

CANADA'S WORKING POOR
and the
Working Income Tax Benefit



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1.0 EXECUTIVE SUMMARY

The federal government has requested advice on how to improve the Working Income Tax Benefit (WITB), which will receive an additional \$750 Million on top of current spending of about \$1 Billion in 2019.

The WITB is a refundable tax credit paid to persons and families with low earnings; it is intended to raise the incomes of the working poor and to provide an incentive to move from welfare to work. During the decade since its introduction, the major criticism of the WITB has been that it is a decidedly modest benefit, which is reduced and even lost completely at levels of net income well below the poverty line.

This research note provides some detailed information on the working poor, who make up about one half of all working age persons living in poverty. About one third of the working poor are full-time/full year workers who will likely receive little or no WITB benefit in provinces with a significant minimum wage standard. The WITB is thus effectively targeted to low wage precarious workers in part time and part year jobs.

Data show that 5.6% of working age persons in 2015 received WITB benefits. Just 6.0% of all Employment Insurance (EI) recipients also received the WITB, and EI recipients made up 11.8% of all WITB recipients. These data suggest that the working poor largely fail to qualify for EI benefits during periods of involuntary unemployment, even though they will likely have paid into the program. This is likely due to insufficient hours of employment in paid jobs prior to a layoff and, perhaps, difficulties obtaining a record of employment.

Just 8.8% of social assistance recipients also received the WITB, and social assistance recipients made up just 8.4% of all WITB recipients. The WITB thus seems to be of minor importance as a welfare-to-work program.

The WITB could and should be an important part of Canada's social policy tool kit, working with higher minimum wages to help the working poor. The Broadbent Institute recommends the following improvements :

The additional funding of the WITB will allow for the maximum benefit to be raised, and also to be phased out more slowly. The government should do both. Benefits should not be lost completely significantly below the poverty (LIM-AT) threshold.

The Broadbent Institute proposes that WITB benefits not be reduced based upon receipt of EI benefits given that these have been earned by payment of a premium.

It is further proposed that advance payment of the WITB be reformed so that 100% of the expected benefit can be paid quarterly in advance. This would benefit the working poor during periods of low or interrupted earnings during the year.

The federal government should discuss with provinces how WITB benefits might be made immediately available to social assistance recipients who take up paid employment and cross the WITB earnings threshold,.

2.0 THE WORKING INCOME TAX BENEFIT

In the 2017 Fall Economic Statement, the federal government promised to enhance the Working Income Tax Benefit (WITB) through additional annual funding of \$500 Million starting in 2019. This will be on top of an already announced increase of \$250 Million in 2019. Canadians were invited to provide input on how the additional funding should be used, with the details to be announced in the 2018 federal budget.

The WITB is a decade-old, refundable tax credit paid to single people and (mainly single parent) families with low earnings and is intended to raise the incomes of the working poor and to provide an incentive to move from welfare to work. Persons under age 19 and full-time students are ineligible.

The credit has been broadly supported by experts and by all political parties as a partial solution to the fact that many working Canadians fall into poverty due to insufficient annual earnings. The main immediate causes of low income for the working poor are low hourly wages and the increasing prevalence of precarious jobs, including part-time jobs and temporary jobs. It is widely believed that employment will continue to become more precarious due to technological change and major changes in the job market.

While some have feared that a tax credit might subsidize low wage work, many agree that it can and should complement a decent minimum wage standard capable of raising full time, full year workers above the poverty line. The pending \$15 per hour minimum wage in Ontario and Alberta easily reaches this standard, with the implication that the WITB as current designed (see below) is mainly of assistance to part time and temporary (including seasonal) workers.

The major criticism of the WITB has been that it is a decidedly modest benefit.

In 2015, 1.2 million working-age Canadians received WITB benefits, which averaged \$807 for a total payout of almost \$1 Billion (\$989 Million.) (2016 Census data provided by Statistics Canada.) By comparison, 3.9 million working age Canadians received child benefits averaging \$5,185; 2.4 million working age Canadians received Employment Insurance (EI) benefits averaging \$7,230; and 1.2 million working age Canadians received social assistance benefits averaging \$8,831. (This number does not include children.) Note that these programs interact with one another and that persons and families can have multiple sources of transfer income.

Following a recently announced increase of \$250 Million per year from 2019 to cushion the impact of increased Canada Pension Plan premiums, the WITB will provide a maximum annual benefit to singles of \$1,192. Benefits will be phased in above earnings of \$3,000, reach a maximum of \$1,192 on net income of about \$8,000, and will be phased out at a rate of 14% on net incomes of more than \$12,000. No benefit at all will be paid once net income rises above about \$21,000. (For details see the Fall Economic Statement, Chart 3.2.)

For families, the maximum benefit is \$2,165, phased out at the same rate of 14% as incomes rise above \$17,000. (Note that program parameters differ somewhat between the provinces.)

For both singles and families, benefits are phased out at levels of income that fall well below the poverty line. Using Statistics Canada's Low Income After Tax measure for 2015, a single person is, , considered to be living in low income if she has an after tax income of less than \$22,352 . For a two-person household, that number is \$31,611.

