

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

Presentation to the
Poverty 25 in 5 Network for Poverty Reduction

September 10, 2009



James Milway, Executive Director
Katherine Chan, Researcher



John Stapleton, Principal

Social and economic policy context

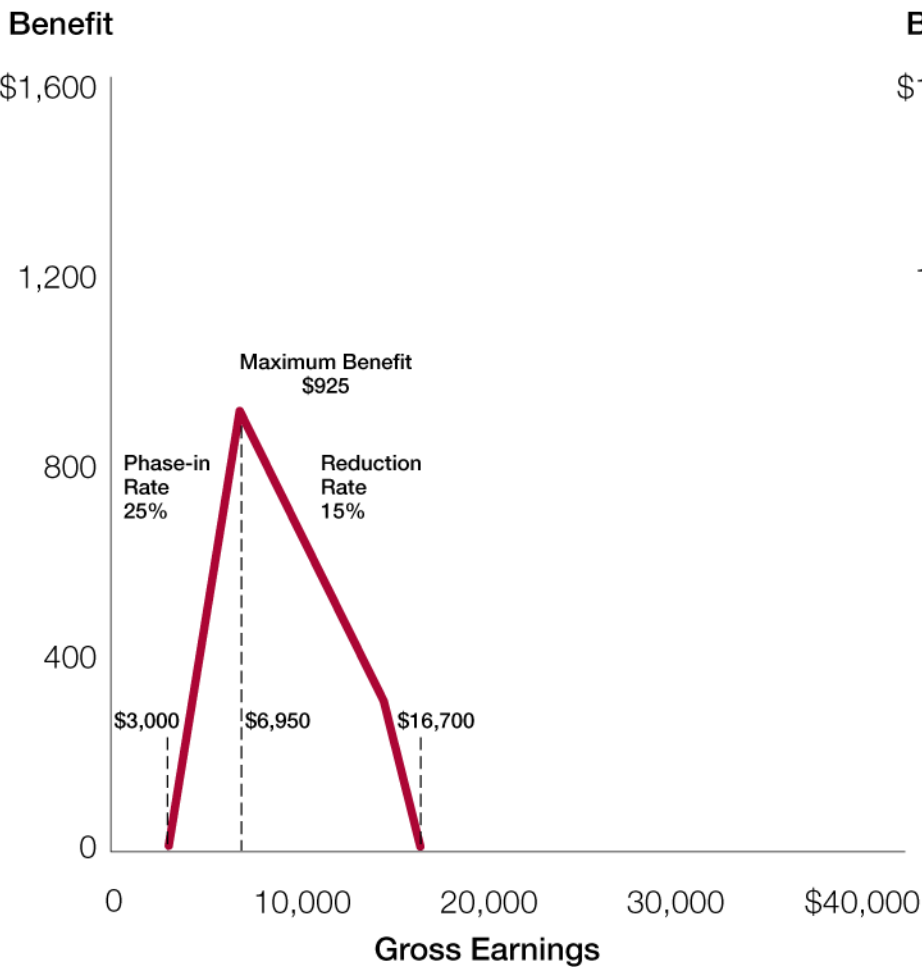
- Ontario in recession
- Welfare programs vulnerable to sharply higher caseloads
- EI coverage reduced compared to previous 3 major recessions
- Important to get people working and to keep people working
- Important to ensure people can make an 'honest go' of living and working in their communities
- Working poverty continues to be a pervasive issue

Social and economic policy context

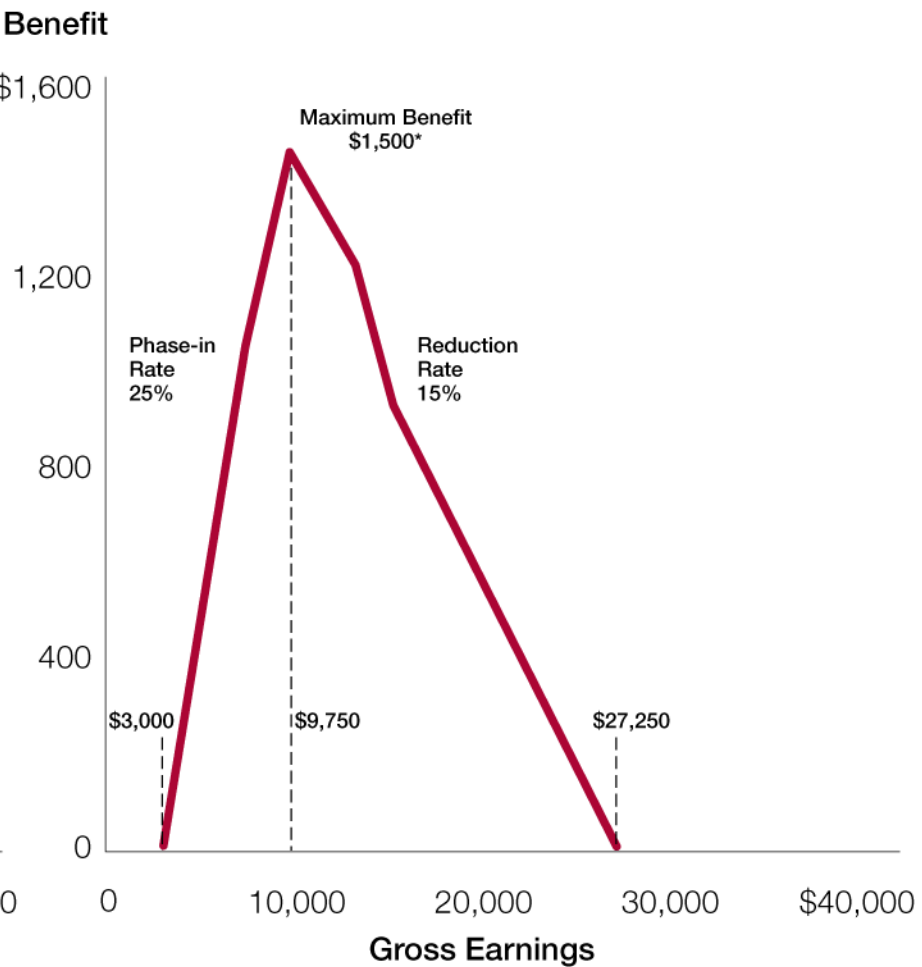
- Recipients trying to earn their way out of welfare face a welfare wall
- Single OW caseloads rising rapidly
- Ontario will face overhang of EI exhaustees in 2010
- Persistent demand for ‘survival jobs’ paying minimum wage – often part-time, temporary
- Important to have intervening safety net for those who are able to obtain work at low wages
- Equally important to help those already on assistance to work their way out.

