

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

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Policy

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Executive Summary

Low-income Ontarians who are attempting to break out of poverty to achieve financial sustainability often find barriers in their way. In fact, many who try to break away from welfare and find employment face strong disincentives to work. They continue to struggle with insufficient work, low wages, and little-to-no wage progression.

IN THE 2007 FEDERAL BUDGET, Finance Minister Jim Flaherty announced a new Working Income Tax Benefit (WITB), which was designed to "... help people over the welfare wall and on to a better, more prosperous life for themselves and their families."¹ While this program is a step in the right direction, more can be done to help low-income earners in Ontario. A significant opportunity to reduce the impediments welfare recipients face in trying to obtain work and move off social assistance is to integrate the WITB with Ontario's other social assistance programs so that this federal program performs the job it was intended to do.

The federal government created the WITB as a nominal design. The government also attached an invitation to open talks with provincial and territorial counterparts to wed this new supplement with each province's unique income-security system. Quebec, British Columbia, and Nunavut have already coordinated the WITB with their own welfare structures.²

Ontario has not yet accepted this invitation. Presently, the nominal WITB design rests awkwardly beside Ontario's social assistance programs. Design changes could improve the WITB's effectiveness to aid low-income earners. We therefore urge the Ontario government to consider our proposal to integrate the WITB with our income-security structure so that they mesh more effectively.

This report is not about addressing the full range of welfare reform; rather, it seeks to merge the WITB and Ontario's welfare system and thus provide greater incentives for low-income Ontarians to achieve full-time employment by reducing the barriers created by the welfare wall. Nor does this report recommend fundamental reforms to high marginal effective tax rates (METRs), such as basing taxation on lifetime earnings.³ Instead, our proposals are aimed at improving the design of a specific element of our social safety net to reduce disincentives to work more. Our recommendations build on the

Modernizing Income Security for Working-Age Adults' (MISWAA) aim of ensuring that our labour force is operating at its full potential.⁴ We offer an approach that can help the Ontario WITB provide the incentives necessary for low-income earners to work more hours, moving toward full-time employment. Our proposal would result in several benefits: a way to overcome low wages and slow wage increases for workers; increased incentives to work more; lower marginal effective tax rates; a "hand-up" to help low-income earners leave social assistance; and an alternative to welfare for those seeking other temporary income-security options.

¹ 2007 Federal Budget Speech by Hon. James M. Flaherty, Minister of Finance, March 19, 2007.

² Battle, K. (2009) "Beneath the Budget of 2009: Taxes and Benefits," Caledon Institute of Social Policy, Toronto.

³ Task Force on Competitiveness, Productivity and Economic Progress, Fifth Annual Report (2006), *Agenda for our prosperity*, page 46.

⁴ Modernizing Income Security for Working-Age Adults (2006), "Time for a Fair Deal," Toronto, page 12.

I. The Working Income Tax Benefit is part of the social safety net in Ontario

Working Income Tax Benefit is designed to support low-income workers

The Working Income Tax Benefit (WITB) was first introduced in the 2007 Federal Budget to offer incentives to low-income Canadians through a refundable tax credit tied to their employment earnings.⁵ This benefit provides an income supplement for those with low employment earnings, gradually increasing as these earnings rise. It is designed to assist low-income workers who are currently in the labour force to stay attached to it, while also encouraging others to seek and sustain employment. It also provides the needed assistance to the working poor by offering another alternative to an application for welfare.

Similar to the successful US Earned Income Tax Credit, the WITB is stimulating much discussion as a potentially effective approach to fighting poverty in Canada.⁶ Although many observers argue that an Earned Income Tax Credit can erode the responsibility of employers to pay decent wages, the WITB has the potential to lead to a “worthwhile increase in the living standards of the targeted subset of the working poor.”⁷ Furthermore, a proposed \$580 million injection from the 2009 Federal Budget signifies the increased importance the federal government has placed on the WITB as an effective aid for the working poor in Canada.⁸

The federal government has also extended an invitation for provinces and territories to modify the design of the WITB to suit their income-security systems, though the specific changes must remain consistent with the principles outlined in the 2007 Federal Budget.⁹ These principles state that any amendments must:

- Build on improving work incentives for low-income earners;
- Be cost neutral to the federal government;
- Provide a minimum benefit level for WITB recipients;
- Maintain harmonization with current federal programs.

Today, the nominal WITB design is offered in Ontario, where the WITB supplement is provided to low-income single earners over the age of eighteen, starting at an annual working income of \$3,000. This benefit increases at a rate of 25 percent of each additional dollar as income rises, up to a maximum benefit of \$925. When the earner’s employment income reaches \$6,950 (or a net income including social assistance of \$10,500), the WITB begins to fall at a rate of 15 percent until it finally phases out at an income of about \$16,700. For a lone parent with one dependant, the

⁵ A refundable tax credit is payable even when the recipient does not pay taxes, compared to a non-refundable tax credit that only offsets tax payable.

⁶ Francis, D. (2006) “The Earned Income Tax Credit Raises Employment,” National Bureau of Economic Research Digest, August 2006.

⁷ Scarth, W. and L. Tang (2008) “An Evaluation of the Working Income Tax Benefit,” SEDAP, Research Paper No. 220, page 22.

⁸ Department of Finance Canada, Federal Budget (2009), *Canada’s Economic Action Plan*, page 112.

⁹ Department of Finance Canada, Federal Budget (2007), *Aspire to a stronger, safer, better Canada*, page 81.

maximum benefit reaches \$1,500,¹⁰ and then begins to fall to zero at a gross income of \$9,750 (*Exhibit 1*).¹¹

Ontario's income support system provides several benefits

In Ontario, the WITB currently "sits" beside a number of programs and benefits:

- The Ontario Works (OW) program, which provides temporary financial and employment support to low-income Ontarians. With its Basic Assistance and Shelter Allowances, OW helps cover the costs of housing, other basic necessities, and aid in the search and preparation for employment. It also features other in-kind benefits and includes a prescription drug benefit, child care earnings exemptions, and other allowances that

