

## Time for a “Made in Ontario” Working Income Tax Benefit

With very little certainty about Ontario’s economy, one thing we do know is that, within one year, every EI claim that is currently being paid will be exhausted. Many “exhaustees” will get work, others may go back to school or retrain, and still others will rely on their families for support.

However, a significant number of exhaustees will reluctantly face the difficult choice of working at low-paid jobs or making an application for welfare. This is one of the unfortunate things that can happen in a recession.

With full-time minimum wages paying more than twice what a welfare cheque pays to a single person, choosing work ought to be the preferred alternative to welfare. So if there were a program out there that could tip the balance even more toward working and away from welfare, wouldn’t that be good thing? The Working Income Tax Benefit (WITB) is one such program and, with our proposed changes, the WITB could encourage people to work rather than discourage them.

In 2007, the federal government introduced the Working Income Tax Benefit (WITB) to remove barriers to work, often termed collectively as the “welfare wall.” The WITB is a refundable tax credit offered to low-income earners as a supplement to low earnings from employment. Its initial aim was to encourage low-income earners to break out of welfare by seeking more work – to “make work pay.”

However, the current WITB program is not doing the job as well it could here in Ontario, because it does not fit well with the structure of our income-security system. This is not surprising, since this nominal design cannot completely accommodate thirteen provinces and territories, each with its unique welfare programs. Because of this, the federal government also extended an invitation for provinces and territories to modify the design to suit their welfare programs.

Ontario has not yet accepted the federal government’s invitation to align the new WITB supplement more closely with its own programs, like Quebec, British Columbia, and Nunavut have done. The current WITB benefit combines with Ontario welfare to maximize total benefits at approximately 14 hours a week of minimum-wage work for single earners and 20 hours for single parents. In effect, this means that the WITB provides the highest incentive for low-participation part-time work and inhibits the effort required to achieve full-time hours.<sup>A</sup> Worse, the WITB benefits then phase out as earners take on more hours, disappearing before recipients have earned enough to get off welfare. Instead, for the WITB to meet its stated objectives, we propose its maximum benefits should be shifted to support full-time work, topping out at 32 hours for both groups (*Exhibit E*).

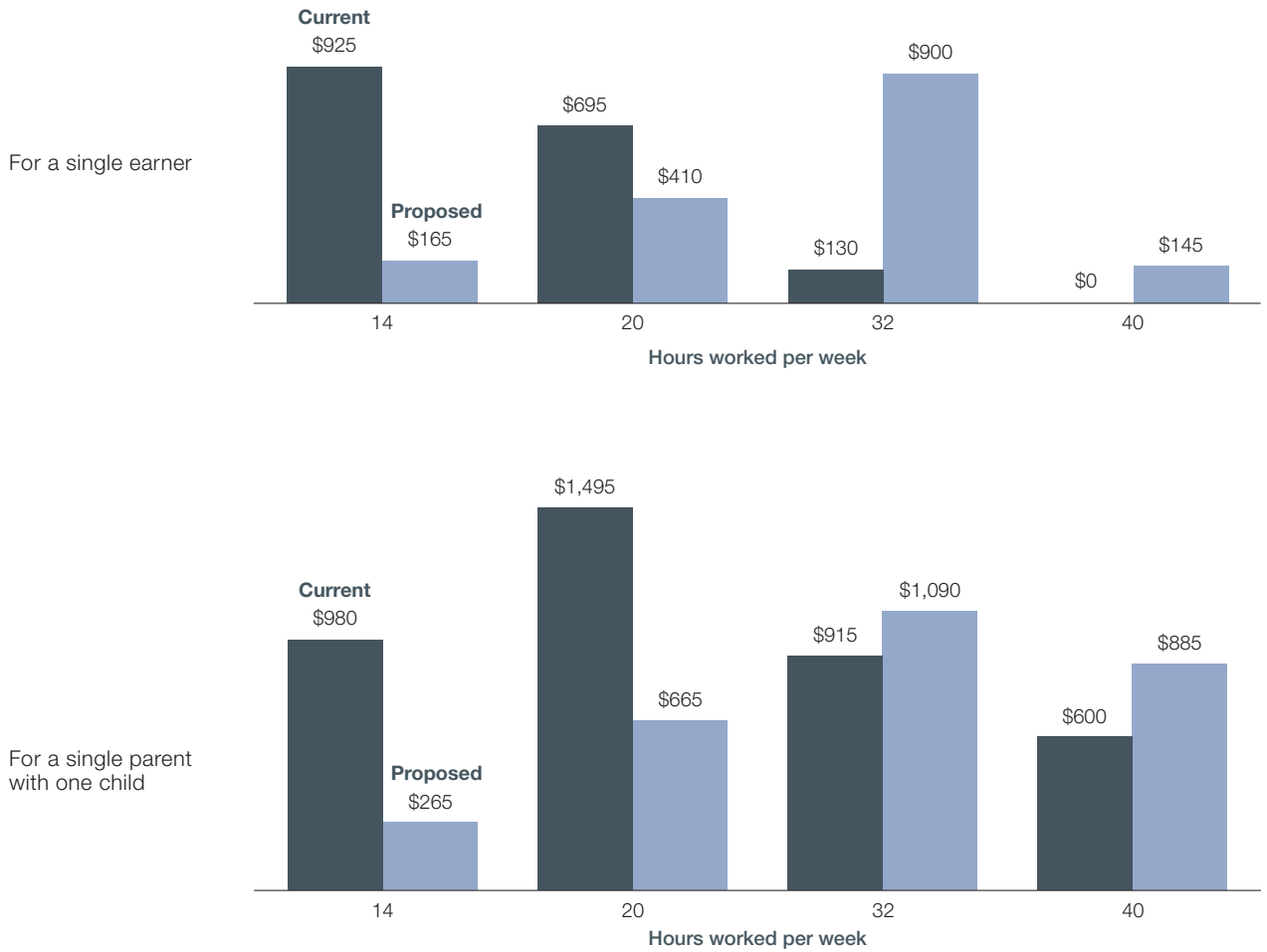
We believe this shift will support more hours of work by low-income earners and provide them needed cash to help make ends meet. In addition, the modified WITB supplement can help low-income earners more effectively move from social assistance to full-time employment, cushioning the impact of losing welfare with work.

We recognize that our proposal will not solve the hardships many Ontario families face – that is asking too much. But it is time that Ontario accept the federal government’s invitation to integrate its WITB program with its own social assistance system, and develop the new “made in Ontario” WITB that the working poor need. This is a step in the right direction to help low-income earners overcome the welfare wall and achieve full-time employment.

<sup>A</sup> Full-time employment is defined here as 32 hours of work per week, drawn from empirical observation on the number of hours worked by low-income Ontarians earning the minimum wage in Modernizing Income Security for Working-Age Adults (2006), “Time for a Fair Deal,” Toronto, page 20.

**Exhibit E Proposed WITB design for Ontario shifts benefits toward full-time employment**

**Benefits for current and proposed WITB in Ontario, 2009**



Source: Institute for Competitiveness & Prosperity analysis based on data from Don Drummond and Gillian Manning, "From Welfare to Work in Ontario: Still the Road Less Travelled," TD Economics Special Report, Toronto 2005; John Stapleton, Open Policy Ontario; Canada Revenue Agency; Ontario Ministry of Community and Social Services.