There are also issues with respect to access to the program. The WITB can be claimed on a person's tax return for the prior year by completing a Schedule, but there is no auto-enrolment as is the case with some other income-tested benefits such as the Guaranteed Income Supplement for seniors. Benefits are thus paid after rather than during a year of low earnings. Persons can apply for 50% of the anticipated benefit to be paid in advance quarterly cheques in the following year, but the WITB is not a real time substitute for periods of very low or no earnings.

3.0 THE WORKING POOR

In 2015, 14.2% of all Canadians and 13.9% of working age Canadians aged between 18 and 64 lived in poverty, defined as having an income falling below the Low Income Measure After Tax (LIM-AT). The LIM-AT line means that a person in low income has less than one half of the income of a median- or mid-point family of the same size. The line in 2015 was \$22,352 for a single person and \$31,611 for couples. This is now the measure of low income highlighted by Statistics Canada.

The incidence of low income was especially high, at 29.0%, for single persons of working age not in an economic family and 32.0% for single seniors. (Source CANSIM Table 206-0041.)

This paper provides some detail on persons who are of working age (defined below as age 16 to 65) and belong to the *working poor* (defined as having annual earnings of more than \$1000 but still falling below the LIMA-AT line. This is the target group for the Working Income Tax Benefit. The source of data is the Statistics Canada Canadian Income Survey microdata file.

Table 1

INDIVIDUALS BY TIME WORKED AND GENDER, WORKING AGE, 2015						
Employment Status	Male	Male (%)	Female	Female (%)	Total	Total (%)
Full-year full-time worker	6,469,263	55	5,103,471	43	11,572,733	49
Full-year part-time worker	542,175	5	1,251,441	11	1,793,617	8
Part-year full-time worker	2,212,110	19	1,544,026	13	3,756,135	16
Part-year part-time worker	660,191	6	1,087,427	9	1,747,618	7
Did not work during the year	1,869,578	16	2,775,085	24	4,644,662	20
TOTAL	11,753,317	100	11,761,449	100	23,514,766	100

For background, Table 1 looks at the employment status of all working age individuals. As shown, 20% did not work during the year (24% of women and 16% of men) while 49% (55% of men and 43% of women) worked full-time for the full year. Others worked part time and/or part year.

Table 2

INDIVIDUALS UNDER LIM-AT BY TIME WORKED AND GENDER, WORKING AGE, 2015						
Employment Status	Male	Male (%)	Female	Female (%)	Total	Total (%)
Full-year full-time worker	315,670	19	206,647	12	522,317	16
Full-year part-time worker	66,696	4	148,579	9	215,275	7
Part-year full-time worker	304,614	19	190,168	11	494,782	15
Part-year part-time worker	152,935	9	201,632	12	354,567	11
Did not work during the year	794,384	49	908,365	55	1,702,748	52
TOTAL	1,634,299	100	1,655,391	100	3,289,689	100

Table 2 provides the same data for all persons in low income. As shown, a bare majority (52%) did not work at all during the year (49% of men and 55% of women). Presumably, a large proportion of these persons were receiving either social assistance or disability benefits.

However, just under one half of working-age persons living in low income can be defined as the working poor.

Table 3 takes a closer look at this group.

INDIVIDUALS UNDER LIM-AT WITH EARNINGS BY TIME WORKED AND GENDER, 2015						
Employment Status	Male	Male (%)	Female	Female (%)	Total	Total (%)
Full-year full-time worker	263,178	59	179,511	41	442,689	32.0
Full-year part-time worker	53,781	31	120,618	69	174,399	12.6
Part-year full-time worker	262,823	63	154,300	37	417,123	30.1
Part-year part-time worker	115,972	44	147,546	56	263,517	19.0
Did not work during the year	31,654	37	54,524	63	86,179	6.2
TOTAL	727,408	53	656,499	47	1,383,907	100.0

Both relatively low hourly wages and relatively low annual hours of work in insecure jobs are key issues for the working age, working poor. As shown, fully one third (32%) of the 1.4 million working poor (59% of men and 41% of women) held full-time, full year jobs that likely brought them close to the low income line. Men predominated in this group. The rest were part-time and or part-year workers, with a tilt to part-year, full-time workers who likely held temporary and seasonal jobs. Women strongly predominate among full year, part-time low-income workers, while men strongly predominate among part-year full-time low-income workers.

Other data show that 25.7% of the working age/working poor are self-employed, well above the overall average of 15.4%.

Table 4 looks at the working age, working poor by family type.

WORKING AGE, WORKING POOR BY FAMILY TYPE		
Economic Family Type	Below LIM-AT (number)	Below LIM-AT (percentage)
Non-elderly male not in an economic family	269,361	15
Non-elderly female not in an economic family	255,094	19
Non-elderly couple with no children or relatives	211,896	6
Non-elderly couple with children	345,618	6
Non-elderly couple with other relatives, no children	57,872	2
Elderly couple with no children or other relatives	9,156	9
Female lone-parent family	70,711	16
Male lone-parent family	12,074	8
Other family type - elderly male	2,968	2
Other family type - elderly female	3,958	4
Other family type - non-elderly male	64,364	7
Other family type - non-elderly female	80,834	8
ALL ECONOMIC FAMILIES	1,383,907	7

As shown, 7% of all economic families are part of the working poor but this rises to 19% of single females, 16% of female lone parent families, and 15% of single working age males. The great majority of the working age, working poor depend upon the earnings of just one person, and low-income rates for couples are very low compared to those for single persons.