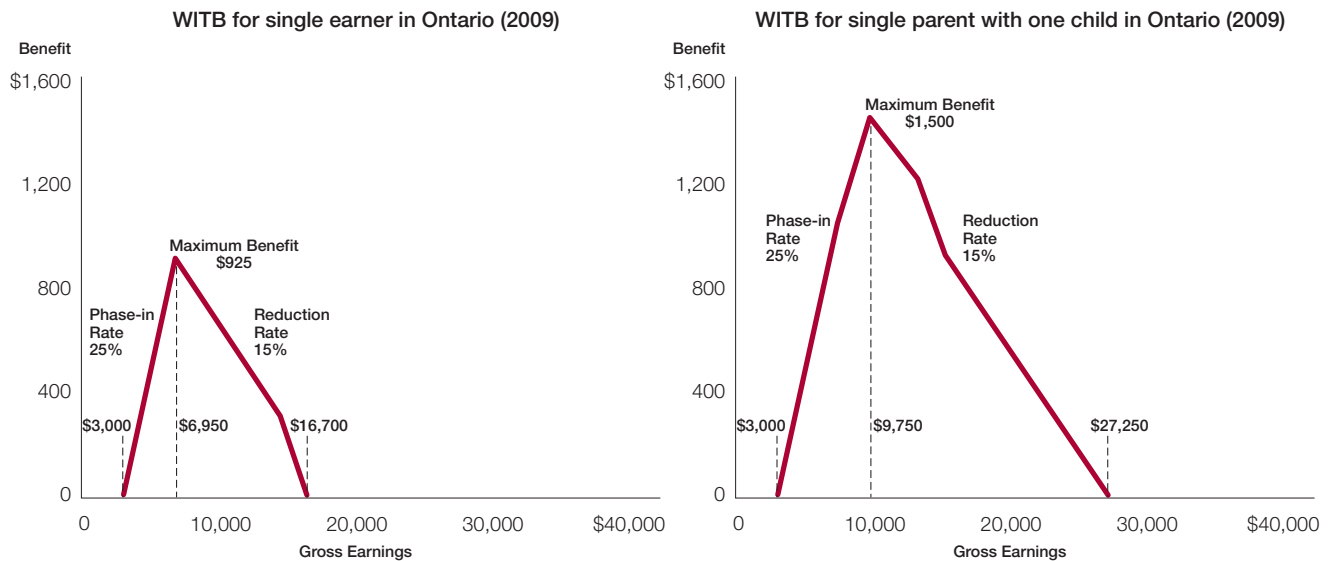
encourage a smoother transition into sustainable employment. The current total annual allowance for a single person is approximately \$6,900 and for a lone parent with one eligible dependant, approximately \$11,000.¹² The program also currently offers one of the most generous overall earnings exemptions in Canada, with a 50 percent variable exemption of total net earnings.¹³ This means that 50 percent of net earnings are deducted when calculating the amount of assistance recipients will receive. Low liquid asset limits, however, place high – and often punitive – barriers to entry into welfare, highlighting that the program is offered only as a last resort for low-income Ontarians;

- A Goods and Services Tax Credit, provided as quarterly installments, to

offer some relief from the GST, for low- and middle-income families;

- The Ontario Sales and Property Tax Credits, which similarly provide quarterly payments to low- and middle-income families, offering some relief from provincial sales and property taxes; and
- Child benefits, which consist of federal and provincial subsidies that can aid families to support the cost of raising their children. This includes the Canada Child Tax Benefit (CCTB), which is a tax-free monthly supplement accessible to low- and middle-income families with children under the age of eighteen. This CCTB comprises a basic Child Tax Benefit and a National Child Benefit Supplement (NCBS), which is particularly targeted to lower-income

Exhibit 1 Current WITB design supports low-income earners in Ontario



Note: Gross Earnings defined as income from paid employment without CPP and EI deductions.
 Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

¹⁰ Note that 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.
¹¹ Although the 2009 Federal Budget Charts (2009 Federal Budget, pages 113-114) are more commonly used to depict the current WITB design using earnings and net earnings on the x-axis, we illustrate the nominal WITB design using gross earnings as our income range.
¹² The total monthly allowance is calculated by summing the Basic Needs and Shelter Allowances, and does not include other one-time, in-kind benefits featured in Ontario Works.
¹³ Net earnings are defined as gross employment earnings after EI and CPP deductions and deductible child care expenses.

families. Additionally, the federal government has recently introduced the new Universal Child Care Benefit (UCCB) that helps support families with children under the age of six via a monthly payment of \$100 per child. Provincial support is provided through the newly implemented Ontario Child Benefit (OCB) targeted particularly to low-income families.

than as an aid to the working poor. We also do not consider the Ontario Disability Support Program (ODSP), as the program’s allowance structure and benefits require a separate analysis and design model to explore its impact on persons with disabilities. Nevertheless, we urge the provincial government to conduct or commission similar research on the WITB for persons with disabilities.

As a single earner, Jim is the recipient of several income support programs, including Ontario Works, the WITB as well as the GST and Sales and Property Tax Credits (*Exhibit 2*).¹⁶ As Jim transitions from no work to full-time work, his public benefits gradually decrease at each stage as his earnings rise.

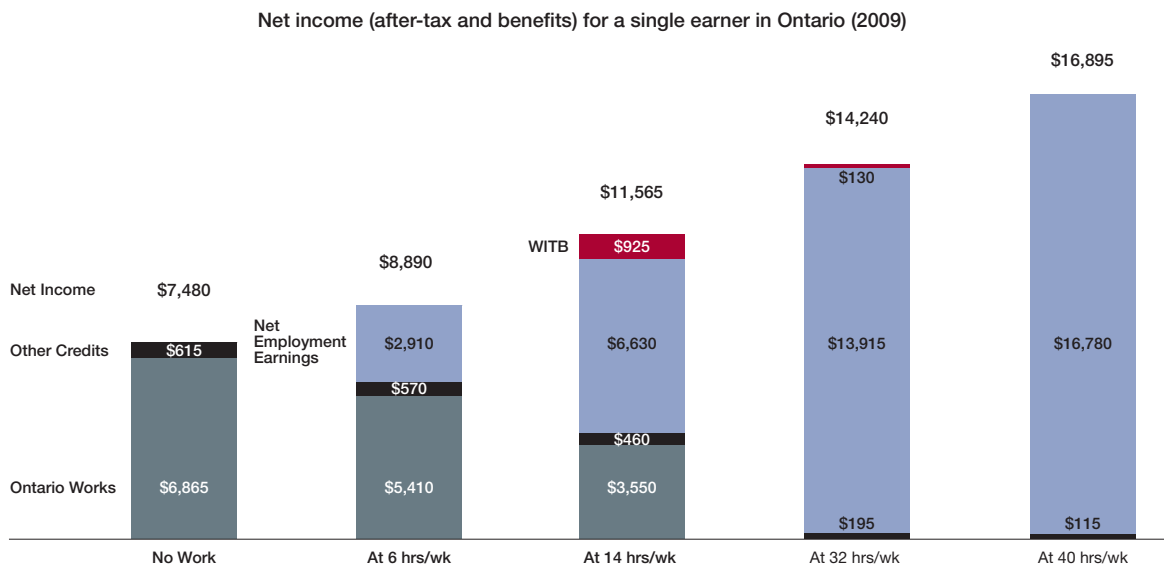
When all these benefits are combined, a typical single person would receive \$7,500 with no paid work. A typical lone-parent family with one dependant would receive an estimated maximum of \$17,200.