The nominal WITB design

WITB for single earner in Ontario (2009)



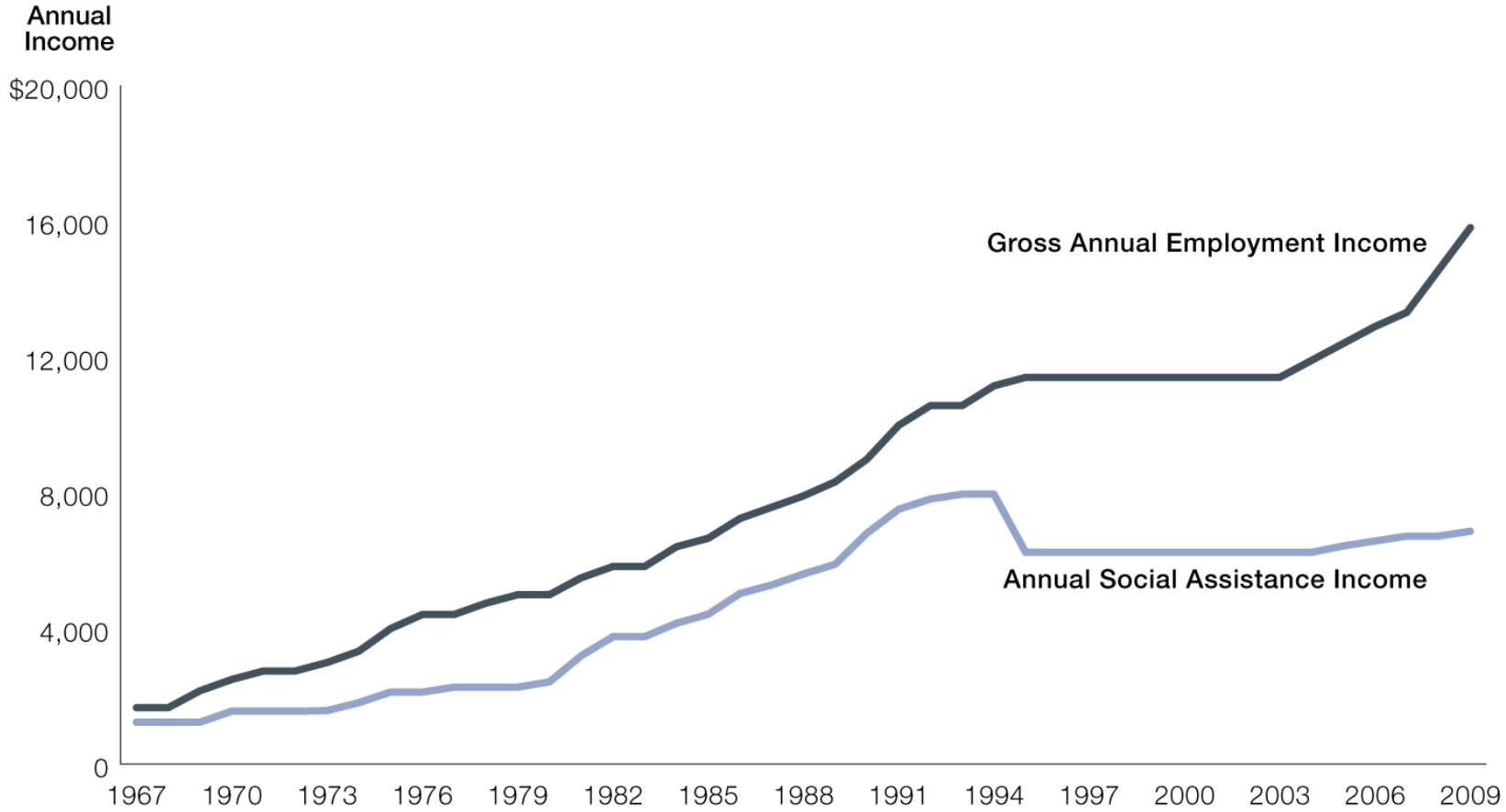
WITB for single parent with one child in Ontario (2009)



* The maximum benefit for a single parent family is \$1,680 as of the 2009 Federal Budget. However, since child benefits increase net income at low levels of income, this reduces the amount of WITB received for the single parent family.

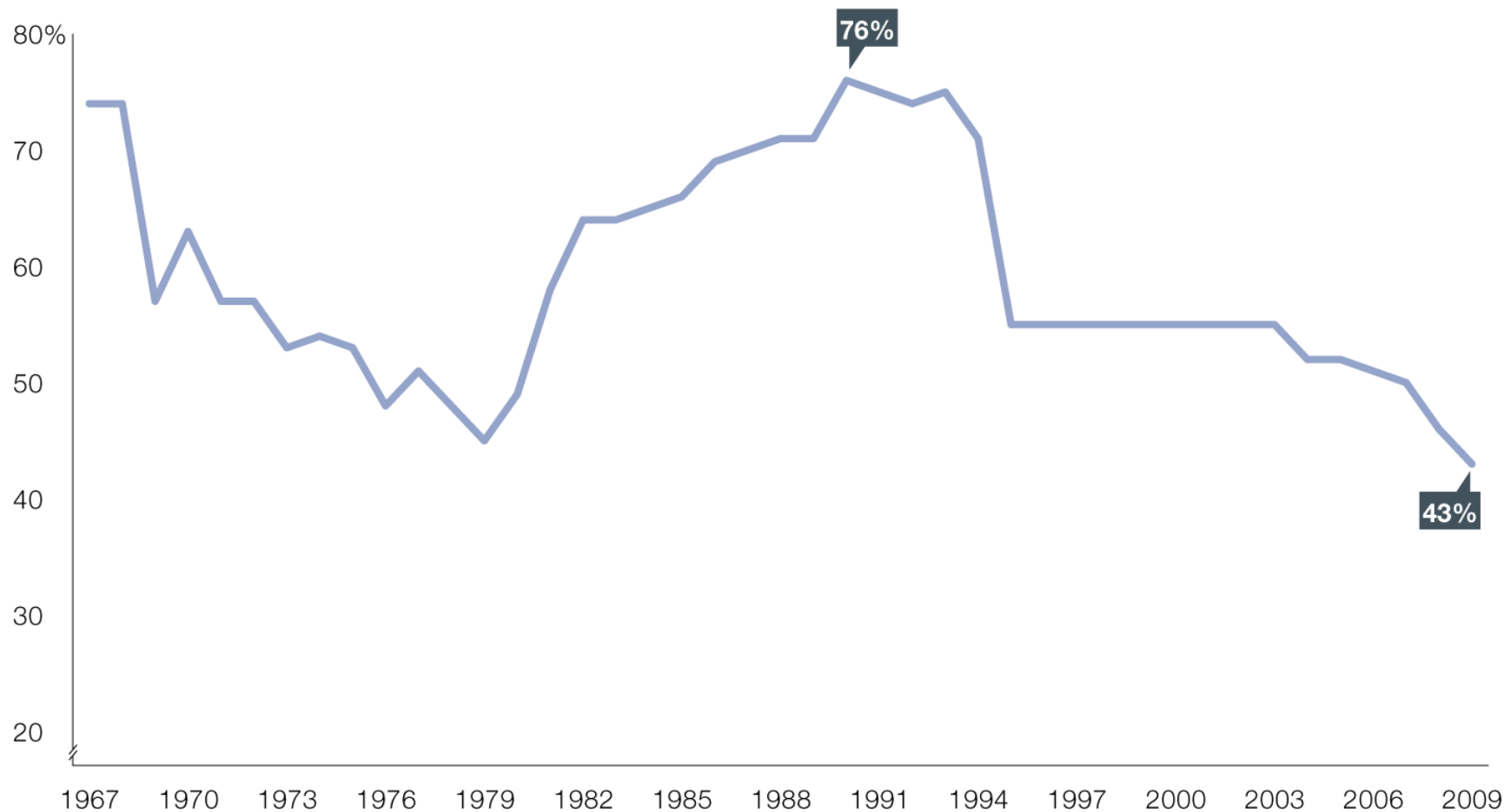
Social assistance has plateaued; employment income at minimum wage has risen

