**Think Like A Canadian Economist**

**Episode 4. Boutique Tax Credits**

**VIDEO SCRIPT:**

Anyone who’s had to file an income tax return knows that it can get a bit complicated – and it’s taking longer every year as more and more tax credits are being added.

On last count, the federal tax form had 33 credits. A tax credit reduces the taxes you owe by an amount equal to the tax credit rate (usually 15%) times a credit amount, which depends on the type of tax credit. Most of the tax credits are non-refundable – if you don’t owe taxes, then they don’t do anything for you.

Some of the tax credits make sense in the overall tax system.

The basic personal amount helps reduce taxes for people whose incomes are low.

The CPP/QPP and EI credits mean you don’t pay as much tax on the part of your income you have to pay as premiums.

But further down, you get to some quirkier items – there’s a public transit tax credit, a children’s fitness tax credit, a children’s arts tax credit, a home buyers’ tax credit, not to mention the Political Contribution Tax Credit.

This election season, the Conservative Party has promised to add more, including the home renovation tax credit. The liberals have promised a tax credit for school supplies purchased by teachers.

These boutique tax credits complicate your tax filing (especially if you have trouble keeping track of receipts), and cost the government a lot in lost revenue.

The tax credits are often sold to voters as tax reductions – putting money back into our pockets. But are they really? Not if you think like an economist.

Really, these tax credits are just relabelled government spending programs. The government can take money from our pocket and give it back to us – either in the same pocket, calling it a tax credit, or into another pocket, calling it a grant or transfer.

Other than the label, there’s not much difference between the government giving you $2000 back on your taxes for going to university and the government giving you $2000 extra in scholarships for going to university.

Once you flip your perspective and see these tax credits as spending programs in disguise, a bunch of other problems with them become clear.

1. They don’t reduce taxes: Giving away money in the form of tax credits means that governments have to raise tax rates elsewhere. If we got rid of those tax credits, we could reduce your marginal tax rate .
2. They’re regressive. For the most part, these tax credits are not refundable. That means that people with low incomes who don’t owe income tax don’t benefit from them. Making the credits refundable – as the government has announced it will do with the Children’s Fitness Tax Credit from 2015 on– would make this much less of a problem. It should be considered more broadly for all boutique tax credits. Even so, parents who spend more on their kids’ sports (up to $1000) will get more money back than parents who spend less on their kids.
3. They’re often invisible to the people who could use them. This means they don’t affect decisions in the way we might want. One of the biggest tax credit programs is the tuition and education tax credits. This costs close to $2 billion a year in revenue, and is worth more than $2000 a year to university students – but many current students have no idea they’re worth that much!
4. Partly because they’re invisible, they don’t seem to change people’s behaviour much. When researchers have done evaluations, they are rarely found to achieve their goals – whether that’s increasing children’s fitness or participation in art, or increasing enrolments at university and college.

Recent studies of the children’s fitness tax credit found that it had no effect on getting kids more active - it just gave money to parents who had kids playing sports anyway, who had a high enough income, and who were organized enough to keep receipts.

1. They don’t get much attention from policy evaluators. Government spending programs have to be evaluated for effectiveness regularly, but tax credits don’t. So the government rarely bothers asking itself whether they are working, or whether there are ways of doing things better.
2. Last but not least, they make it more time consuming for all of us to fill in our tax returns.

On the plus side: the CRA is really very good at figuring out how much we owe it, so if you want to hand out cash to people, doing it through the tax system is an administratively cheap way of doing it.

But that doesn’t seem like enough of a counterbalance to all the downsides of these proliferating boutique tax credits.

To learn more, follow us on twitter @tlcecon, and visit our website for more videos.

**SUGGESTED REFERENCES TO LEARN MORE:**

Government of Canada’s Tax Expenditures and Evaluations Report:  <http://www.fin.gc.ca/taxexp-depfisc/2014/taxexp1401-eng.asp#toc7>

Larre, Tamara (2011) “The Children’s Fitness Tax Credit: Right Message, Wrong Policy Instrument,” in Lisa Philipps, Neil Brooks & Jinyan Li, eds. **Tax Expenditures: State of the Art**.  Canada: Canadian Tax Foundation.

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Robson, Jennifer (2015) “Recent federal boutique tax credits not helping those who need it most, or even most families with kids” Canada 2020, April 26, 2015  <http://canada2020.ca/robson-boutique-tax-credits/>

Woolley, Frances (2015) “The Children’s Fitness Tax Credit: A Case Study in (Academic) Incentives” <http://worthwhile.typepad.com/worthwhile_canadian_initi/2015/03/the-childrens-fitness-tax-credit-a-case-study-in-academic-incentives.html>

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<http://canada2020.ca/robson-boutique-tax-credits/>

<http://www.cbc.ca/news/politics/auditor-general-report-child-fitness-tax-credit-report-kept-hidden-1.3051897>

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