgent policy issues that require an analysis of their gender implications. Funding is awarded through an open, competitive call for proposals. A non-governmental, external committee plays a key role in identifying policy research priorities, selecting research proposals for funding and evaluating the final reports.

This policy research paper was proposed and developed under a call for proposals in September 2000, entitled Women's Access to Sustained Employment with Adequate Benefits: Public Policy Solutions. Other research projects funded by Status of Women Canada on this theme examine issues such as policy options for women in non-standard employment, supports for single mothers and disabled women, and occupational health.

A complete list of the research projects funded under this call for proposals is included at the end of this report.

We thank all the researchers for their contribution to the public policy debate.

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EXECUTIVE SUMMARY

Women in Canada continue to have lower shares of income than men throughout their lives and, at the same time, bear disproportionately larger shares of unpaid, poorly paid, part-time and other forms of irregular work. Some slight gains in women's average incomes have been registered over the last two decades, but the income and work gaps between women and men remain intractable.

This study analyzes how Canadian fiscal policy reinforces the many social, economic and legal barriers women face when they try to gain equal access to full-time work with equal pay. Five basic structural features of the tax and social assistance system are examined for their tendency to place pressure on women to "choose" unpaid or poorly paid irregular work to optimize the well-being of their families. These include provisions that treat the adult couple as the basic unit of fiscal policy, like the dependent spouse credit, joint income limits on the child tax benefit, and the Goods and Services Tax credit. They also include the tax exemption of unpaid work, the lack of adequate child-care resources and the non-deductibility of the many costs that make women's paid work often less profitable than unpaid work, the steep clawback rates in social assistance programs and the relatively high rates of income taxes imposed on the lowest incomes. These factors all tend to construct women as secondary earners whose attachment to the paid labour force is more elastic or less solid than that of men.

Five structural proposals to remove these barriers to women's labour force participation are outlined in this paper and assessed for their probable impact on women who are further disadvantaged by their race or ethnic origin, marital status, sexuality or disability. When the Canadian government is ready to take firm steps to remove these barriers and eliminate the pressures that drive women to the economic margins, it is recommended that it should take all four of these steps at once.

- Recast all the joint provisions in tax and social assistance law as individual provisions.
- Permit secondary earners to claim all the actual costs of work-related expenses.
- Reduce the marginal tax rates imposed on low incomes.
- Eliminate the bias against women caused by the rules governing employee fringe benefits, employment insurance and retirement pensions.

Until the political will to take these steps emerges, it is recommended that, at the very least, Canada should enact an earned income credit that can be claimed by all secondary earners, defined expansively to include not only coupled women, but also lone parents, those on or leaving welfare and those with incomes below the average market basket measure. Only such an expansive credit system would counterbalance the unrelenting pressure on women to substitute unpaid work for paid work at the margins.

1. IDENTIFYING BARRIERS TO WOMEN'S LABOUR FORCE PARTICIPATION — MARKETS, CULTURE AND THE STATE

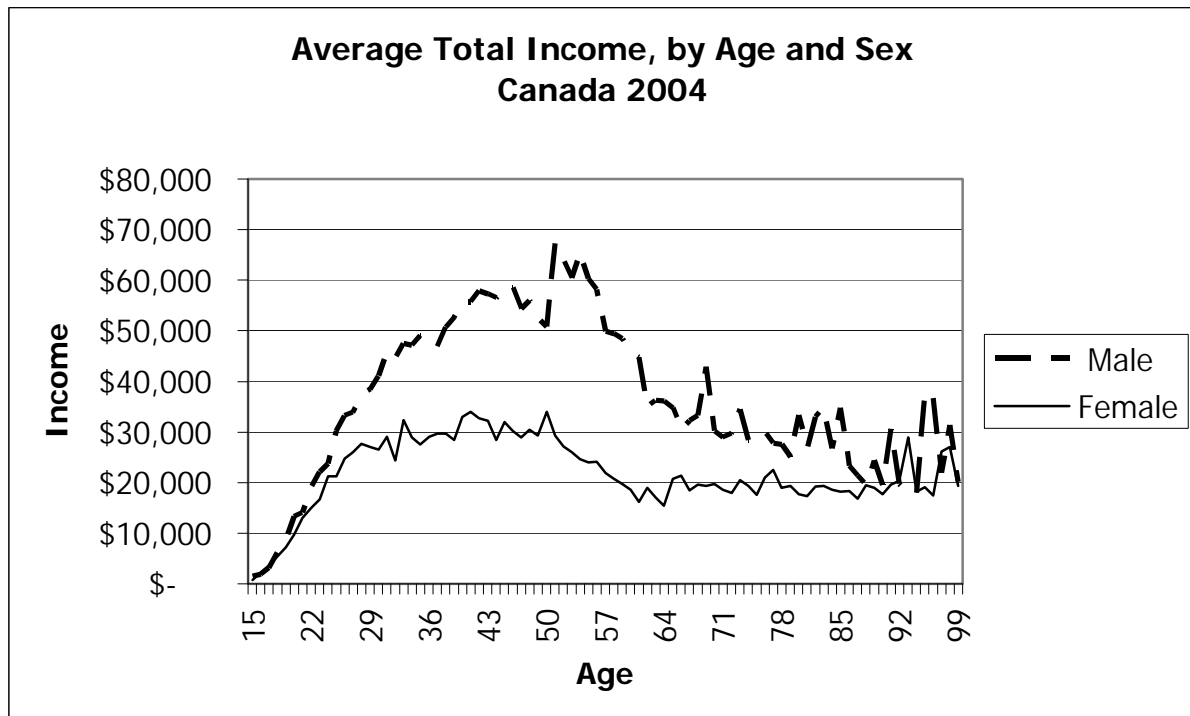
Canada has a strong and productive economy, and women who live in Canada are relatively privileged compared with women in many other countries. Nonetheless, any close investigation into the economic status of women in Canada reveals shocking discrepancies between women's average income and that of men. By their mid-20s, young women receive markedly lower incomes than do men of the same age. This discrepancy grows as women gain work experience and knowledge and, during what are generally considered to be peak earning years, women's average incomes have always remained below 70 percent of average male peak incomes (Lahey 2001b:10, Fig.1). The gap between women and men's incomes is so large and so intractable that it is accurate to say that women and men literally inhabit two separate economies.

These gendered economies have not gone unchallenged. Indeed, women in Canada have actively pursued both the right to work and the right to equal pay for over a hundred years. By the 1920s, women in Canada (and elsewhere) had managed to bring the practice of paying men a "family wage" into question, and by the early 1950s, the first formal equal pay laws were finally enacted. In the 1980s and 1990s, equal pay laws were buttressed by human rights and constitutional prohibitions on discrimination on the basis of sex and/or marital status, as well as by pay equity legislation. Although this long history of concerted activism did begin to close the income gap between women and men quite considerably between the 1950s and the early 1980s, the rate of change has slowed down over the last 10 to 15 years, raising concerns that some of the factors that contribute to this gap have not been eliminated.

Thus even today, it is still true that at no point in their lives do women receive average incomes equal to men's. Indeed, the income gap between women and men, which had begun to shrink somewhat in the 1980s and early 1990s, has begun to widen again. Not only do women still appear to inhabit two separate economies, but they are, in fact, getting poorer with every year that passes. Even indicators that suggest some improvements, such as the shrinking wage gap between women and men who work full time, are undercut by women's declining access to sustainable full-time work and the resulting shift into part-time work (Townson 2000:1-7; SWC 2000).

Figure 1 illustrates the contemporary gender gap in average incomes. In 2004, the average income for 25 year-old women was \$21,236.¹ This was only 70 percent of the average income for 25 year-old men (\$30,260). By the age of 50, which was the peak earning age for women in 2004, women's average income had actually fallen to 67 percent of men's average income. (Women's was \$34,367, men's was \$50,862.) By the age of 51, which was the peak earning age for men in 2004, women's average income had already begun its rapid fall while men's average income continued to climb. Thus by age 51, just one year after their peak earning year, the average woman's income had fallen to just 43.6 percent of men's. At only two points on the income-age scale did women's incomes exceed men's in 2004: at ages 16 and 17, and again at ages 92-94 and 97.

Figure 1



How can women have remained so poor after at least eight decades of increasing political and social activism around women's issues, pursuit of education, growing opportunities of all kinds and increasing movement into paid work? Economists and sociologists have generally concluded that no one factor accounts for this persistent income gap or for the gender stratification of the labour market as a whole. Generally, analysts have identified a wide range of factors that all play some role in whether women engage in paid work (labour force participation rate) and the size of their incomes. The main culprit in women's persistently low incomes appears to be the stability of their attachment to paid work. This notion of labour force attachment is sometimes referred to as the elasticity of their labour force participation rate, reflecting how easily work status is affected by external influences, such as tax rates. The higher the elasticity of labour force attachment, the more responsive a person's employment status is to changes in external influences.

Many factors affect labour force participation rates. These factors include age, economic class of origin, education, marital status, physical and mental condition, race, immigration status, sexuality, number and age of children, availability and cost of child-care resources, husband's education, husband's income, labour market discrimination, cultural attitudes toward women's work, sex-role stereotypes, personal preferences, social attitudes and state policies that affect paid versus unpaid work choices (Ruggles 1990: chapters 1-4). While factors, such as age, obviously affect both women and men, there are gender differences in the way such a factor affects men as compared with women. The same is true of most of the other factors as well.

Among this wide array of factors, three general forces contribute to women's generally lower rates of paid work as well as to their more elastic attachment to paid work. There are differences of opinion as to how significant each factor is and, in fact, the significance of any one factor will change over the life of any particular woman. The most important factor continues to be discrimination against women in gaining access to paid work and a fair income. Discrimination affects women who work for salaries or wages as employees, as well as women who work in their own businesses, as partners in a business, as out-sourced independent contractors or those who have set up business corporations. Closely associated with direct discrimination is the continuing impact of sex–role stereotypes on women's involvement in paid work. Cultural attitudes affect incomes, types of work that are available, the work atmosphere and the many other factors that impinge on access and sustainability of women's paid work as well as on their incomes. Several important policy initiatives have been developed to counter the effects of direct discrimination and stereotyping, but they have not yet managed to eradicate these problems.

The third factor is less obvious. A wide and growing array of government policies have a hidden effect on women's labour market behaviour by providing fiscal incentives to unpaid work and hidden penalties on paid work by women. These incentives to unpaid work and penalties on paid work can be found both in tax law and in other fiscal policies, such as welfare rules, pension policies, child-care benefits and unemployment insurance schemes. These incentives and penalties affect women's work choices by directly or indirectly helping subsidize the choice to work in the unpaid domestic sector or by imposing indirect costs on women who face the paid versus unpaid work bind. A growing body of literature demonstrates that women have a much less firm attachment to paid work in any event. Thus, they are much more vulnerable to the impact of these kinds of incentives and penalties, because they typically have much lower incomes than men in the first place and sex–role stereotypes continue to make it much easier for women to “choose” unpaid work over paid work than it is for men.

This chapter outlines how each of these factors affect women's involvement in paid work. The main focus of this study — the fiscal incentives and penalties that affect women's paid work — is developed in the remaining chapters. The main point being made in this study is that just as governments have the power to prohibit some types of discriminatory market behaviour, so too they can and should examine the impact of fiscal legislation — tax laws and welfare, social assistance, and other spending measures — with similar rigor to ensure that these laws do not undercut the goal of securing economic security for all people in Canada, including equal access to and equal incomes from paid work for women.

This chapter begins with an overview of the extensive literature on the general factors that affect women's paid work participation rates, and notes some of the most important legal structures that bear on those forces. Chapter two outlines, in detail, exactly how fiscal measures impose hidden incentives for women to engage in unpaid work at the same time that they impose penalties on women who engage in paid work.

Gender Discrimination in the Labour Market

The lifelong economic disadvantage faced by women is strongly affected by discrimination in paid work. Discriminatory attitudes toward hiring women or doing business with women reduce women's chances of obtaining incomes in the first place. Discriminatory attitudes toward the value of women's work ensure that even when women do have access to income-producing work, they simply cannot earn at nearly the same rate as men.²

Women's low incomes flow from a variety of interlinked phenomena: gender barriers to paid work, occupational segregation, low wages, work–family conflicts, difficulty in escaping part-time, seasonal or intermittent work, declining access to full-time work, the smaller value of women's employment benefits, the gendered impact of rising unemployment, the inadequacies of (un)employment insurance schemes in meeting the needs of women³ and barriers to obtaining venture capital financing for women-owned businesses (Forssén and Hakovirta 2000: 13; Solera 2000: 8; Freiler et al. 2001: 65; Bruegel 1983: 131; Townson 2000: 6; Lister 1990: 463).

There are several ways to measure the effects of discrimination in paid work. One of the most important measures is the labour force participation rate. In 1974, the labour force participation rate for women was only 51.4 percent for working-age women; by 1991, this had increased to nearly 62 percent. Dramatic though that increase has been, two factors tend to suggest that there is still considerable discrimination against women who want to work. First, this figure has only crept up slightly since then, to just 62 percent in 2003 (for women of all ages). Second, the labour force participation rate of men in Canada has remained much higher during that entire period (as high as 93 percent for men in their peak working years). While men's labour force participation rates do vary, for example, as they age or are married, they show much less variation than women's (Neft and Levine 1997; Statistics Canada 2003a,b).

While many specific factors affect work status, both employment rates and labour force participation rates are aggregate indicators that are important in tracing changes in the levels of women's access to paid work or self-employment at any given point in time or place.

Another important indicator of the effect of discrimination on access to paid work is pay differences. Overall, women's average earnings are only about 65 percent of men's. Even women who work full time only earn 80 percent of what men earn.⁴ A variety of factors have been implicated in this persistent wage gap; most are linked to deeply entrenched patterns of discrimination in the workplace. Women continue to make up only a small fraction of those in the highest-paid occupations in Canada (in 1990, 20 percent) and continue to hold most of the jobs in the lowest-paying occupations (in 1990, 73 percent) (Neft and Levine 1997: 227). They are less likely to be involved in high-performance areas of employment where earnings are tied to performance, to work in self-directed work groups, or to work for foreign-owned businesses, which tend to have higher wages, or to work as many hours per week as do full-time male employees. Women tend to have fewer years of relevant experience than men of the same age; the overall differential correlates strongly with the amount of time many women spend outside full-time employment when their children are young and child-care resources are most scarce (Statistics Canada 2002).

These income disparities are exacerbated by the fact that women continue to be relegated to part-time work far more often than are men. Since the late 1970s, women have accounted for about 70 percent of all part-time employees. In 2002, 28 percent of all women who worked for wages worked less than 30 hours per week; in contrast, only 11 percent of all employed men worked part time. Most women work part time because they cannot find full-time employment. Some women report that they want to work part time while their children are young, but this choice appears to be a simple recognition that there really is no alternative. It is striking that in 2002, over 20 percent of female part-time employees indicated they did not work full time because they were caring for other family members; only two percent of men reported the same choice.⁵

The divide between full- and part-time work has numerous consequences, including loss of job-related experience, lack of access to equal employment benefits, and lack of access to the fullest benefit of public programs like employment insurance. All these consequences further exacerbate the earnings and incomes gaps (Statistics Canada 2002: 42).

Whether these income and earnings gaps are explained in terms of part-time versus full-time work, or in terms of employment history, occupational segregation or responsibility for unpaid work, the fact is that all these factors are sex/gender-based differences. They are not “real” differences that, in some way, justify women’s persistently lower incomes. Even Statistics Canada has had to admit that “a substantial portion of the gender wage gap remains baffling” (Statistics Canada 2002: 42).

Culturally Engrained Sex–Role Stereotypes

Researchers have long considered both the explained and the unexplainable factors that generate the large gaps between women and men’s incomes and earnings to be the result of sex–role stereotypes and cultural attitudes that legitimate and reinforce women’s restricted access to paid work and equal incomes. The meaning of “work” is coded with gendered expectations in which it is assumed that men are the “breadwinners” and that women’s work is properly located in the unpaid voluntary sector or, at best, is only contingently paid (Teghtsoonian 1995: 429; Forssen and Hakovirta 2000: 9). What constitutes “work” is very much defined by structures that reflect men’s ideas, not women’s, and the rise of the labour union movement, which one might have expected to have injected some gender awareness into workplace issues, itself has left many women’s workplaces unorganized precisely for this reason (Bruegel 1983: 131).

Jan VanDenBerg (2001) vividly expressed how cultural factors and stereotypes generate the “portability of service” and the “marriage premium” that transfers the greatest wealth and opportunity to heterosexual men with wives who work in the unpaid home sector of the economy.

[T]he “servant-wife” takes care of all the errands and tasks of daily life, making it possible for the “ideal-worker-husband” to devote the long hours corporations demand of top earners without going insane. He can work 10 to 15 hours per day and still have love, home, children, social approval, clean

clothes — a sane life. And, he can move that bubble of sanity around the country with him at will, too. The servant-wife not only relocates readily, she takes care of buying the new home and packing.

The single man or the man with the working wife is forced to clean up after himself, devote actual energy to maintaining an emotional life, spend time trying to get married, move himself, compromise with the location of his wife's job, etc.

Meanwhile, women who try to work the kinds of hours demanded by corporations by remaining single crack psychologically after decades of conflict-ridden sex lives, lack of intimate emotional support, loneliness, social derision and ostracism. Woman who marry crack under the pressure of simple overwork and spousal resistance.

Unpacking these images of acceptable sex–role stereotypes reveals the many strands of cultural beliefs that make the “portable bubble of service” available to men and that impose its production on women. Women are fundamentally assumed to be dependent persons in Canadian culture, an assumption that is supported by a wide array of cultural values. This means that not only is income allocated unequally within the family (Lister 1990: 450; Woolley et al. 1996), but also that women's very work effort is fragmented as they are expected to take primary responsibility for home-centred unpaid work, such as child and elder care, housekeeping, shopping, cooking, direction of children and management of the household operation, and to organize any paid work around those responsibilities (Lister 1990: 457). Child care and other unpaid work are seen as “private” and “choices,” and women who attempt to combine such paid and unpaid work receive deeply mixed reactions to these choices, unlike the undiluted approval received by most men (Freiler et al. 2001: 66).

Separation and divorce interact with the gendered allocation of unpaid work and further reinforce gendered social roles. The lack of child-care services and other relief for the burden of unpaid work further fragment women's work efforts after separation or divorce. Single mothers live with this intensified fragmentation all the time.

This complex array of cultural factors produces, at the level of economic observation, the features that have come to characterize women's work. Women's work is occupationally stratified despite generally higher levels of income; their work is significantly more part time than men's throughout their lives, which means women do not derive as much financial advantage from employment-related benefits as do men; women tend to find themselves in occupations in which they actually have to work harder than most workers to make the same amount of money (König et al. 1995: 350); the double burden of paid and unpaid work reinforces the increasing allocation of women to unpaid work; women often find themselves in entry-level work whenever their career in paid work is interrupted by family responsibilities (Bruegel 1983: 131). Other cultural factors, such as attitudes toward paternal family leave, children's school hours or holiday schedule, or store opening hours, also play a role in shaping the organization of women's paid and unpaid work lives (Gustafsson and Bruyn-Hundt 1991: 53).

Persistent stereotyped beliefs about the proper roles of women versus men thus continue to play a significant role in women's income-earning opportunities. Stereotyped beliefs about women who work, about parenting, and about mothers who work, fathers who work, the kind of work women should do, how good women are at their work, the importance of work to women (as compared to men) and preferences for dealing with men in many situations all shape women's work lives.

Gender-based stereotypes and cultural attitudes reinforce direct discrimination in employment and wages by legitimating workplace and social prejudice against full-time, year-round, well-paid work for women, and prejudice in favour of full-time, year-round, well-paid work for men. Women who find discriminatory barriers to full-time paid work thus have to settle for part-time work. Women who cannot find year-round paid work tend to turn to seasonal or temporary paid work. When employed or self-employed, women receive far less valuable employment benefits than do men, simply because their incomes are lower than men's. On the other hand, even if women do receive fairly comparable employment benefits, these benefits are not of as much value as higher pay to those women whose employed spouse or partner can offer them access to the same benefits under the umbrella of family benefits from his employer or insurer. Sex-role stereotypes affect access to both employment and business incomes. Women entrepreneurs constitute one of the fastest-growing employment categories in the country. Between 1985 and 1995, the number of women entrepreneurs increased by 25 percent, with women starting their own business at three times the rate of men. While the success rates of women in business are much higher than those of men, their gross receipts and net profits are much smaller than men's. This appears to be a function of levels of capitalization and of women's greater difficulty in attracting business. It should also be noted that women's increased involvement in businesses is due, in part, to rising unemployment and constrained opportunities for full-time paid work in the waged and salaried sectors of the economy. Equal credit opportunity guidelines and the prohibition in federal human rights legislation on discrimination against women in bank lending policies do not appear to have significantly improved women's access to venture financing.⁶

Of course, not all the above cultural factors affect all women in the same ways. Race, cultural identity, class, sexuality, ability and age, to name just a few additional factors, all have an impact on women's work efforts. While these characteristics tend to push women further from year-round, full-time paid work with full benefits and toward the marginalized labour sector, there are patterns within patterns depending on particular race-based identification and other factors that are themselves associated with prejudice and stereotypes.

State Regulation of Labour Markets

Direct discrimination and the re-inscription of sex-role stereotypes are both mediated by market-based employment relations. In Canada, governments that are also employers are subject to some more exacting standards in employment equity legislation, but otherwise they are not held to any higher legal standards than are private-sector employers. Instead of taking the opportunity when acting as employer or customer to break with discriminatory patterns and stereotyped practices, Canadian governments have always held themselves to the same relatively low standards relating to discrimination in labour market practices that

they impose on the private sector. Not surprisingly, these forms of state regulation have not managed to eradicate the cumulative effect of discrimination on women's average incomes.

The equal pay laws of the 1950s mandated that women receive equal pay for equal work, but because most women who worked for pay were segregated in occupations in which there were no men, there was no basis for comparing women and men's incomes to identify discrepancies. More recent equal pay for work of equal value laws have attempted to get around this problem by requiring that all jobs be broken down by factors, such as degree of autonomy and flexibility in responsibility, working conditions and skill, and that women-dominated categories of work then be compared with men-dominated categories of work that exhibit similar characteristics. Although the federal government enacted equal pay for work of equal value legislation in the late 1970s, only some 10 percent of all employees are affected by it. Only a few provinces have ever enacted similar legislation, with the result that less than 30 percent of all workers can take advantage of this type of legislation.

In the 1980s, employment equity legislation was also enacted, again by the federal government and a minority of the provinces. This type of legislation more directly addresses the fundamental problem of access to employment. Employment equity legislation requires employers to increase the representation of women and other disadvantaged groups in their work force. Contractor legislation also requires that organizations with more than 100 employees who wish to enter into contracts with the federal government must have an employment equity program in place.⁷ At present, all jurisdictions in Canada now prohibit discrimination in employment and wages in human rights statutes. Human rights statutes have also been interpreted as prohibiting the worst forms of sex-role stereotyping.

Whether it is because such prohibitions lack real enforcement, or because the attitudes that give rise to this behaviour are too deeply entrenched to be displaced with mere regulatory provisions, it is clear that human rights and employment legislation — even when backed up by the non-discrimination provisions of the *Canadian Charter of Rights and Freedoms* — have not had an appreciable impact on the eradication of women's labour market segmentation and marginalization (Bruegel 1983: 153).

Hidden Discrimination: State Fiscal Policies

One paradox surrounding the role of the state in redressing labour market discrimination is that other government policies — tax and fiscal policy — actually undercut and very likely offset any positive effects that human rights and employment legislation might have on women's access to paid work or equal incomes. That is because fiscal legislation reinforces discriminatory and stereotyped attitudes toward women, enabling such legislation to play a powerful yet hidden role in reinforcing the economic disadvantage of women in Canada.

Like Canadians generally, those who have developed Canadian legal policy relating to women have tended to conceptualize women as economic dependants (wives, widows or elderly spouses) or as unpaid workers (mothers, caregivers and volunteer workers) or simply those with the luxury of "leisure" time. From the outset of tax and social welfare legislation in Canada, women have never been thought of as fully autonomous self-dependent individuals.

They have entered into legal policy either in the role of dependant or in the function of unpaid workers. For example, World War I war brides were entitled to receive survivor benefits from their husbands' veteran's pensions, because they were seen as economically dependent — a dependency understood to be intensified by their distance from their communities of origin. As ordinary women, they were entitled to nothing in their own right. Their significance in pensions policy flowed only from the fact of their demonstrable dependency on their husbands, whether actually married to them or not.⁸

Similarly, women were initially significant in Canadian income tax policy only as dependants of their husbands. Although there was significant support for treating all taxpayers equally — and assuming that all taxpayers had some degree of family responsibility for someone, whether “related” or not — the first income tax law was modified to give husbands extra tax deductions for being married. Husbands were seen as performing a valuable national service in supporting their wives and children.⁹ Wives were not seen as performing any service of any significance to the state.

More recently, feminist outrage at the persistent exclusion of non-waged workers from social security and retirement income plans has resulted in the enactment of small tax credits for adults engaged in significant caregiving activities, whether of a child, spouse or some other relative. These small tax credits reinforce women's tendency to focus their energies on non-market tasks. While these credits might be small, they still run in the direction of reinforcing the decision to concentrate on unpaid work. In turn, this focus reduces the time and energy women have to devote to paid work.¹⁰

Whether these types of fiscal measures take the form of welfare, social security or tax laws, they are the legal expression of the same discriminatory attitudes and sex-role stereotypes that have more directly disadvantaged women in the labour market. Simultaneously a depiction of women's roles in Canadian culture and a statement about what is valued about women as economic actors, tax and transfer policies that recognize or reward dependency, caregiving and unpaid work undercut and perhaps even negate the effects of anti-discrimination laws. And unlike discrimination and stereotyping, both of which are often visible in some form as they occur, fiscal policies that recognize or reward dependency, caregiving and unpaid work are often hidden from view in complex fiscal laws and benefit formulas not easily obtained by ordinary members of the public.

When it is considered that women receive less than 40 percent of all pre-tax income in Canada, the existence of *any* policies that tend to reinforce the concentration of income and wealth in the hands of men — and the existence of any policies that tend to concentrate low incomes and unpaid work in the hands of women — have to be seen as adding to the effects of labour-market segregation and discrimination. Even worse, women's share of after-tax incomes is even less than their under 40 percent share of pre-tax incomes. This means that the overall operation of the tax-transfer system actually takes income away from women and leaves it, at the end of the day, in the hands of men. (Women's post-tax share has slowly been moving up from 25 percent in 1988 to almost 30 percent.¹¹)

Out of their much smaller incomes, women have heavy obligations. If they are single parents — and most single parents are women — then women cannot spend their entire income on their own support. They have to stretch it to cover the needs of their children as well. Child-care expenses are non-discretionary, work-related expenses that do not have to be incurred by parents with caregiver partners. In addition, women continue to perform disproportionate shares of unpaid domestic labour, whether they have children or not and whether married or not.

Already rendered economically vulnerable by small shares of national incomes and large shares of unpaid work, women are pushed further down the road toward increased poverty and economic dependency by the many ways in which employment security, retirement, social assistance and tax laws are constructed around sex–role stereotypes.

Unfortunately, these fiscal policies are almost always considered to operate below the “radar screen” of anti-discrimination provisions. Thus human rights complaints, Charter challenges and appeals to international non-discrimination treaties have almost always failed to result in court rulings that invalidate these types of fiscal measures.¹² This makes it all the more urgent to seek change to these types of measures through the political process.