Annual Income from Social Assistance versus Full-Time Employment at Minimum Wage for a Single Earner in Ontario, 1967 to 2009



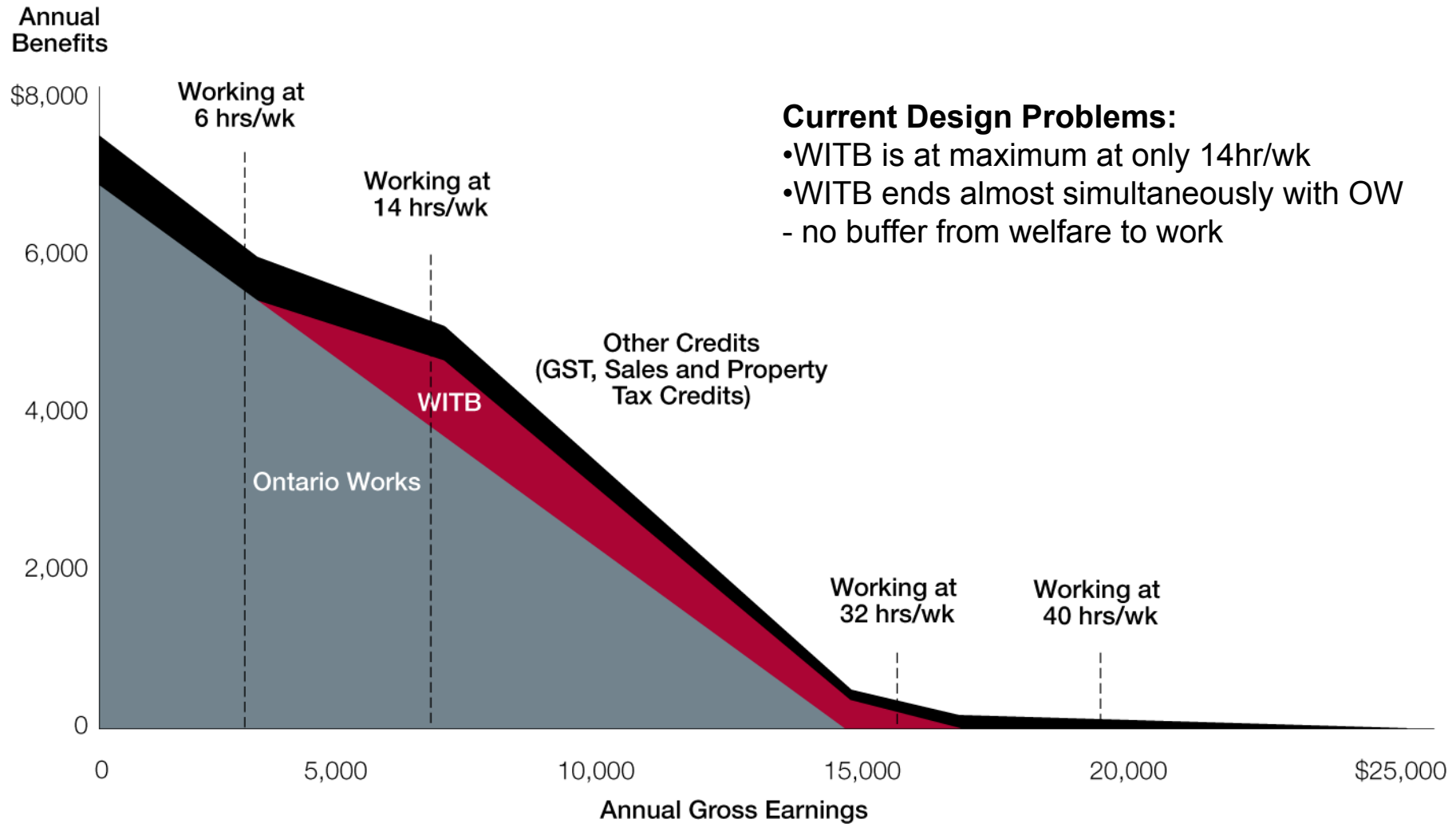
Financial attractiveness of welfare vs low-wage work is at a 40-year low

Annual Social Assistance Income as a Percentage of Annual Income from Minimum Wage Employment for a Single Earner in Ontario, 1967 to 2009



As Jim's hours of work per week increase, his total benefits gradually fall

Total benefits received by a single earner in Ontario (2009)