Table 5

WORKING AGE, WORKING POOR BY AGE AND GENDER (INDIVIDUALS ONLY)			
Age Category	Male (%)	Female (%)	Total
16 to 17 years	30	70	17,550
18 to 19 years	65	35	78,058
20 to 24 years	49	51	185,958
25 to 29 years	47	53	179,754
30 to 34 years	49	51	149,720
35 to 39 years	49	51	147,152
40 to 44 years	60	40	162,274
45 to 49 years	55	45	140,229
50 to 54 years	52	48	112,496
55 to 59 years	52	48	105,417
60 to 64 years	61	39	105,299
ALL AGE GROUPS	53	47	1,383,907

Table 5 provides additional data by gender and age group. There is a tilt towards younger age groups, with those age 16 to 30 making up one third of the working age, working poor.

4.0 THE WITB, EMPLOYMENT INSURANCE AND THE WORKING POOR

The pending increases to WITB provide the means to modestly increase a very modest program. As noted, some 50% of working age persons in low income have some earnings and likely receive some benefit from the WITB. (There are 1.4 million working age, working poor recipients and 1.2 million persons receive WITB benefits.) Access could be improved through auto enrolment by the tax authorities as is now the case with the Guaranteed Income Supplement for seniors, and through more frequent delivery of benefits on the model of the GST tax credit.

In principle, a decent minimum wage of \$15 per hour, the current target in Ontario and Alberta, is sufficient to push a single person working full-time, full year (2000 hours) above the low income line. It is reasonable to focus the WITB on part-time and/or part year workers by increasing the maximum benefit and, even more importantly, by slowing the phase out which begins at levels of income well below the low-income line. However, benefits should not be lost until net income approaches the poverty (LIM-AT) threshold.

As noted, the benefit is now phased out on the basis of net income rather than earnings which means that it can be effectively lost by EI beneficiaries. It is proposed that WITB benefits not be reduced based upon receipt of EI benefits given that these have been earned by payment of a premium.

Data show that 5.6% of working age persons in 2015 received WITB benefits. Just 6.0% of all Employment Insurance (EI) recipients also received the WITB, and EI recipients made up 11.8% of all WITB recipients. These data suggest that the working poor largely fail to qualify for EI benefits during periods of involuntary unemployment, even though they will likely have paid into the program. This is likely due to insufficient hours of employment in paid jobs prior to a layoff and, perhaps, difficulties obtaining a record of employment.

The additional funding of the WITB will allow for the maximum benefit to be raised, and also to be phased out more slowly. The government should do both.

It is further proposed that advance payment of the WITB be reformed so that 100% of the expected benefit be paid quarterly in advance. This would benefit the working poor during periods of low or interrupted earnings.

5.0 THE WITB AND SOCIAL ASSISTANCE

Data provided by Statistics Canada show that 5.6% of working age persons in 2015 received WITB benefits. Just 8.8% of social assistance recipients also received the WITB, and social assistance recipients made up just 8.4% of all WITB recipients.

A reasonable interpretation of these data is that the WITB at current levels of funding and as currently designed is not a very effective measure to encourage transitions from welfare (social assistance) to work. This may be true for several reasons.

First, many social assistance recipients need services, including disability and health care supports, affordable child care and training, to access the labour market. These services are often lost as part of a transition from social assistance. Second, receipt of the WITB is relatively difficult to access since few social assistance recipients will have received WITB in the year prior. Third, the WITB is available as a regular payment only up to a maximum of 50% of the benefit. Thus a social assistance recipient receives no WITB when taking the initial decision to take a perhaps part-time and insecure job. Fourth, in all provinces social assistance recipients quickly lose social benefits as employment income rises. Earnings exemptions are typically very low (eg \$200 per month in Ontario) and benefits are rapidly lost from that low level (eg at a 50% rate in Ontario.) Social policy experts such as John Stapleton and Richard Shillington have shown that social assistance recipients can face marginal tax back rates of more than 100% even at earnings levels which fall far short of the poverty line. It is perverse that we impose extremely high marginal tax rates on the working poor.

The federal government should discuss with provinces how WITB benefits might be made immediately available to social assistance recipients, who take up paid employment once they cross the WITB earnings threshold,

6.0 CONCLUSION

The WITB could and should be an important part of Canada's social policy tool kit, working with higher minimum wages to help the working poor. The increases in funding for 2019 should be used to increase the maximum benefit and to phase it out more slowly. The main beneficiaries will be single persons working in part-time and/or temporary jobs who still fall well below the low-income line.

It is proposed that more be done to make the WITB a real time supplement in periods of low or no earnings. This would also increase the effectiveness of the WITB in terms of encouraging transitions from social assistance to employment.