Jim and Sally represent typical low-income Ontarians

Here we illustrate the welfare scenarios of the two largest demographic profiles that receive income support.¹⁴ We constructed the benefit profiles of two hypothetical individuals – Jim, a 40-year old single adult, and Sally, a 25-year old lone parent with a 4-year old child – by drawing on the analysis of TD Economists Don Drummond and Gillian Manning.¹⁵

Traditionally, we also tend to rely on federal Employment Insurance (EI) as one of our social safety nets. However, we are not addressing improvement opportunities for EI, since it acts as an insurance against unemployment, rather

Exhibit 2 Jim’s WITB maximizes at 14 hours of work per week



Note: Other Credits include the GST as well as the Sales and Property Tax Credits; Net Employment Earnings defined as gross earnings after EI and CPP deductions minus federal and provincial personal income taxes
 Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario

¹⁴ Singles and lone-parent households make up the majority of cases in Ontario Works, accounting for almost 90 percent of all caseloads; sourced from the Ministry of Community and Social Services, May 2009.

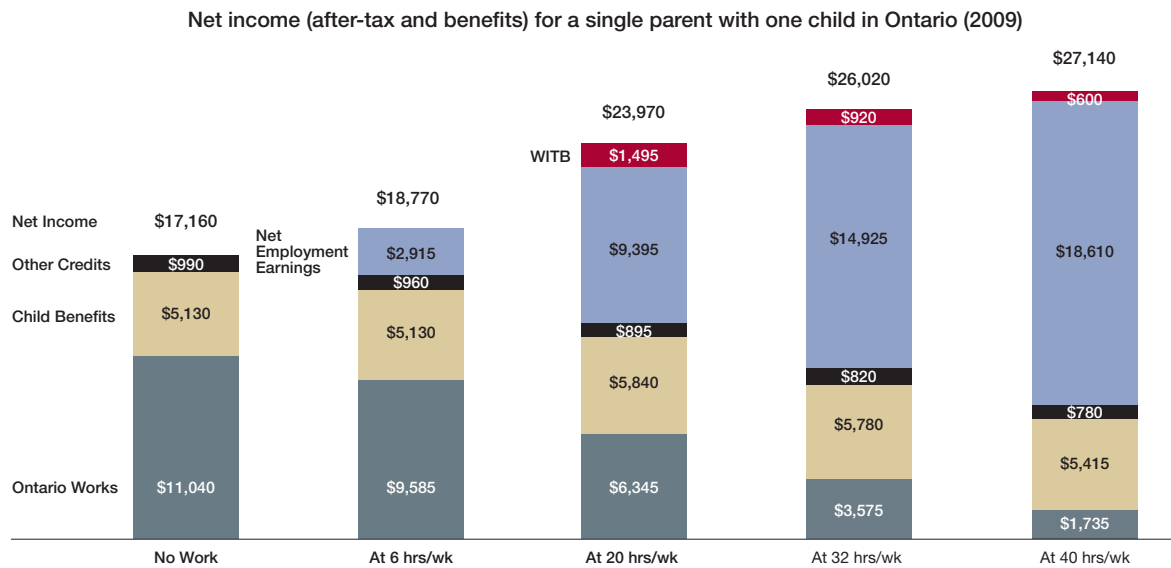
¹⁵ Drummond, D. and G. Manning (2005) “From Welfare to Work: Still the Road Less Travelled,” *TD Economics Special Report*, Toronto, page 34.

¹⁶ Not included in the analysis are the Ontario Works health benefit and all other, one-time fringe benefits, including a child care cost expense exemption, full-time employment benefits, and other employment and employment assistance activities benefits.

Similarly, Sally is a recipient of Ontario Works, the WITB, the GST, and Sales and Property Tax Credits. In addition, she receives support for the cost of raising her child by the aforementioned child benefit programs. These benefits also gradually fall as her income rises (*Exhibit 3*).

When superimposing the WITB on Ontario's social assistance programs, the benefit structures of the single earner and lone-parent family provide stark evidence of a need for improvement.

Exhibit 3 Sally's WITB maximizes at 20 hours of work per week



Note: Net Earnings defined as gross earnings after EI and CPP deductions minus federal and provincial personal income taxes; Child Benefits include UCCB, CTB, NCBS, OCB and OCCB; Other Credits include the GST as well as the Sales and Property Tax Credits.
 Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

II. Current WITB design in Ontario has major disadvantages

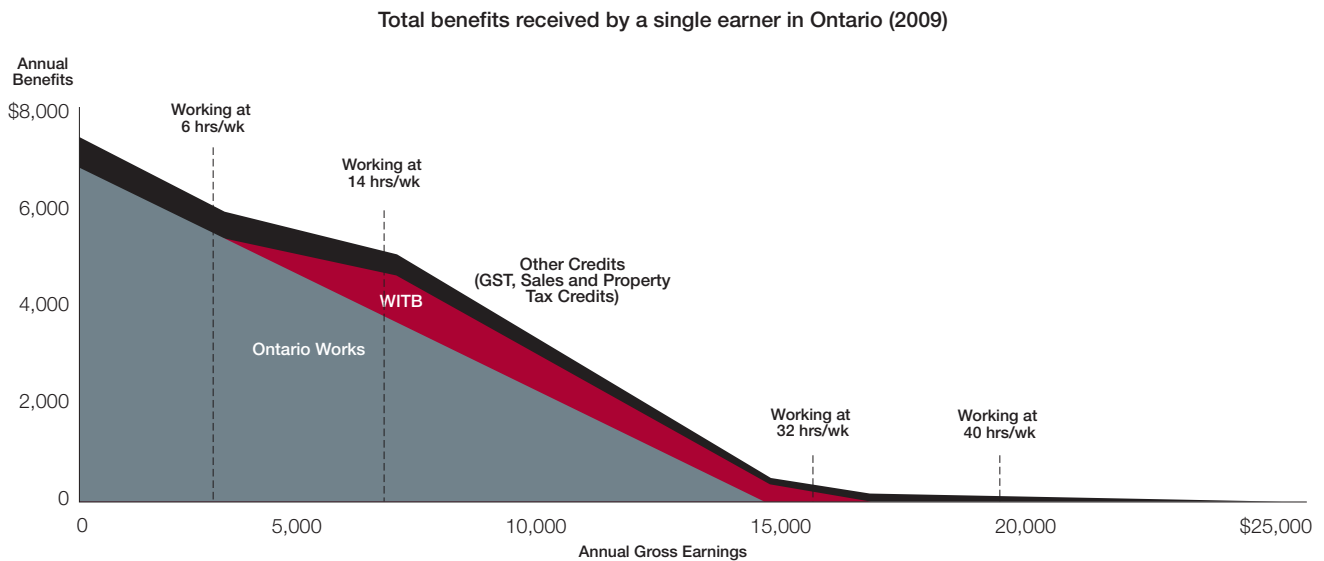
IN OUR REVIEW of the WITB, as currently structured in Ontario, we identified three key weaknesses:

Nominal WITB design provides the highest incentive for low-income part-time work

The WITB’s nominal design currently sits awkwardly on Ontario’s social assistance structure, reaching a maximum when low-income earners are working part-time. In effect, this means that the WITB, when superimposed on Ontario’s design, provides the highest

incentive for low-participation part-time work and inhibits the effort required to achieve full-time hours. In fact, the WITB maximum benefit occurs at about 14 hours per week for Jim, the single earner (*Exhibit 4*), and about 20 hours per week for Sally, the single parent with one dependant (*Exhibit 5*). They both receive the maximum benefit well below the full-time employment mark.¹⁷ For the WITB to meet its stated objectives, the position of its maximum benefit should be moved or extended to support full-time work.