Chapter 2 provides detailed information on the kinds of fiscal provisions that fall into this category, and examines how they affect women’s access to paid work and average incomes.

2. FISCAL BARRIERS TO WOMEN'S PAID WORK

Women's work is constituted differently than men's work. Both women and men spend substantial amounts of time on paid work. However, women in Canada perform 62.6 percent of all unpaid work on top of their shares of paid work. Even though women's incomes are considerably smaller than men's, their work weeks are actually longer and their work effort more fragmented, because of their heavier responsibilities for unpaid work. Women literally spend their lives juggling the complex demands of unpaid versus paid work. Because women have to work longer hours to earn the incomes they do receive, they often have to sacrifice so-called leisure time to meet all their obligations for unpaid work. Rapidly diminishing leisure time means the trade-offs between paid and unpaid work are often direct and fairly immediate.¹³

Women's lives are tightly scheduled, and close decisions have to be made. A variety of factors, including interruptions of work patterns for child rearing and competing demands for family time, employment and wage discrimination, occupational stratification, the costs of child care and other care, and women's low earnings mean that women's attachment to paid labour is far more fragile than that of men's.¹⁴ As a result, whenever any of the factors that account for women's greater poverty and lower incomes change, women's rates of labour force participation can be expected to shift in response. If employment discrimination or wage discrimination were to increase, it would be predicted that fewer women would be found in paid work. Similarly, if cultural attitudes toward women's paid work were to become more negative, or if harassment or prejudice against women in higher-paid occupations increased, the number of women in paid work would respond.

Tax and other financial barriers to women's labour force participation have been found to be particularly critical to the sustainability of women's paid work. Because women's labour force participation rates are more elastic than men's, a growing body of research demonstrates that tax and fiscal programs have a significant impact on women's labour force participation rates. Thus women's attachment to paid work has been shown to be markedly more responsive to changes in the net value of women's paid work. That is, if increases in taxes or increases in the costs of child care reduce the net take home pay of women, they are more likely than men to substitute unpaid work for paid work.¹⁵ It can literally become more economically sustainable for some women to withdraw from waged work to perform their own unpaid child and family care than it is for them to remain in some types of paid work.

Non-fiscal factors set women up for such responses. Living closer to the poverty line means moving onto social assistance or other government benefits would not make as large a difference in a woman's standard of living as it might for a man. Cultural assumptions that women are dependent make it easier for a woman worker to be supported by a partner, another family member or the state. Cultural assumptions about the "proper" role of women makes it easier for both women and other family members to accept that she will devote her time to child care or other unpaid work that is considered to be congruent with sex-role stereotypes.

This chapter discusses the complex economic calculus women face when assessing the value to them of paid versus unpaid work. Several types of tax and social benefit programs are involved

in this calculus: social assistance, unemployment insurance, retirement systems, child benefits, disability benefits, support for unpaid work and various types of tax measures. The overall picture that emerges from this consideration is that government policies and programs can actually reinforce women's overall poverty, low incomes and difficulties in gaining access to economic equality.

Women in Fiscal Policy

The invisibility of women in Canadian fiscal policy can be traced back to the beginnings of early tax and welfare laws. Whether we look at retirement security programs, unemployment insurance plans or provincial health insurance plans, the assumption that married women were dependants, engaged in full-time reproductive labour was reflected from the outset in the scope of such programs (Lahey 2001a: Chapter 1). As early as the 1920s, women's struggle to be treated as individuals in their own right in fiscal legislation was already highly visible and publicly controversial.¹⁶

The fundamental problem faced by women in contemporary Canadian fiscal policy is that as women continued to be the presumed dependants of men or the presumed mothers of children, most rights that women have in relation to the state were actually mediated by their relationships to either men or children. Policies that treat women as the concern of policy analysis in their own right, independent of their relationships to intimate partners, children or other recipients of their care, have simply never existed in Canada. Even "poor" children receive more independent policy attention than do "poor" women, despite the fact that it is the persistent poverty of women that accounts for the bulk of so-called child poverty.¹⁷

The invisibility of women in their capacity as in Canadian fiscal policy creates a policy trap. Policies that are shaped around women's dependency, relationships or parenting help lock women into low incomes. Such policies urgently need to be modified. However, the maze of these relationship-based policies helps hide the fact that it is actually the general structural features of Canadian fiscal policies that create barriers to women's labour force participation.

Overwhelming concentration on specific issues, such as child-care resources, caregiving credits, derivative retirement benefits and child benefits, has kept policy analysts riveted to "women in relationships" while ignoring the very real needs of "women as people." When the focus is on the often knotty problems of how to give women tax or social benefits when they are married, or cohabiting with another adult, or raising children in one- or two-parent families, it is difficult to keep the attention on fundamental issues, such as how the Canadian state goes about defining poverty in the first place, or how low incomes should be taxed, or whether women should receive social assistance in their own right or as a member of a "couple."

Despite the lack of policy focus directly on the needs of women as adult human beings, a growing body of academic literature has begun to document how basic structural features of fiscal policy contribute to the overall poverty of women. These basic structural features include the regressivity of the overall tax system, the welfare wall and the poverty trap. As women weave their way through the complex economic calculus that involves these structural features as well as the maze of specific

provisions, all too often they end up being overtaxed relative to men, yet fail to find anywhere in the tax and benefit system any positive assistance that counters gender regressivity.

Women and the Economic Calculus

The notion that women go through an economic calculus when deciding whether to concentrate their work efforts on full-time paid work, unpaid work or some combination of both is neither new nor particularly complicated. In the 1950s, when veterans who had returned from World War II began seeking paid employment, millions of women across North America were encouraged to withdraw from waged work to make room for them. This was done by the simple expedient of increasing the taxes on married women's incomes and cancelling extensive child-care programs that had made it possible for women to work in war industries in the first place.

At the end of World War II, taxes on married women's incomes were increased by imposing a new "dependency" requirement on husbands who claimed the spousal deduction. During World War II, husbands had been allowed to claim the full spousal deduction even if their wife was earning her own income; this helped increase women's work in war industries. In the late 1950s, the new dependency requirement was designed to make it more expensive for both husband and wife to work. This meant that the working wife's income was subject to two "taxes": the actual income tax rates imposed on her income, and the additional "tax" arising from the loss of the spousal deduction that her husband had previously been permitted to claim. Because most husbands had higher incomes than their wives, the loss of the husband's deduction cost him more than the value of the wife's new personal exemption saved her in taxes. In a sense, the difference between the wife's new personal exemption and the husband's lost spousal deduction was a second tax stacked on top of the wife's actual tax.

Other taxes were also stacked on top of the wife's actual income tax liability. The costs of paid child care, the extra costs of working outside the home (e.g., transportation costs, extra equipment, clothing) and the loss of some of the wife's unpaid household work were clearly understood to come out of the wife's income — not out of the husband's — because it was the wife's work outside the home that made them necessary in the first place.

In the 1950s and 1960s, the popular press in North America routinely published articles such as "Does It Really Pay for the Wife to Work?" (US News 1957). Articles like this helped train generations of men and women to think in terms of what women could earn working outside the home as compared with the costs of child care, work expenses, lost household work and lost tax benefits.

"Does It Really Pay?" made sure that people knew how to tell the difference between "women who have to work" and women whose husbands could afford to support them. The article demonstrated that women whose husbands could not afford to support the whole family were in fact better off financially if both the husband and the wife worked, because the husband's marginal tax rate would not be much higher than the wife's. Thus, the family would have almost double the income it had before even after covering new child care and work-related expenses, and the value of the wife's personal exemption would almost exactly offset the loss of the husband's spousal deduction. In contrast, women whose husbands had been obtaining large

tax benefits from the spousal deduction by virtue of their high marginal tax rates were shown how their paid employment actually cost the family more than it brought in to the family. This is because once the cost of child care expenses, new work-related expenses, such as transportation, replacement of housekeeping and cooking services, and the loss of the husband's spousal deduction were deducted from the wife's income, it was shown that she earned practically nothing. "Does It Really Pay?" actually used as an example a woman who wanted to continue to practise law even though her husband could "afford to support his family."¹⁸

For over half a century now, these same gender stereotypes have continued to drive the analysis of the economic calculus that surrounds women's decisions to work outside the home. This analysis is invariably structured around the question of whether women should work outside the home. The dominant discourse has never taken seriously the question of whether men should work outside the home. This is because men in Canada have never been expected to be primarily responsible for the care of young children, to perform the bulk of unpaid work, to organize their paid work around continuing to meet their obligations to perform unpaid work, to expect to pay for child care out of their earnings, or to grapple with living on low minimum wages if they leave a relationship in which they have become economically dependent.

Since the 1950s, the economic calculus that women face has become increasingly complex. Particularly since the 1980s, the growing tendency to target various tax benefits of low-income families has meant that women's entry into paid work will attract high clawbacks on social assistance payments, loss of low-income benefits like the child tax credit, and inadequate tax support for child-care expenses. Add to this the fact that women who engage in paid work will still be responsible for the bulk of the unpaid housework and will be left with little genuine leisure time no matter what, and it becomes clear that women will take home much less net income than men of the same age, education and work experience (Baker 1995: 121; Solera 2000: 8). This would be true even if a woman earned exactly the same income as men with the same age, education and work experience — which they do not.

As this economic calculus has become more complex, it might seem that most people simply would not be able to sort out how the bewildering array of incentive and penalty provisions affect them and their families. This is not true of women workers. Researchers have found that women generally, and particularly part-time workers (the bulk of whom are women), and women with children are quite keenly aware of what their marginal income tax rates are, how changes in their incomes might affect their net take-home income, and how the costs of child care or work-related expenses will affect that bottom line (König et al. 1995: 347; Averett et al. 1997: 133). This is not surprising. Those who have to live on small incomes or who have to cover greater fixed expenses on small incomes tend to be more aware of their precise financial situation. This is also consistent with the fact that men, whose average incomes are so much higher than women's, do not need to maintain such keen awareness of their precise financial position.

As the complex and interlocking networks of income tax and social benefit rules currently exist, there are no tax benefits nor direct subsidies that are, on their own, large enough to lift women out of poverty. But the loss of the various types of tax benefits and direct subsidies that are available to families can strongly influence women's allocation of their work effort, particularly

if they are expected to take care of young children or infirm family members. Thus the economic calculus exerts considerable influence at the margins of women's economic decision making.

The growing array of fiscal and tax measures that enter into this gendered economic calculus are of two basic types.

- Fiscal incentives to unpaid work offer those loosely attached to paid labour a payoff for “substituting” unpaid work for poorly paid work.
- Hidden penalties on paid work affect the economic calculus by driving down the total take-home pay of the worker.

Although many of the provisions that generate these incentives and penalties were originally intended to ameliorate poverty in various ways, in the post-welfare state, they have actually become barriers to women's labour force participation.¹⁹ Thus, these supposedly ameliorative schemes have actually become part of the mechanism by which women's poverty, low incomes and economic inequality have been perpetuated in Canada.²⁰

Gender and the Structure of Tax/Benefit Programs

Fiscal programs have become, for governments, big business. With social assistance programs at all three levels of government — federal, provincial/territorial and municipal — and with both the federal government and the provinces providing an array of programs ranging from employment training and insurance to retirement benefits, tax credits and special allowances, the provisions that affect women by virtue of their unique economic location multiply each year. The *Income Tax Act* alone has nearly 100 specific provisions that affect women on the basis of their marital status; dozens more affect women, because of their persistently low incomes relative to men.

Each specific provision ultimately affects women's labour force participation rates in a slightly different fashion. However, most programs share basic structural features that have been adapted to each context. In developing a gender critique of fiscal programming, it is thus useful, as a starting point, to identify those structural features at the outset. These structural features include the gendered nature of so-called universal programs, the growing use of targeting mechanisms in the abandonment of universality, the increasing reliance on concepts of family income or need in allocating benefits, the exclusion of part-time work from social security programs, growing state support for women's unpaid work, provisions that promote women's dependency, and the continued treatment of child care and other care as private concerns not properly addressed by the state.

Universal Programs and Gender

Tax and social benefit provisions are generally classed as either universal or targeted. The Canada Pension Plan (CPP) is an example of a program that is generally considered to be universal. The fact that a person may have high levels of other income on reaching retirement age will not reduce the amount of the monthly CPP payments that are received. No matter how much other income a person might have after starting to receive CPP payments, the monthly benefit payment will always remain the same. Any unfairness that is thought to arise from giving fixed amounts of CPP benefits to middle- and high-income taxpayers is thought to be adjusted through the imposition of

progressive rates of income taxation. People who have CPP income as well as other sources of income will, in essence, end up giving part of their CPP benefits back to the government in the form of higher income taxes. People who have no other sources of income but CPP benefits will pay much lower taxes, and thus will keep most of the benefit.

As universal fiscal benefit programs have been gradually replaced with programs targeted directly at low-income people, there has been a vague sense that women are generally better off with universal programs. However, even the most universal programs have never been universally available to women, because most of the criteria used to establish eligibility in the first place have related to income levels. Thus, women with no paid work, or who have worked only sporadically during their lives, or off-market, or who have earned consistently low incomes are inferentially left out of supposedly universal benefit systems like CPP or Employment Insurance (EI) simply because they have never had enough income to qualify for those benefits in the first place. The one social program thought to benefit women universally — the old Family Allowance — was also selective in that only women with children received that payment. And even qualifying for the Family Allowance did not in turn qualify women for CPP, EI or other income support programs.

Even though supposedly universal programs have always excluded many women (Lister 1990: 459), women did not succeed during the 20th century in affecting the almost-exclusive focus in universal programs on continuous, paid, full-time work. The assumption that “everyone” is entitled to benefits under universal programs continues to obscure the fact that many married women, single women and single mothers have always been excluded from such programs to the extent that they have not been able to sustain sufficient labour force participation to qualify for benefits in the first place (Lister 1990: 450). Thus, from the perspective of women, the fundamental problem with universalism in government programming has been that universal programs have included only those whose work is paid, continuous and largely full time, and tends overwhelmingly to exclude those whose work is unpaid, intermittent or part time. Women in Canada never succeeded in mobilizing political responses to the under-inclusiveness of so-called universal social benefits. The disparate impact of universal benefits remains very much buried in the past.

Because this fundamental structural problem has never been solved — indeed, has never even found a firm place on the fiscal policy agenda — the recent global trend toward the abandonment of universality has also left the question of how the nature of women’s work should be treated as programs are restructured. As this issue becomes lost in a history that was never very visible even when it was occurring, many contemporary commentators now actually appear to perceive that it is the abandonment of universality that is the present cause of women’s low incomes and fragile attachment to paid work (Battle and Torjman 2001). In addition, the shift in focus in fiscal policy from ability to pay taxes, fairness, equity and inclusion to cost containment and accountability has effectively shoved issues of marginalized paid work and the role of unpaid work almost completely off the policy agenda.

Some researchers continue to examine the lack of gender universality in programs like EI. For example, MacDonald has demonstrated that the degree of universality of the EI system has been constrained despite the fact that the number of hours of insurable employment per week needed

to gain access to the EI system has been reduced. This type of constraint has been almost invisible, yet it has uniquely affected women workers, because of their lower rates of participation in full-time paid work and their higher participation in part-time and contingent work. Even though the new eligibility rules require eight hours per week rather than the old 15 hours per week of insurable employment, the simultaneous increase in the number of consecutive weeks of insurable employment has created new barriers (MacDonald et al. 2000).

The New Norm: Target Efficiency

As the 20th century drew to a close, the focus in contemporary tax and social benefit design began to undergo a huge shift. Many tax and social benefits that had been considered universal were restructured to target “needy” or “deserving” poor people. Instead of using progressive income tax rates to recoup payments that middle- and high-income people may not have actually needed in terms of their overall incomes, concepts of target efficiency have increasingly been used to limit eligibility for certain types of payments up front by looking at existing incomes and family responsibilities.

The most popular methods of making tax and social benefit programs target efficient have been the use of low-income limits and needs testing to determine eligibility. Because average women’s incomes are so close to poverty lines anyway, these new eligibility criteria have actually intensified the gender impact of government benefit programs. One example of how this has worked is the replacement of the old Family Allowance provisions with the new income-tested Child Tax Benefit (CTB). The Family Allowance used to give every woman in Canada a fixed benefit per child every month. Redefining this program as an income support program aimed at eliminating child poverty helped the government justify the adoption of new eligibility criteria to disqualify recipients whose incomes exceed low income cut-offs (LICOs) determined by the government.²¹

The main justification for targeting benefits at low-income recipients borrows from the language of progressivity in fiscal policy. The goal is said to be the redistribution of benefits from those who need them the least to those who need them the most. The stated premise of this redistribution of benefits is that the benefits being taken away from those who are said to need them the least help the state direct increased resources to those who need them the most (Battle and Torjman 2001; Freiler et al. 2001: 65). The unstated premise in this justification, however, is that containment of governmental costs is now more important than funding the social security system. Thus, in the new discourse of cost containment, any increases in benefits to those in need must be justified by showing that the funding for those increases can be raised by removing benefits from the less needy. This trade-off implies a “sum zero” approach to budgetary allocations in the sense that no new money is expected to shift into social benefit spending.

Couple-Based Income or Needs Testing

Because LICOs have increasingly come to use concepts of couple income or joint need to regulate allocation of benefits, women have actually found their ability to access benefits like the CTB constrained. Whereas the old Family Allowance program, for example, gave fixed payments to women dependent only on the number of children they had, and without regard to whether they were single parents, cohabiting or married, the new CTB uses couple-based income limits that tend to disadvantage women, because the inclusion of male incomes in family income will drive a

couple right over the top of the income limits that determine eligibility for this tax benefit. A woman who as a single parent could receive the maximum benefit can lose the entire benefit if her male cohabitant or spouse's income is equal to or greater than the LICO for the benefit. Although the phase-out of the benefit means this does not happen instantly, aggregation of a woman's income with that of her cohabitant or spouse will accelerate phase-out of the benefit without regard to whether she actually enjoys greater economic power by virtue of that relationship.

When the targeting of low-income benefits is contingent on both low incomes and couple-based incomes, women are denied the right to receive state benefits in their own right (Lister 1990: 453). Despite the fact that it is the individual who is the basic policy unit of legal and social policy, joint income benefit formulas force adult partners, whether they are married couples or cohabiting heterosexual, lesbian or gay couples, to treat their incomes as being pooled together when calculating eligibility for benefits.

The rationale for these couple-based income tests is essentially the same as when the dependency assumptions were applied in older universal programs: incomes are shared equally among members of a family, consumption is shared and two (or more) can live more cheaply than one.

In effect, these family-income or family-need formulas reinforce the economic dependence of women. Sometimes described as privatizing or re-privatizing women's work, these family-income formulas contribute to fiscal pressure on women who live with an adult partner to weigh continually the utility of their paid work versus their unpaid work to the benefit unit.²²

The Welfare Wall and the Poverty Trap

The use of income-tested or needs-tested criteria for eligibility now exposes women to the poverty trap or welfare wall associated with means-tested eligibility criteria. These effects flow from the fact that, as recipients of benefits, they gain access to higher incomes, and leave the low-income categories they were in when they qualified for tax or social benefits. The loss of those benefits is often very sharp and abrupt as women cross over the LICO. The rapid loss of benefits as income rises can leave recipients of benefits worse off than they were when benefits formed a larger part of their total income (Battle and Torjman 2001).

Tax and social benefit formulas create the welfare wall and the poverty trap. For example, when social assistance is replaced with workfare, or when universal child benefits are replaced with income-tested child benefits, the loss of benefits becomes yet another tax stacked on top of the income tax payable on the new income. When that additional tax is too high, it can become more economically efficient for individual women to remain on social assistance or stay in the lower income ranges if, as often happens, they can earn some income from part-time or seasonal work and still perform the larger portion of their own child care. Failure to provide adequate benefits in the income range that covers the transition from economic dependence on such a program to economic self-dependence creates barriers to moving through that range that can lead to women being trapped in lower incomes over long periods.

One obvious solution is to provide child-care resources to those engaged in workfare programs, which would reduce one of the other work-related costs that are stacked on top of income tax

liability on the new income. Another solution would be to extend the phase-out range for child tax benefits and/or social assistance payments slowly enough to avoid forcing economic dependence on another adult at the point of transition. These and other solutions can substantially ameliorate the poverty traps created by programs that are supposedly designed to ameliorate poverty in the first place.²³

Lack of Adequate Child Care Resources

One of the biggest barriers to women's labour force participation is the lack of adequate child care resources. Sex–role stereotypes assign responsibility for child care to women, and this responsibility is typically backed up by both child protection and criminal laws that penalize parents who do not supervise children until at least the age of 12. This form of involuntary servitude imposes costs on women with children that do not usually affect men who are not single parents.

Canada has and could again easily afford to provide adequate child care for all workers. This is simply a matter of political will. However, sex–role stereotypes, concerns about government spending and worries about how to prevent women who do not need this assistance all tend to offer easy excuses for taking this policy option seriously. Particularly when women cannot move from social assistance to paid work, because of the prohibitive costs of child care, the refusal of the government to move into this area of funding remains highly problematic for women.²⁴

Limited Benefits for Part-Time Paid Work

Employment compensation includes not only wages and salaries but a growing array of employment benefits. Employment standards legislation regulates physical, social and emotional working conditions and minimum wages (Baker 1995: 121; Townson 2000: 10). Social security programs, such as unemployment insurance coverage, retirement benefits, health insurance coverage, vacation pay and worker compensation coverage, are provided through legislation. Collective agreements can spell out supplementary coverage for health care and hospitalization, dental and eye, disability coverage, enhanced pension rights, child care or tuition benefits, and can even provide for home purchase or stock option financing, travel allowances, compassionate leave and early retirement. Running throughout all of these kinds of provisions is a long-standing distinction between full-time and part-time workers, with part-time workers receiving fewer types of benefits and, even when they do have access to benefits, smaller amounts of benefits. While rigid distinctions between part-time and full-time employment are now being replaced in some contexts with more flexible methods of determining eligibility for benefits,²⁵ part-time workers have always had the smallest benefits entitlements (Townson 2000: 10).

The smaller value of employment benefits to part-time workers – and complete exclusion from some kinds of private employment benefit plans – becomes part of the economic calculus that faces workers who may already be marginalized in terms of employment opportunities. This is because when a household needs access to low-cost benefits like prescription drug coverage or various types of supplementary health plans, it can make more sense to the household for the partner who can command a living full-time wage to obtain employment with benefits, and for the lower-income partner to concentrate work effort in unpaid activities of economic value to the family. Or, if the marginalized worker is a single parent, it may appear to be easier to obtain access to drugs or supplementary medical care by going onto social assistance. Thus, differential

access to the wide array of benefit programs places additional pressure on women who cannot obtain full-time employment to turn to either the state or other family members for support. This, in turn, reinforces the incentives to allocate increased work effort to unpaid work.

The Impact of Income Taxation

Contemporary tax law also affects women's participation in paid work. Many tax provisions magnify and reinforce some of the barriers discussed above. On their own, however, tax provisions can generate additional barriers. The following tax effects are discussed in this section:

- the tax exempt status of unpaid work;
- the tax treatment of child-care expenses;
- the non-deductibility of work-related expenses;
- the lack of co-ordination between income tax and social assistance transition rules;
- the continued existence of tax incentives for women to engage in unpaid work; and
- the effect of couples-based tax benefits and penalties.

All of these effects are exacerbated when an income tax system imposes relatively high rates of taxation on low incomes.

Tax Exemption of Unpaid Work

The tax exemption of unpaid work creates pressure on women to allocate as much of their work effort as possible to unpaid work. On a very fundamental level, women can create more value through untaxed unpaid work than they can through taxed paid work. In 1998, the value of unpaid work per woman was \$15,101, compared with only \$9,319 per man (Hamdad 2003). The value of unpaid work is a function of gender, marital status and labour force status. The value of married women's unpaid work was higher than for unmarried women, and women who were not employed contributed the greatest proportion of unpaid work (36 percent), followed by employed women (27 percent), employed men (22 percent) and unemployed men (15 percent).

Whether a woman is married or not, whether she has children or not, the tax exemption of unpaid work represents one way in which labour power can be translated into services and goods. The heavier the tax load avoided by performing unpaid work, the greater the incentive effect. Gender stereotypes play a role in making these decisions.²⁶ Jane Leuthold (1983) found that as family income increases, the tax saving from women's unpaid work increases, because women devote more time to home production and men less.

Unpaid work can serve as a buffer between market forces and the effects of poverty. Thus, the untaxed status of unpaid work can make it relatively more attractive to women on the margins. This does not necessarily mean unpaid work should be treated as taxable income. On the contrary, it could be that paid work needs to be integrated with unpaid work to reduce the tax disincentives to enter paid work. Because the gendered patterns of unpaid work affect women's work efforts throughout their lives, finding ways to eliminate the disincentive effects of the untaxed status of

unpaid work should produce an overall increase in women's labour force participation rates (Gornick 1999: 2, 34).

Although a reduction in the time available to perform unpaid work does increase the cost to women of moving into paid work, it is well known that women who work part time and full time still work the double day (Pierson and Cohen 1995: vol. II, 11-15). Monetizing women's work efforts through reducing the tax load on paid work could possibly overcome the effects of social expectations and bring women's overall work weeks into closer alignment with men's.²⁷ The net result of this might be that women might come to enjoy shorter work weeks and increased leisure time (Hamdad 2003).

Policy analysts have become increasingly aware of the value and significance of women's unpaid work since the rise of the women's movement. However, this has not yet resulted in breaking the self-perpetuating stereotypes surrounding women's work efforts on both the unpaid and paid sides. As Heidi Hartmann (1976) concluded nearly 30 years ago when studying the labour force status of women, women's disadvantaged status in paid work reinforces their subordination within the family at the same time that their subordination within the family reinforces their marginalization in paid work. Until both sides of this dynamic are addressed, it is unlikely that any policy measures designed to improve women's labour force participation can overcome the effects of women's long-standing responsibilities for unpaid work.²⁸

The High Costs of Engaging in Paid Work

It might appear that the costs of entering waged work are within the control of the individual. But for women, these costs involve not only the loss of unpaid work, discussed above, but also the costs of transportation, additional equipment, clothing, purchased meals and even purchased household services, as well as the costs of purchased child or elder care. Care expenses are far more significant than other costs of engaging in paid work (see below). However, the total costs of a second income earner — usually the female partner — entering into paid work (including child-care expenses) can consume as much as 18 to 30 percent of a couple's after-tax income (Rea 1984: 324).

Most of these expenses continue to be thought of as due to the woman's decision to enter waged work.²⁹ In contrast, the expenses associated with men's paid work — transportation, special clothing, equipment, purchased meals — are more likely to be thought of as necessities not subject to choice.

The tax treatment of these types of employment-related expenses does not alleviate their disincentive effect. The *Income Tax Act* previously provided a blanket deduction for all taxpayers with incomes from employment in the amount of \$500. This flat deduction was thought to cover basic non-discretionary, work-related expenses. Although modest, it did cut the initial tax rate applicable to low employment incomes. This was particularly beneficial to women workers. However, the deduction was repealed and there has been no serious consideration of restoring it either as a deduction or as a credit.³⁰ To the extent that such non-discretionary expenses do affect a woman's ability to pay taxes, the deduction or similar adjustment should be part of the normative tax base.