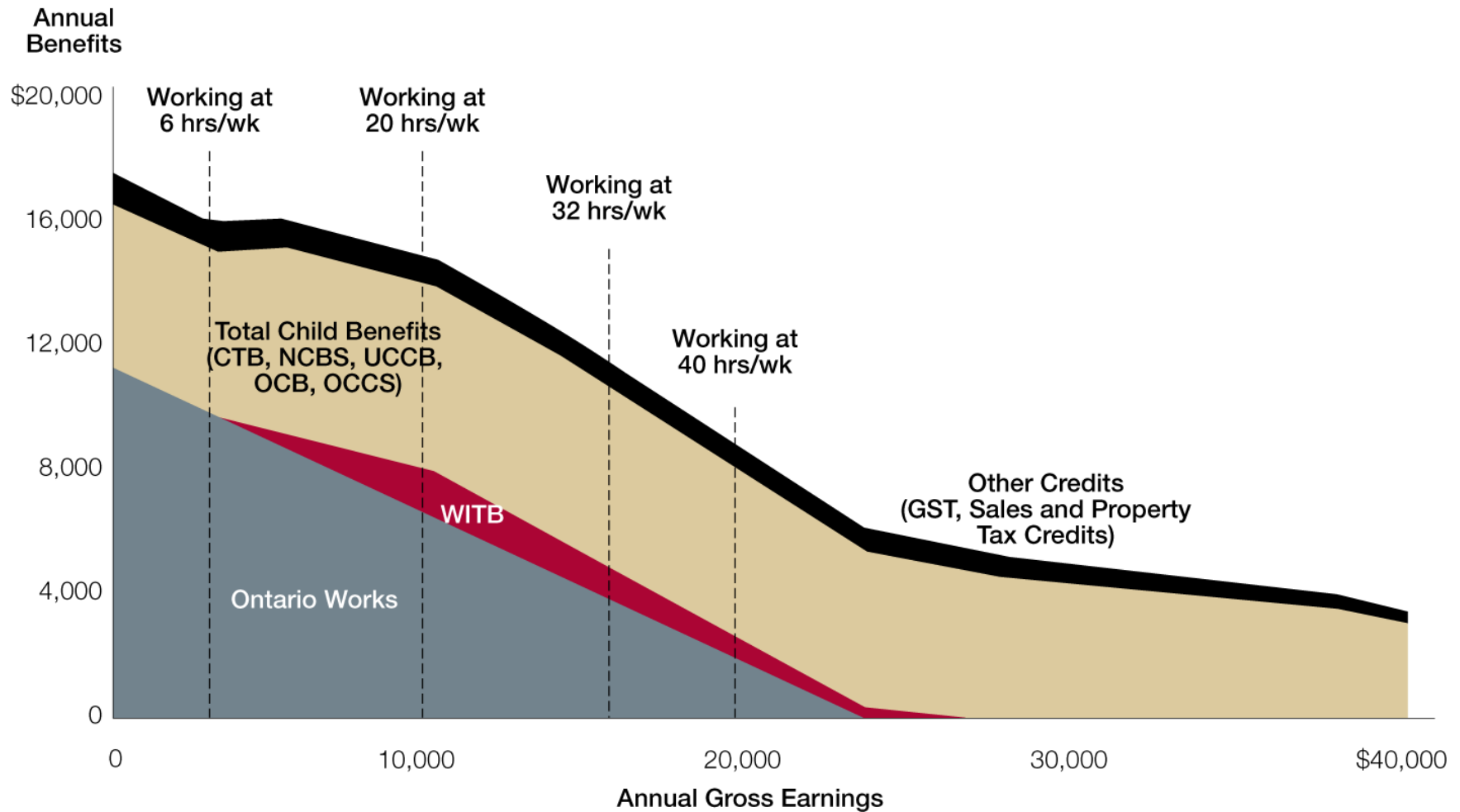


Current Design Problems:

- WITB is at maximum at only 14hr/wk
- WITB ends almost simultaneously with OW
- no buffer from welfare to work

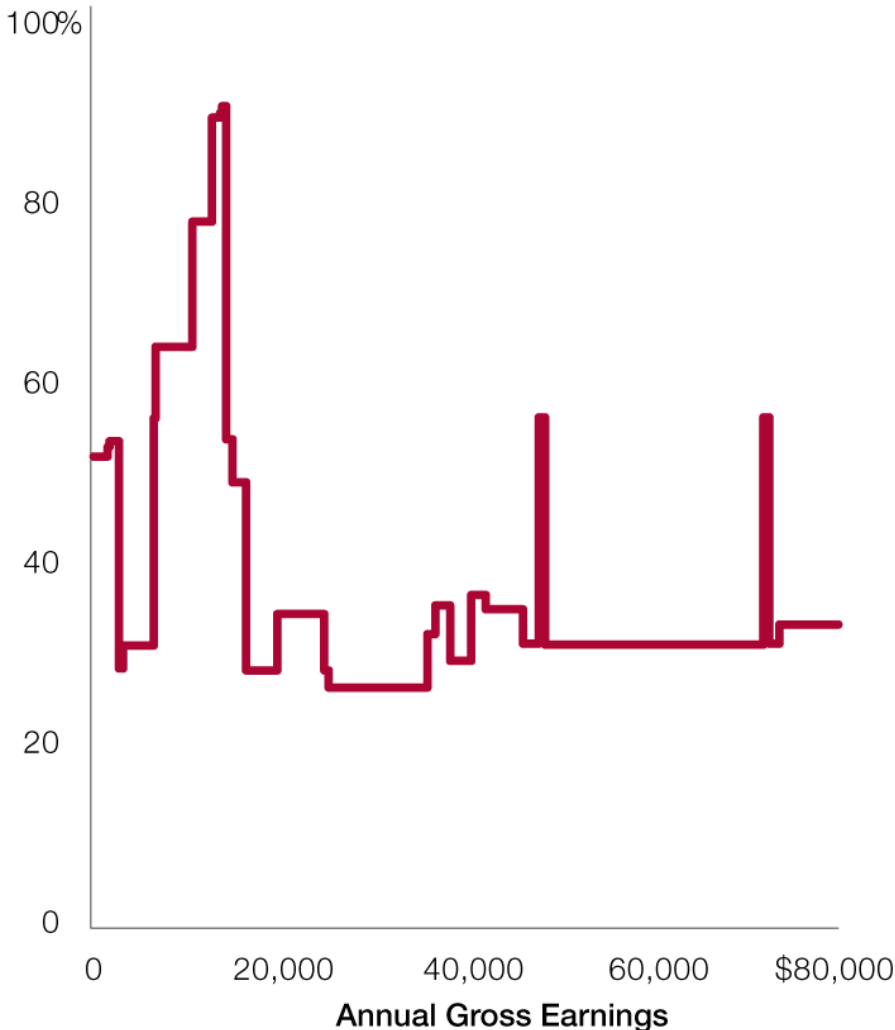
As Sally's hours of work per week increase, her total benefits gradually fall

Total benefits received by a single parent with one child in Ontario (2009)

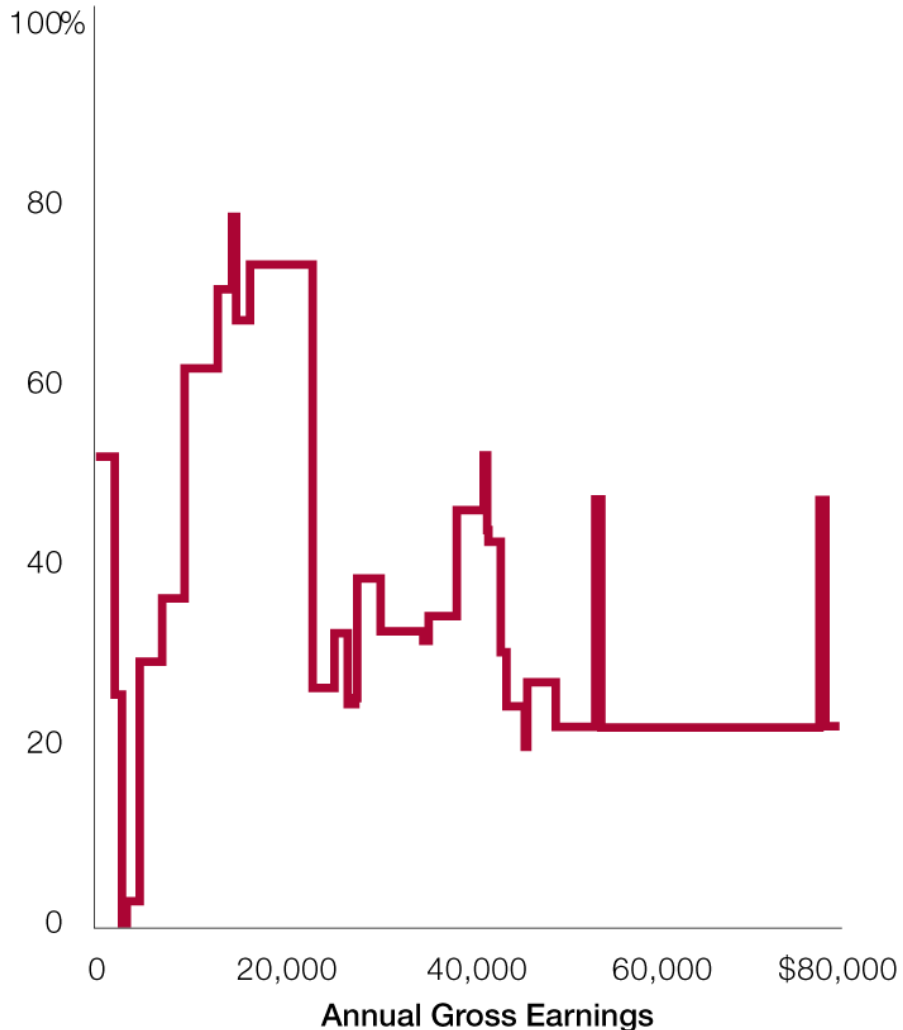


High marginal effective tax rates over long income range

Marginal Effective Tax Rate for a single earner in Ontario (2009)