Exhibit 4 As Jim’s hours of work per week increase, his total benefits gradually fall



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

¹⁷ Full-time employment is defined as a standard 32 hour work week; annual gross earnings at full-time employment are calculated using 32 hours per week for 52 weeks times Ontario’s minimum wage at \$9.50 per hour. Calculations made for the 2010 WITB should be calculated using the new minimum wage of \$10.25 as of March 31, 2010.

Current WITB does not encourage low-income earners to graduate from social assistance

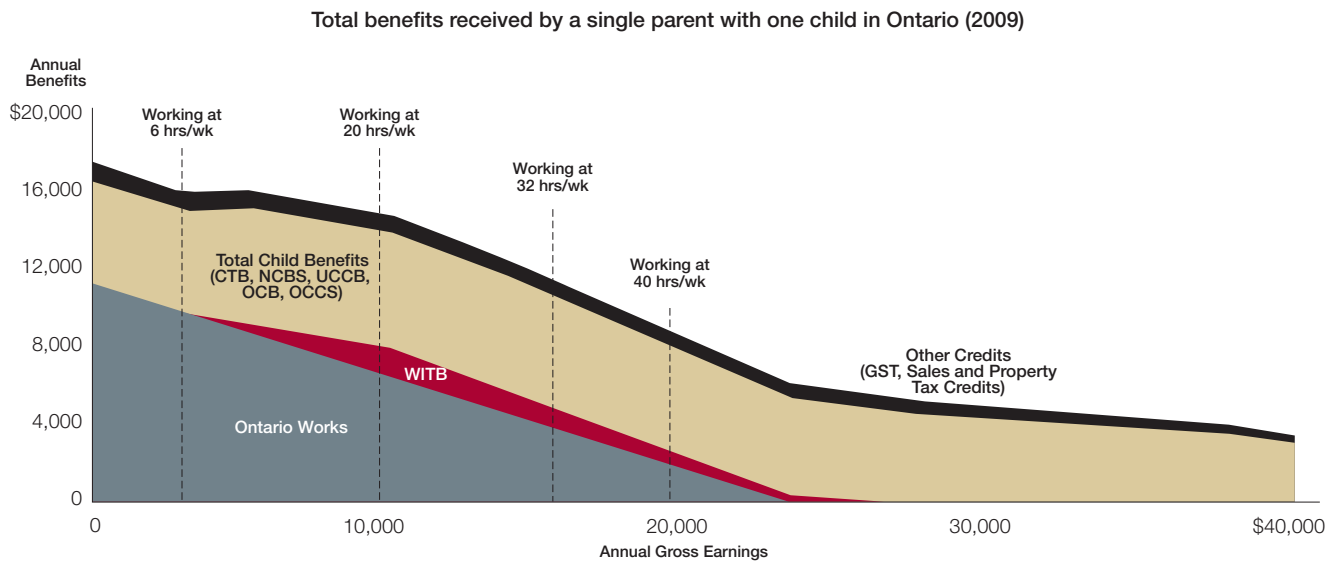
The WITB design should also ideally mesh with the OW system, so that low-income earners can graduate from social assistance to the WITB supplement to help cushion the impact of welfare clawbacks. However, the present WITB design does not provide incentives for low-income Ontarians to work toward full-time employment and to leave welfare. Again, the WITB benefit reaches its maximum at part-time employment, defeating its primary purpose of providing a boost over the welfare wall.¹⁸

Low-income earners face high METRs

The marginal effective tax rates for the single earner and lone-parent family further illustrate the disincentives that exist in the current nominal WITB structure. Marginal effective tax rates, also known as METRs, are the costs to low-income workers for every new dollar of earnings. These costs are the result of increased taxes and lost benefits as their incomes rise. Their impact shows how much low-income Ontarians stand to lose as they transition from social assistance toward self-reliance through work.

METRs also provide a clear picture of the welfare wall that low-income earners currently encounter. Low-income workers seeking to improve their economic circumstances face sharp

Exhibit 5 As Sally's hours of work per week increase, her total benefits gradually fall



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

¹⁸ The term "welfare wall" is from Battle, K. and S. Torjman's (1994) paper, "The Welfare Wall: An Analysis of the Welfare/Tax System in Ontario." Caledon Institute of Social Policy, Toronto.

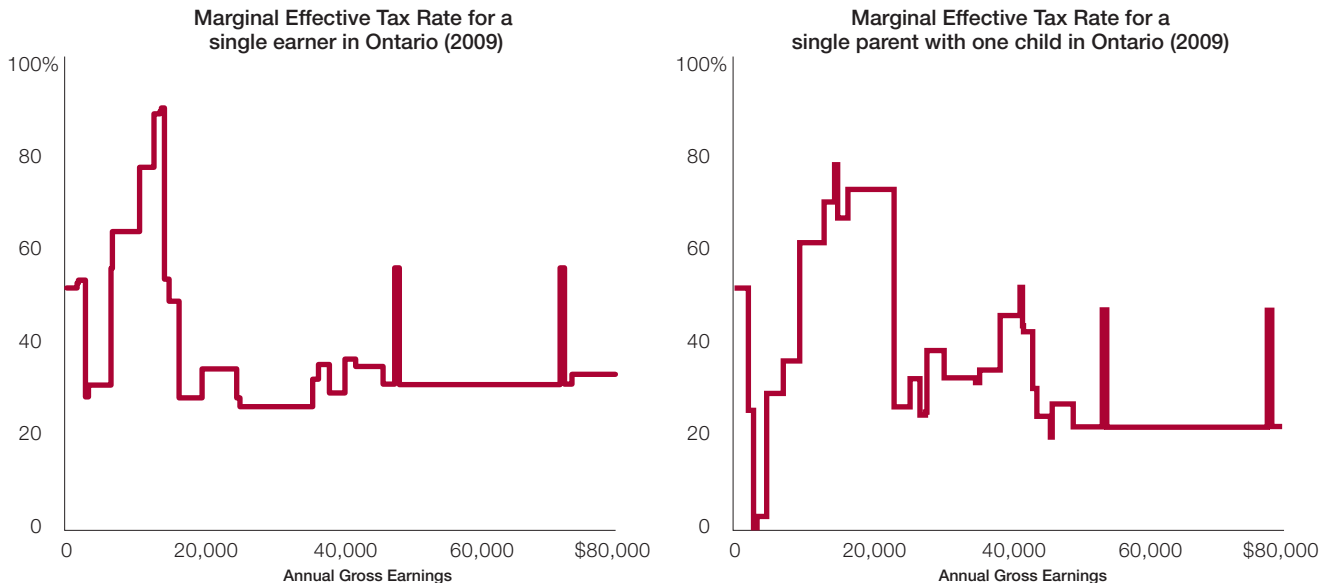
peaks in METRs, which are strong disincentives to work more (*Exhibit 6*). In fact, our single earner Jim encounters METRs as high as 90 percent as his earnings move through the \$11,000 to \$14,000 range. This translates into a return of only 10 cents for every new dollar he earns. METRs for Sally, our lone parent with one dependant, reach similarly high levels of almost 80 percent of earnings between \$14,000 and \$23,000 (*Exhibit 6*).