The Tax Treatment of Child Care Expenses

All the problems associated with unpaid work, marginal income tax rates and the high costs of entering into paid work converge on the most intractable barrier to women's labour force participation: inadequate child-care resources. Study after study has made it incredibly clear that for women who are responsible for children, the lack of adequate child-care resources is the biggest barrier to their labour force participation. A lack of resources accounts for a large proportion of the gap in participation rates between women and men, as well as the fact that the age of children and the availability of daytime care in the form of public education is a major factor in pushing women into part-time, occasional and seasonal employment. Literally, women with children have to organize their paid work around their unpaid responsibilities.

For example, in 2002, Statistics Canada (2003a: 8) found that 78 percent of women under the age of 55 without children were engaged in paid work. In contrast, only 72 percent of all women with children under 16 were employed outside the home. Within the category of paid mothers, the younger the children, the lower the participation rate: only 62 percent with children under the age of 3 were employed as were 68 percent with children between the ages of 3 and 5, compared with 77 percent of those whose children were between 6 and 15 years of age. Other forms of care responsibilities have similar effects on women's paid work. In Canada, 80 to 90 percent of the care given to elderly and infirm persons is home-based (Keefe and Fancey 1999: 193). Women in the family are expected to be the most available to provide elder care.

From a policy perspective, four distinct choices can be made in relation to the tax treatment of child-care expenses:

- Treat child care as purely private personal consumption.
- Provide partial tax relief for child-care expenses.
- Provide complete tax relief for child care.
- Provide in-kind child care through government services or publicly finance a mix of public, private and non-profit child-care service providers. (This is the model Quebec is going toward.)

There is little doubt that the more completely the tax-transfer system relieves women of the financial burden of providing their own child care, whether through some combination of tax deductions and refundable credits via the income tax system or through in-kind public services, the larger women's rates of labour force participation are (Knudsen and Peters 1994; Lochhead and Scott 2000: 45, 52; Madsen 2002: 65; Averett et al. 1997).

The deductibility of some child-care expenses under the existing provisions of the *Income Tax Act*³¹ does alleviate this burden to a certain extent. But when the overall costs of child care are weighed against what women can hope to earn on a net basis, whether their alternative is private dependency or social assistance, the value of unpaid self-provided child care increases as their income goes down.³²

Couple-Based Tax Benefits and Penalties

The growing use of couple-based rules in allocating income tax liability, tax benefits and direct benefits is also implicated in types of tax provisions that tend to detract from women's rates of labour force participation. Sometimes known as joint instruments, these provisions can take many different forms. Any tax provision that adjusts tax liability either upward or downward on the basis of having a spouse or common-law partner is considered to be a joint instrument.

Examples of joint taxation provisions in the *Income Tax Act* abound. The dependent spouse credit is a joint or couple-based provision, because it reduces the spouse's income tax liability in light of support provided to the other spouse. The child-care expense deduction is a joint provision because it forces the spouse or partner with the lower income to claim that deduction.³³ The CTB is a couple-based benefit, because it adds the incomes of both adults in the household (even if they are not both parents) together to determine eligibility for that credit on the basis of family income. Taxpayers who are not treated as spouses (either through marriage or cohabitation) get to use up the entire income limit by themselves; married or cohabiting couples have to share the limit.

Less obvious joint or couple-based provisions include the single supplement for the Goods and Services Tax (GST) tax credit, the non-taxation of medical benefits received by a spouse or partner under employee benefit plans, contributions to spousal or partner registered retirement savings plans (RRSPs), rules that permit spouses to split investment income, rules that prohibit income splitting, and numerous credits and deductions that can be transferred from one spouse or partner to the other, such as medical expenses and tuition credits.³⁴

It is no secret that joint taxation provisions of any kind tend to disadvantage women. As early as 1970, it was recognized that joint provisions really only benefit single-income couples — couples who can afford to live on one income — and penalize two-income couples (RCSW 1970: Chapter 5, 291). At the same time, they penalize couples with equal incomes and reserve the largest benefits for couples with the most unequal incomes. Joint provisions have this effect, because they set up a form of legalized income splitting between couples. When income tax rates are graduated, with the lowest tax rates being paid by taxpayers with the lowest incomes and high rates by those with higher incomes, then income splitting will produce tax savings for almost all couples. The only couples who will not be able to reduce their taxes through income splitting are those whose incomes are so low that they both pay the lowest tax rates, or perhaps have no tax liability in the first place.

Because couple-based tax provisions give the biggest tax benefits to couples living on just one income, the minute the non-earning spouse or partner begins to earn any income at all, the size of that tax benefit goes down. The tax benefits of joint provisions disappear completely when both spouses earn exactly the same amounts of income. Thus, it can be said that joint tax provisions provide fiscal incentives to women's economic dependency; the more dependent a woman is on her partner, the larger the tax benefits from joint tax measures. On the other side of the coin, it is also true that joint tax provisions provide disincentives to women's labour force participation; the more income a woman earns, the smaller the couple's tax benefits from joint tax provisions will be.

Joint tax provisions are sometimes described as generating either a "tax on marriage" or a "marriage bonus." The tax on marriage concept refers to situations in which members of a

married couple (or legally recognized cohabitants who are treated as if they were married) actually end up paying higher taxes in a situation than they would if they were taxed as two single and unattached individuals. The marriage bonus concept refers to the opposite effect — situations in which joint tax measures actually give the married or cohabiting couple a lower tax bill than if they were taxed as two single and unattached individuals.

The concepts of the marriage bonus and the tax on marriage are relevant to analyzing women's labour force participation rates, because depending on the type of provision in question and whether a marriage bonus or marriage penalty is generated, they can have a quite significant impact on women's engagement in paid work.

Consider, for example, the couple-based income limits that regulate claims for the CTB. A single mother will receive the full benefit if her income remains under the income cut-off. Two single mothers living together as roommates will each receive the full benefit if each of them remains under the LICO. But if the two single mothers were to marry each other (or were deemed to be cohabiting), they would both lose most of their child tax benefits, because their two incomes would be combined for purposes of determining their eligibility for the CTB. With combined income that is double the amount of the LICO amount, they would receive only a fraction of their previous benefit. In this case, the tax on marriage is the total amount of benefits lost by both.

Most joint provisions generate marriage bonuses only for couples living on one income. And most marriage penalties or taxes on marriage arise when both spouses have some income. The more nearly equal those two incomes are, the larger the marriage penalty.

These incentive and disincentive effects have to be considered in light of the alternatives available to the couple. Some women have such low incomes that they would rather become economically dependent on their partner than leave the relationship to receive the maximum tax benefit as a single individual. But that is the choice posed by such provisions: the only way to avoid the tax on marriage effect is to leave the relationship. When the benefit that hangs in the balance consists of social assistance payments or other forms of welfare, such as the old age security payments, the taxpayer must choose between leaving the relationship or accepting the lower benefit amounts given to married and cohabiting couples.

The size of the barriers to women's paid work that flow from joint tax provisions in particular situations can be measured quite precisely. The barrier is the amount of income earned by the woman that will be lost as the result of the overall increase in the couple's combined tax burden, when compared with what their combined taxes would be if they were separate individuals. Methodologically, there can be some questions when the single rate of tax might be affected by assumptions about who can claim a child as a dependant for purposes of the equivalent-to-married credit, but in general terms, the disincentive effect will be measured by calculating the tax on marriage that arises from the specific situation.

Compound Effect of Tax Barriers

Work choices, employment opportunities, personal resources and tax provisions all interact in dynamic fashion. It is highly unrealistic to look at any one of these factors in isolation from the others. Particularly where women's paid versus unpaid work is concerned, the interaction of the

various penalty and incentive effects of income taxation on women have to be considered when looking for insights. Because the effects of joint or couple-based provisions appear to be key in intensifying other tax-based effects, the relationship between joint provisions and other tax barriers is outlined here.

Relationship to the Welfare Wall and Poverty Trap Effects

The flattening of the overall income tax rate structure over the last two decades in Canada has resulted in increased tax loads on low-income taxpayers when compared with taxpayers with higher incomes. Thus, the income tax system raises the welfare wall and deepens the poverty trap for women who are able to move off of social assistance through paid work. The combination of income tax rates payable on earned income and the cost of lost social assistance payments can produce negative changes in income, making it financially illogical for women to seek paid employment.

The loss of the social benefits delivered through the income tax system can have the same effect. When the loss of tax benefits is “stacked” on top of positive income tax rates payable on earned income, the result is the same: it can be too expensive for low-income women to move from economic dependency to paid work. The “stacking” effect of losing various tax benefits as women’s incomes increase also means that women face high positive rates of taxation, if they attempt to support themselves through paid work.

Relationship to Tax Exemption of Unpaid Work

The growing use of couples-based eligibility criteria to regulate access to social and tax benefits means that many women realize that their families will gain more benefit from their unpaid work in the home than they will from their paid work. Child-care expenses are an important factor in this regard. The fact that child-care expenses are private individual expenses and not available as public benefits prevents women from easily moving out of unpaid work when their children are young. The fact that child-care expenses are not even fully deductible means they automatically reduce women’s after-tax incomes, again inferentially raising their effective tax rates.

Relationship to Income Tax Rate Structures

The major structural features of the tax system that interact with and intensify non-tax fiscal barriers to wage force participation include:

- the degree of progressivity or regressivity in the total tax system, particularly, the degree of progressivity in the income tax system;
- the way taxable income, allowances, deductions and other tax benefits are defined;
- the impact of not including unpaid work in the tax base; and
- the way joint tax instruments operate within tax policy in relation to women (Gustafsson and Bruyn-Hundt 1991: 31, 33).

As in non-tax fiscal policy, the welfare wall and poverty trap create barriers to women’s paid work whenever a rapid decline in tax benefits or high tax-back rates on non-tax benefits interact with income tax rates (Baker 1995: 121; Solera 2000: 8). The expanding tax on marriage is often paid by women, not by men, because their paid work is considered to be secondary to that of

their partners and, thus, is more vulnerable to the substitution effect when the overall profitability of unpaid work is greater than that of paid work (Lahey 2001b).

All these effects are further intensified by the recent trend toward creating new caregiver credits for those who perform unpaid caregiving work. Not surprisingly, most of the individuals who qualify for these caregiving credits are women. Overall, these credits have the advantage of monetizing women's unpaid work which, by itself, is not a bad thing. However, these credits do not bring any entitlement to social insurance or unemployment insurance like cash incomes would. Even worse, they hold out small cash incentives for shifting more of women's work effort in the direction of unpaid caregiving work. In the larger picture, this regressive impact is of particular concern (Keefe and Fancey 1999: 201).

All these effects are intensified when income tax rates on low incomes are increased and rates on high incomes are reduced. This has, in fact, been the trend since the late 1980s in Canada.

Relationship to Family Sharing of Incomes and Property

The experience with joint filing in the United States has demonstrated that when tax liability follows legal ownership of incomes and property, individual taxation of people in relationships promotes economic sharing. The opposite is also true. Joint taxation promotes economic individualism. This seemingly paradoxical effect arises, because joint taxation presumes people share ownership when they do not and, thus, bases tax liability on a presumption instead of on reality.

Giving people who do not share incomes or property the tax benefit of presumed sharing eliminates any incentive they might otherwise have to share. Especially because family property law in Canada has increasingly come to recognize women's equitable ownership of family property, the tax system should permit those equities to define income tax liability. Equity in incomes and property is best supported by policies designed around the standard of vertical equity among individuals. When policies are designed to promote horizontal equity between couples without regard to the individual roles of those partners, joint taxation discourages pooling, sharing or other forms of partnership behaviour.³⁵

Impact on Women's Labour Force Participation Rates

There is considerable evidence that women's labour force participation rates are measurably affected by the level of child care available to them and by other non-tax factors, as well as the impact of taxation on their marginal rates of tax, after-tax and after-expense incomes, the weight of non-waged work and its relative value to the couple overall, and joint taxation provisions.

Joint provisions are particularly significant to women's labour participation, because they simultaneously increase the marginal tax rates of the no- or low-income spouse and reduce the marginal tax rates of the higher-income spouse. When compared with individual tax treatment, couple-based tax provisions violate the principle of vertical equity at the same time that they intensify gender inequities. This is because joint taxation disparately impacts on women's labour force participation rates generally and creates a bias against women's entry into waged work in comparison with men.³⁶

Because women's engagement in paid work has been found to be more sensitive to incentives and disincentives than men's, women are considered to be more likely to substitute unpaid work for paid work when faced with higher rates of income taxation on their earnings. The stacking effect of joint taxation triggers this response.

Relationship to Social Assistance Income Cut-Offs

These behavioural effects have been found to be exacerbated when the couple is used as the basic unit for welfare benefits as well as for income taxation. The combined effect of using couple-based LICOs to regulate access to social assistance and tax benefits produces super-barriers to the labour force participation of women who receive social assistance.

When women lose their welfare benefits due to their spouse's earnings, the only way the loss can be compensated is to seek waged work. Joint taxation then increases the combined tax rate to as much as 75 to 86 percent at the lowest income levels (Battle and Torjman 1993: 1). This rate drops as their employment earnings reach the \$15,000 level, but the regressivity of the income tax rate structure is not completely phased out until somewhat higher incomes are reached (Lahey 1988: 342). The welfare wall built into income taxation magnifies the poverty traps and welfare walls that are built into non-tax fiscal programs. Both of these systems then directly reinforce the pressure on women with marginal employment to allocate more of their time to unpaid work. This, in turn, reinforces their economic dependency and makes re-entry into sustainable paid work further down the road much less likely.³⁷

3. REMOVING FISCAL BARRIERS TO WOMEN'S LABOUR FORCE PARTICIPATION: POLICY OPTIONS

The disparities between women and men's work lives are deeply rooted and substantial. Whether these disparities are expressed in terms of shares of pre-tax income, post-tax disposable income, lifetime incomes by age and sex, poverty or unpaid work, it is clear that Canadian women still work longer hours, receive far fewer benefits and much smaller incomes than men.

The social and economic forces that maintain these disparities all run in the same direction: they all reinforce the long-standing barriers to women's labour force participation.

- Sex–role stereotypes are reinforced by occupational stratification.
- Women's ongoing responsibilities for unpaid work push them in the direction of part-time and other marginal forms of paid work.
- Part-time and irregular paid work generates smaller incomes and fewer benefits.
- Having low incomes and limited employment- or work force-related benefits makes women more vulnerable to poverty and economic dependency.
- Being dependent sets women up for becoming responsible for unpaid work in the home, especially when there are young children in the home.
- The lack of employment insurance, retirement benefits and other financial safety nets makes it easier for women to avoid seeking paid work that would perhaps disqualify their families for social assistance or tax credits.
- Couple-based tax and social benefit provisions stack hidden additional taxes and costs on women's incomes from paid work, making it diseconomic to move from unpaid to paid work.
- The lack of adequate child-care resources, in particular, reduces women's disposable incomes from paid work to the point where some families are better off when they work in the home.
- Joint tax and social assistance provisions reinforce large disparities in spousal incomes.

Economists and statisticians who are aware of these gender dynamics have long recognized that there is no one solution to this complex interweaving of these forces. The solutions that have been proposed have all contemplated multi-faceted policies designed to take on as many dimensions of these problems as possible. As long as discrimination in hiring, promotion and retention remains unchecked, and as long as employment equity legislation and human rights codes remain ineffectual to counter occupational segregation, the “sticky floor” effect and the “glass ceiling” in the paid workplace, making adjustments to tax and benefit programs cannot by

themselves eliminate all the barriers to women's paid work. However, tax and benefit provisions do, in the aggregate, create powerful pressures that perpetuate these cycles of disadvantage.

What is particularly compelling about addressing these fiscal factors is the fact that with the exception of the much-vaunted national child tax credit, the *Income Tax Act* and related fiscal programs have *never* undergone systematic scrutiny to ameliorate the impact of fiscal programs on women's economic disadvantage. Rather, provisions have tended to be viewed in isolation, either through litigation under the *Canadian Charter of Rights and Freedoms* or through focussed policy analysis. Isolated changes that are not made in the overall context of barriers to women's labour force participation are not likely to have much impact.

This chapter considers five basic policy strategies that can help reduce existing fiscal barriers to women's labour force participation. The first strategy considered is the conversion of all the couple-based and joint tax provisions into individual provisions. This would eliminate all the disincentive effects flowing from the marriage bonus and marriage penalty effects. The second strategy is to create a second-earner tax exemption designed to neutralize the various costs of moving into paid work — the loss of tax exempt unpaid work, the costs of purchased child care and other costs associated with paid work. Such an exemption could also be extended to single individuals moving off of social assistance into paid work, since the effect of leaving welfare is similar to leaving the unpaid sphere of domestic work.

The third strategy is to reduce the income tax rates levied on low incomes. This would primarily benefit women, because of their relatively lower incomes, but it would not select out married or secondary workers alone. It would affect all taxpayers with low incomes. This strategy could be combined with deductions for actual child-care expenses and other work-related expenses. Expanding the exempt amount would also help counter the existing exemption of unpaid work from income taxation. A fourth strategy is to use the regulatory function of income tax provisions to ameliorate some of the inequities that flow from the tax treatment of fringe benefits and the limitation of CPP, EI and employer pension plans to full-time workers.

The final strategy — an earned income credit — is considered as a fallback or “second best” alternative to the first four strategies. If it is impossible, politically, to achieve any of the first four changes, then an earned income credit could be designed to achieve some of the above effects in a more limited way. A note of warning about earned income credits, however. The national CTB already contains a very limited version of an earned income credit, which is so narrow in scope that it actually forms its own barriers to women's participation in paid work. (It is limited to taxpayers with children, and is a joint provision that severely penalizes women with adult partners.) This proposal is for an earned income credit that has been completely removed from the child tax benefit system and is more generally aimed at offsetting the impact of the rest of the fiscal provisions that burden women's paid work.

The discussion in this chapter focusses on the justification for, and anticipated effects of, these proposals. In Chapter 4, the distributional effects of these strategies are modelled using simulation software to give some idea of how they might be expected to affect the gendered income gap and the gendered allocation of poverty in Canada.

Recast all Joint Provisions as Individual Provisions

The Canadian income tax system can best be described as a hybrid of individual and couple-based provisions. On a strictly legal basis, the individual is the basic tax unit. However, the large number of provisions that adjust income tax liability in light of marital status or cohabitation and aggregate family incomes have turned the *Income Tax Act* into a statute that is functionally more joint than individual in its impact on couples who are married or cohabit.³⁸ Simply put, the presence of joint tax and benefit provisions deprives women of the chance to pay the lowest rates of tax on their incomes. They are literally forced by the aggregation or income-splitting nature of joint tax provisions to add their incomes to those of their partners, which results in calculating their tax liability at higher rates.

Most of the couple-based or joint tax and social welfare provisions in existence today were originally fashioned around the ideal of the single-income, nuclear family headed by a male. Given the vast changes that have taken place in the nature of Canadian families (Statistics Canada 2002a) and in the law relating to women and families over the last century (Arnup 2001), it may seem anomalous that these types of provisions appear to have remained so entrenched in Canadian fiscal policy. After all, the federal government for years has claimed that it is opposed to the U.S. model of joint filing of spousal incomes, because of its regressive impact on second income earners, and even the federal government appears to understand that recurrent demands from the political right for U.S.-style joint filing is really an attempt to re-establish the single-income household headed by a male as the paradigm of fiscal policy.

There are three basic reasons for the continued popularity of existing joint taxation and social benefit measures. Probably the most important reason is that many of the joint provisions, like the dependent spouse credit and all the transferable credits that can go along with it, are simply not perceived as being joint tax measures. They are seen as being adjustments to *individual* tax measures that are a “good thing” for couples living on only one income. This view does not consider the impact of such provisions on the economic calculus that women go through in making decisions about paid versus unpaid work. A second reason is that the more obviously joint types of provisions, like the family income cut-offs for the CTB or limiting the equivalent-to-married credit to single parents, seem to make sense to a lot of people who tend to agree that welfare should only go to those with low incomes (Brodsky and Day 2001). And women with income-earning partners are not thought of as having low incomes, even when they have no incomes. They are thought of as having the right to be supported comfortably by another adult (McCaffery 1997).

Third, most people seem to think of joint provisions only in terms of the benefits those provisions give to people (the marriage bonus). Few seem to be aware that most joint provisions are actually designed to impose tax penalties on couples (the tax on marriage). Thus, many more people seem to be aware of the value of the marriage bonus a couple can get by claiming the spousal credit than they are of the marriage penalty built into the GST credit formula, the Old Age Security (OAS) benefit schedule, or the CTB. That is because the spousal credit is potentially available to all taxpayers, while only people who actually have to live on low incomes will be attuned to the precise impact of the marriage penalty provisions, all of which tend to be connected to low-income provisions. This means there will always be lots of people who feel they have something to lose if

the spousal dependency credit is repealed, for example, but far fewer people will agitate for repeal of penalty types of provisions aimed at those with low incomes. Thus, all these types of joint provisions may well remain entrenched in Canadian law until there is enough principled political will to eradicate them.

Despite growing evidence that joint provisions pose significant barriers to women's labour force participation, Canadian governments have been very slow to consider how they should be restructured. In a breakthrough set of recommendations published in 2001, the Law Commission of Canada added its voice to that of the 1970 Royal Commission on the Status of Women in demanding the repeal of the dependent spousal credit. Indeed, the Commission went one step further, and also recommended that the refundable GST credit and federal old age income supports be converted to individual benefits instead of being based on couple incomes.³⁹ Poorly understood even by tax policy analysts (Duff 2001) and ignored in the political arena, the Commission's recommendations have, to date, had no impact on the actual provisions of income tax and social welfare laws.

If 30 years' worth of recommendations from independent federal commissions have not yet been sufficient to bring about the repeal of the dependent spouse credit, then it seems unlikely that all the rest of the joint tax and benefit provisions that create financial disincentives to women's labour force participation will be displaced in the near future. It is worth noting, however, that Canada remains one of the declining number of countries that continues to treat marital status as relevant to income tax liability. Beginning in the 1980s, countries like Denmark that had already begun to grant legal recognition to diverse family forms (including heterosexual and same-sex cohabitants) had recognized that it made little sense to shape income tax and social benefit rules around the outmoded image of the single-income nuclear family headed by a male (Lund-Andersen 1990).

In developing proposals to restructure joint tax and social benefit provisions with individual provisions, two main questions arise.

- Is it realistic to expect that making such a change could have a positive impact on women's labour force participation rates?
- Do all types of joint provisions contribute to this effect, or are some of them "good" joint provisions that should be retained?

Comparative Data on Women's Employment Rates

Fundamental structural features of the tax-transfer system, like the income tax unit or the benefit unit, do not change often. Thus, it is difficult to demonstrate within any given tax system just how changing from joint to individual taxation would affect women's labour force participation rates. However, it is possible to draw some conclusions from comparisons among different countries that use different tax units. This type of research has become more feasible with the development of large population databases and micro-simulation software.

Numerous comparative studies of income tax and social benefit structures have found that basing income tax liability on the individual instead of on the married couple correlates with increases

in women's rates of participation in paid employment (OECD 1990; Gustafsson and Bruyn-Hundt 1991: 31, 52; McCaffewry 1997: Chapter 12; O'Donoghue and Sutherland 1999: 589-90 and Table 9; Callan et al. 1999; Lochhead and Scott 2000: 47, 54; Forssén and Hakovirta 2000: 5). These studies have also found that individual taxation tends to ameliorate the regressive impact of the total tax/transfer system which, of course, is one important reason why shifting from the joint unit to the individual unit will be beneficial to women entering paid work.

Tax units do not fall neatly into pure joint or pure individual models. As in the Canadian system, many tax units are a hybrid, combining some elements of joint taxation and some elements of individual taxation. Studying units that fall across the continuum from joint to individual has made it possible to confirm that the more fully the tax system bases liability on the individual unit, the higher the incentive becomes to switch earnings from the high income earner to the low income earner to minimize tax liability. In most couples, that means the use of the individual unit encourages women to move into paid work.⁴⁰

Four basic variations on the tax unit have been studied in relation to women's labour force participation rates.

- **Aggregation:** This is a joint model in which the couple's incomes from all sources are combined to determine total tax liability.
- **Income splitting:** This is a joint model in which the couple's income from all sources is added together and then half of the total is attributed to each person.
- **Individual with joint elements:** This is a hybrid model in which each person's income is counted separately, but adjusted in light of marital status for some purposes (e.g., aggregating income to determine whether the couple can claim child benefits or aggregating investment income but not earned income).
- **Individual:** This treats each person as an unattached single taxpayer, and any reference to marital status is minimal or is intended to block tax avoidance.

The particular model adopted by a country tends to be consistent with underlying social assumptions and patterns. Countries, such as Spain, which have low female labour force participation rates and low divorce rates, tend to use the married couple as the tax and social benefit unit. Countries, such as Sweden, with high female labour force participation rates and high rates of cohabitation and divorce, tend to use the individual as the taxation and social benefit unit (O'Donoghue and Sutherland 1999: 572).

Not all joint or individual structures are the same. There is considerable variation within each category. Joint systems can vary in the types of incomes that are aggregated or split, the degree of splitting and the rates of tax applied to the split shares of incomes. For example, both the United States and France use the income splitting form of joint taxation, in which all couple income is added together and then equal amounts are taxed to each partner. The French family quotient version of income splitting, however, involves the entire family in the aggregation-splitting calculation: all family income (including children's) is added together, and then shares

of the total are attributed on the basis of a family quotient to each member of the family (including to the children).⁴¹ France employs the mandatory joint taxation system using the family quotient system and has a correspondingly low female participation rate of 41 percent. French couples who are governed by separation of property are penalized in a draconian fashion to the extent that the non-property owning spouse (i.e., the woman) has the tax burden for income over which she has no legal control.

Spain and Luxembourg, which aggregate family income, have the lowest participation rates (25.3 percent and 33.6 percent). Spain gives couples the option of joint taxation using tax rates that are less than double those applied to single people. This moderates the impact of joint taxation to a very limited degree (O'Donoghue and Sutherland 1999: 574). These two countries still have the lowest rate of employment for married women, and in fact, Spain's is the lowest (O'Donoghue and Sutherland 1999: Table 9, 579).

In contrast, countries, such as Denmark, Finland, Sweden and the United Kingdom, all of which employ the individual as the tax unit with few family-based provisions, have the highest rate of female work force participation in Europe (Lahey 2001a; O'Donoghue and Sutherland 1999: 579). Sweden, in particular, has the highest female participation rate of 80 percent (Lahey 2001a; O'Donoghue and Sutherland 1999). Sweden has moved away from basing its tax system on adult relationships, and has moved a number of issues out of the income tax system completely. For example, child care benefits are provided through state-funded child care, reducing the need to adjust income tax liability in light of child-care expenses. Sweden has managed to achieve neutrality as to relationship forms as well as gender and income equity in the design of its tax system, which tends to minimize barriers to women's labour force participation.

Among countries that have adopted the individual as the basis for taxation, the more joint provisions have been incorporated into the individual model, the lower the female labour force participation rates (Gustafsson and Bruyn-Hunt 1991: 52-53). Thus, countries that have incorporated numerous joint measures into their individual tax unit, such as Austria, Greece, Italy and the Netherlands, have lower participation rates than in Sweden. However, their participation rates are still higher than in countries that use joint units.