Marginal Effective Tax Rate for a single parent with one child in Ontario (2009)



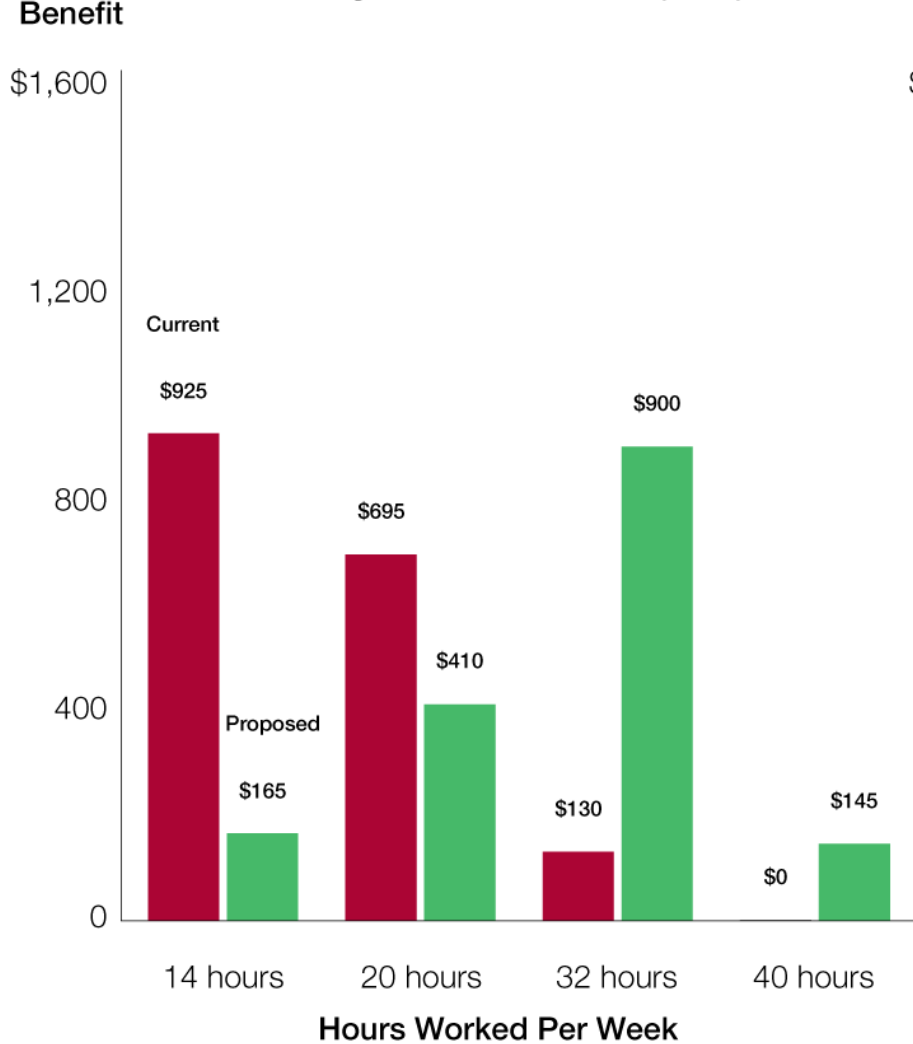
The way forward: supporting work

WITB and Ontario Works should mesh in the optimum way to:

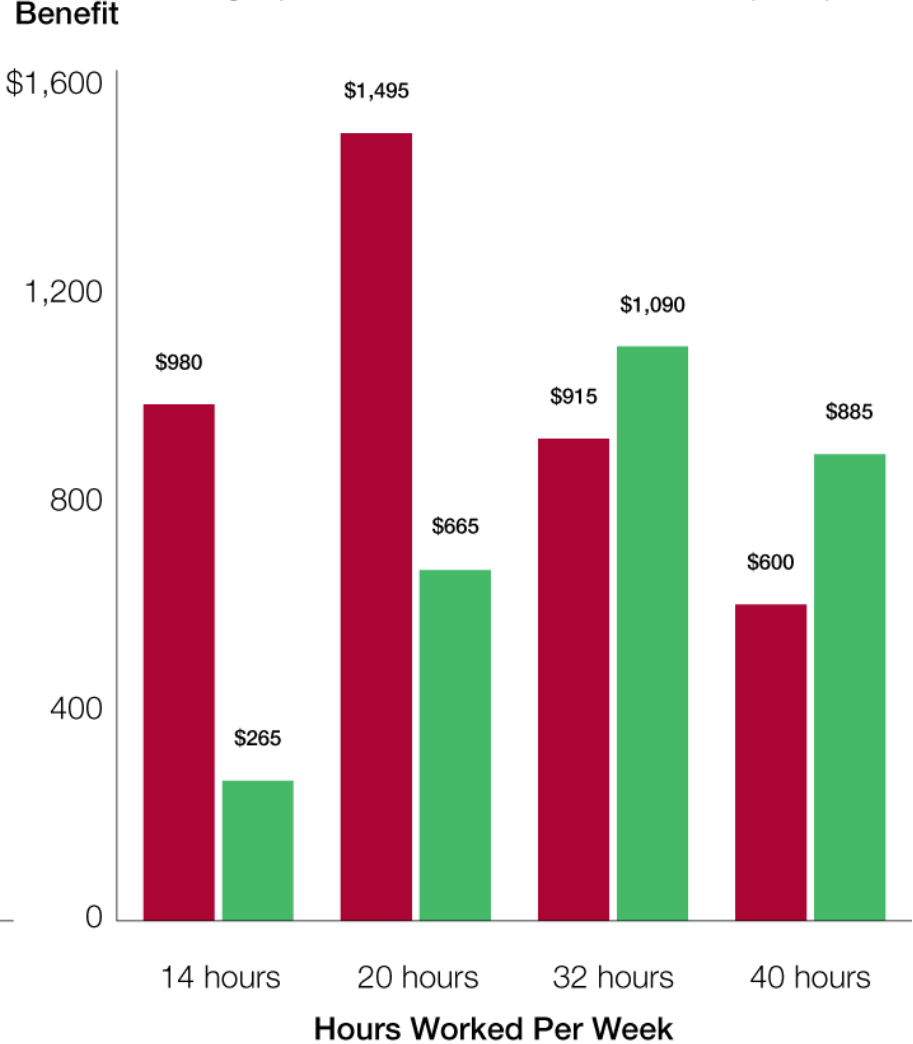
- Design social assistance to encourage work leading to a path to independence
- Support full-time or near full-time work effort on the part of recipients
- Encourage the shortest possible stay on social assistance
- Lower high METRs
- Prevent/Divert those in jeopardy of seeking welfare to have other solutions esp. given EI Exhaustees in 2010