Our Appendix tables provide details of the METRs for Jim and Sally as they transition from “no work” to “part-time work” and “full-time work.”

With the current WITB design, as Jim transitions from no work to part-time work, for every dollar of income he

earns from part-time work, he forgoes 44 cents to increased taxes and lost benefits when compared to no work – or 44 percent of his earnings (Table A). Ideally, the WITB structure should be aligned so that Jim’s METRs would fall when working from part-time to full-time, giving him a higher incentive to work more. However, as he transitions from part-time to full-time employment, his METR instead jumps substantially to 71 percent, illustrating the high costs attached to working more hours. Similarly, Sally’s METRs rise from 31 percent at part-time work to 65 percent when working full-time (Table B). This highlights the ineffectiveness of the current WITB design on incentives for low-income earners to work.

Exhibit 6 Jim and Sally face high marginal effective tax rates at low levels of income



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

III. We recommend a “Made in Ontario” WITB

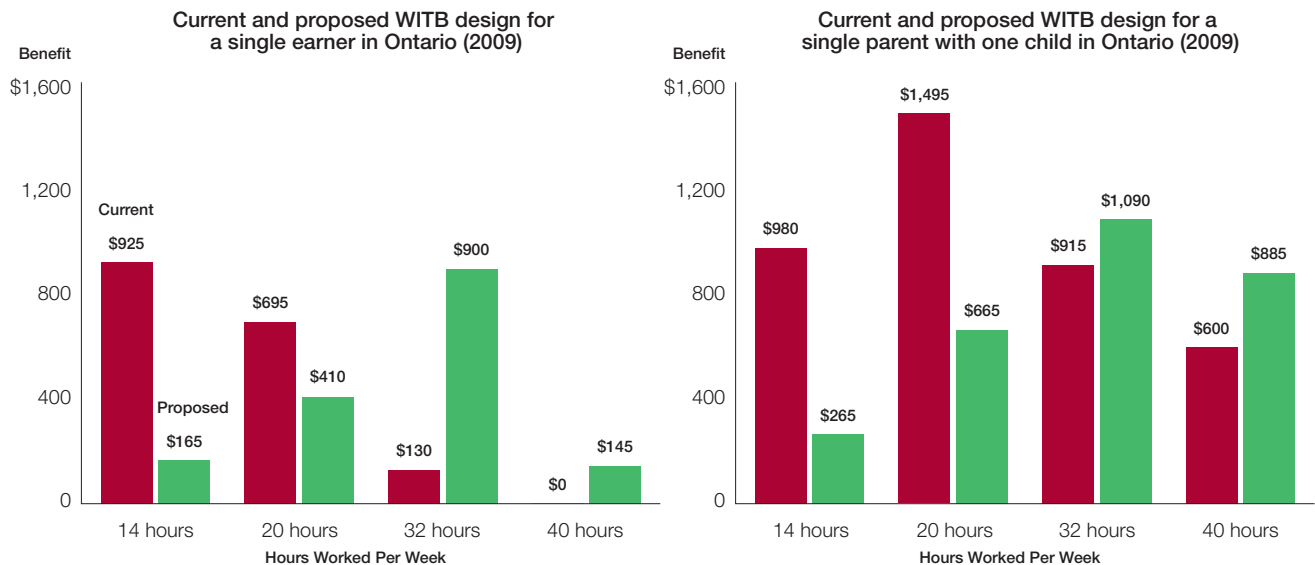
ONTARIO SHOULD TAKE THE INITIATIVE AND accept the federal government’s invitation to harmonize its WITB program with the province’s own income-security structure. We recommend modifying the WITB design so that its maximum benefit is realized at full-time employment. In this analysis, we have set full-time employment as 32 hours of work per week, based on empirical observation of the average number of hours worked by low-income Ontarians earning the minimum wage.¹⁹

Once implemented, our proposals can solve some of the hurdles low-income earners face while adhering to the principles outlined by the federal government. The benefits derived include: improving the limited wage progression for low-income workers, encouraging greater attachment to the labour force, and mitigating high METRs.

We propose four changes for the new WITB design (*Exhibit 7*):

- Move the start of the WITB benefit from an earned income of \$3,000 to about \$5,000, which is equivalent to 10 hours per week of work;

Exhibit 7 Proposed WITB design for Ontario shifts benefits toward full-time employment



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

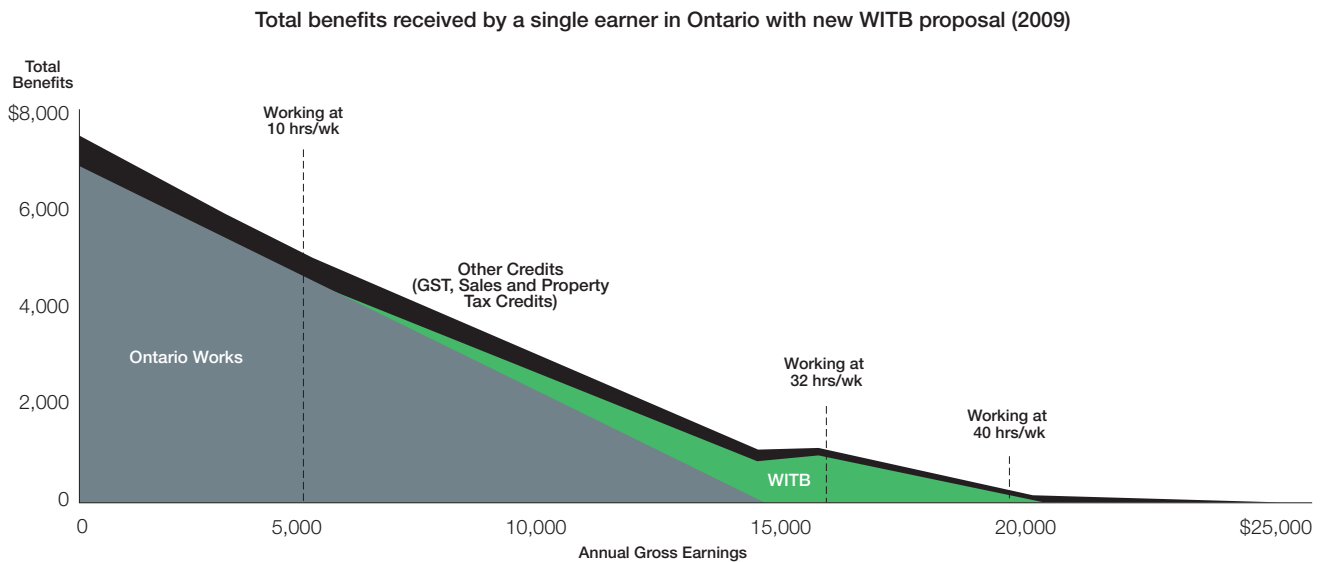
¹⁹ Modernizing Income Security for Working-Age Adults (2006), “Time for a Fair Deal,” Toronto, page 20.