The Canadian income tax system contains some 100 provisions that adjust tax liability in light of marital status. These include the marriage and equivalent-to-married tax credits and an assortment of transferable credits. As demonstrated in one study, the marriage credit accounted for approximately \$3.5 billion in foregone federal revenues in 2000. Yet 53 percent of the benefits were claimed by those earning more than \$30,000, compared to 41 percent earning \$10,000 to \$30,000 and a mere seven percent earning less than \$10,000. Clearly, the benefits of these provisions accrue to the highest income earners. In contrast, the results are stark for the equivalent-to-married credit, which is designed to assist single parents (who are now predominantly women): virtually all the equivalent-to-married credit claimants — 99 percent — earned less than \$10,000 (Lahey 2001a: 83). In the case of the transferrable credits provided by the *Income Tax Act*, a similar pattern appears. In 2000, the transfers claimed by men were 10 times that of women, and only 11 percent of women claimed any transfers, most of which were transferred from dependent children in conjunction with claims for the equivalent-to-married credit (Lahey 2001a: 84).

The labour force participation rate for full-time married women workers in Canada in 2000 was 58 percent (OECD 1990). This is considerably lower than the 80 percent rate in Sweden, and is also significantly lower than the 68 percent rate in the United States.

It is clear from the comparative research findings that women's labour force participation rates increase when they are treated as autonomous individuals for tax purposes and have access to adequate child-care services. The Swedish model illustrates that when the state takes an active role in removing fiscal barriers to paid employment, women will enter the paid work force at rates more comparable to those of men (80 percent for women, 90 percent for men) (Lahey 2001a). In contrast, the U.S. model — a joint system that is functionally similar to the Canadian approach — demonstrates that women's employment rates fall when joint tax measures push their income taxes up faster than their cash incomes actually increase. What is particularly alarming is that even though the United States has a joint filing system, women's labour force participation rates in Canada lag behind even those in the United States. Although Canada has a large number of provisions designed to help low-income families, they place strict income limits on eligibility. If both spouses have incomes, their joint incomes will easily disqualify them from claiming the benefit. Thus, these joint provisions appear to be almost deliberately designed to drive most low-income women out of paid work and into unpaid work.

Given the goal of increasing women's access to paid work in Canada, the main policy strategy for achieving that would be to eliminate the many joint provisions in the Canadian income tax system and reshape them as individual provisions.

Canadian Joint Provisions

Canadian income tax law and numerous social assistance provisions contain a wide variety of joint provisions. Some of these joint provisions reduce or even completely deny benefits to married persons, and create barriers to women's labour force participation by increasing the tax burden on a woman's earnings if she marries as opposed to remaining single. (These provisions are sometimes described as imposing a tax on marriage.) Other of these joint provisions use family income formulas to target benefits at low-income families or to make sure the benefits get cut off once family incomes reach a certain level. These provisions create barriers to women's labour force participation, because they reinforce the bias against secondary workers in the family unit.

These are the main provisions in Canadian income tax and social assistance laws that have these effects:

- the spousal dependency credit;
- credits and deductions transferred from spouses;
- the equivalent-to-married credit;
- credits transferred from children;
- the refundable GST credit and single supplement;
- the refundable CTB;
- the child-care expense deduction;

- old age security spousal pension allowances;
- the Guaranteed Income Supplement (GIS) formulas;
- social assistance benefit schedules; and
- numerous provincial tax provisions.

Each provision creates barriers to women's waged work, because eligibility for each benefit is tied to marital status in a way that places financial pressure on women to move away from paid work and toward unpaid work.

Spousal Dependency and Transferable Credits

The spousal dependency and transferable credits were designed to create incentives for women to become economically dependent on their husbands. Although cohabiting heterosexual, lesbian and gay couples do not display the same tendencies toward unequal incomes and the resulting economic dependency associated with married couples, the spousal dependency and transferable credits have been extended to all these types of conjugal couples instead of simply repealing the whole structure.

These credits (and some deductions that can be transferred) create a bias against secondary workers, because they make it more expensive, from a tax perspective, for a second spouse to enter into paid work than it is for the first spouse to go into paid work. When the first spouse begins to earn income, he or she can earn up to \$7,756 in income before having to pay any taxes.⁴² If the second spouse does not work, then the first spouse can earn up to \$14,341 before having to pay any income taxes. That is because the first spouse can claim both his or her personal tax credit as well as a spousal tax credit of \$1,054, as long as the second spouse does not have income of more than \$659 for the year.⁴³ Once the second spouse's income exceeds \$659, then the spousal credit will be reduced accordingly.

The value of the spousal tax credit is magnified by the tax exemption of any unpaid work the second spouse is able to do instead of working for wages. As a result, the first spouse can earn up to \$14,341 on a tax-exempt basis, and the second spouse can produce unpaid work valued, on average at \$15,000 — also tax exempt. The spousal tax credit provides just enough incentive to push the second spouse in the direction of unpaid work instead of toward paid work.

Contrast that after-tax position with a two-earner couple. The second spouse can claim his or her own personal tax credit and earn up to \$7,756 in paid work on a tax-exempt basis. The combined after-tax cash income of the two spouses would be \$15,512. But the second spouse's ability to produce unpaid work worth \$15,000 would be substantially impaired. The result would be a reduction in the overall value of goods and services available to the couple.

The existence of other credits and deductions that can be transferred from the second spouse to the first spouse will increase the amount of cash income the first spouse can earn without having to pay any tax. The larger that figure becomes, the less pressure there is on the second spouse to work for pay. Thus, the transferable credits as well as the spousal tax credit tend to create a bias against the second spouse's paid work.

When the second spouse is a woman, the pre-existing cultural expectation is that she will be the spouse to make the paid–unpaid adjustment that will optimize the couple’s after-tax position. Even if both spouse’s have equal expectations of incomes, the overwhelming statistical probability is that it is the female spouse who will be expected to perform unpaid work and to withdraw from waged work if that is what would best enhance the family’s after-tax position.

Equivalent-to-Married and Transferable Credits

The equivalent-to-married (or equivalent-to-spouse) credit gives a single parent a tax credit that is like the spousal tax credit. Most of the same types of credits and deductions that can be transferred from one spouse to another can be transferred from the family member to the supporting person. The values of all these credits are roughly similar.

Unlike the spousal tax credit, which is available only to legally married spouses and cohabiting couples, the equivalent-to-married credit is only available to unmarried/cohabiting persons. Thus, if a person who has been single gets married or cohabits, the equivalent-to-married credit will be lost immediately on the marriage/cohabitation. The equivalent credit is affected by the income of the dependent person, but the income limits become completely irrelevant the minute the taxpayer marries.

As a bare tax on marriage, the equivalent-to-married credit reinforces the bias toward women’s unpaid work, because once a single mother marries, she loses that credit and receives nothing similar to replace it. If she continues to work for wages, her tax bill will go up by the amount of the credit lost (by about \$1,000 per year or more). If she can benefit the family by shifting to unpaid work, her new wife or husband will be able to claim the spousal tax credit, leaving her free to produce the full value of unpaid work. Thus, the structure of the equivalent-to-married credit pushes her in the same direction as the spousal tax credit – toward unpaid work.

GST Tax Credit and Single Supplement

The GST credit, a fully refundable tax credit, has a bare tax on marriage effect as well. Two single persons would receive \$330 each, for a total of \$660 per year, but two persons who are considered to be spouses or cohabitants would receive a total of \$432 per year. The simple fact of marriage/cohabitation results in the immediate loss of the single supplement attached to the GST credit. This single supplement incrementally reinforces the bias in favour of women’s unpaid work. Once married/cohabiting, a woman who works for wages will experience an immediate reduction in the amount of her GST credit, while her earnings do not change at all. Her spouse’s GST credit will also be reduced. This marginally increases both of their income tax rates. If she can substitute unpaid work for the now more heavily taxed paid work, she will experience an overall increase in her after-tax economic power.

The GST credit is also subject to joint income limits, which operate in a much more dramatic fashion. Once a single person’s income reaches \$28,193, the GST credit erodes at the rate of five percent of the excess over that limit. So too does the GST credit received by married/cohabiting couples. To go back to the example of two single persons each receiving the GST credit, not only is the annual amount received by the two of them together larger, but between the two of them (if they were, for example, just roommates) their overall income limit would be double the \$28,193,

or \$56,386 per year. If they were married to each other, their credit would be lower and the limit of \$28,193 would apply to both of their incomes combined.⁴⁴

This joint income limit reinforces the bias against women's paid work and pushes them even further in the direction of functioning as secondary earners in the family unit. At the margin, it is most likely to be the husband's income that is higher (for opposite-sex couples), and if either of them is induced by loss of the GST credit to reduce hours of paid work, it is not likely to be the husband. Any reduction in the wife's earned income can be offset by the cash value of the retention of the GST credit and by the value of her additional unpaid work. While the amounts involved in the GST credit are relatively small as tax benefits go, they operate in much the same way and are based on the same income limits and aggregation concepts as other joint benefit provisions that involve larger sums. Thus, as part of an overall pattern affecting women's labour force participation rates, the GST credit is one piece of a package of similar types of provisions.

Refundable Child Tax Credits

The child tax credit contains both a basic credit and a supplementary credit. Both are fully refundable credits, which means that parents do not have to have any income to claim them. They do, however, have to be prepared to file an income tax return to qualify.

The basic credit is \$1,169 per year for each child.⁴⁵ Single parents or couples with incomes up to \$33,487 are entitled to claim the full credits. Once family income exceeds that amount, then the credit is reduced as income increases. While the rate of reduction is affected by the number of children in the family, of far greater significance is whether one or two spousal incomes are considered when calculating eligibility. Most couples will reach the \$33,487 limit much more quickly when two incomes are added together than they will if only one income is taken into consideration.

The supplemental benefit works on similar lines. The basic supplemental credit is \$1,463 for the first child, \$1,254 for the second child and \$1,176 for each additional child. These amounts are added right on top of the basic credit, bringing the amount of the total credit for qualifying families to \$2,423 for the first child. The family income cut-off is much lower for this part of the credit — \$21,529 — and the credits are reduced at much larger rates (beginning at 12.2 percent of the amount of the family income over the cut-off). As with the basic credit, most couples will reach the \$21,529 limit much more quickly when two incomes are added together than if only one income is involved.⁴⁶

From the point of view of the impact of these limits and amounts on women's labour force participation rates, it can be seen that the amount of benefits involved and the income limits can pose a very serious inducement to women to focus their work efforts in unpaid work. With tax exempt receipts of perhaps as much as \$5,000 per year for a couple with two children, the child tax credits can tip the balance in favour of unpaid work, which has an average value of around \$15,000 per year, and more, when it involves significant child-care time. This bias is intensified by factors, such as the effect of the GST credits, discussed above.⁴⁷

Most important, the fact that a woman is married/cohabiting is what places her under financial pressure to consider shifting from paid to unpaid work in the first place. Two women living

together as housemates each with one child will effectively have combined income limits of \$43,058 and total child and GST credits of \$5,924. Two women married to each other would have a combined income limit of only \$21,529 for the both of them (to qualify for both the basic and supplemental credits), and would receive total child and GST credits of only \$5,487.

For women on the economic margins, the overall structure of the child tax credits clearly reinforces the bias toward maintaining women as secondary earners. When women have to choose between working for low wages versus keeping the child tax credits, the child-care credits can be more attractive in situations in which withdrawal from paid work brings with it reduced costs for purchased child care and an increase in the value of the paid work the women can perform. Or full-time work can be replaced with part-time work that keeps the total family income below the cut-offs. As a result, the joint structure of the child tax credits reinforces the bias against secondary workers and further reduces women's rates of labour force participation.

Child Care Expense Deduction

Parents who incur child-care expenses so they can earn income or attend school can deduct those expenses when they calculate their income for tax purposes. The positive feature of this deduction is that it recognizes that child-care expenses are some of the unavoidable costs of being able to earn income. However, every feature of this deduction reinforces women's role as secondary earners and therefore does little to improve women's labour force participation rates or increase the stability of women's attachment to paid work.

Four features of the deduction formula produce this result. First, as discussed above, 25 percent of child-care expense claims will be removed from the supplemental tax credit (the National Child Benefit, or NCB) paid as part of the Canada Child Tax Benefit. This indirect tax-back mechanism actually reduces that element of the CTB faster than the rate of earned income net of deductible child expenses can ordinarily rise. The timing of the reduction in the CTB as compared with the timing of the realization of the income tax benefit of deductible child-care expenses further disadvantages women who have been receiving the NCB. This is because the refundable CTB credits are paid monthly directly to the recipients, whereas taxpayers cannot see the impact of deductible child-care expenses until after the end of the taxation year in which they were incurred and after they receive whatever refund cheque they are entitled to after filing their income tax returns in the following year (if they do get a refund at all). Even if the quantum of the tax benefit of deductible child-care expenses is actually the same or even somewhat higher than the quantum of the CTB payments for the tax year overall, this timing problem and the attendant "bunching" of the payment mean women's monthly incomes are reduced overall. Receiving a lump sum payment in the form of a tax refund up to 18 months after incurring some of the child-care expenses is simply not as useful to women who rely on the CTB to keep their families afloat.

Second, families are not permitted to claim the full amount of their child-care expense deductions. The limit per child is \$4,000 per year, and \$7,000 per year for children under the age of 7.⁴⁸ This means that if a two-earner family is committed to the long-term enhancement of the woman's earning potential by ensuring continuity of employment no matter what the child-care costs might be in the shorter term, it is not likely that the amount that is deductible will, in fact, cover all the actual costs. Full-time, in-home child care at minimum wage can easily exceed \$12,000 per year,

and many parents who work full time need more than full-time child care, because commuting time, etc. adds considerably to the length of time they must be away from the home each day.

Third, families are literally prohibited from choosing to invest in child care to protect and enhance the woman's long-term earnings potential. The deduction *must* be claimed by the lower-income worker in the family, and not even the full amount of child-care expenses can be deducted; the maximum deduction the second worker can claim is two thirds of that person's earned income. Anything over that limit is disregarded. This means that families are not permitted to invest in higher child-care expenses to enable the woman to keep pace in terms of years of experience with her male cohorts while their children are young. These two rules place a very heavy financial burden on couples who want to ensure that both parents work as continually as possible. If they cannot bear that burden, then the structure of the child-care expense deduction ensures that between the spousal tax credit and the tax exemption of the woman's unpaid work, the family will be able to ease the financial pinch by the woman's withdrawal from paid work.

The combined effect of all these limits on the deductibility of child-care expenses is to push women toward a draconian either/or choice: woman workers must be able to find work that is paid well enough so they can earn enough in the shortest possible work week to pay for all the family's child care at a rate that still falls within the per child and two-thirds earned income limits. Or, they must withdraw from waged work and do all their own child care to protect the employability of the primary income earner. Since the deductible amount for two children ages 6 and 8, for example, is only \$11,000 and, because child-care workers can charge minimum wages (and will also have to have their CCP and EI contributions paid), the only real options for women in this situation are to find work that is so highly paid that the partial non-deductibility of child-care expenses simply does not matter that much, or to find part-time work that is paid well enough to keep the two-thirds cut-off above the total amount that is deductible (in this case, \$11,000). Neither option is realistic. In any event, long before a woman enters into paid work simply for the purpose of taking home just one third of her total earnings, the sheer financial pointlessness of the arrangement drives most women with income-earning husbands back into unpaid work.

The impact of the personal exemption reduces even further the utility of the child-care expense deduction to the family. If a woman receives a full-time salary of \$14,000 and the family has incurred child-care expenses of \$11,000 for two children, the two-thirds limit will restrict the deductible portion of those child-care expenses to just \$9,233. But the woman's personal exemption will mean that the first \$7,756 of her earnings will be tax exempt. Thus, she will effectively only be able to make use of \$6,244 of the \$11,000 expenditure. None of it shifts over to her spouse, nor do these expenses create loss carry-overs that can be used to reduce prior or future income tax liability. Thus, the combined effect of these provisions operates on a very wide margin to increase the pressure on women to work for high incomes or not at all, and to turn their productive capacities to unpaid work. Even if a woman is not a first-rate cook or seamstress, she can, with young children, generate a large amount of value for her family on a tax-exempt basis simply by working in the home to care for the children. In this example, saving the cost of \$11,000 in child-care expenses and being able to give her husband the financial value of the spousal tax credit adds up to a larger after-tax income than if she persisted in working.

The solution to these biases is very simple: either parent ought to be able to deduct child-care expenses, and there should be no limits on the amount of child-care expenses that are deductible. The assumption that child-care expenses are incurred solely to enable secondary workers to engage in paid work is deeply discriminatory of women. Making these deductions available to primary income earners could become an inducement to both parents to work for wages, and would represent one small step capable of countering the many tax and social benefit pressures that push women into unpaid work.

Lifting the secondary-worker rule would have another effect as well. As it stands now, two workers who each have child-care expenses can share space, for example, and still claim their own child-care expenses. If they were to marry or to become legal cohabitants, then all those costs would be assigned to the one with the lower income. Thus, the current structure of the child-care expense deduction creates another draconian choice: the two people can choose to marry or cohabit and lose valuable tax benefits, or they can forego the close personal relationship and retain their maximum tax benefits. While less visible than the effect of assigning all the child-care expenses to the lower-income partner, this choice actually pushes women toward becoming single parents — and toward the poverty associated with being single parents. It is fine for people to assume that all men can afford to support all women, but the reality is that most men cannot support a family of three or four without some contribution by their partners and, in any event, the presence of two female or two male households in this set further breaks down such assumptions.

Social Assistance

Each province has social assistance programs, and the federal government offers a variety of top-up programs for older Canadians who do not have CPP benefits. These include the OAS benefits, the GIS, the spousal pension allowance for spouses/cohabitants of retired persons who are not old enough to receive their own benefits, and survivor benefits. Each of these types of social assistance uses family income limits to determine eligibility, and benefits are scaled back as total incomes exceed those limits.

The couple income limits in social assistance legislation and the clawback formulas push women away from paid work into the direction of unpaid work, because they offer derivative benefits based on relationships while also stacking women's earnings on top of men's when calculating eligibility. When a woman's part-time earnings can push the couple over the edge on eligibility, there is considerable pressure to withdraw from paid work and concentrate on unpaid work.

The spousal pension allowance goes even further than the couple-based income limits in reinforcing the treatment of women as secondary workers. By offering women between the ages of 60 and 64 a spousal pension allowance when their spouses aged 65 or older retire, any motivation that may have existed for such women to seek out part- or full-time work — perhaps for the first time in their lives — is negated by the sizable SPA. Once women reach the age of 65 themselves, they become eligible for the OAS benefits and GIS in their own right. The SPA ensures that women who have never accumulated their own CPP or other income security entitlements by the age of 60 will have no incentive to do so at that age either.

Provincial Tax Provisions

Provincial income tax provisions largely mirror and expand the above effects. Most provinces offer their own equivalents to all of the above types of provisions. Thus, the roughly 20 to 30 percent additional tax load imposed through provincial legislation locks in each of the effects described above. Some provincial credits for low-income people ameliorate some of these effects to slight degrees, but the general pattern is quite the opposite.

Permit Deduction of Second-Earner Expenses

The tax exemption of unpaid work creates an almost unshakable barrier to women's labour force participation. As seen above, the value of women's unpaid work is a powerful outside force that magnifies the disincentive effects of the many joint provisions in Canadian fiscal programs. Indeed, the entire fiscal system is clearly premised on the fact that women do and can be expected to do the bulk of unpaid work. This system of unpaid work makes it possible for full-time workers in families — mainly men — to work full time at all.

Researchers widely agree that in unravelling the many forces that keep women on the margins of paid work, and therefore on the margins of the cash economy, making structural adjustments to various government programs will not, by themselves, do anything to shift the burden for unpaid work from women.⁴⁹ As Swiebel (1999: 23), a distinguished analyst of women's labour issues, concluded in a study for the United Nations in 1999:

Structural adjustment programmes...implicitly call upon women to fill the gaps in social servicing with their unpaid labour. Structural adjustment policies suppose an unlimited supply of female domestic labour - "able to stretch so as to make up for any shortfall in incomes and resources required for the production and maintenance of human resources."

As Swiebel (1999: 23) went on to point out, this supply "is not infinitely elastic," with the result that the well-being of women suffers generally from the attempt to meet all these needs.

Women economists and fiscal theorists have long recognized that women's responsibility for unpaid work is the last vestige of gender feudalism, and one that is essentially beyond the reach of the state to alter. The allocation of work effort between home and market is a quintessentially private matter. So long as women's earnings remain but a fraction of men's, they will remain culturally designated to perform these functions.

Because of the nature of the problem, standard policy responses can actually *entrench* women's responsibilities for unpaid work and in turn *intensify* the barriers to women's labour force participation. The caregiver credit that was added to the *Income Tax Act* in recognition of women's unpaid work in caring for disabled or infirm family members is far too small to monetize women's unpaid work, and it actually provides a financial incentive to families to allocate *more* unpaid caregiving work to women. The caregiver credit literally subsidizes men's paid work efforts while supporting women in diverting their energies into the unpaid sector of the economy. So too does the old age security spousal pension allowance, for it monetizes women's lifetimes of unpaid work courtesy of the public purse and indirectly subsidizes the already heavily subsidized male economy

by giving substantial retirement benefits to women who, because of the inherent nature of unpaid work, are not really “retiring” with their older husbands, but are actually continuing to provide the family with untaxed, unpaid work.

The one strategy that is indicated is to counter the incentive effects of tax-exempt unpaid work with measures that would render women’s paid work just as tax exempt. This strategy could range from giving all secondary workers an automatic tax exemption equal to at least the value of what their unpaid work in the home would be worth, down to at least giving secondary workers tax deductions for purchased services and goods necessitated by their entry into paid work. The most favourable version of this approach would be to leave child-care expenses available as deductions from primary worker’s earnings, where there are two earners, but to extend tax exemptions designed to offset the lure of untaxed unpaid work to the secondary worker. Reducing the tax load on the second income would somewhat counter the pressures that continually push secondary workers away from taxed paid work and toward untaxed unpaid work.

Variations on this strategy have been implemented in numerous income tax systems. If the goal is to reduce this key fiscal barrier to women’s labour force participation, then the more comprehensive deductions should be considered over the more limited versions. Nor should the tax exemption of secondary worker’s incomes be limited solely to married workers who are considered to be secondary income earners. There are good policy reasons for treating single parents and those on social assistance as needing the same incentives to overcome the pressure to concentrate on unpaid work.

Alternative Models

Second-earner tax exemptions can be designed to neutralize just a few or all of the costs associated with moving into paid work. The options include permitting secondary earners to claim tax deductions for the value of unpaid work lost due to paid work, deductions for new employment expenses, and even provision of in-kind replacements for services such as child care. Not surprisingly, countries such as Sweden, which uses all three techniques to neutralize the disincentive effects of untaxed unpaid work, have the highest labour force participation rates for women (80 percent). Countries that provide no such measures, such as Canada, have much lower rates of paid work among women.

Reinstate the Employee Expense Deduction

The former \$500 employee expense deduction, although meagre, provided some relief for the unavoidable costs of participating in paid work. For low-income taxpayers, in the absence of direct subsidies to cover even transportation or clothing, the loss of the deduction was not insignificant. Although the revenue implications of this credit are miniscule, this deduction could be limited to qualifying second earners to increase its incentive effect in relation to secondary earners.

However, a flat \$500 deduction, which may have seemed generous when it was repealed in the 1980s, is completely inadequate. This is made clear by Statistics Canada’s new market basket measure (MBM), which provides a good outline of the basic costs of engaging in paid work. The MBM recognizes that disposable income is a function of out-of-pocket spending on child care, out-

of-pocket spending on non-insured health care costs, personal income taxes and the personal portion of all payroll taxes, alimony and child support payments, all mandatory payroll deductions for employer-sponsored pension plans, union dues and employer-sponsored supplementary health care plans. The basket itself contains geographically adjusted costs of food, clothing and footwear, shelter, transportation, and other goods and services.⁵⁰ These new data support the view that employment expenses claimable by secondary workers should be defined expansively and realistically, not just via a token deduction.

Expanded Second Earner Deduction

There is no reason why items like the cost of purchased meals in excess of home-prepared meals, the value of lost self-performed child care, housecleaning, home maintenance, as well as the direct costs of paid work cannot be incorporated into an expanded employment expense deduction that is expressly aimed at second earners. Given the realities of engaging in paid work without the benefit of an in-home unpaid worker to perform many of these services, women have no difficulty agreeing that these costs directly affect their ability to pay taxes. These are not simply personal consumption expenses.

When the costs of moving from unpaid to paid work are understood as directly affecting the ability to pay, the debate becomes whether these tax adjustments should be delivered in the form of tax deductions or exemptions from the tax base, on the one hand, or as tax credits, on the other. The standard response to tax deductions these days is that it is somehow fairer to deliver them in the form of credits. However, if the goal is to remove tax barriers to women's paid work, then casting a new second-earner exemption in the form of a credit would automatically limit its efficacy to lower-income workers and would penalize middle- and higher-income workers as they achieve what the exemption is designed to achieve — movement into paid work capable of providing significant and stable income.

The advantage of this proposal is that it has the potential to affect directly the economic calculus of paid work. Using the Swedish model as a guide, deductions for the loss of unpaid work as well as other employment-related expenses (and state-funded child care) have unquestionably promoted Swedish women's participation in the paid work force. Because women are particularly sensitive to tax policies that affect their overall after-tax incomes, access to independent exemptions to offset the loss of unpaid work opportunities would help overcome the barriers Canadian women face when contemplating paid work.

The main obstacle to the adoption of this model is that it requires the political will to address the costs of obtaining paid work not as a symbolic or token amount, but with a resolve to alleviate fundamentally the fiscal barriers that discourage the participation of women in the paid work force to levels at least comparable to American or top European countries.

Integrated Exemption Model

The exemption model could be expanded further and conceived as the cornerstone policy for a concerted program aimed at increasing women's participation in paid work. In this option, the employment expense is viewed as the umbrella for all costs associated with paid employment. In effect, it could even become the platform for the provision of tax exemptions to encompass the

full range of MBM goods and services associated with second-earner employment as well as refundable credits and in-kind subsidies for child and dependent care costs. An approach like this would require federal–provincial co-operation as well as a more rigorous approach to the integration of the income tax and social assistance programs found in the current child tax credit and benefit system.

Legislation in other countries offers a wide array of examples of how this integration could be pursued. The options include direct state funding of child-care facilities that are offered on sliding scales to different classes of workers, cash child-care subsidies, child-care vouchers, fractional deductions for child-care expenses and credits for child care. As previously discussed, Sweden has achieved the highest reported rate of women's labour force participation with its deduction for women and state funded child care. Belgium permits 80 percent of child-care costs to be deducted; Greece permits 40 percent. France has a child-care allowance for children under the age of 4 to a maximum daily amount, and up to 25 percent of child-care costs are deductible for children under the age of 7. Germany allows a "lone parent" to claim a lump sum deduction for child-care costs, while the Netherlands allows child care to be deducted for single parents for those expenses in excess of a prescribed limit for married couples. The United Kingdom does not have child-care deductions, and only Spain delivers tax relief for child-care expenses in the form of a tax credit (O'Donoghue and Sutherland 1999: 576-577).