Proposed WITB design shifts benefits toward full-time employment

Current and proposed WITB design for a single earner in Ontario (2009)

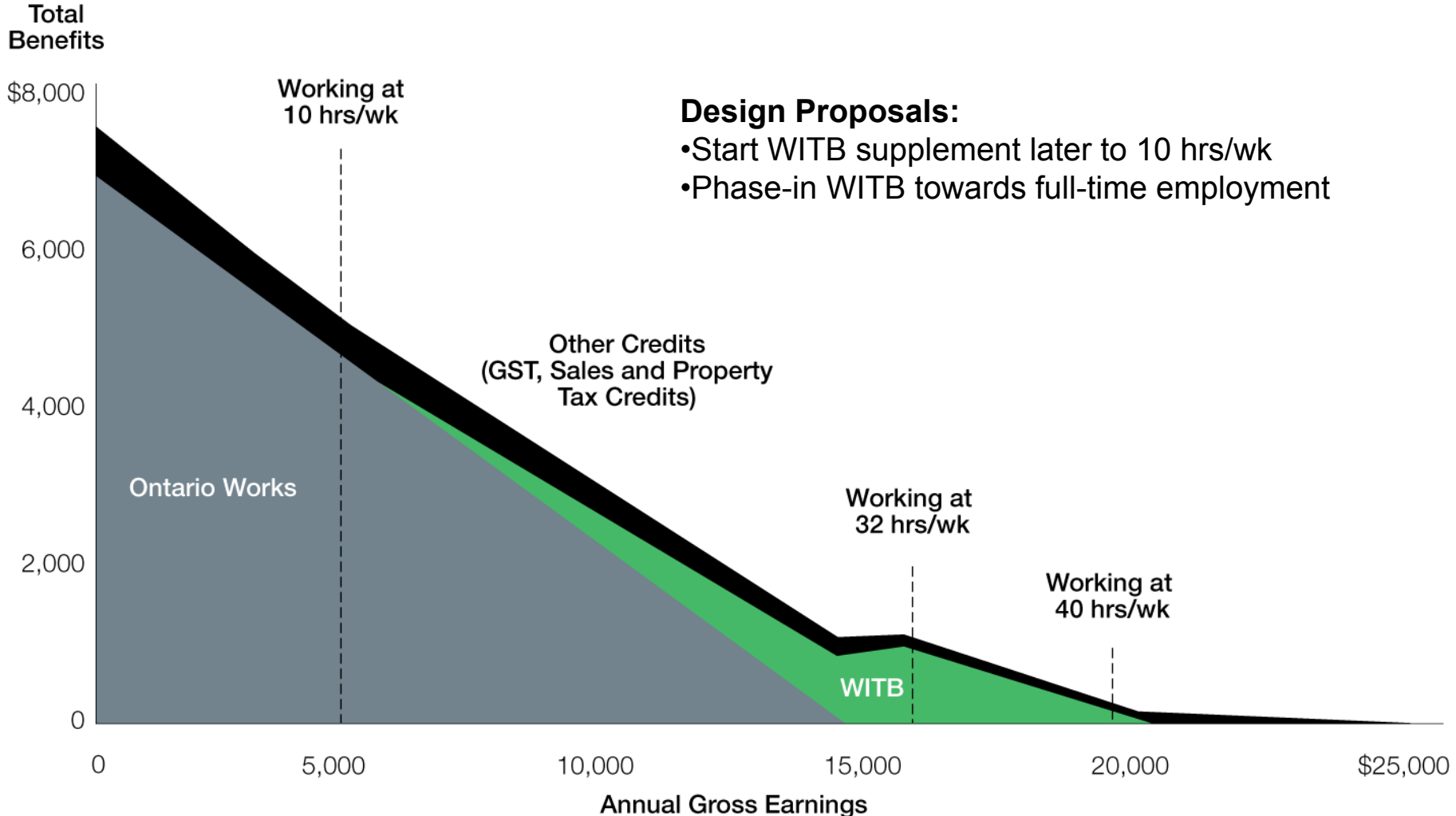


Current and proposed WITB design for a single parent with one child in Ontario (2009)



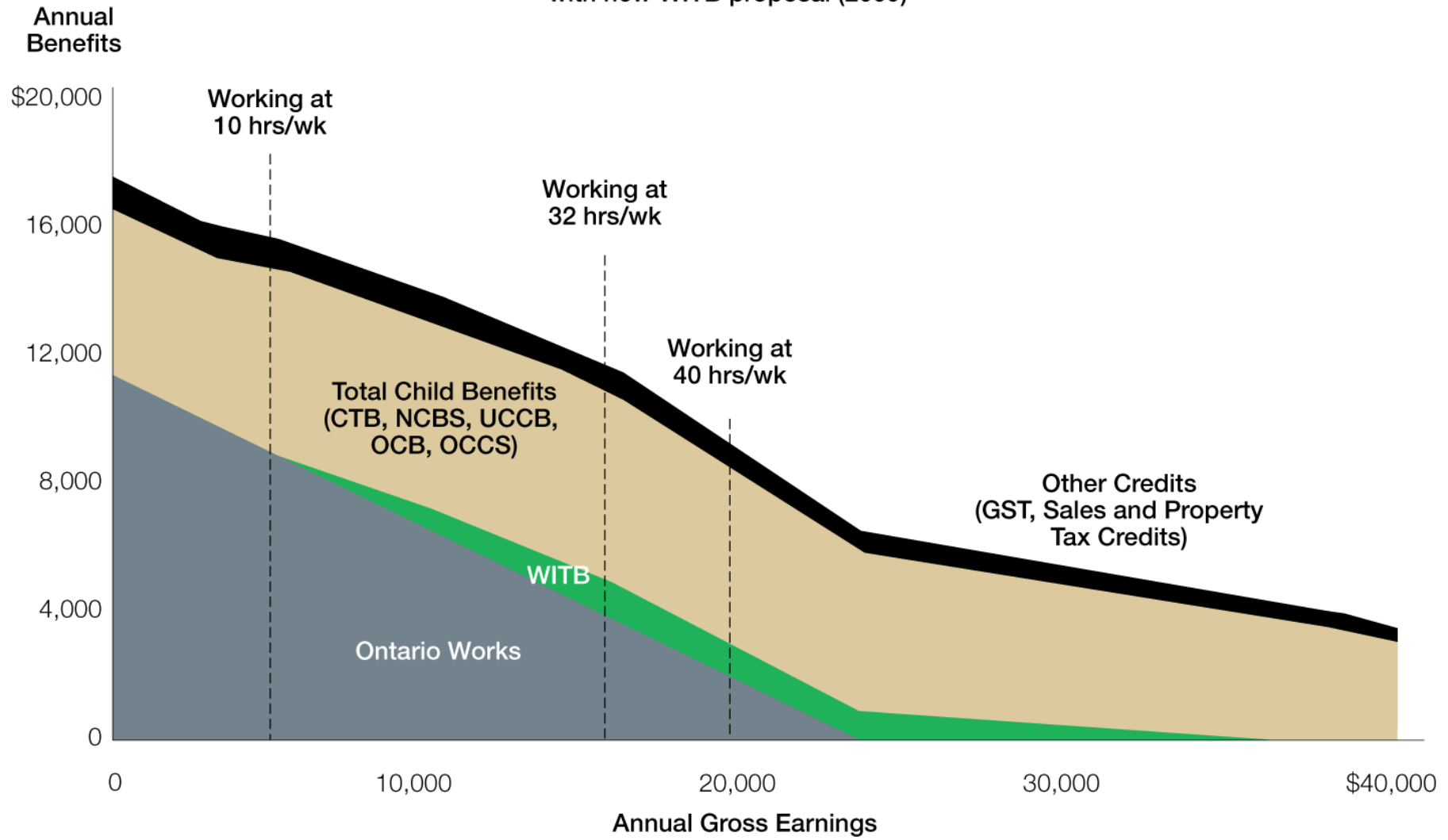
Jim's proposed WITB maximizes at 32 hrs per week and continue to 40 hrs