- Reduce the benefit's phase-in rates from 25 percent to 8.3 percent for single earners and 13.5 percent for single parents with a dependant, in order to extend its increasing supplement up to full-time employment, or about \$15,800 of earned income;
- Adjust the maximum benefit from \$925 for singles to \$900 and from \$1,680 for single parents with a dependant to \$1,465, balancing fiscal neutrality while reducing the impact of welfare clawbacks on their METRs;
- Change the phase-out rates from 15 percent to approximately 19 percent for single earners and about 10 percent for single parents with a dependant, to remain cost neutral with the current WITB program.

Jim benefits from new design

With the new WITB structure, there is a more fluid transition from social assistance onto the WITB supplement, since the maximum benefit of the WITB can help cushion the impact of losing welfare through work. This can provide the needed "ramp" for low-income earners like Jim to climb over the welfare wall. Additionally, this new design more suitably offers a benefit structure progression for him, as he receives an increasing supplement as he moves from part-time to full-time employment and toward self-reliance (*Exhibit 8*).

Exhibit 8 Jim's proposed WITB benefits maximize at 32 hours per week and continue to 40 hours



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

METRs also improve in the transitions from the "no work" scenario to part-time and full-time employment (*Exhibit 9*). With the new WITB structure, there are no longer considerable increases in METRs when transitioning from part-time to full-time employment. Jim's METRs remain relatively stable at around 52 percent as he progresses from one scenario to the next (Table C). This demonstrates the effectiveness of the new WITB design, as it eliminates the strong disincentives to move from part-time to full-time employment.

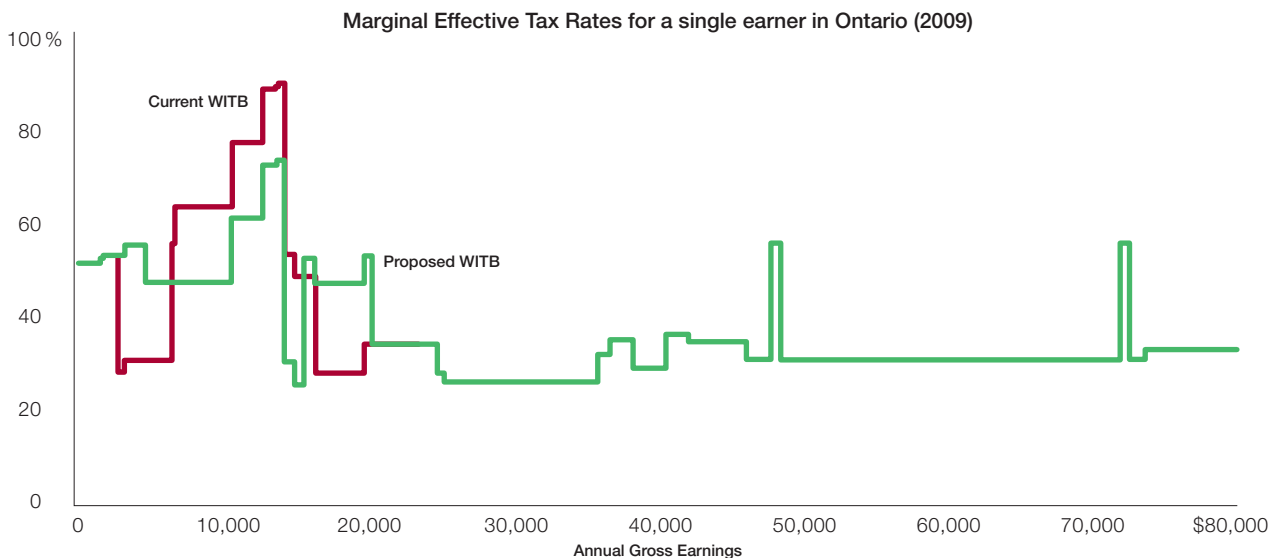
Specifically, Jim's economic position improves between the income ranges of \$7,000 and \$14,000 of annual gross earnings, alleviating the most extreme METRs by about 17 cents out of the every dollar of earnings when compared to the present WITB design. In fact, the new WITB can help lower the welfare wall, by providing the extra ramp for him

to move toward financial sustainability.

We note, however, that while this change reduces Jim's highest METRs, it also increases them in the \$16,000 to \$21,000 income range. This is due to the intractability of high METRs.²⁰ Ideally, we would like to see METRs fall as Jim progresses from part-time to full-time work, creating incentives for him to work more. Thus, we recommend the government commit additional financial resources for the current WITB supplement where an increase in funding for the new WITB program would further lower these METRs.

This proposal sees considerable gains for the single earner, providing lower METRs and higher incentives to work. This is especially significant, since singles make up the majority of recipients in Ontario Works, covering almost 60 percent of all welfare beneficiaries in Ontario.²¹

Exhibit 9 With proposal, Jim's marginal effective tax rates in Ontario fall in \$7,000 to \$14,000 income range