Some countries have felt that public support for child-care expenses should be justified not in terms of attempting to promote women's participation in paid work, but to enhance early childhood education and ensure that children are not developmentally disadvantaged by substandard child-care arrangements. France makes tax credits available for children who attend secondary or tertiary education. Germany provides a higher allowance for children's education. An automatic deduction for expenses is given to Austrian families, but it depends on the composition of the family and earnings. Greece permits the deduction of certain education-related expenses, such as rent, paid by children attending educational institutions away from home, while Italy and Portugal allow for deduction of some or all of children's tuition fees. All of these types of provisions affect women's decisions to enter into paid work, and the resulting participation rates indicate there is a high correlation between adherence to the individual as the basic tax unit, avoidance of joint taxation and benefit provisions, and the availability of direct subsidies to alleviate the costs of reducing hours of unpaid work in child care and related activities.

The U.S. child-care model is also partially integrated with social assistance goals. The United States provides a mix of direct financing and non-refundable tax credits. The direct funding of child care is accomplished through six different federal programs, which in 1993, totalled approximately US\$2.05 billion (Heen 1995: 181). Some programs require the states to provide matching funds or to make a specific allocation of funds (e.g., to improvements in quality not quantity of child care) to trigger the release of federal funds. This approach has resulted in insufficient expansion of child-care resources. The largest federal program, the Aid to Families with Dependent Children (AFDC, now TANF) reaches only five to six percent of the caseload.⁵¹ The AFDC was closely linked with the Job Opportunity and Basic Skills (JOBS) program, which is aimed at improving the enforcement of child support obligations, guaranteed federal assistance for child care while the caregiver was undergoing education or training, and provided transitional

assistance during the first year of employment (Heen 1995: 182-183). These programs actually provided relatively low levels of support to low-income families; only one out of three JOBS participants received child-care support, and only about 20 percent received the transitional support. Insufficient funding of these programs resulted in long waiting lists or states not accepting new applications. Serious concerns were also raised about the safety and quality of child care in the absence of fully funded programs that meet the needs of low-income families (Heen 1995). In 1995, these direct assistance programs cost about US\$2 billion.

For middle- and upper-income families in the United States, the non-refundable child and dependent care tax credits depend on the composition of the family and on family incomes. Taxpayers receive a credit that is calculated by reference to both joint family income and the number of children. The credit is also subject to a total cap. The overall formula effectively leaves poor families out of the tax credit. In 1995, these non-refundable credits cost approximately US\$2.7 billion — substantially more than the cost of the direct assistance given to low-income families (Heen 1995: 179-180). Because the child-care tax credits depend on joint family income, subject to maximum caps, and are non-refundable, they pose the same kinds of barriers to women's labour force participation as the current Canadian model and, therefore, do not offer an appreciably more effective model than the one currently used in Canada.

Identifying Secondary Earners

The usual assumption is that married women are the secondary workers whose labour force status is the focus of these policy discussions. In Canada, of course, the entire concept of secondary workers has been thrown open to gender critique, because not only are unmarried heterosexual couples who cohabit or have children together treated as if they are married, but so are couples composed of lesbian, gay, bisexual, transgendered or transsexual persons who are married to another person of the same legal sex. In addition, same-sex couples have been able to marry in British Columbia and Ontario since 2003 and throughout Canada since the summer of 2005. Therefore, using the simple marker of legal sex or social gender to identify the secondary worker whose income would qualify for employment expense exemptions to offset the lure of untaxed, unpaid work under conditions of workplace and income discrimination would be out of sync with the Canadian trend toward basing legal policies on biological distinctions.

The much more logical approach would be to extend the employment expense exemption to all secondary workers as defined by total earned incomes. Secondary earners are those workers whose attachment to paid work is weaker than that of the other partner. This could be signalled by lower incomes, or by non-continuous employment, or by part-time work. Probably, total income as compared with the other spouse would be the most reliable marker. In cases of exactly equal spousal incomes, the exemption should still be made available on the basis that although there is parity of income, there is probably something less than complete parity in responsibility for unpaid work. Indeed, it would be important to permit the exemption to be claimed in such situations lest couples adopt unequal divisions of unpaid work on a permanent basis to qualify for the exemption.

Although this may seem counter-intuitive, single parents and single individuals on social assistance should also be considered to be secondary earners for purposes of the exemption being proposed here. The financial effect of moving off of social assistance and into paid work is almost

exactly like moving from the unpaid sphere of domestic work into paid work. Recipients of social assistance are usually expected to perform a substantial amount of unpaid work, particularly child-care work. This is even more true for the workfare types of social assistance programs. Workfare is a form of compulsory underpaid work in that the worker receives social assistance payments, which are notoriously low, in exchange for a certain number of hours of paid work each week. Whether accompanied by child-care resources or not (and a surprising number of workfare programs make no provision for child-care problems for women), simply being on workfare assistance is a form of unpaid work.

Regardless of whether a single person is a single parent, or an unattached individual, or moving off of social assistance, they meet the functional definition of secondary earners: person with no one else in the household to whom to pass responsibility for performing essential unpaid work. By including these individuals in the definition of secondary workers, the only people who do *not* fall into that category are the higher-income partners of secondary workers — the people who can expect others in the household to put their own paid work to one side to perform unpaid work that will benefit the entire household.

There is one large class of families where there would seem, at first glance, to be no secondary earner: single-parent, female-headed households.... It may appear that there is no secondary earner in such cases; in fact the very strong bias against a second worker in lower-income households contributes to the prevalence of such single-parent households. Among the poor, where the need for two earners is greatest, the tax on the second earner is also the greatest. These families have nowhere to hide from the tax, except to split up (McCaffery 1997: 23).

Viewed in this light, the only earners who should not receive the paid work expense exemption would be those who can still command the support of another person who can perform unpaid work at the sacrificial levels associated with women's unpaid work today. Workers cannot be classified as primary if there is no secondary worker in the household. On the other hand, the historical and persistent poverty of most women, most single parents, and most welfare or workfare recipients suggests that unattached individuals, whether parents or not, should be considered to be secondary workers precisely because of the absence of a primary worker who commands male-level incomes and employment opportunities.

Reduce Marginal Tax Rates on Low Incomes

The third policy option is to reduce the income tax rates levied on low incomes. This would primarily benefit women, because of their relatively lower incomes, but it would not select out married or secondary workers alone. It would affect all taxpayers with low incomes. This strategy could be combined with any number of other policy options, including granting exemptions for actual child-care expenses and other work-related expenses, and eliminating all joint tax and benefit provisions.

From a functional perspective, reducing the marginal rates of taxation on low incomes would achieve slightly different outcomes in relation to women's earned incomes. The first option — recasting all joint provisions as individual provisions — is designed to eliminate the tax penalties

flowing from joint tax and benefit provisions that can actually induce women to choose unpaid work over paid work. The second option — to exempt work-related expenses from secondary incomes — is really the only way to eliminate the one remaining tax penalty on paid work, which is that unpaid work is totally tax exempt while paid work is exposed to income taxation. Reducing the rates of tax imposed on low incomes would not necessarily have any impact on the penalty effects of joint tax and benefit provisions; it would just reduce those penalties to some degree. Nor would reducing the rates of tax on low incomes eliminate the effective tax penalty on paid work as compared with unpaid work; again, it would just reduce that penalty effect to some degree.

If the only changes that were made to attempt to reduce barriers to women's labour force participation were to reduce low-income marginal tax rates, the reduction would have to be extensive. Between the welfare walls associated with leaving social assistance, losing the GST credit, and losing the CTB credits, particularly as exacerbated by the use of joint couple incomes to calculate where the wall will be located, low-end income tax rates would have to have a large zero-rated bracket (or personal exemption) to smooth out the transition.

Given that the expected results from an overall reduction of marginal tax rates would be cruder and less responsive to the nature of the tax barriers to women's labour force participation, this option should optimally be considered only as an adjunct or complement to making both of the first two changes (recasting joint provisions as individual provisions and deductions for second-earner expenses) outlined above. Certainly, reducing the tax load on women's earned incomes will be an important factor, but there is no indication in the comparative tax system design research to suggest that by itself, it is an adequate approach.

Where there might not be sufficient political will to eliminate joint provisions or to exempt secondary earnings, however, then reducing marginal tax rates on low and low-medium incomes would have a salutary effect on women's paid work rates (Muszynski 1992).

Eliminate Bias in Employment-Related Benefits

The fourth change that would reduce barriers to women's labour force participation would be to eliminate the gender bias that pervades both public and private employment-related benefit schemes. The current tax treatment of employment benefits as well as all the eligibility rules governing access to the CPP, EI and contributory pension plans were shaped around the images of the male breadwinner and his claim to a "family wage." As artifacts of patrifocal family relations of the last century, these provisions reflect the assumption that it is the male income earner who needs health insurance, life insurance, education, retirement, dental, income security and other benefits to protect his role as breadwinner. The extension of many of these benefits to dependent members of his family expresses his obligation as primary earner at the same time that it reinforces the belief that they have no independent claims against the state, but are, in fact, dependent on his income-earning power and the largesse of his employer.

These outmoded assumptions disadvantage women in two ways. On the one hand, the prevalence of women's part-time, seasonal, contract, intermittent and otherwise discontinuous paid work means women often do not meet the minimum threshold requirements for eligibility for private

employment benefits,⁵² for public employment insurance or retirement plans, or for private retirement plans that receive preferential income tax treatment.⁵³ Women who do not live with primary earners desperately need these benefits. On the other hand, when women are able to gain full-time employment, they are often forced by employment contracts to participate in private benefit plans that duplicate benefits already available through their primary earner's workplace. Even when duplicate benefits are not treated as taxable income to women workers, they represent forms of compensation that have less value to them than if they were paid in the form of increased wages.

Both of these problems contribute to the bias against secondary workers and, thus, to barriers to women's labour force participation. Women already have much lower average incomes than men. Deferred compensation based on those low earnings is not likely to provide sufficient retirement or unemployment income. Certainly where the accumulation of retirement and employment security entitlements is concerned, most women can do better, receiving spousal survivor benefits under their husbands' retirement and insurance packages. It is entirely possible that women who receive the OAS spousal pension allowance and related public allowances, or who qualify for survivor pensions under their spouse's registered pension plan will have higher retirement incomes than they might be able to receive based on their accumulated contributions to their own CPP and employer-supported retirement plans. This powerfully reinforces the main message women receive through the tax and social assistance system all through their lives — that they would perhaps be better off as the dependent spouse of a primary worker, and could contribute more effectively to the household income through unpaid work.⁵⁴

Similarly, the combined lack of access to, and the rigidities of, fringe benefit programs further drive the wedge between primary employment that bears benefits for the whole family versus secondary employment, which often does not carry entitlement to fringe benefit programs. Once the members of a family are covered by the benefit plans of the primary earner's employer, the secondary worker is free to look for employment that does not bring benefits with it. These forms of employment are mainly located in the part-time, seasonal, contract and other intermittent employment sector. Thus, the existence of employee benefit plans and their tax exemptions tends to reinforce gendered employment patterns.

Most policy solutions to these problems have focussed on the disparities in the value of public and private employment benefits to single employees as compared to married/cohabiting employees. The trend in proposed solutions to this issue is how to enable all employees to designate beneficiaries who can enjoy the benefits currently reserved for nuclear family structures.⁵⁵ While there are certainly some important developments that need to occur in this direction, these proposals are not responsive to the concern being addressed here, which is that women often do not even get access to these benefit programs or, if they do, have no way to opt out of them where it would be to their benefit. Solutions that focus exclusively on extending the range of people who can qualify for benefits without looking at the precise way in which all those benefit programs reinforce the bias against secondary workers actually make it worse for women workers, because the increased costs of widened benefit programs will make part-time and poorly paid work more attractive to women. Women who are already covered by those programs through their primary earner's benefit package will be singled out for relegation to that sector. As pointed out to the Law Commission of Canada in 2001, extending benefits and

exemptions to adult children, parents, grandchildren, collaterals or others could widen the gap instead of narrowing it (Lahey 2001a).

As currently structured, fringe benefits, employment-related employment insurance and retirement income schemes, and the income tax treatment of all these items are forms of joint tax and direct benefits. It will be difficult to undo these joint provisions, because they are so deeply woven into the cumulative financial arrangements couples have made as their own work patterns have evolved within the web of interconnected joint provisions. However, these steps will ameliorate their effect.

- Permit workers to opt out of fringe benefits schemes in exchange for a financially realistic increase in hourly rates of pay.
- Give such workers the permanent right to opt back into those benefits whenever they wish.⁵⁶
- Extend all fringe benefit plans to part-time, occasional and seasonal workers.
- Radically reduce the eligibility requirements for coverage under EI, CPP and retirement pension plans to enable secondary workers to accumulate some appropriate level of coverage even while engaged in non-standard employment.⁵⁷

Some progress has been made in bringing this set of issues to the attention of the federal government. In its 2001 report on adult relationships, the Law Commission of Canada found: “Because of these and other aspects of the tax system, one-earner families with children often have more consumable income after taxes and work-related expenditures than two-earner families with the same income do even under a system of individual taxation” (LCC 2001: VIII.C). One specific factor that the Commission connected with this overall result was the tax treatment of fringe benefits. “Because many in-kind employee benefits provide coverage to spouses and common-law partners, when secondary earners begin paid employment they are likely to be taxed on the value of in-kind fringe benefits that have no value to them (LCC 2001: VIII.C, note 118). However, the Commission did not extend these findings to the impact of the CPP, EI and OAS allowances on secondary workers. Instead, it took the more traditional tack of recommending that coverage under these schemes be extended to unpaid caregiving work, which would, of course, *increase* the barriers to women’s labour force participation by further subsidizing already heavily subsidized unpaid work (LCC 2001: VIII.C, recommendations 29 and 30).

Develop an Earned Income Credit Program

The policy proposals outlined above are not capable, on their own, of undoing the effects of centuries of misallocation of paid work, unpaid work and incomes between women and men. These proposals would simply eliminate the barriers to women’s labour force participation that flow specifically from existing income tax and direct benefits that reinforce and magnify pre-existing disparities in the allocation of work and well-being. Ideally, they would be brought forward as part of a coherent policy package that would make concrete proposals for better combatting discrimination against women in all walks of life, including in relation to paid and unpaid work.

This fifth policy option — the development of an earned income credit program — is posed as an alternative to the more fundamental structural changes proposed in relation to joint provisions, employment-related expenses, marginal tax rates and employment-related benefits. That is, if it proves to be politically impossible to gain any support for genuinely solving the problems posed by those structural artifacts of bygone days, then it is possible to ameliorate them, to some degree, with lesser policy changes. The proposal being made here, for that limited purpose, is that an earned income credit should be developed to help reduce the cumulative impact of all the existing biases in tax and benefit law against secondary workers. However, it should be noted that the earned income credit proposed here bears little resemblance to either the earned income supplement currently offered in the Canadian NCB program or to the U.S. earned income credit. Both of those programs actually reinforce biases against women’s labour force participation.⁵⁸ Thus, they are not the models being put forward here.

The purpose of the earned income credit being proposed here is to reduce the gap between male and female average incomes by increasing the after-tax earnings of women. The credit proposed here would not increase after-tax incomes by reducing general marginal income tax rates paid by all taxpayers, nor would it increase women’s earned incomes. It would simply use the mechanism of tax credits specifically aimed at those workers who are most likely to be affected by barriers to women’s labour force participation and the many fiscal provisions that push secondary income earners toward unpaid work.

Elements of an Earned Income Credit

The elements of this proposal are simple. The credit should be available to all workers who can be classified as secondary earners.

- It should be refundable.
- It should be large enough to offset existing non-neutralities between paid and unpaid work of secondary earners.
- It should be constructed to smooth out the welfare wall that greets those who attempt to move from social assistance to paid work.
- The amount of the credit should not be limited by reference to family incomes or deductions that may be claimable with regard to any employment-related expenses.

The policy objective of this proposal is to neutralize the fiscal impact of tax and benefit programs that reinforce economic dependency as a “choice” by those who exist on the economic margins of Canadian society.

Defining Secondary Earners

Secondary earners as they have come to be understood, are those who are in a relationship of economic dependency in which they are expected to perform unpaid work that supports the paid work of the primary earner. On a practical level, a worker will be identifiable as a secondary earner if he or she has a lower income than the spouse/partner. The definition is gender neutral and expansive, because to the extent that the credit may create incentives for male workers to

assume the position of secondary earner, that would still be consistent with its purpose — to disrupt and restructure the gender-based allocation of paid and unpaid work within adult relationships and households.

As in the discussion of the exemption of some secondary incomes earlier in this chapter, single parents, single individuals on welfare or workfare, and single individuals who are at or near the poverty line should also be classified as secondary earners for purposes of this proposed credit. This is because people in these situations are already dependent on, or at risk of being pushed into economic dependency on, social assistance or private support, because their unpaid work is of greater value than their paid work. People in these situations cannot turn to a human primary earner to support them in exchange for their unpaid work, but the state is willing to make that exchange and does.

Not a Joint Credit

Because an earned income credit would be designed to reduce the negative impact of the many joint tax and benefit provisions that affect women's economic calculus, structuring the credit as a joint credit would completely undercut the goal of promoting women's labour force participation.

The counterproductive effects of joint earned income credits have been amply demonstrated in the United States. The earned income tax credit in the United States, which is structured as a joint credit, is the source of the single largest marriage penalty in the entire U.S. income tax system (Zelanak 1994). By conditioning eligibility for the U.S. earned income credit on joint or family income, the credit creates tax incentives for primarily male low-income workers to pursue paid work. At the same time, it places pressure on mainly female workers to help optimize the amount of the credit by substituting unpaid work for paid work. This reduces total family cash income, which enables the family to remain eligible for the credit by staying under the overall per family income limits. It also reduces the family's need to spend money on child-care expenses, which both stretches the reduced family income further and means the family does not lose any of the earned income credit due to the reduction required for the child-care expenses that are claimed. In other words, the U.S. joint credit clearly promotes the labour force participation of primary earners by not so subtly giving the secondary worker incentives to withdraw from paid work and perform valuable unpaid work that supports the paid work effort of the primary earner.

The pressures created by the joint features of the U.S. joint earned credit (which also exist in slightly different form in the Canadian earned income supplement) actually create tax incentives for low-income couples to become single parents.⁵⁹ With single status, each former spouse acquires an individual family income limit, effectively doubling the total amount of income that can be earned without losing any of the credit. There are still offsets for child-care deductions but, on balance, many families on the margins can simply disintegrate in the face of these and other joint fiscal measures.

Not an Alternative to Deductible Employment-Related Expenses

To the extent that expenses like child-care and purchased services, transportation costs, etc., affect the ability of the worker to pay income taxes, the amount of an earned income credit should not be reduced by such expenses. The goal of an earned income credit is to increase the after-tax disposable income of secondary workers who would otherwise be pressured to perform

such services for themselves or to forego such expenses by withdrawing from paid work. There are no equity, fairness or neutrality effects that would mandate the co-ordination of the credit with such items, and they should be dealt with separately in income tax law.

Not a Child Poverty Measure

An earned income credit of the type proposed here would not be intended to ameliorate child poverty. It is frankly aimed at redressing the persistent forces that construct the highly vulnerable class of secondary earners. Limiting an earned income credit to individuals who currently have the care of minor children would be extremely under-inclusive of the class of workers who are constructed as secondary earners. Long before they form adult relationships or have children, (mainly) women are socially and economically shaped into secondary earners. Statistically, the chances that a man will become the one to adjust total work effort by shifting into unpaid work to optimize family well-being remain extremely low. And the effects of lifelong status as a secondary worker lock women into that status long after any children they may have raised are grown up and living elsewhere. Women with and without children are extremely vulnerable to deployment into any form of unpaid work than may optimize household well-being, including unpaid elder care, unpaid farm work, unpaid bookkeeping work in the primary worker's business, unpaid social efforts to support the lawyer's practice, and so on.

The forces that create the problem being addressed with an earned income credit are undoubtedly due to the continued link between women's reproductive and nurturing roles in Canadian society. But the effects of that link are so diffuse and pervasive, affecting every moment of a woman's earning cycle, that the credit would be extremely limited in impact if it were strictly limited to women with minor children.

Amount of the Credit

The amount of an earned income credit can only be established through an iterative process. While it should presumptively be structured as a refundable credit designed to tear down the welfare wall and integrate direct benefits with the income tax system, the amount of the credit should be calculated to close the gap between after-tax income otherwise determined and the current market basket measures of subsistence needs for that region. While the history of the NCB system is scarcely reassuring, it may be that implementation of a meaningful earned income credit could well involve close co-ordination between the federal and provincial/territorial governments.

There should be no income limit on the credit. Women are affected by the secondary earner syndrome all the way up and down the income scale. Even more importantly, men of all economic classes need to see positive incentives to having a second earner in the family. While the banker's wife may seem to be rich by comparison with other women, she is just as vulnerable to pressure to engage in paid work as are women at other points along the income scale. In addition, middle- and high-income men enjoy the full tax benefits of the untaxed status of unpaid work performed by their wives. If the purpose of the credit is to remove those incentives for all secondary earners to shift toward unpaid work, then the overall amount of earned income received by a secondary worker should not disqualify her or him from claiming the credit.

Related Policy Initiatives

The Canadian tax and transfer system has a long way to go before it begins to share any structural features with the countries that pose minimal barriers to women's labour force participation. An earned income tax credit (EITC) for secondary workers would simply offset or reduce, to some degree, the most obvious tax penalties on secondary earners. Only a quite large and ambitious tax credit program would completely eliminate all the barriers women face, including the high costs of child care and other forms of care.

On a pragmatic level, there are real limits to what an income tax system can do to redress the disparate impact of child care costs. This is a serious concern, because the lack of adequate child care resources is the largest single barrier to women's labour force participation while living with minor children. For purposes of administrative feasibility as well as for efficiency reasons, an earned income credit should be accompanied by some form of in-kind child-care support. There is little point in using the income tax system to create incentives to women's paid work when they simply cannot earn enough even with the credit to obtain adequate child care. There are the additional administrative problems of how to establish advance payments sufficient to cover child/dependent care costs, especially when incomes may fluctuate.

There are, of course, many ways that child-care resources can be delivered directly to workers who need them. Canadian women have been attempting to persuade the federal government to establish a national day-care/dependent-care program for decades. Short of establishing a universal program, resources could be made available for any person who is classified as a secondary earner for purposes of this credit, or could be more narrowly tied to job training programs, employee benefits or educational programs.

Comparative data make it clear that countries like Sweden, with direct transfers and tax deductions for child care, have the highest rates of participation along with those European countries whose fiscal policies are supportive of child/dependent care. The U.S. experience illustrates that the combination of refundable EITCs and directly funded sufficient child/dependent care resources can be critical to work force participation. In the absence of the direct transfers for child/day care, the U.S. research indicates that the lowest income earners will be acutely hindered in their participation rates.

It is important to note that to avoid turning the availability of child-care resources into a joint measure, any child-care resources that continue to be delivered through the income tax system in the form of either deductions or tax credits should not be limited to claims by second earners. It may be that the ability of primary earners to claim those expenses or credits may help further break down the assumption that such expenses are truly associated only with the employment of the second earner. Indeed, it is not until all the negative costs associated with women's paid work are eliminated that women's labour force participation rates begin to increase and to lose their elasticity and fragility. European success in increasing women's labour force participation rates makes it clear that the combination of tax credits and direct subsidies most acutely impact on working women's lives.

If some form of national dependent care strategy is developed to complement existing tax policies, experiences of other countries in designing these programs can be instructive. National

standards of licencing and quality assurances are critical if safe, affordable and accessible child/dependent care resources are to exist across the country.

Conclusions

No one policy option could possibly remove all barriers to women's labour force participation. As stated at the outset, identifying the range of barriers is the critical first step to fashioning the fiscal policy alternatives. The litmus test for the recommendations proposed is twofold. First, does the net take-home pay for working women improve with the recommendation? Second, does the recommendation promote the overall participation level of women in the paid work force?

Just as the sources of these barriers emanate from a complex mix of race, class, sexuality and (dis)ability, no one policy recommendation can achieve the promotion of women's access to paid work. The focus of the next chapter, then, is on the insights into the expected impact of these proposals that can be gleaned from comparative data and micro-simulation, and on the likely impact of these proposals on workers who are affected not just by their gender but also by their race, class, sexuality, disability and family responsibilities.

4. EVALUATING THE OPTIONS: DISTRIBUTIONAL IMPACT AND DIVERSITY

Men and women in Canada inhabit two different economies. Men's average incomes reflect the effects of increased education and experience all the way through their working lives until they reach their late 50s and move into somewhat reduced incomes during their retirement years. Women's average incomes inch up slowly until they reach a position not that far above various measures of low income or poverty, begin to fall in their early 50s and then drop off sharply when they reach retirement age. As shown in chapters 2 and 3, these income disparities are exacerbated by the numerous income tax provisions and direct expenditure programs that reinforce the deeply entrenched sex role stereotypes that help bring these disparities into existence in the first place.

Both sides of the problem — the market allocation of incomes between women and men in the first place, and the governmental allocation of tax benefits and penalties that build on those incomes — exist basically because women are, by virtue of their sex, widely perceived as being secondary earners. The perception that women will have a weaker attachment to paid work reinforces the employment discrimination, career interruptions, lower pay and fractionated working lives that place relentless pressure on women to move from paid to unpaid work. The lower women's after-tax earnings are, the more vulnerable they are to becoming economically dependent on either a supporting person (primary earner), the state or other family members. At the level of the individual woman, once the dynamics of dependency have become established, they are difficult to escape.

The fact that income tax provisions and welfare benefits have been shaped around the assumption that women will become dependent at various points in their lives reinforces the dynamics of dependency and low incomes. The proliferation of joint tax and benefit provisions set up financial incentives to dependency. The high costs of child care and other work-related expenses make it costly for women whose unpaid work is tax exempt to see much profit in moving to low-paying paid work. The intersection of sharp reductions in welfare benefits with sharp increases in income taxes as women move off of welfare into paid work creates real fiscal barriers to making that effort more worthwhile than continued dependency on the state.

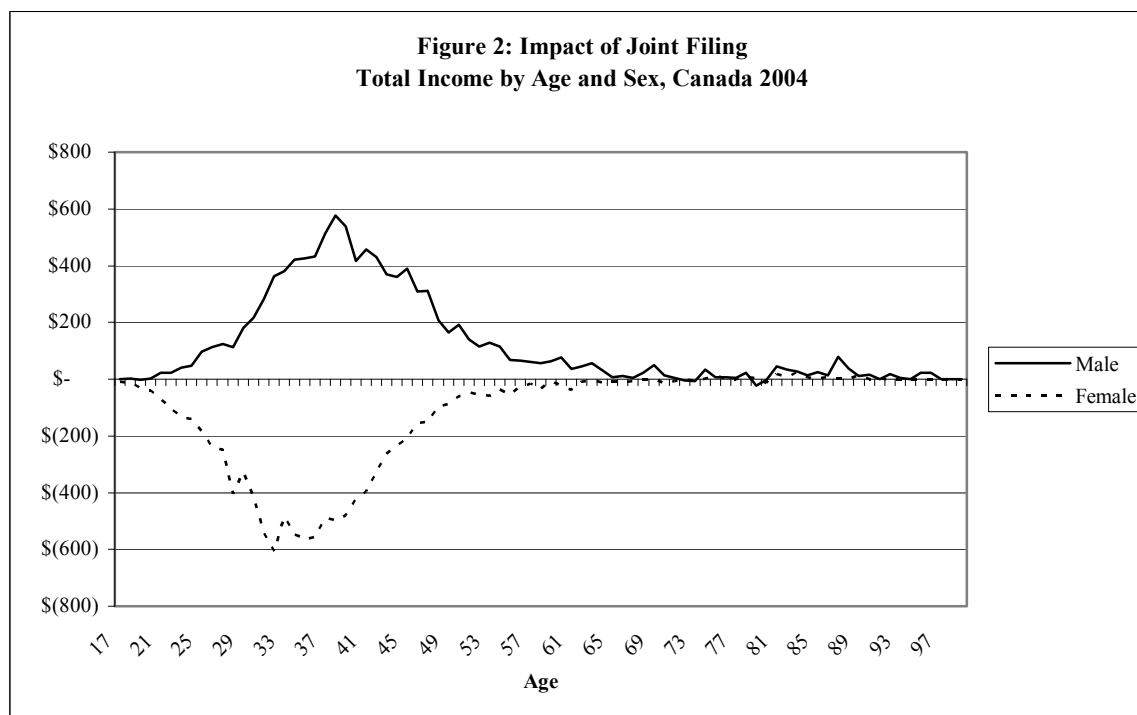
The proposals developed in Chapter 3 are designed to counter these pressures. Five specific policy initiatives have been proposed to begin the slow process of reversing the accumulated weight of social stereotypes and policy assumptions from women's paid work. The most important proposal is to recast joint provisions in income tax and social assistance law as individual measures. The purpose of this change is to remove the element of economic dependency that flows from limiting both individuals and couples to the same LICOs and reduction rates. The second proposal suggests that deductions for work-related expenses be claimable by second earners, defined expansively to include single parents as well as second adult earners and those receiving or near receipt of social assistance. Other proposals are made to reduce marginal tax rates generally on low incomes, to eliminate bias in employment-related benefits, and to develop an earned income credit for second earners.