Total benefits received by a single earner in Ontario with new WITB proposal (2009)



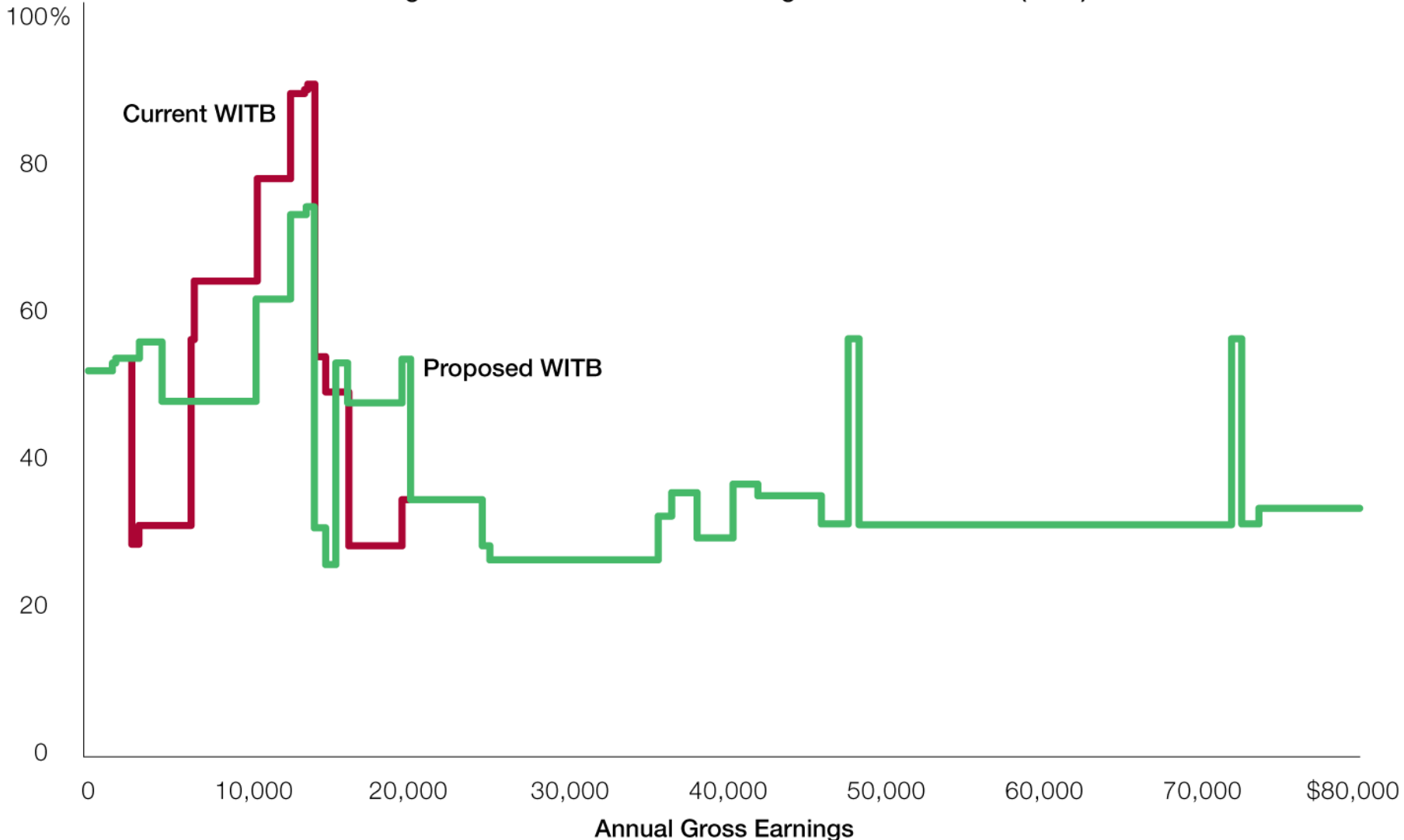
Sally's proposed WITB maximizes at 32 hrs per week and continue beyond 40 hrs

Total benefits received by a single parent with one child in Ontario with new WITB proposal (2009)