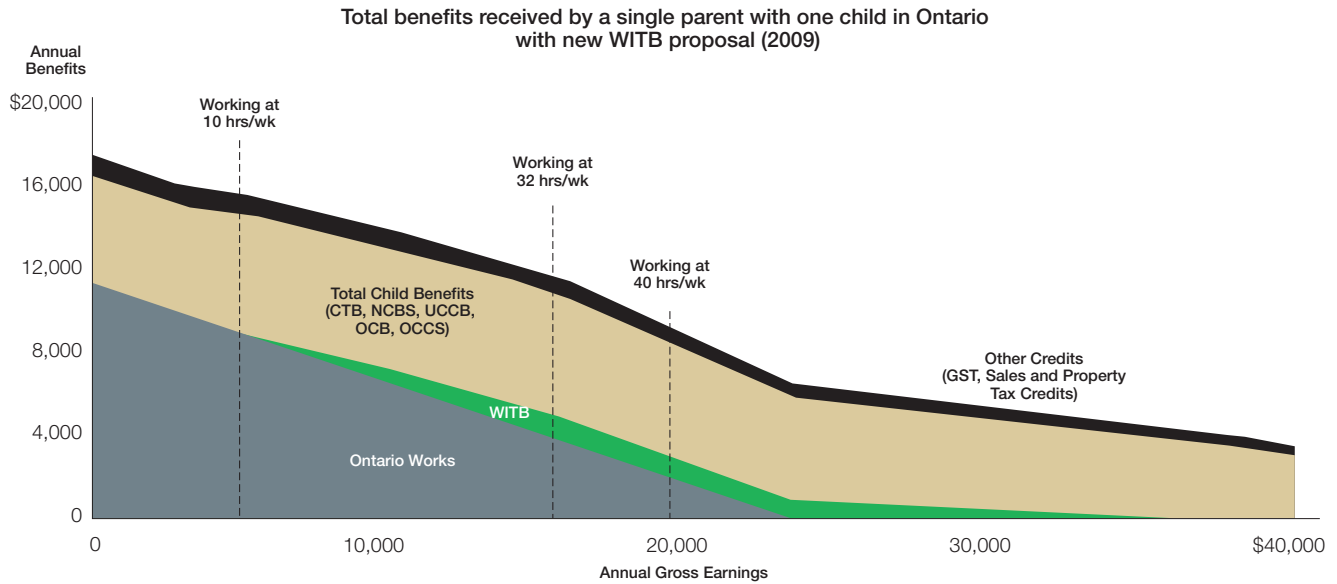


Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

²⁰ An explanation of the intractability issue of lowering METRs can be found in Drummond and Manning's (2005) paper "From Welfare to Work in Ontario: Still the Road Less Travelled," TD Economics Special Report, Toronto, page 9.

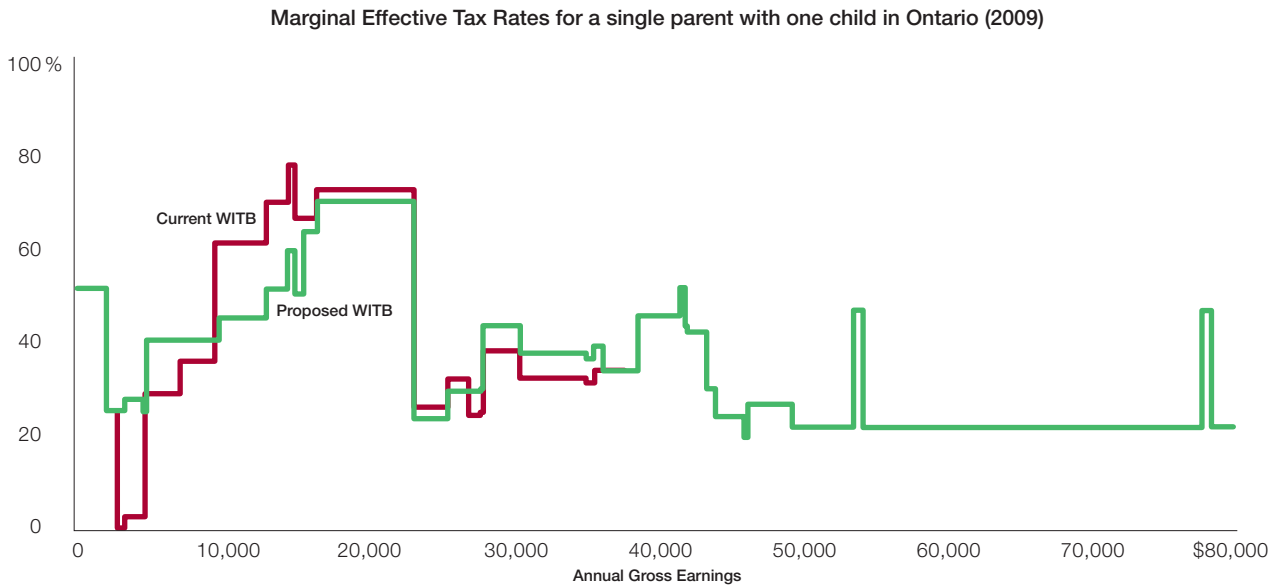
²¹ Ministry of Community and Social Services, Ontario Social Assistance – Monthly Statistical Report (May, 2009).

Exhibit 10 Sally's proposed WITB benefits maximize at 32 hours per week and continue beyond 40 hours



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

Exhibit 11 With proposal, Sally's marginal effective tax rates fall in \$10,000 to \$23,000 income range



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

Sally's gains are similar to Jim's

Sally derives relatively similar gains from the new WITB structure (*Exhibit 10*). The WITB supplement peaks at full-time work, thus helping Sally to benefit more from full-time employment and therefore to rely less on social assistance. However, Sally's scenario differs from Jim's when incorporating child benefits paid both inside and outside welfare. Although Sally's METRs show noticeable improvement between her annual gross earnings of \$10,000 and \$23,000 (*Exhibit 11*), the incentive to work toward full-time employment weakens when she reaches the \$20,000 net income mark (or about \$14,800 of annual gross income) because she begins to lose her child benefits.²²

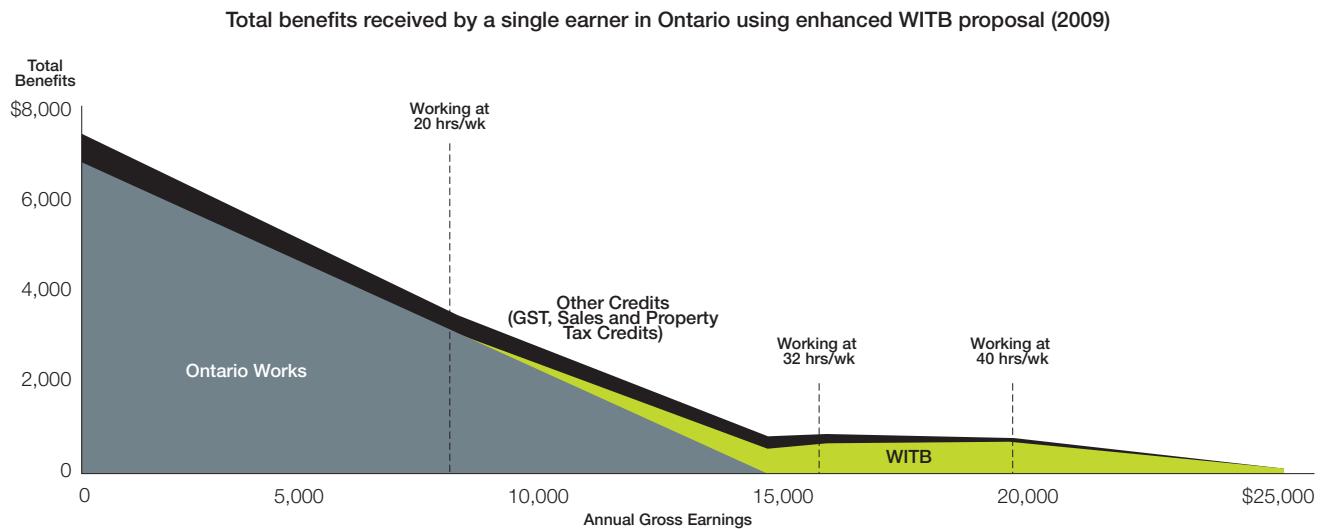
Despite this, Sally's METRs have also shown improvement when comparing the benefits forgone between full-time

and part-time employment, falling from 65 percent from the current WITB design to 47 percent (Table D) This can in turn boost her incentives to seek more hours of work, specifically from part-time to full-time employment.