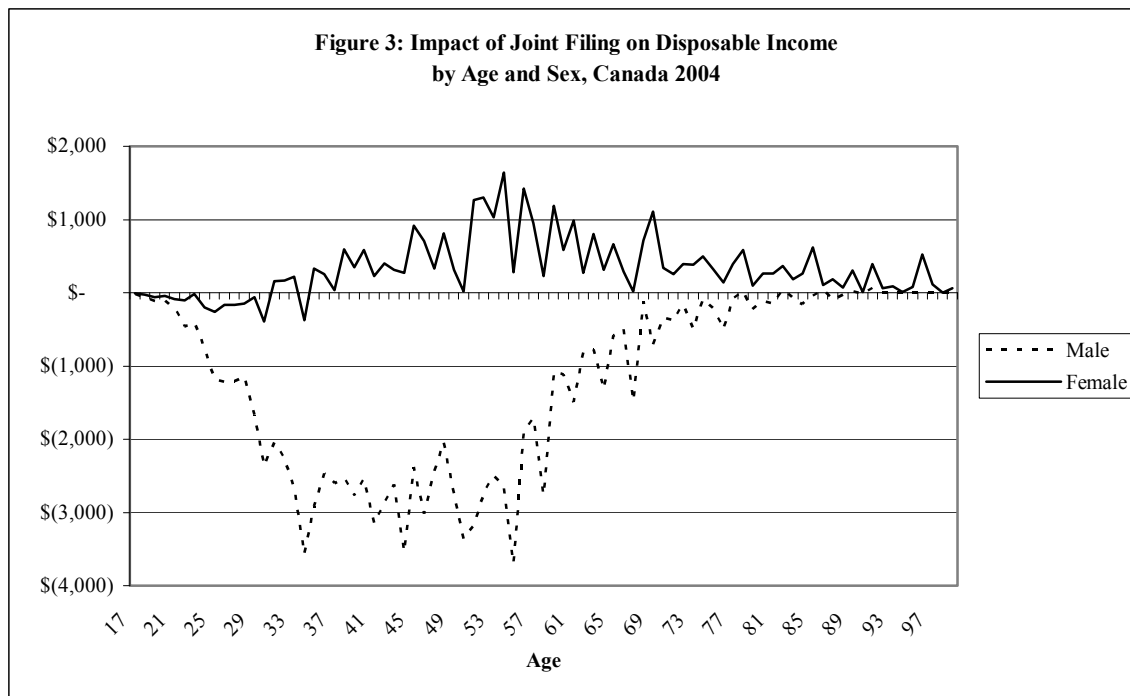
This chapter assesses these five basic proposals for their probable distributional impact, including their probable impact on diverse groups of women, and the approximate costs that might be involved in each proposal. These estimates are modelled using the Social Policy Simulation Database and Model (SPSD/M) micro-simulation program, where possible. The analysis uses two baseline measures of gender–income disparities: the distribution of incomes by gender and age, and comparisons between pre-tax and post-tax incomes at or below the low-income measure (LIM) by gender. While the conclusions drawn on the basis of this analysis will not necessarily replicate their effect in real life, they do provide some insight into their general impact.

Recast Joint Provisions as Individual Provisions

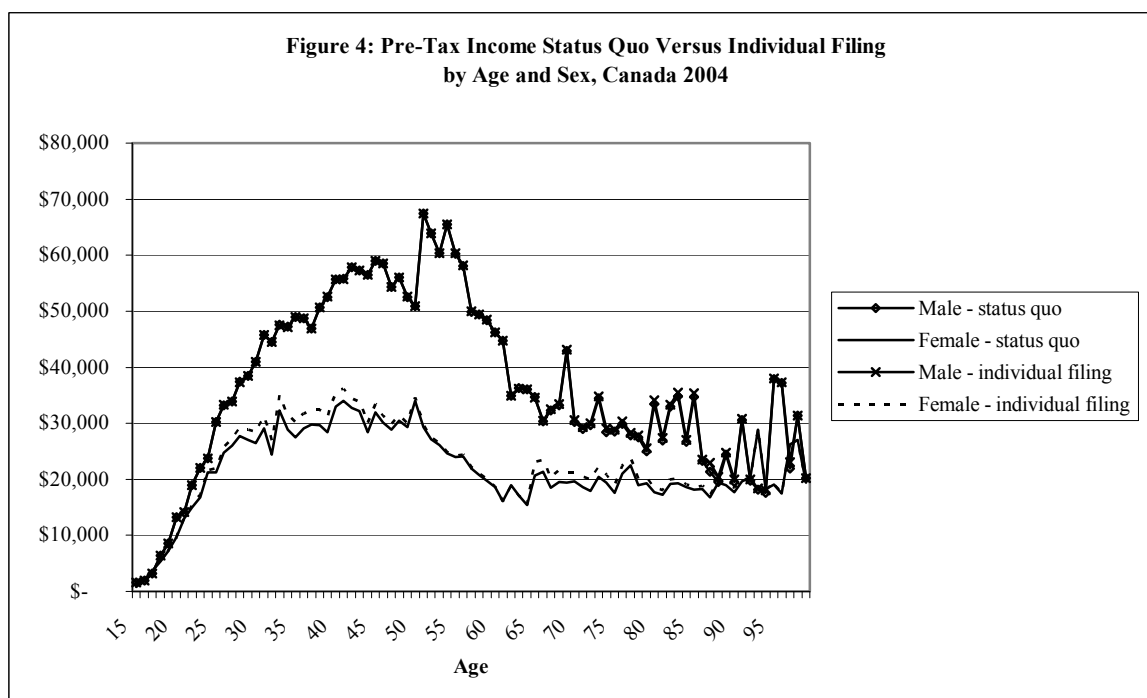
Under the *Income Tax Act*, the individual is the formal tax unit. However, the income tax system contains so many joint provisions that on a functional level, it more closely resembles the joint filing system used in the United States than it does many of the individual systems used in northern European countries. This can be seen by simulating the recasting of the current system as a joint system. Using the current allocation of average incomes by age and gender as a baseline, it can be seen from figures 2 and 3 that if the income tax system were restructured to give all couples the after-tax benefits of joint filing, women’s after-tax incomes would be worse than they are now, relative to men’s.⁶⁰

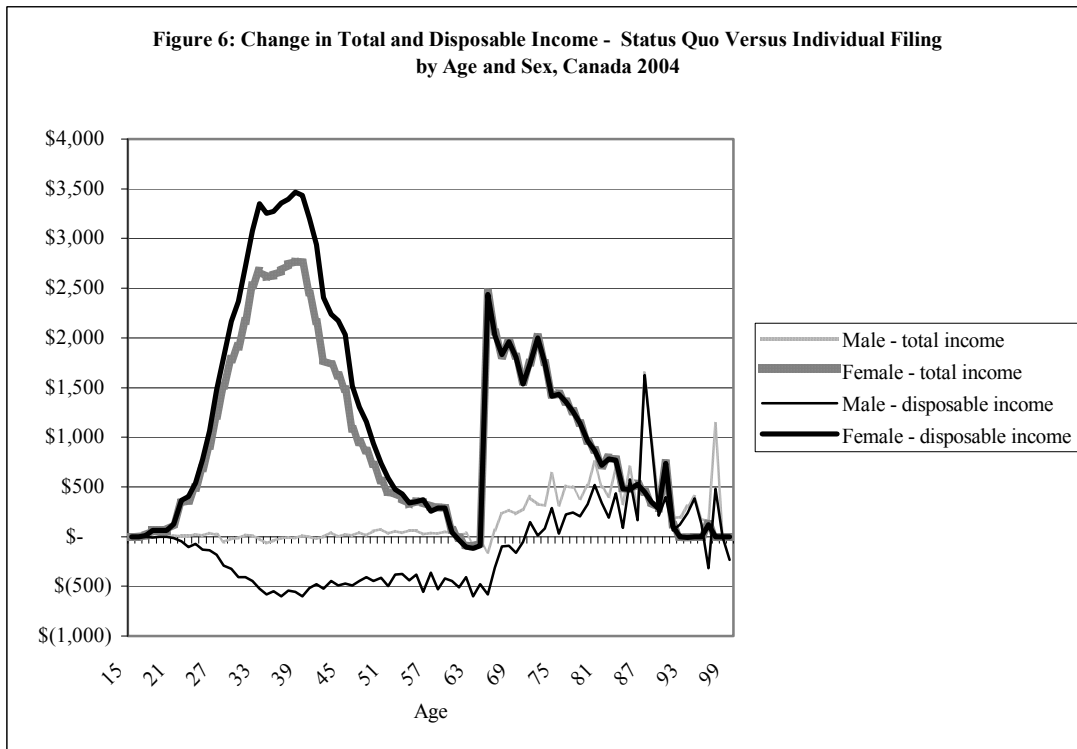
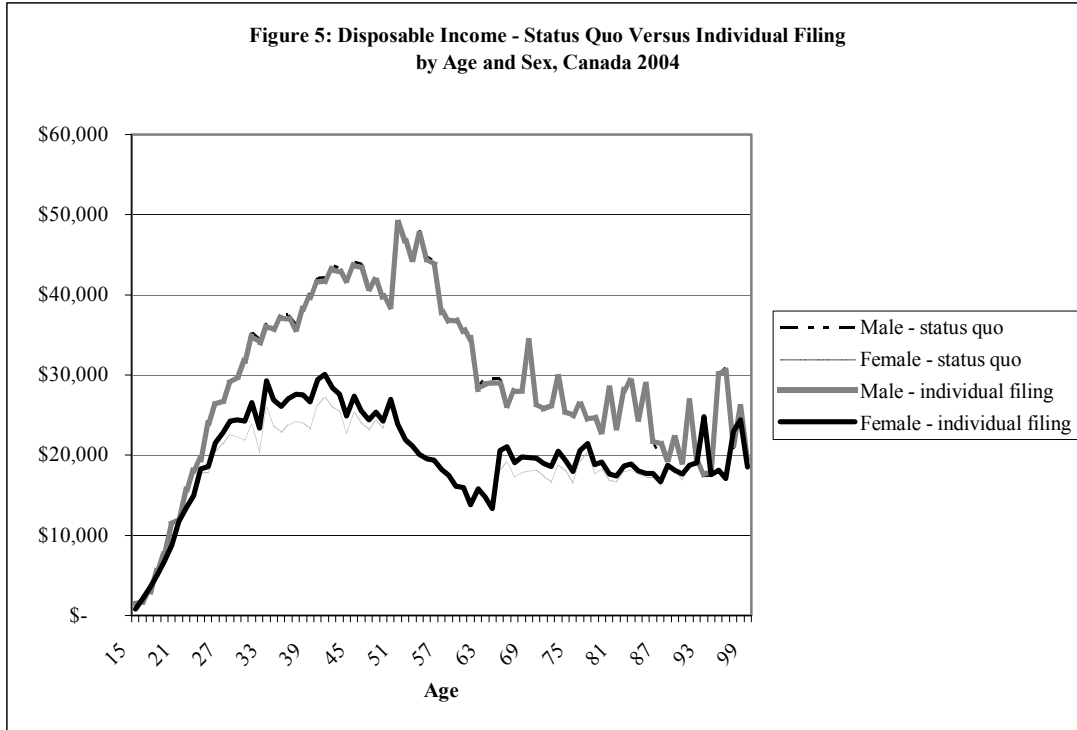
These results are consistent with O’Donoghue and Sutherland (1999: 589-591), who found that adapting joint taxation models for the U.K. context would render the tax system more regressive in impact. They also found that such a structure would have a negative effect on the incentive to work for both spouses – not just on the lower-income spouse.





This study has recommended that all existing joint provisions be recast as individual provisions to redress the regressive effects of joint provisions outlined in Chapter 3. The overall impact of making this change can be seen in figures 4, 5 and 6, which compare women and men's pre- and post-tax incomes under the current de facto joint system with restructuring as a genuinely individual system. Recasting the joint provisions in the *Income Tax Act* as individual provisions reduces the gap between women and men's post-tax incomes and, therefore, comes closer to the ideal of gender equity in after-tax incomes.





The gap between women and men’s post-tax incomes is reduced because restructuring joint provisions as individual provisions increases women’s after-tax incomes by removing couple-based limitations on tax benefits, such as the refundable child tax and GST credits, reduces

men's after-tax incomes by eliminating the spousal dependency and transferable credits, and reduces women's marginal tax rates. Figure 6 shows how significant the impact of these changes would be on two vulnerable groups of women — women with dependent children and women over the age of 65, who have experienced significant wage discrimination during their working years and are also subject to involuntary retirement with few sources of retirement income.⁶¹

Each effect generally benefits women as a class. However, each effect can disparately affect women who are disadvantaged not only by their gender but also by factors such as race, ethnic origin, sexuality and marital status.

Race and Ethnic Origin

The average incomes of visible minority women are generally lower than the averages for all women in Canada. Men's incomes are also negatively affected by race as well. The lower the average incomes of both women and men of racially identified groups are, the more likely it is that both partners will be engaged in paid work as a matter of financial necessity. Women who are racially identified are just as likely to work the double day, but their ability to shift from paid work to unpaid work in response to the overall after-tax value of their paid work is likely to be limited because when both partners have extremely low incomes, neither can afford to support the other to perform unpaid work.⁶²

These generalizations do not apply equally to all racially identified women and men in Canada. For example, Black men's average incomes were only \$23,320 in 1996, as compared with Black women's, which were \$18,610. At that time, the average non-visible minority male income was \$43,162; the average visible minority male income, \$31,917. In contrast, the average Japanese male income in 1996 was \$42,277, while Japanese women, who had relatively high incomes when compared with other racially identified women, had incomes substantially lower than those of average non-minority women (\$22,804) (Lahey 2001a). With average incomes of \$17,382 in 1995, all non-reserve Aboriginal people had incomes much lower than those of the lowest racially identified women (Statistics Canada 1998c).

On the whole, the proposal to recast joint provisions as individual provisions would be beneficial to racially identified women in three ways. First, removing couple-based limitations on tax benefits like the refundable child tax credit, the GST credit, the deduction for child-care expenses, and the equivalent-to-married credit for dependent children will enable more low-income racially identified women to claim these benefits without having to choose between these benefits and being able to stay in their relationships. To the extent that having stable relationships can be considered to be a good, the structure of individual-based credits will not disparately deprive racially identified couples from enjoying both these tax benefits and the benefits of intact relationships.

Second, the reduction in men's after-tax incomes that would result from eliminating the spousal dependency and transferable credits and deductions would affect fewer racially identified men than women precisely because they have low incomes. As found by U.S. researchers who considered the impact of tax benefits aimed at couples with high single incomes or large disparities in the incomes of the primary and secondary earner, racially identified taxpayers will not have meaningful access to those benefits in the first place.⁶³ This is because when the incomes of so-called primary earners

are depressed by the effects of racial discrimination, it is highly unlikely that either the primary or the secondary earner will be in a position to support the other partner fully enough to qualify for the dependent spouse credit or to take full advantage of transferrable items. Those couples therefore function economically very much like individuals despite the fact that they may be married. Thus, no loss of these tax benefits will typically occur precisely because they would not normally have been claimable in the first place. Of course there will be exceptions. For example, Japanese men will be more likely to be able to provide full support than men of other identities. But the degree of loss will be less than for average non-racially identified men.

Third, the reduction in women's marginal tax rates that results from these changes will be of somewhat less value to women who are racially identified than to women who are not. This will be moderated by the fact that the refundable credits will be equally available to the lowest-income women as well as to low-income women.

On balance, then, taking race and ethnic origin into consideration indicates that the effects of this proposal would be ameliorative for women in these classes.

Sexuality

Characteristics, such as sexuality, tend to be associated with lower average incomes. The census data produced in 2001 by Statistics Canada are far too sketchy to shed much light on the impact of homophobia on incomes. However, it is obvious that in addition to the fact that lesbian women's incomes are substantially depressed by virtue of their gender, unlike other women, lesbian couples have no access to the higher incomes earned by male primary earners.⁶⁴ Thus, like racially identified couples, lesbian couples are unlikely to receive many benefits from provisions like the spousal credits simply because it is unlikely that either partner will earn enough income to support both of them. On the other hand, lesbian women who are single parents will benefit considerably from removing couple-based income limits on joint benefits like the refundable child tax and GST credits. Indeed, removal of those limitations on those benefits would undoubtedly create tax incentives for both members of lesbian couples to substitute paid work for unpaid work on the margins. Thus, removal of the couple-based income limits would promote the egalitarian sharing of both income-earning and unpaid work.

Many of the same effects would occur for gay male couples too. Gay male incomes are negatively affected by homophobia. However, the difference between the incomes of gay men and lesbian women is that gay men are not disadvantaged by virtue of their gender like lesbian women are. They are, however, negatively affected by discriminatory attitudes toward gay men. Because gay men have access to the male economy, albeit in disadvantaged terms, they have more realistic chances than do many lesbian couples to be able to live on the income of the primary earner. This means that repeal of the dependent spouse and transferable credits would disparately impact on gay men. To the extent that gay male single-earner patterns permit the production of considerable unpaid work to augment family well-being, this is not an unintended or unwelcome result. The effect on the gay secondary earner would be desirable: it would remove some of the tax barriers to labour force participation and would counter any tendency to develop gay male dependency that parallels married women's dependencies. On the other hand, the existence of high-low income patterns in gay male relationships would indicate that it would be beneficial to remove the couple-based income limits on low-income benefits here too.

The simple fact that the beneficiaries of this change would include gay men would not confound the objectives of that policy.⁶⁵

Cohabitants

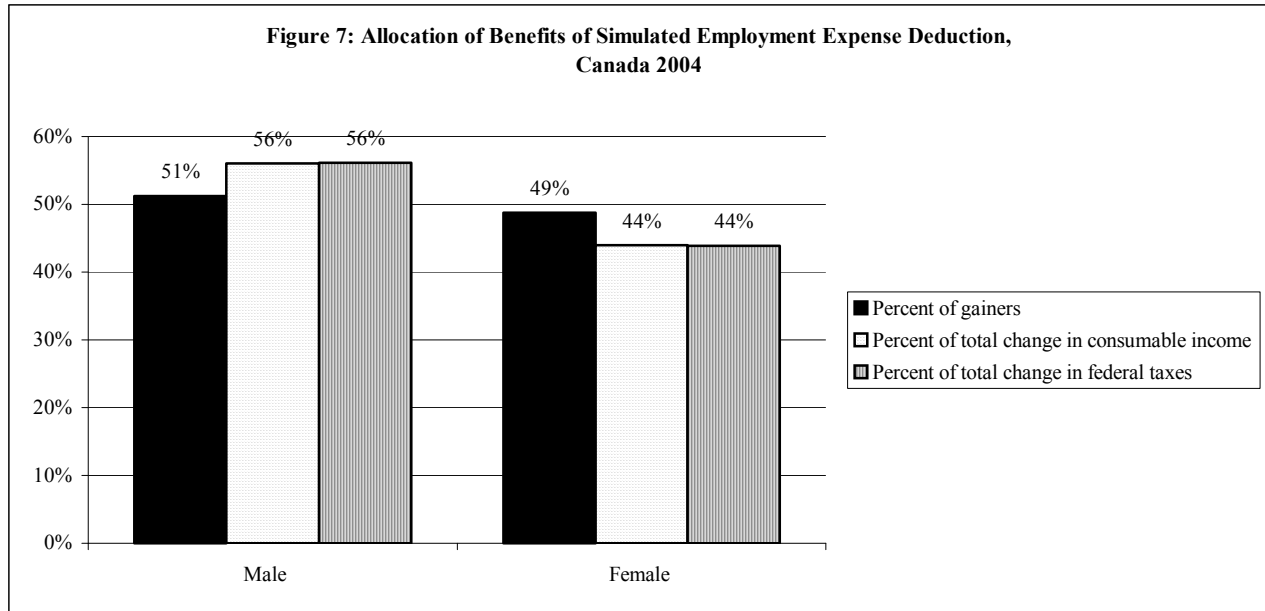
Like racially identified and queer couples, cohabiting couples tend to have more egalitarian allocations of earned income (Klawitter and Flatt 1995). This means that with cohabiting men earning less than married men and cohabiting women earning more than married women — and about the same as lesbian women — spousal dependency benefits are less valuable to cohabitants than to married couples and the benefits of removing family-income limits on refundable credits would improve the after-tax position of relatively low-income women. As has been demonstrated in the *Falkiner* case,⁶⁶ not all cohabitants value the chance to pool resources or to become economically interdependent as much as they value their economic autonomy and self-dependence. Swedish fiscal policy demonstrates how governments can support the rights of “any adult individual [to] take responsibility for him/herself without being economically dependent on those closely related” (Nielsen 1997: 140).

Deductions for Second-Earner Expenses

The proposals in Chapter 3 include reinstatement of some form of employee expense deduction. Until the 1990s, taxpayers were permitted to deduct up to \$500 from their employment income as an offset against work-related expenses. This deduction could be claimed on top of deductions for child-care expenses.

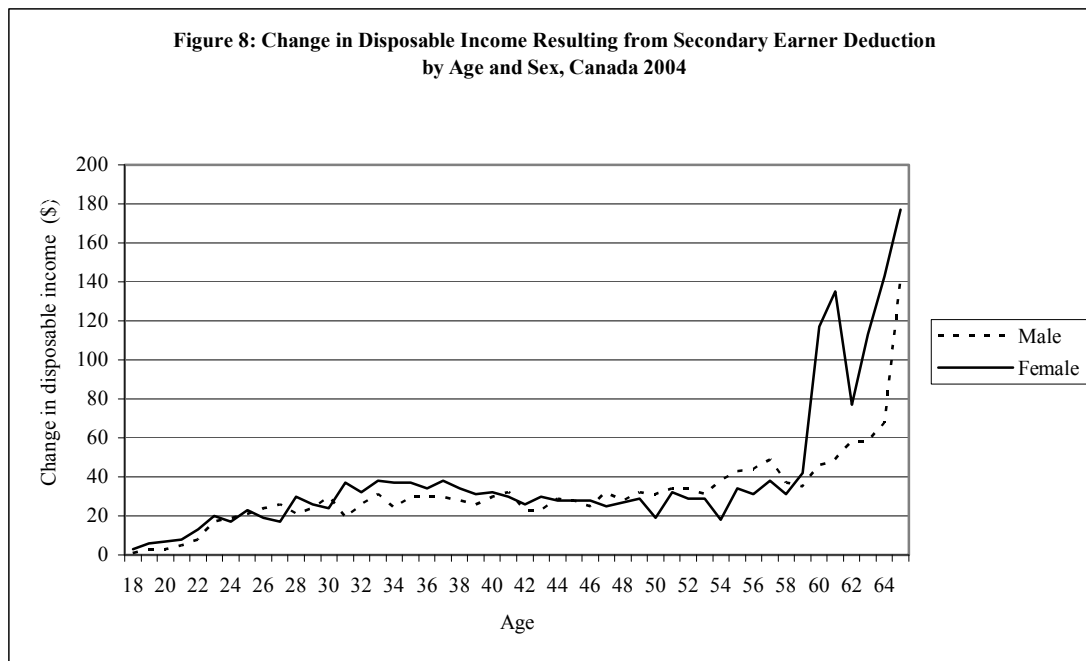
The proposal made here is for deductions from earned income to be limited to secondary earners. Secondary earners are defined as including those in households with primary earners as well as single parents, individuals on or leaving welfare, and low-income workers as defined by the HRDC market basket measure.⁶⁷ The more expansive deduction could be structured to include full deductibility of child-care expenses and other work-related expenses, and even a refundable credit feature to smooth the transition from welfare to paid work. (The earned income credit version is discussed in more detail below.)

The former \$500 employee deduction would remove some of the barriers to women’s labour force participation. However, it would be so small in effect and would miss its main mark so dramatically that it is not really a viable option, given the objectives of this analysis. As Figure 7 demonstrates, the largest tax benefits of the former \$500 employee expense deduction went to high-income, single- or dual-earner couples in which the value of the deduction was magnified by the higher marginal tax rates paid by those types of taxpayers. Thus, men received the largest average individual benefits of this deduction, and also the largest shares of tax reductions as a class. Women received far smaller benefits, and the aggregate value of the benefits received by women was far smaller as well. Any option designed to reduce barriers to women’s labour force participation that actually enhances the after-tax profitability of men’s paid work is not achieving what it is designed to do.



Limiting an expense deduction to secondary earners would ensure that high-income earners do not receive these benefits. Expanding the scope of the deduction to include secondary incomes derived from employment as well as from business sources would eliminate any disparity in treatment of second earners who have started their own businesses or who through outsourcing have been forced to assume the position of independent contractor. Making the deduction available to single parents as well as to those who have been on welfare or whose incomes fall below the MBM ensures that it will not exclude low-income earners who are vulnerable to being pushed into economic dependency on the state or another adult (such as their children's other parent).

Figure 8 demonstrates that limiting the deduction in this way improves its delivery to the intended recipients. This enables the size of the deduction to be expanded to include the costs of child care not deductible under section 63 of the *Income Tax Act* and other work-related expenses if a flat deduction is not thought to be adequate. While the fiscal value of the deduction to secondary earners with middle or even high incomes will be greater than its value to low-income secondary earners, that effect is consistent with the rationale for the deduction, which is that it adjusts taxable income to the worker's actual ability to pay taxes. The actual costs of earning income can be considerable, especially for workers with care-age children. If excluding the value of unpaid work given to primary earners to support their income-earning efforts is thought to most accurately reflect their ability to pay taxes, then excluding the value of paid expenses incurred by secondary earners to enable them to earn income also most accurately reflects their ability to pay taxes.



In these projections, the change does benefit more women than men. This is consistent with the fact that most primary earners are men and most secondary earners are women. However, the fact that the bulk of the benefit would go to older women and men is due to older persons having lower incomes and, thus, qualifying for this benefit, but having higher marginal tax rates due to their higher unearned incomes, and thus receiving a larger tax benefit because of the upside-down effect of tax deductions.