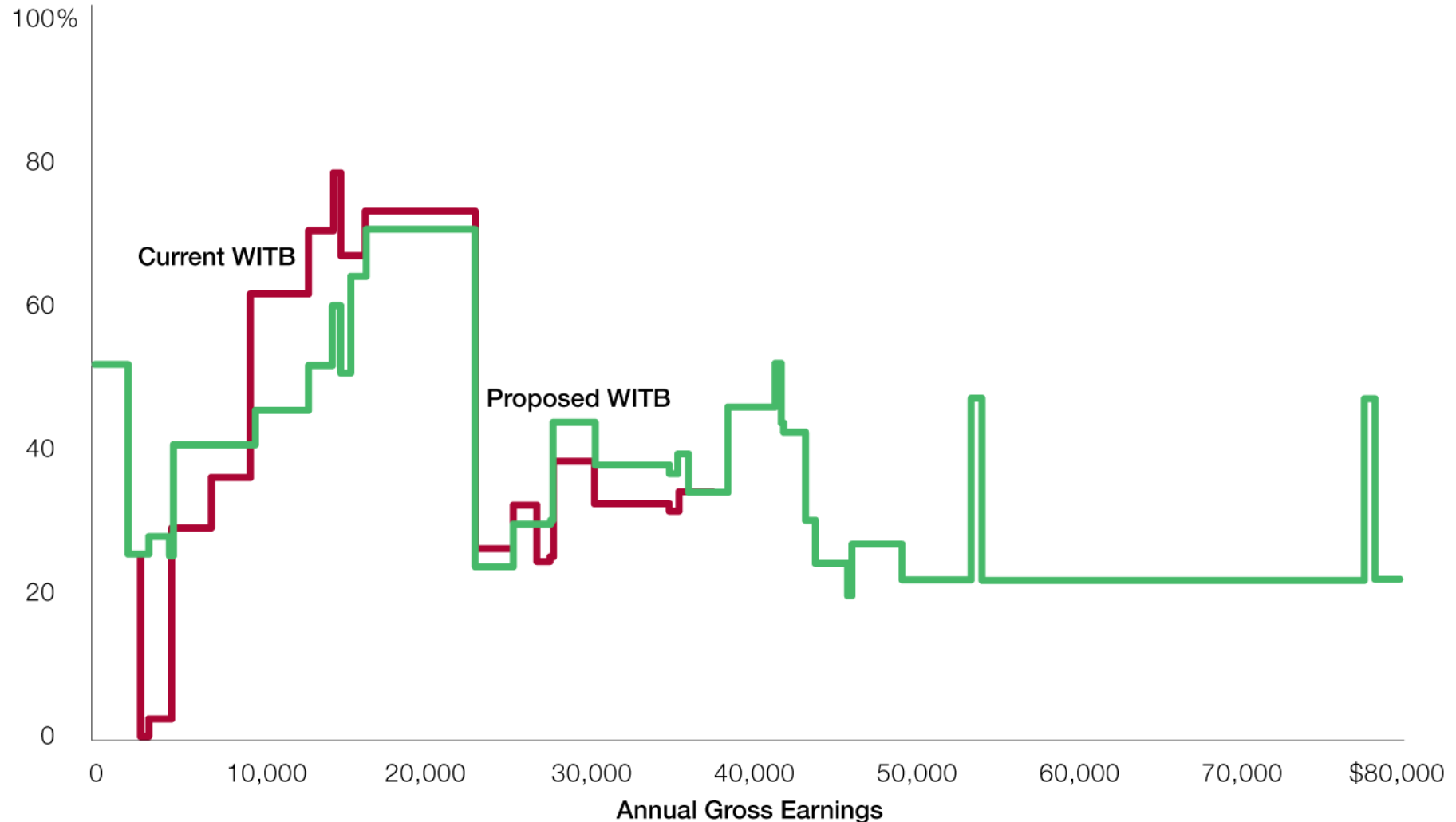
Proposal reduces METRs between \$7,000 and \$14,000 income range

Marginal Effective Tax Rates for a single earner in Ontario (2009)



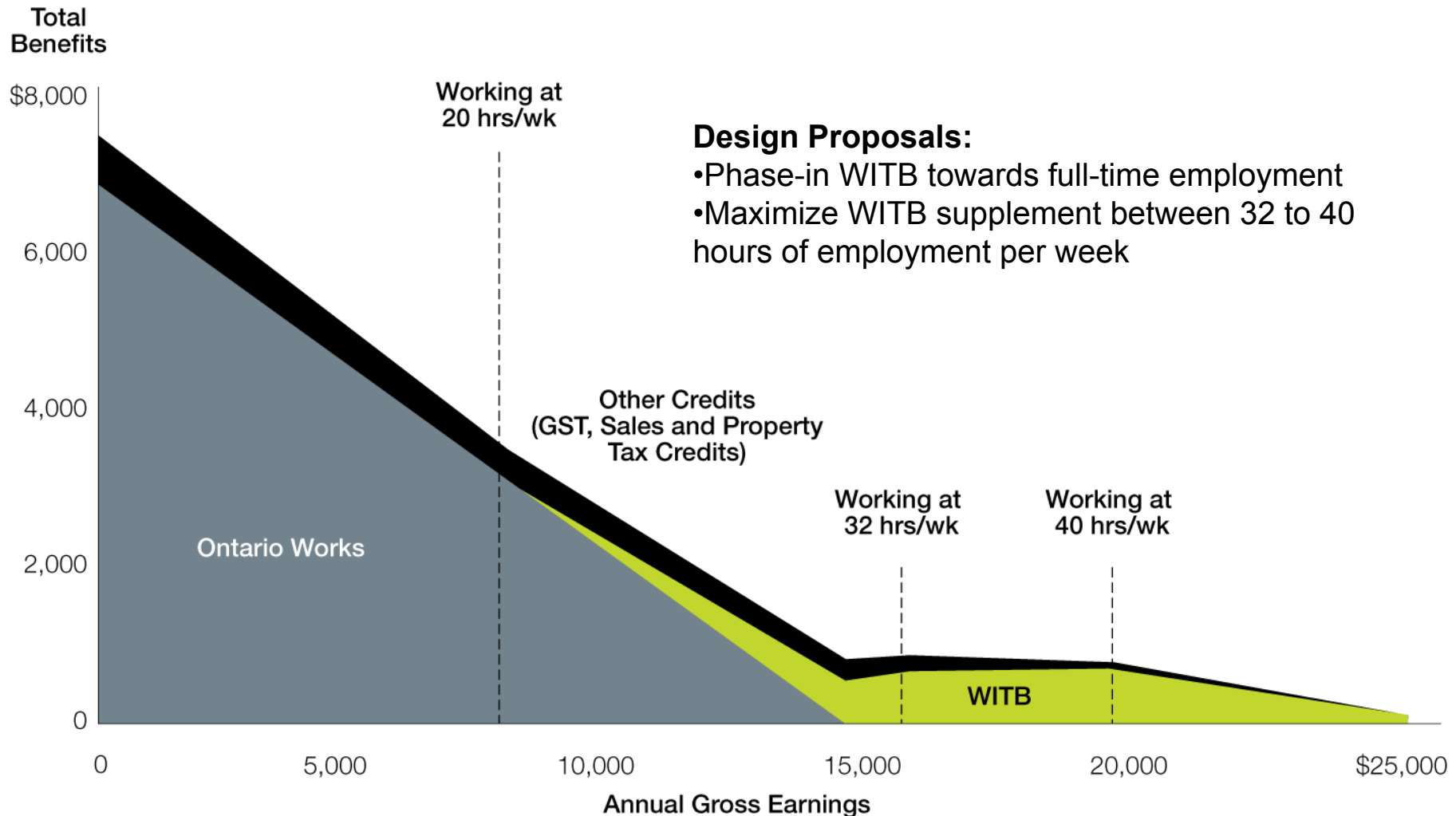
Proposal reduces METRs between \$10,000 and \$23,000 income range

Marginal Effective Tax Rates for a single parent with one child in Ontario (2009)



In an enhanced design, Jim's WITB maximizes between 32 and 40 hours weekly

Total benefits received by a single earner in Ontario using enhanced WITB proposal (2009)



The way forward: what the proposal accomplishes

- No WITB supplementation at very low hours - 6 hours per week
- Lower METRs as work effort increases towards full-time hours
- Highest benefit approaching full time hours, with robust WITB benefit at the point:
 - When recipient graduates off welfare; or
 - A working poor person might otherwise consider welfare as an option

Problems and issues

- WITB benefits reduced for those working few hours
- WITB may become a full-time income supplementation program to working poor
- WITB could have the effect of lowering wages and ‘absolving’ employers from paying fair, competitive wages
- However, net labour market demand post recession and minimum wage increases can largely resolve this issue
- High labour market demand in cities in face of high caseloads a larger problem that optimal WITB/OW design can help resolve.