Reduce Marginal Tax Rates on Low Incomes

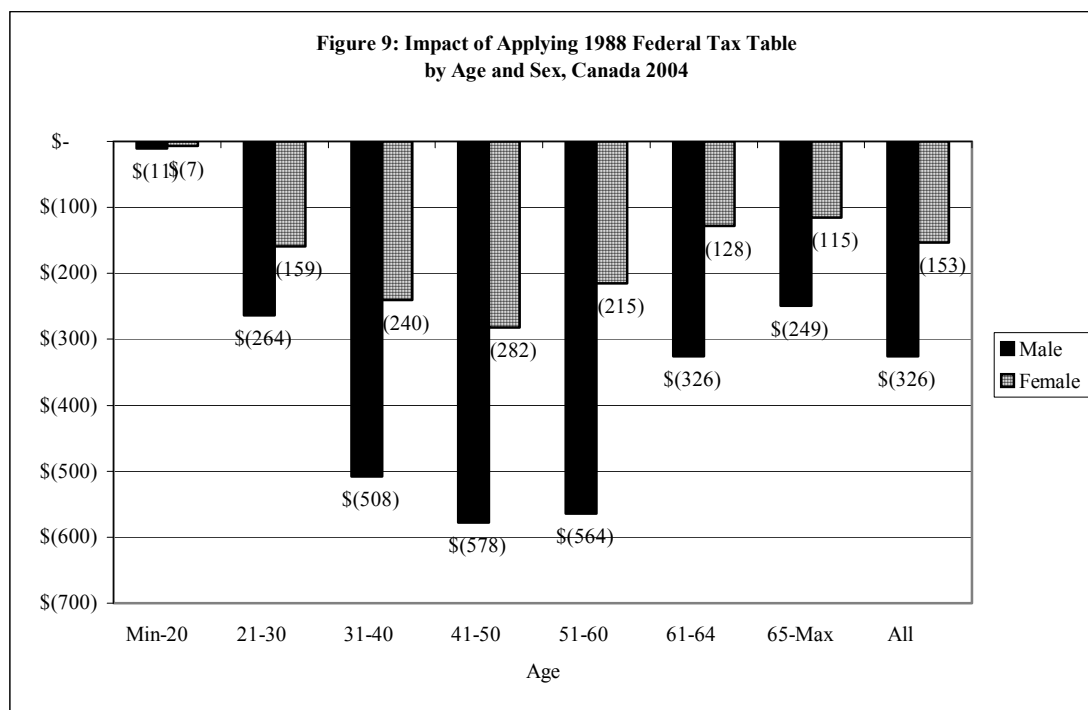
The overall Canadian tax system is regressive in its effective rates of taxation. This means that instead of imposing the lowest tax rates on people with the lowest incomes and gradually increasing those rates as incomes increase, there are points along the income curve at which the tax load is proportionately heavier on low incomes than on higher incomes. This allocation of the tax burden is generally described as being regressive in impact.

A number of factors contribute to the regressive allocation of the tax burden at the low-income level in Canada. Chief among these factors is joint taxation and the use of joint or couple-based income limits on eligibility for low-income benefits. The high rate of income tax imposed on the lowest incomes is also a factor (16 percent federally, another five percent or more provincially), as is the speed with which that lowest rate moves up as income increases. The non-deductibility of any employment-related expenses and the cap on the deductible amounts of child-care expenses add to this effect, as do the flat-rated structure of compulsory EI, CPP, sales and service taxes and registered retirement plan contributions.

Low incomes have not always borne such a heavy rate of income taxation. For many years, the lowest rate was six percent federally, increased by about three percent more provincially for a total of nine percent combined federal and provincial rates. When the Conservative Government

restructured the rates in 1988, the lowest rate was replaced with the current 16 percent and the range of incomes affected by that new 16 percent rate was expanded. It was difficult to discern this for most taxpayers, but these two features produced an instant increase in the effective tax rate payable by the lowest income taxpayers at the same time that it delivered a significant rate cut to those with low-medium incomes.

At present, the tax burden is allocated regressively on those with the lowest incomes. The most obvious way to eliminate that regressivity is to either increase the exempt portion of income and/or reduce the lowest tax rates. As Figure 9 demonstrates, even going back to the rate structure of 1988, adjusting the brackets for changes in the value of money, would make the overall allocation of the tax burden far less regressive.⁶⁸



The point of making such a change would be to reduce the tax load on those with the lowest incomes on the assumption that the majority of secondary earners as defined in this study are located in the under-\$20,000 income range. The assumption is that if other taxpayers have found their way into this income category, they likely share characteristics that justify a reduction in their effective rates too. Limiting the reduced rate to earned incomes could prevent taxpayers whose income includes investment income (whether earned by them or given to them by someone else) from applying that new low rate to their investment income.

In the absence of adequate data on incomes by race, sexuality and cohabitation, it is not feasible to project the impact of reduced regressivity on women's net after-tax incomes. However, it is known that the regressivity of joint taxation is intensified by race, sexuality and cohabitation, because people in those categories tend to have relatively lower incomes. Their partners are also more likely to have relatively low incomes.⁶⁹ The principles of equity and fairness suggest that regressivity should be eliminated particularly when it disparately impacts individuals affected by gender, race, sexuality and related characteristics. In addition, the welfare wall caused by the cut-

off of welfare payments as individuals leave social assistance should be dismantled by integrating the tax and welfare systems with each other.⁷⁰

There is growing consensus that the barriers to women's labour force participation posed by gendered labour supply elasticities can best be countered by increasing the rates of tax on those with high incomes and reducing the tax load on low incomes.⁷¹ Such a general approach runs the risk of reinforcing class hierarchies among women. Those women whose rates of labour force participation are most elastic are those with the greatest choice between whether to engage in paid or unpaid work. Income elasticities for women shrink as economic exigencies remove the option of being supported by another individual. Women who will not leave their primary earner to qualify for welfare face the necessity of working for wages no matter how low the rate of profitability of that employment and no matter how high the benefits lost by aggregating income with their partner might be. Lowering the rates of tax imposed on workers who find themselves in that situation would certainly alleviate the situation and enhance the fairness of the total tax system. However, further measures such as the provision of in-kind benefits through the direct public funding of child care would enhance genuine progressivity further.

There is a more subtle problem as well. Increasing the after-tax profitability of second incomes for women whose partners can afford to support them can actually create indirect government subsidies for their employment. This, in turn, would increase competition for employment, and would place women who have to work out of absolute economic necessity at a disadvantage. Such women tend to be racially identified or otherwise disadvantaged in access to adequate earnings (Brown 1997). At the other end of the income spectrum, reducing the effective rate of taxation on lower incomes without making any changes to the rates borne by higher incomes would pose barriers to economic advancement by members of the very groups who are statistically most likely to have difficulty attaining those incomes: women, members of racial minorities, queers and persons with a disability. This would suggest that the full classic response to barriers to women's labour force participation — increasing tax rates on higher incomes — should not be recommended.

The goal of reducing the regressivity of tax/transfer provisions at low-income levels would enhance the equity and fairness of the tax system. However, so profound are the disparities in incomes by gender, race, sexuality and other characteristics in Canada that solutions outside the tax-transfer system should also be pursued, beginning with more rigorous enforcement of anti-discrimination policies in all employment sectors.

Eliminate Bias in Employment-Related Benefits

The proposal to eliminate bias in employment-related benefits requires three basic adjustments in both the private and the public delivery of fringe benefits and eligibility for the employment safety net. Because the *Income Tax Act* is often used to regulate access and equality among workers as part of the process of extending tax-favoured treatment to some of those items, it is entirely feasible to make some of the adjustments that are needed via the *Income Tax Act* and the rest via direct changes to the CPP and the EI acts and regulations.

Three basic adjustments need to be made to implement this proposal.

- Extend all employee fringe benefits to part-time and intermittent workers.
- Permit workers to opt to receive duplicative benefits in the form of tax-exempt cash equivalents.
- Improve CCP, EI and retirement pension plan coverage to improve the benefits derived by secondary workers who face extended periods of part-time or intermittent work.

Each adjustment will affect different elements of the tax-transfer system.

Fringe Benefits for Secondary Earners

Participation in fringe benefits offered by employers is highly variable. Where employers voluntarily extend benefits to all workers, of course, the only salient issue is the right to opt out in cases of duplication. But there are significant limitations on the rights of part-time and discontinuous workers.⁷² It is clear that there are significant gender differences in access to employment with full benefits.⁷³ The more important question is what to do about differential access and value of these benefits to different classes of workers.

The proposal made here is that the *Income Tax Act* provisions extending tax exempt status to various types of benefit plans should be amended to require that exemption depend on extending these benefits to all workers who are employed for more than an average of five hours per week for at least three weeks out of every four, or some other fairly permissive formula. If a principle of equality was written into the *Income Tax Act*, then provincial employment standards legislation, which is highly variable anyway, would not govern access to these benefits. The Act amendments should also permit workers to claim the cash value of these benefits as well.

The Department of Finance has found that many of these benefits are too small to value in its tax expenditure accounts. However, given that women account for about 70 percent of all part-time workers, and less than 25 percent of female part-time workers receive dental, supplemental or life/disability benefits from their employment — as compared with 60 percent of women who work full time and 68 percent of men who work full time — it seems obvious that such a change would have a positive impact on women who do not work full time but nonetheless need access to such fringe benefits.

Unemployment and Retirement Income Benefits

Coverage under contributory income protection plans has changed considerably in recent years. Eligibility rules for receipt of EI and CPP benefits have been eased to eliminate sharp distinctions between full-time and part-time workers. Now, workers whose hours of work fluctuate somewhat can still qualify for benefits, although, of course, the lower their total earnings, the smaller their benefits under these plans will be.⁷⁴ Women continue to be disadvantaged under these programs as well as in relation to registered pension plans offered by employers and RRSPs both because of their much lower incomes when compared with men, which limits their contribution base and their financial ability to take full advantage of their contribution limits, and also because discontinuous

and part-time work also precludes some women from participating in retirement pension plans and obtaining the benefit of employer contributions to the plans.⁷⁵

The specific changes that would have to be made to each of the EI, CPP, retirement pension plans and RRSP regimes are detailed and complex, because each contributory system is organized differently.

Employers and employees share the costs of funding the EI system, which is assessed on a flat-rated basis. Eligible unemployed individuals can receive benefits equal to a fixed percentage of their insurable earnings. If the EI system were restructured around a low-income exemption and a graduated contribution rate, it would impact less heavily on women. Increasing the benefit level would improve the situation even more. With almost exactly the same number of women and men reporting EI benefits in 2000, it is striking that women received 27 percent fewer total benefits than men.⁷⁶

The CPP contribution and eligibility rules operate in much the same way. Employees do not have to make any contributions to coverage on incomes of \$3,500 or less. The contribution rate remains the same from that point up until the contribution limit of about \$39,000 is reached. The contribution rate is almost 10 percent, and although it is shared by the employer and employee, it disproportionately reduces individual take-home pay at the lower income levels. At the same time, the size of benefits received by women is tied to their lower average incomes and lower rates of continuous full-time work. Therefore, the benefits women receive directly on the basis of their own earnings histories are lower relative to men's, and the size of their survivor benefits has also been shaved by amendments in the late 1990s to the survivor formula.⁷⁷ The result is that women receive only some 45 percent of all CPP payments even though they are demonstrably poorer in their later years than men (Sayeed 2002). Increasing the exempt portion of the contribution formula and graduating the contribution rates at least until income reaches the LIM or MBM would reduce the disparities at both ends of the process.

Private pension plans such as employment-based retirement pension plans, workplace RRSPs, and personal RRSPs disproportionately benefit men while leaving women with inadequate sources of income in their later years. Men receive 69 percent of all non-governmental pensions. Built into these pensions are the accumulated tax benefits of years and even decades of deferred tax liability on accumulating income on the amounts invested as well as deferred tax liability on the amounts of income originally invested in such plans. Women's share of only 31 percent of those forms of retirement income reflects their lower lifelong earnings, contributions limits and ability to make the maximum contribution (Sayeed 2002).

These changes would be of particular value to women who are disadvantaged not only by their gender but also by their race or ethnic origin, sexuality, marital status or disability. Women who face multiple forms of discrimination are more likely to have low incomes and lower rates of savings, be self-supporting instead of being supported by a partner and depend on their own employment insurance and retirement entitlements in later years. To the extent that access to those forms of social support can be restructured to counteract some of the gender-driven factors that reduce their entitlements, their almost-certain poverty would be ameliorated.

Table 1: Effect on CPP/QPP Contributions of Moving to Alternate Contribution Formula, Canada 2004

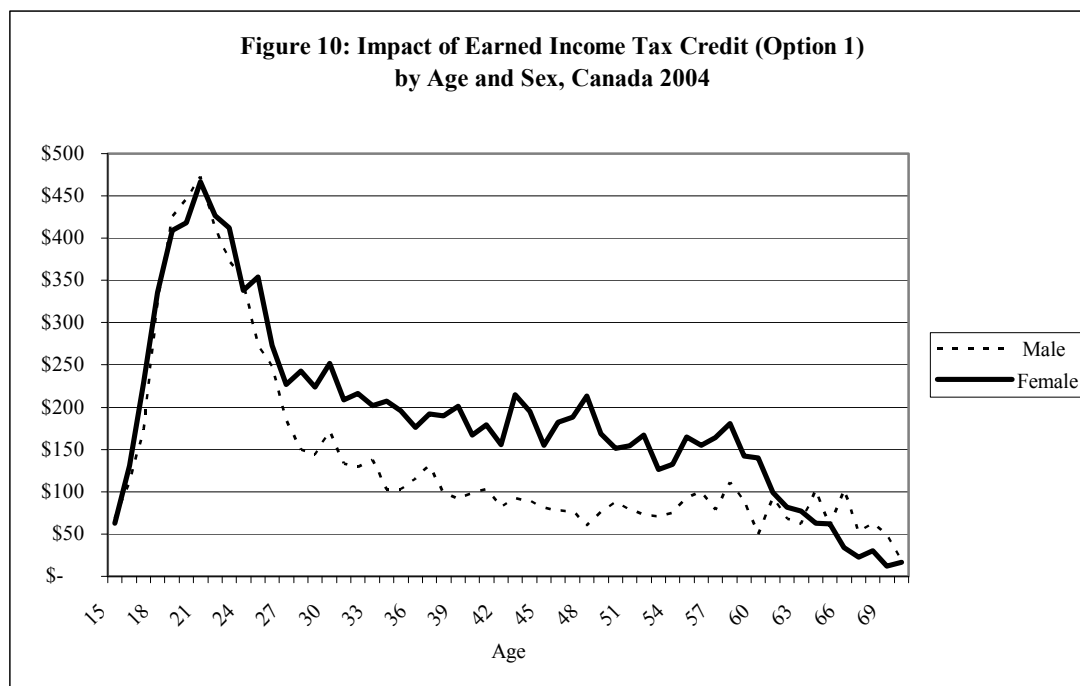
Sex	Status Quo CPP/QPP Contributions (\$millions)	Share of Total Contributions Under Status Quo %	CPP/QPP Contributions Under New Formula (\$millions)	Share of Total Contributions Under New Formula %	Change in Contributions (\$millions)	Average Contributions - Status Quo \$	Average Contributions, New CPP/QPP Formula) \$	Change in Average Contributions \$
Male	12,007.1	61	9,796.1	62	(2,211.0)	774	631	(142)
Female	7,778.2	39	6,011.6	38	(1,766.7)	489	378	(111)
Both	19,785.3	100	15,807.6	100	(3,977.6)	630	503	(127)

Notes:
Contribution rate reduced by 50 percent between the annual exemptible earnings level and approximate MBM for a single person.
CPP/QPP exemptible earnings level increased to \$5,000.

Develop an Earned Income Credit Program

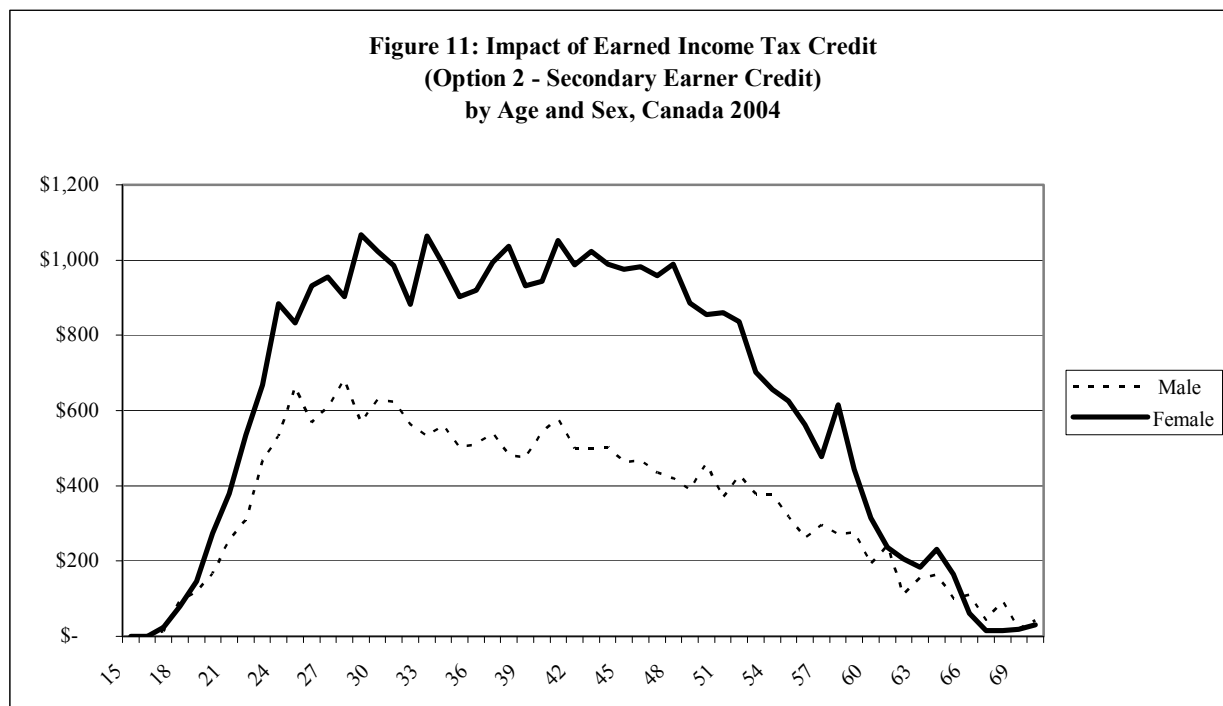
It may be that the Government of Canada does not have the political will to make the structural changes needed to reduce some of the many income tax and direct fiscal barriers to women's labour force participation. That is why the alternative of an earned income credit is proposed here. This earned income credit is designed as a stand-alone provision to offset some of the negative effects of the current tax transfer program without making any direct changes to those provisions themselves. It is offered as a way to ameliorate existing barriers while the government may take additional time to consider more thorough steps.

Two versions of an earned income credit have been modelled for purposes of this discussion. The general EITC is constructed as a tax credit equal to 10 percent of earnings to a maximum of \$1,000, with the maximum credit available between \$10,000 and \$15,000 of earned income. Above \$15,000 the credit is reduced by \$0.10 on the dollar until it disappears completely at \$25,000 of earned income. The maximum value of the credit would be some \$100 to qualifying individuals ($\$575 \times 16$ percent credit rate). This variant would result in claimed credits of approximately \$3.9 billion and thus would cost the government about \$632 million (at the 15 percent credit rate). This version is modelled in Figure 10.



The secondary-earner EITC is worth 20 percent of earned income up to a maximum of \$2,000 when earned income reaches \$10,000. After that it remains at a maximum of \$2,000. However, this variant can only be claimed by those classified as secondary earners: adults with primary-earner partners, as well as those on or leaving welfare, single parents, single person heads of families, and those with no significant investment income whose total incomes are below the average MBM. The second version would result in estimated new tax credits of about \$12.6 billion and would cost the government about \$2 billion (at the 16 percent credit rate). (See

Figure 11.) This second option is more expensive because it is uncapped: there is no reduction in the credit once income hits the maximum level, and there are no clawback mechanisms.



Figures 10 and 11 demonstrate the impact that both the general EITC and the secondary-earner EITC proposed here would have on the pre-tax and post-tax allocations of average incomes by age and gender. The present system is used as the baseline comparator. Figure 10 demonstrates that while a general EITC would reduce the tax load on women's incomes, the benefit is largely concentrated in the lower age ranges and, because younger women's incomes are relatively low to begin with, the credit would not have any discernable impact on the gap between women and men's post-tax incomes. Thus, the fiscal barriers to women's labour force participation would remain fairly stationary: women would remain vulnerable to pressure to substitute paid work for unpaid work by the relatively low after-tax value of their paid work.

In contrast, the overall gap between women and men's after-tax incomes would be significantly reduced as the result of the secondary-earner EITC. This version of the EITC (Figure 11) would increase women's after-tax earnings at a faster rate than it would increase men's. This means that men's after-tax incomes would remain fairly stationary while women's would increase, thereby increasing the overall "profitability" of women's paid work as compared with their unpaid work. This overall effect translates into reduced fiscal barriers to women's paid work.

When considered from the perspective of multiply disadvantaged women, the effects of the secondary-earner EITC remain salutary. Gender bias affects all classes of women in Canada. No identifiable group of women has higher average earnings than men of the same group. While the gap between women and men's average incomes is profoundly affected by factors like race, ethnic origin, sexuality, marital status and ability, there is always a gap. Thus, women are pressured to shift from paid to unpaid work to a greater extent than are men, or are targeted for extending their

work day to unreasonable lengths. The secondary-earner variant of the EITC proposed here would increase the after-tax income of primarily women in any such group, and would reduce the costs to couples and households of greater sharing between primary and secondary earners of unpaid work.

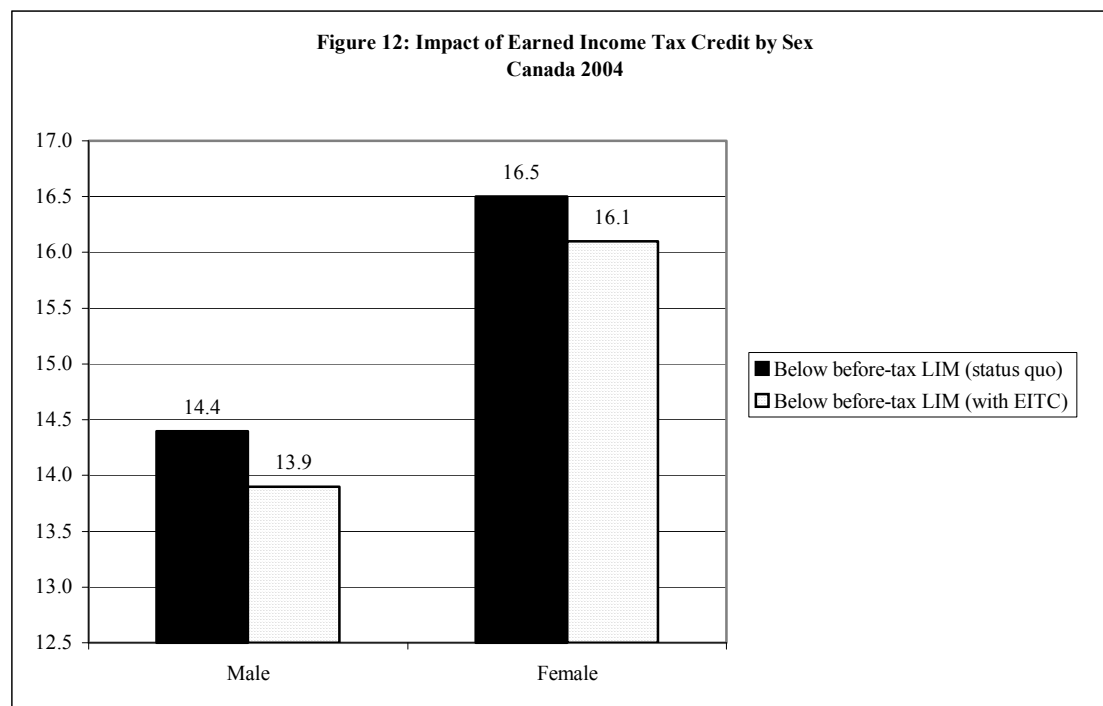


Figure 12 shows how the two versions of the EITC proposed here would affect the percentages of women and men whose pre-tax and post-tax incomes are at or below the LIMs. As can be seen from the figures for women, the proportion of women who live below that cut-off level will be significantly reduced. The effect of the secondary-earner EITC will be more beneficial to women than to men, which is appropriate in light of the disproportionate percentage of women who, under the status quo, start out at or below the LIM. Because of the negative effects that race, ethnic origin, disability, marital status and sexuality have on women and men's incomes, the amelioration of women's poverty is a particularly appropriate outcome in relation to those groups. However, as Figure 12 makes clear, an EITC is not strictly aimed at those living at the poverty level, but at those living below or somewhat above such income levels. Both variants reduce poverty to about the same extent, because both variants are available to non-poor individuals as well as to those living under the LIM. The credit available to poor beneficiaries is larger under the second variant, but the tax impact is still small (about \$200 at the individual level), and only about 43,000 individuals would incrementally move above the poverty line (about 0.1 percent of the population).

While the costs of redressing even a small part of the gendered income gap may seem to be too high, it must be remembered that at present, these costs are being borne by individual women and their dependants. The proper question is not whether the price of sharing the burden of the gendered income gap is too high, but whether alleviating just a small portion of it is a responsible policy move in a country as wealthy as Canada.

Conclusions

All the contemporary fiscal barriers to women's labour force participation can be traced back to women's disproportionate poverty coupled with the continuing expectation that it is women who will move from paid work to unpaid work when they cannot support themselves on their earnings. This dynamic underpins the pressure on low-income women to leave adult relationships and become single parents, the pressure on low-income women to accept social assistance when they cannot support themselves on their earnings, and the pressure on women who have access to middle- or high-income supporters to accept being supported in exchange for performing untaxed, unpaid work. While non-tax factors, such as sex-role stereotypes, workplace discrimination, the prevalence of sexual harassment and occupational segregation, are critical factors in maintaining the unequal allocations of paid and unpaid work, economic self-dependency and dependency on others, the fiscal barriers can be changed by taking decisive legislative steps.

Thus, this report recommends the following steps be taken to restructure the tax and benefit system surrounding women's employment decisions.

- Recast all joint provisions in income tax and social assistance law as individual measures.
- Permit secondary earners to deduct all work-related expenses.
- Define secondary earners to include those living with a primary earner, single parents, those on or leaving welfare, and those with no investment income and with earned incomes below the MBM.
- Reduce the general marginal tax rates imposed on low incomes.
- Improve low-income access to EI, CPP, registered pension plans, and RRSP benefits, and rationalize the impact of fringe benefit taxation on secondary earners.
- Offer an earned income credit to secondary earners as an alternative.

Of all these recommendations, the key one is to eliminate joint income tax and social benefit provisions. The effects of joint taxation on women as a class, especially when considered in light of the effects of joint taxation on both women and men who are disadvantaged by race, ethnic origin and sexuality, make it clear that as adult relationships become more diverse, the adult couple should not be used as the tax or the benefit unit. This is because the married couple as classically imagined has not been the dominant model of adult relationships for some time now. As households have become more diverse, the goal of neutrality between conjugal couples — “equal taxes for equal-income couples” — becomes increasingly difficult to obtain in any event. The explicit goals of public policy over the last three or four decades have revolved around eliminating adult dependency. It is time for fiscal measures to promote that goal instead of confounding it.

Nearly 40 years ago, Pierre Elliott Trudeau, then Minister of Justice, touched off one of the longest revolutions in personal relationships seen in Canada when he insisted: “The state has no

place in the bedrooms of the nation.”⁷⁸ Canadian society is now in the process of fully assimilating that insight into legal policy. It is time to take the next step — to get the fiscal system out of adult relationships as well (Zelenak 1994: 381).

**APPENDIX A: INCOME TAX SUBSIDIES FOR SUPPORT OF ECONOMICALLY
DEPENDENT SPOUSE, 2004**

<i>Provision</i>	<i>Description</i>
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Provisions that are expressly conditioned on specific income levels:

118(1)(a) Credit for support of spouse

Provisions that can be claimed by supporting spouse if lower income spouse cannot use them:

118.8 Transfer of unused tax credits to spouse, which include the following:

118.5 Tuition credit

118.6 Education credit

118(2) Age credit

118(3) Pension income credit

118.3(1) Mental/physical impairment credit

Provisions that will apply when difference in incomes of spouses results in agreement or court order for payment of support:

56, 60 Shifts income tax liability for alimony payments to recipient

Source: *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), as amended for the 2004 taxation year.

APPENDIX B: TAX PROVISIONS THAT PROVIDE OR MAGNIFY FAMILY WAGES FOR COUPLES, 2004

<i>Provision</i>	<i>Description</i>
<i>Provisions that make it possible to split incomes or shift deductions between spouses:</i>	
8	Deduction for cost of maintaining home for spouse (railway workers)
62, 64	Costs of moving spouse's personal property can be deducted as part of household moving expenses
104, 108	Income splitting by way of use of trust
118.2	Credits for payment of medical expenses of spouse
118.2(2)(q)	Credits for payment of premiums for medical insurance covering spouse
146	Taxpayer can receive tax deductions for contributions to spouse's RRSP
146	Joint and survivor benefits can be paid out of RRSP assets
Reg. 8501	Permits redirection of registered pension plan benefits to separated or divorced spouse
<i>Provisions that shelter benefits to spouses from taxation:</i>	
6(1)(a)	Tax exemption for employee benefits that extend to spouse (dental, medical, counselling)
15	Tax exemption for employee shareholder loan taken out to provide housing for spouse
248(1)	Tax-exempt payment of up to \$10,000 death benefit to spouse
<i>Provisions that organize and/or subsidize survivor pensions:</i>	
60(j.2)	Surviving spouse can roll deceased spouse's registered pension plans or deferred profit sharing plan (DPSP) into own RRSP
146.3	Surviving spouse benefits can be paid out of retirement income funds (RIFs)
Reg. 8503, 8506	Surviving spouse benefits can be paid out of registered pension plans.

Source: *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.).

**APPENDIX C: INCOME TAX PROVISIONS RELATING TO SHARING INCOME
OR PROPERTY WITH SPOUSE, 2004**

<i>Provision</i>	<i>Description</i>
<i>Provisions that make it possible to transfer assets between spouses without tax liability:</i>	
24	Tax-deferred rollover for transfer of eligible capital property to spouse
40	Tax-deferred rollover for transfer of farming property to spouse
40	Capital gain on home held in trust for spouse can be tax exempt under principal residence exemption
54	Capital gain on home owned by one spouse for use and occupation by other spouse exempt from taxation as principal residence
60(j.2)	Tax-deferred rollover for transfer of funds from registered pension plan or deferred profit sharing plan to spousal RRSP
70	Tax-deferred rollover for transfer of property to surviving spouse or spousal trust
70, 73	Tax-deferred rollover for transfer of farming property used by spouse
73	Tax-deferred rollover for transfer of capital assets to spouse or pousal trust during life
74.5	Tax-deferred rollover for transfer of capital assets to spouse living apart
96	Non-recognition of partnership income and gains when spouse takes over other spouse's partnership interest
146	Tax-deferred transfer of RRSP assets to surviving spouse's RRSP
147	Tax-deferred rollover of spouse's DPSP to other spouse's registered plans
47.3	Tax-deferred rollovers from deceased or separated spouse's registered pension plans to other spouse's RRSP, or DPSP
148	Tax-exempt transfer of life insurance policies between spouses

Provisions that make it possible to transfer tax benefits from one spouse to another:

104	Flow-through of tax benefit items where property held in spousal trust, but income is paid to spouse personally
110.6	Flow-through of enhanced capital gain exemption where property rolled over to spouse

Source: *Income Tax Act*, R.S.C.1985, c. 1 (5th Supp.).

APPENDIX D: DECOMPOSITION OF CHANGES IN AVERAGE DISPOSABLE INCOME DUE TO INDIVIDUAL FILING BY WOMEN BY AGE, CANADA 2004

Changes from Status Quo, Average Amounts													
A	B	C	D	E	F	G	H	I	J	K	L	M	N
Age Group	Disposable Income	Federal Transfer Income	Federal Child Benefits	Federal Sales Tax Credit	GIS	Spouses Allowance	EI Benefits	Provincial Transfers	Provincial Family Programs	Provincial GIS Top- ups	Provincial Refundable Tax Credits	Federal Income Taxes	Provincial Income Taxes
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Min-19	8	4	3	1	-	-	-	3	1	-	2	-	-
20-24	293	184	104	70	-	-	10	85	40	-	46	-16	-8
25-34	2,229	1,343	1,041	264	-	-	36	476	236	-	240	-240	-170
35-44	2,952	1,836	1,486	321	-	-	25	458	249	-	209	-378	-279
45-54	990	568	371	188	-	-	5	183	52	-	131	-140	-100
55-64	152	23	18	142	-	-140	-	141	5	2	134	12	-
65-Max	1,392	1,225	-	99	1,125	-	-	174	-	54	119	8	-1
All	1,165	756	445	150	164	-15	10	213	83	8	121	-113	-84

Notes:

This table decomposes the changes in disposable income due to pure individual filing. Thus, the net change in disposable income (\$1,165), (column B) is broken down into the change in federal transfer income (column C) plus the change in provincial transfer income (column I) plus the change in federal income taxes (column M) a negative amount implies a reduction in taxes and is added to the gains in transfers and the change in provincial income taxes.

Similarly, the change in federal transfer income can be broken down into the changes in child benefits (column D), plus sales tax credits (column E), GIS (column F), spouses allowance (column G) and EI benefits (column H). Provincial transfers can be broken down into provincial family programs (column J), provincial GIS top-up (column K), provincial refundable tax credits (column L) which are treated as a transfer. Non-refundable provincial tax credits are used to reduce taxes and are included in column N - change in provincial taxes.

APPENDIX E: SOCIAL POLICY SIMULATION DATABASE AND MODEL

The analysis in this study is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). It is a micro-simulation software tool designed to analyze the financial interactions of governments and individuals in Canada. It allows for the assessment of the cost implications or income redistributive effects of changes in the personal taxation and cash transfer system. The database is a non-confidential, statistically representative database of individuals in their family contexts, with enough information on each individual to compute taxes paid to and cash transfers received from government. The SPSD/M is a static accounting model, which processes each individual and family on the database, calculates taxes and transfers using algorithms that simulate legislated or proposed programs, and reports on the results.

The assumptions and calculations underlying the simulation results in this study were prepared by Kathleen Lahey and Andrew Mitchell and the responsibility for the use and interpretation of these data is entirely that of the authors.

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R. v. Rehberg, [1994] N.S.J. No. 35 (N.S. Supreme Court), per Kelly J.

ENDNOTES

¹ This average figure includes both full-time and part-time workers.

² Discrimination against women in paid work is scarcely new or unique to Canada. A letter written around 250 B.C.E. requested pay of 1 1/2 obols for men and 1/2 obol for women linen weavers (Pomeroy 1990: 168, citing a papyrus letter).

³ Although the EI added new maternity and parental leave provisions and reduced the number of hours worked per week required to establish eligibility as of 1997, other changes, particularly the increase in the number of qualifying weeks needed to establish eligibility, offset those changes. Thus, the combined effect of all these changes has had little overall impact on the value of EI benefits to women as a class (MacDonald et al. 2000).

⁴ Statistics Canada (2002). To the extent that it might appear that the wage or income gaps have begun to narrow, it is clear that the biggest factor at play is the decline in men's average earnings rather than relative increases in women's average earnings (Statistics Canada 1998a,b; see also CACSW 1994: 44).

⁵ Statistics Canada (2003a: 8). It is true that government workplaces enjoy higher rates of unionization, but overall, only some 20 percent of the private sector has become organized.

⁶ Neft and Levin (1997: 227); updated details on these factors are discussed at length in FAIA (2000).

⁷ *Employment Equity Act*, 1996, R.S.C. 1985, c. 23.

⁸ *Veterans' Act*, S.C., 1917.

⁹ When income taxation was first introduced in Canada in 1917, the demand that married men receive special tax benefits to reward them for carrying the burden of supporting their wives and children was coupled with complaints that relationship-neutral taxation would tax single men, "spinsters" and married women "too lightly," and also carried with it a thinly disguised homophobic attitude toward unmarried men. This is most apparent in the exchanges between the Minister of Finance, Thomas White, who advocated generous personal exemptions for all taxpayers on the basis that diverse family structures imposed a variety of support obligations on most adult workers, and three other members. See Canada, House of Commons, *Debates and Proceedings*, 7th Sess., 12th Parl., IV: 4102, 4103 (August 3, 1917), Thomas White; IV: 4103, Mr. Verville; 4105, Mr. Knowles, 4104, Mr. Graham.

¹⁰ For example, the caregiver credit is now available to taxpayers who live with and provide in-home care for a parent or grandparent 65 or older or other relatives who are dependent, because of a mental or physical infirmity. The caregiver amount for 2002 is \$3,605, which equates to a credit against federal income taxes of \$576. The claiming taxpayer's net income threshold is \$12,312, and no credit is available if the dependant's income exceeds \$16,172. *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.).

¹¹ See Lahey (1988: Chapter 7), which calculates post-tax and post-transfer distributions of income by sex to demonstrate that, despite heavy transfers to women through child benefits, the net impact of the combined tax-transfer system historically has been to distribute pre-tax income more disproportionately to men.

¹² This may be affected by the Ontario Court of Appeal's decision in the *Falkiner* case, which has invalidated the use of a "spouse in the house" type of rule to cut off social assistance payments to women who are cohabiting with another adult. The courts have based this ruling on the equality provisions of the *Canadian Charter of Rights and Freedoms*. See *Falkiner v. Ontario (Ministry of Community and Social Services)* (2002), 59 O.R. (3d) 481, [2002] O.J. No. 1771 (Ont. Court of Appeal), per Osborne A.C.J.O., Laskin and Feldman J.J.A., *affirming* 188 D.L.R. (4th) 52, [2000] O.J. No. 2433 (Ont. Div. Court), *leave to appeal granted* S.C.C. File No. 29294 (March 20, 2003), per McLachlin C.J., Bastarache and Deschamps JJ; *appeal abandoned* December 2004. See also *R. v. Rehberg*, [1994] N.S.J. No. 35 (N.S. Supreme Court), per Kelly J., which held that criminal charges laid against a woman for "welfare fraud" when she failed to report that she was living with a man violated the Charter.

¹³ These figures are for 1998. In that year, men had 41.3 hours of leisure per week, women 37.9 (Hamdad 2003).

¹⁴ See Mroz (1987). This sensitivity is also referred to as elasticity.

¹⁵ See, for example, Averett et al. (1997); Callan et al. (1999).

¹⁶ *Report of the Royal Commission on Taxation* (United Kingdom 1920), in reservations I, III and IV Dr. Lilian Knowles, economist, objected to various recommendations that ignored the full weight of income taxation on women, including the recommendation that married couples should be treated as the basic tax unit.

¹⁷ This point is made in Wieggers (2002).

¹⁸ Although the frank use of joint filing in the United States might appear to render that income tax system markedly different from the Canadian tax system, which uses the individual as the tax unit, the introduction of nearly 100 joint provisions into the *Income Tax Act* has turned the Canadian income tax unit into a hybrid that functions more like a joint system than an individual system. This was first documented by Brown and Woodman (1981: Chapter 21), see also Lahey (2001a). It is clear from the popular support for U.S.-style joint filing by married couples that surfaces in Canada from time to time that U.S. magazines like *U.S. News and World Report* have had some influence on the discourse in Canada as well as in the United States.

¹⁹ See Battle and Torjman (2001), for an extended history of the emergence of the post-welfare state in Canada. The authors explain how universal entitlement to tax benefits and social programs like the family allowance has been replaced with the notion of "target efficiencies" in aiming government spending at the "deserving poor."

²⁰ Some provisions can actually trigger both responses. For example, the disabled child tax credit can offer fiscal incentives to those who stay home with their disabled child, but it can also

operate as a hidden penalty to re-entering paid work because the income limit on eligibility for this credit can drive down the total take-home pay of the worker. Both aspects of this credit tend to reinforce gendered pressures on women to lean toward unpaid work, in this case, personally caring for a disabled child.

²¹ The low income cut-offs set out in the child tax benefit provisions are not the same as the Statistics Canada Low Income Cut-off. The CTB cutoff is higher but nonetheless operates to limit the amount of benefit that can be received by a parent. For details of the present Canada Child Tax Benefit, see *Income Tax Act* subsection 122.6-122.64 and Income Tax Regulations paras. 6300-6302. This system contains a working income supplement (section 122.61(1)A(c)C) and replaces the pre-1993 child tax credit (section 122.2).

²² See Lister (1990: 449) for discussion of this structural feature of these family-income programs. See Lahey (2001a,b) for detailed demonstrations of this effect.

²³ Lister (1990: 463). While the federal government has made much of its announced intention to eliminate the welfare wall built into the CTB, so far it has merely moved it to a somewhat higher income level. See Vincent (2000), who argued for a return to universal child benefits and an end to the clawback of benefits as income rises.

²⁴ See, for example, Baker (1995: 121). At present, the Quebec \$7 per day child-care program remains the most accessible and universal child-care model in effect in Canada. As a minimum, this model should be extended across the country.

²⁵ For example, the former unemployment insurance program only covered those who worked at least 15 hours per week. In contrast, the new employment insurance program covers those who work part time if they can sustain that work on a year-round basis. For example, part-time workers can qualify for coverage if they can prove an average of between 8 and 13.5 hours per week in the 52 weeks immediately preceding their claim for employment benefits and at least 9.4 hours per week in the 52-week period before that. The precise number of hours required depends on the unemployment rate in the claimant's geographic region. This flexibility is somewhat more apparent than real, however. First-time entrants into paid work and those re-entering paid work after a two-year gap have to show an average of 17.5 hours of paid work per week for the first of those 52-week periods. The number falls to an average of 11.5 hours per week if the claim is for maternity, parental or compassionate benefits. For details see HRSDC (nd).

²⁶ Women are socially set up for this work in the first place, and market-based wage differentials turn this social assignment into a rational economic choice. See Chodorow (1978: 30-39).

²⁷ Gornick (1999: 34) acknowledged that these issues lie on the frontiers of social welfare analysis. See also Forrest (1998: 42, 199-225, esp. at 202-203, 215-217).

²⁸ McIntyre and Oldman (1977: 1609) disagreed with this view. They argued that performing unpaid work is a personal choice driven by so many unpredictable factors that it cannot be taken into consideration in policy formation.

²⁹ The Royal Commission on the Status of Women raised this concern in 1970.

³⁰ This deduction was repealed effective for the 1988 taxation year. At the time, the rationale for repealing it was that the saved revenue could be devoted to increasing the value of the personal exemption, which would also benefit lower-income taxpayers. This rationale exhibits the zero-sum type of analysis that is characteristic of tax policy analysis of low-income issues. See the former section 7(1)(a) of the *Income Tax Act* for this provision.

³¹ *Income Tax Act*, section 63.

³² Connelly (1992). There are also administrative problems with the current structure of the child-care expense deduction. Parents who claim this deduction have to pay the hourly wage required under minimum wage laws and must also remit withheld income taxes as well as both the employer and employee shares of the worker's EI premiums and CPP contributions. This increases the costs of child care, but also places both the parent and the worker firmly within the employer-employee relationship and imposes the additional costs of administering those withholding payments and remittances. Thus, there is a huge underground economy where parents forego the deduction to bargain for lower care costs. This, in turn, pushes child-care workers into the benefit-less sector of the labour market where they are essentially isolated, independent contractors who may themselves become tax avoiders who forego basic employment benefits, such as EI, to operate on a purely cash basis.

³³ There are limited situations in which a single-income couple can still claim the credit, such as when the other partner is enrolled in a full-time educational program or is infirm. See ITA section 63.

³⁴ See appendixes A, B and C for detailed lists of these provisions and references to the *Income Tax Act*.

³⁵ The leading work on this issue is Pahl (1989).

³⁶ See, for example, Boskin and Sheshinski (1983); Leuthold (1985); Briggs (1985); Apps (1999 esp. 448-449). The foundational work in this area is Apps (1981).

³⁷ The OECD (1994: 265-272) documents the causes of the poverty trap for selected OECD countries. See also Mitchell (2001) detailing marginal tax rates of up to 100 percent under the new Ontario social assistance rules.

³⁸ These provisions are outlined in appendixes A, B and C.

³⁹ LCC (2001) Chapter 3 following the recommendations of Lahey (2001a). Young (2000) also agreed that the spousal dependency credits should be repealed, but she concluded that other joint provisions that limit social welfare payments to low-income families are justified in light of the economies of scale and income sharing believed to occur within the family.

⁴⁰ Gustafsson and Bruyn-Hundt (1991: 32-33). This effect will be observed only when the rate structure is progressive. If tax rates are linear or regressive, then the incentive effect disappears or can even be reversed.

⁴¹ See Lahey (2001a) for a detailed discussion of how the family quotient system works.

⁴² For the 2003 taxation year. This exemption was delivered in the form of a personal tax credit in the amount of \$1,240.

⁴³ Both of these credits are found in the *Income Tax Act*, section 118.

⁴⁴ *Income Tax Act*, section 122.5 (2003).

⁴⁵ An additional \$82 is added to the per child amount for each of three or more children, and there is a supplement of \$232 for each child under the age of 7. *Income Tax Act*, section 122.6 (2003-2004).

⁴⁶ The two credits are further reduced by reference to other tax or social assistance amounts. For example, the additional benefit for children under the age of 7 (which is \$239 per child for 2004-2005) is reduced by 25 percent of child-care expenses that can be deducted in calculating income tax liability.

⁴⁷ The tax-back rates for the GST are co-ordinated with the CTB to a certain extent, but only to moderate what would otherwise be extremely high tax-back rates.

⁴⁸ *Income Tax Act*, section 63(3)(b); the limit for a child with a disability is \$10,000 per year.

⁴⁹ See, for example, Connelly (1996); Bakker (1994), especially Elson at 33-45; McCaffery (1997).

⁵⁰ Some of the items include expenditures on personal care, household needs, furniture, basic telephone service, a postage stamp, religious and charitable donations, school supplies and modest levels of reading material, recreation and entertainment (HRDC 2003: 37-43).

⁵¹ The Clinton welfare reforms replaced the AFDC with TANF (Temporary Aid to Needy Families) (Heen 1995: 194).

⁵² The list of employment benefits that may be received through the workplace includes extended hospitalization, drug, nursing, dental, optical, mental health or medical care plans; education benefits such as tuition waivers; insurance coverage; employee discounts; survivor benefits; death benefits; employer-financed housing; and low interest or interest-free loans for various purposes. Many of these are tax-exempt benefits, such as benefits under employer-paid medical insurance, dental plans, or counselling services, and employer-paid moving expenses, which makes them even more valuable (*Income Tax Act*, sections 5, 6). See Appendix B for a list of income tax provisions that magnify the value of family wage benefits by exempting them from taxation.

⁵³ *Income Tax Act*, section 147.1 (tax treatment of contributions to employment-based registered pension plans); section 146 (tax treatment of contributions by taxpayer to own and spouse/cohabitant's RRSPs).

⁵⁴ That these provisions would have this effect or be so difficult to change is no surprise to researchers attuned to the historical construction of these benefit systems. See Michel (2003).

⁵⁵ See Lahey (2001a) Chapter 4, for a detailed account of the history and policy justifications for the current tax treatment of employment-relation benefits, and for a discussion of the policy options that can redress the implicit subsidy going to primary-earner employees at the expense of single employees.

⁵⁶ This is the solution favoured by McCaffery (1997: 134).

⁵⁷ At the same time, workers who do not qualify for EI should be permitted to a full refund of all EI premiums paid by themselves and by their employers whenever they do not have enough hours to claim EI benefits. This could be of particular value not only to marginalized workers but also to seasonal, migrant or foreign domestic workers who lose their ability to claim EI benefits when unemployment forces them to leave Canada.

⁵⁸ For detailed critiques of the NCB program and the earned income supplement in Canada, see Freiler et al. (2001); Wiegiers (2002); Woolley et al. (1996). The main problems with the NCB earned income supplement are that it is limited to workers with minor children, and it is a joint provision. The U.S. earned income credit was originally proposed to ease the impact of flat-rated social security taxes on low-income workers. It has undergone several successive waves of change as the problems of correcting over-taxation by a flat rate tax within the overall structure of a joint filing system are confronted. In its current form, the U.S. EITC increases the marriage penalty and delivers very poorly targeted child-care benefits to low-income families when insufficient state-funded child-care resources exist. One study concluded that in its present form, the U.S. EITC increases the overall marriage penalty flowing from joint taxation to between US\$9.9 billion and US\$12.8 billion. While the credit satisfies vertical equity considerations, because it is income based and targeted at the working poor, the joint filing requirements violate principles of horizontal equity. For exhaustive analysis of the many biases that are reinforced and created in the U.S. earned income credit as it originated and as it has evolved to its present form, see Zelenak (1994); Heen (1995); Christian (1997).

⁵⁹ McCaffery (1997) made this general point in relation to the joint earned credit in the United States.

⁶⁰ The assumptions on which these simulations were based are that couple tax brackets simply double the present individual brackets and that any transferable credits were split evenly between spouses.

⁶¹ The overall increase in women's disposable incomes is due to increases in federal child benefits that would flow from an individual system, and would have the biggest impact on women between the ages of 25 and 45. However, women of retirement age would also reap some discernable

benefit from this restructuring. The federal sales tax credit, the GIS, and provincial transfers are also significant factors. See Appendix D for details of these items. The approximate total cost of this structural change would be in the order of \$11 billion, when total changes in taxes and transfers are taken into consideration.

⁶² Many racially identified women have higher labour force participation rates not because they may have a higher preference for waged work, but because they have no other viable source of support. Consider these U.S. data for 1990: European American women had a participation rate of 56.4 percent; African American women had a rate of 59.5 percent; Chinese American, 59.2 percent, Filipina American, 72.3 percent. Women from other racial-ethnic groups had only slightly lower participation rates than European American women, although the Puerto Rican women's rate was the lowest at 37.2 percent (Amott and Matthaei 1996: 412).

⁶³ See, for example, Moran and Whitford (1996); Brown (1997).

⁶⁴ See Lahey (2001a), Appendix E, summarizing research studies that concluded that within the categories of coupled individuals, "household incomes were highest for married couples and male same-sex couples, followed by unmarried different-sex couples, and lowest for female same-sex couples." The most important of these studies is Klawitter and Flatt (1995).

⁶⁵ See Lahey (1999), Chapter 7, for further information on gay male incomes and responses to changes in the structure of income tax benefits and penalties.

⁶⁶ Leave to appeal to the Supreme Court of Canada had been granted, but the appeal was withdrawn when the specific regulation that had resulted in the Charter challenge was amended.

⁶⁷ The MBM is an estimate of the cost of a specific basket of goods and services for the year 2000 needed to stay out of poverty. The MBM uses an expansive definition of disposable income, deducting not only all income and payroll taxes but all contributions to employee pension plans, unions, health providers, as well as child support and alimony payments, costs of child care, and medical expenses. Human Resources Development Canada calculated that in 2000, 13.1 percent of the Canadian population lived below this poverty line. This poverty measure is considered to complement the LIMs and LICOs used by other departments.

⁶⁸ This simulation was carried out by retaining the current tax structure and replacing the current tax rates with those in effect in 1988, with the income brackets adjusted for inflation.

⁶⁹ See the income data discussed above; see also Lahey (2001a), Appendix E.

⁷⁰ The Ontario Social Assistance Review Committee made this recommendation in its *Transitions* report; it has never been seriously implemented. See Ontario, MCSS (1988).

⁷¹ See, for example, Heen (1995); McCaffery (1997).

⁷² For example, the Saskatchewan labour code requires that only businesses with 10 or more full-time employees (30 hours per week) have to offer part-time workers equivalent benefits, but only

if they are “eligible” part-time workers. Part-time workers become “eligible” after completing at least 390 hours of employment in 26 continuous weeks (an average of 15 hours per week), and must maintain that 15 hour per week continuously thereafter. Once those criteria are met, then part-time employees are entitled to 50 percent of the benefits provided to full-time employees under dental, group life, accidental death and drug plans, and can limit coverage to the employee only and deny family coverage. Further details can be seen at Saskatchewan Labour (nd). Other provinces, such as Ontario, do not set minimum entitlements so far as fringe benefit plans are concerned, but do prohibit employers from discriminating on the basis of marital status, gender, sexuality and race when extending benefit plans to employees. See *Employment Standards Act*, 2000, S.O. 2000, ch. 41, section 44(1). All workers, both part time and full time, are protected so far as these minimal rights are concerned: minimum wage, work hours, rest and eating period, overtime pay, paid public holidays and vacation pay, certain leaves (pregnancy, parental and emergency) and termination notice or severance pay.

⁷³ In the most recent survey of non-wage benefits, Statistics Canada found that only 4.9 to 23.6 percent of women part-time workers participated in benefit programs, such as life/disability, supplemental medical, or dental insurance plans or employment-based pension plans. See Statistics Canada (2003c), Table 1.6, at 29.

⁷⁴ Statistics Canada (2000b) reported that in 1999, both women and part-time workers were “much more likely” to be in non-insurable employment. Some 65 percent of all unemployed men were potentially eligible for EI benefits, and 83 percent of those eligible actually received benefits. In contrast, only 53 percent of all unemployed women and 52 percent of all unemployed part-time workers were potentially eligible, but of those two groups, only 80 percent of potentially eligible women and 52 percent of potentially eligible part-time workers actually received EI benefits. In the 2000 tax year, 57 percent of all EI benefits went to men (CCRA 2002: Table 4, all returns by age and sex, at 14).

⁷⁵ In 2000, only 44 percent of all retirement pension plan contributions and 38 percent of all RRSP contributions were made by women (CCRA 2002: Table 4, at 14).

⁷⁶ CCRA (2002). In 2000, women received only 42 percent of all EI benefits. While some commentators point to the overall increase in the number of women claiming EI under the new system, it has been shown that this increase has, in fact, been offset by the increased number of weeks of eligible employment that new women claimants must show under the new system. See MacDonald et al. (2000).

⁷⁷ Sayeed (2002) outlined the impact of the 1997 changes on survivor benefits and provided a detailed critique of how other changes made in 1997 impacted negatively on women as a class.

⁷⁸ As Justice Minister, responding to criticism that he was making divorce easier, and relaxing laws against abortion and homosexuality, on December 22, 1967 (Reported by CBC, at <cbc.ca>).

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