A more beneficial design incurs a higher cost

Another possible approach to remodeling the WITB is to set the maximum supplement to plateau between incomes of \$15,800 and \$19,800, or at an average of 32 to 40 hours of work per week (*Exhibit 12*). This can provide further support for low-income workers seeking more hours after the 32-hour per week mark, and thus further improve conditions for low-income Ontarians to sustain a path to greater self-reliance. Although this design will yield better results (Table E), it is also more costly.

Exhibit 12 In an enhanced design, Jim's WITB benefits maximize between 32 and 40 hours weekly and continue beyond that



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics Special Report, and John Stapleton, Open Policy Ontario.

²² Following Stapleton's proposal from "Designing new architecture for Ontario social assistance" (*Toronto Star*, June 2009), if Ontario separates child benefits from the current social assistance structure and placed them into Ontario's new child benefit system, the OCB, Sally's WITB benefits would rise further, therefore providing greater incentives for Sally to work more hours.

Our recommendations dovetail with current safety nets for today's tough economy

Our recommendations to modify WITB, so that it supports decisions to seek more work hours, are consistent with the current trends in social assistance policy in Ontario. When comparing the annual income gained from social assistance versus income earned from full-time employment at the minimum wage, there has been a rising incentive in Ontario to maximize full-time employment opportunities rather than to stay on welfare (*Exhibit 13*). In fact, annual social assistance income as a percentage of annual income from minimum wage employment is at a historic low (*Exhibit 14*), which highlights the increasing importance of more employment hours for low-income earners who seek to work toward higher financial sustainability.²³ An improved WITB structure will boost these rising work incentives.

It is important to acknowledge that our recommendations would mean that some beneficiaries would lose their current WITB supplement – namely, those who are currently working 6 to 10 hours weekly. Also, those working up to about 23 hours weekly would lose some of their WITB benefits. However, we argue that the improved structure of WITB – providing greater incentives for more hours – outweighs this lost benefit. In addition, at 6 to 10 hours per week of work, recipients should be assisted through other social assistance programs that are geared toward providing their basic needs.

We also recognize that an improvement in the WITB structure will not be enough for some low-income earners, particularly those who are in the “harder-to-serve” [see glossary] population. In fact, with the current recession, we expect to see a large increase in the number of workers whose EI benefits have been exhausted by 2010. They, with the support of these WITB incentives, will be seeking lower paying jobs, thus crowding out the “harder-to-serve” people who are currently in our social safety net. These people who are left behind face significant obstacles to work, including lack of education, inadequate language skills, behavioural challenges, and other barriers. Other efforts are required to provide the necessary assistance to help them achieve financial sustainability. Therefore, we do not suggest that changes in the WITB would be a panacea to the current poverty issue; rather, we seek only to mitigate the hurdles that afflict low-income earners by providing a more effective ramp over the welfare wall.

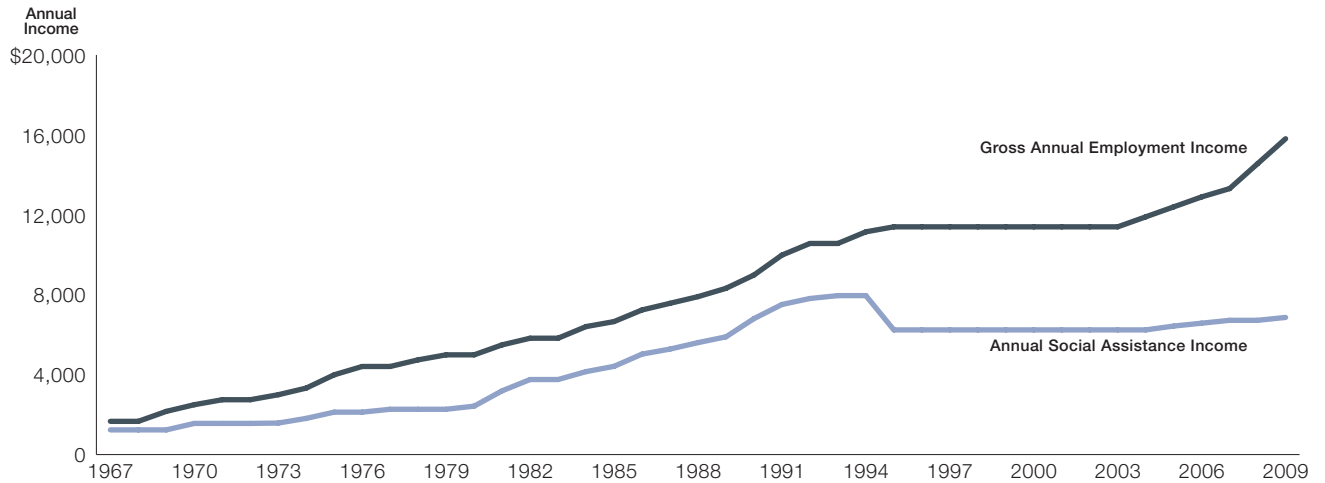
With the recession, it is especially critical to act now, since an influx from the overhang of EI exhaustees will begin to place pressure on our provincial welfare program. We must re-tune the current work incentives so that we can help this potential flood of recipients to flow in and out of the system as smoothly as possible, as well as to motivate current welfare recipients to move toward full-time employment. Failing to confront the need to help the working poor through the new WITB design will contribute to an overcrowded safety net system with debilitating and costly outcomes for our society.

Our present social safety net offers partial solutions to the problems of Ontario's working poor, and the WITB has the potential to help create a real incentive to help low-income earners onto the path to financial independence. However, WITB's current nominal structure runs awkwardly against our own social assistance program. This generic design is not enough to help our most vulnerable workers. We must take the initiative to develop a new “made in Ontario” WITB benefit tailored to our welfare system. That initiative will enable more people to work more to achieve financial well being and to climb over the welfare wall.

²³ With the social assistance rate going up by 2 percent and minimum wage going to \$10.25 from \$9.50 on March 31, 2010, it will be even more critical to make changes that allow the full WITB to maximize at full-time hours.

Exhibit 13 Annual income from social assistance has plateaued, while full-time employment at minimum wage for a single earner in Ontario has increased

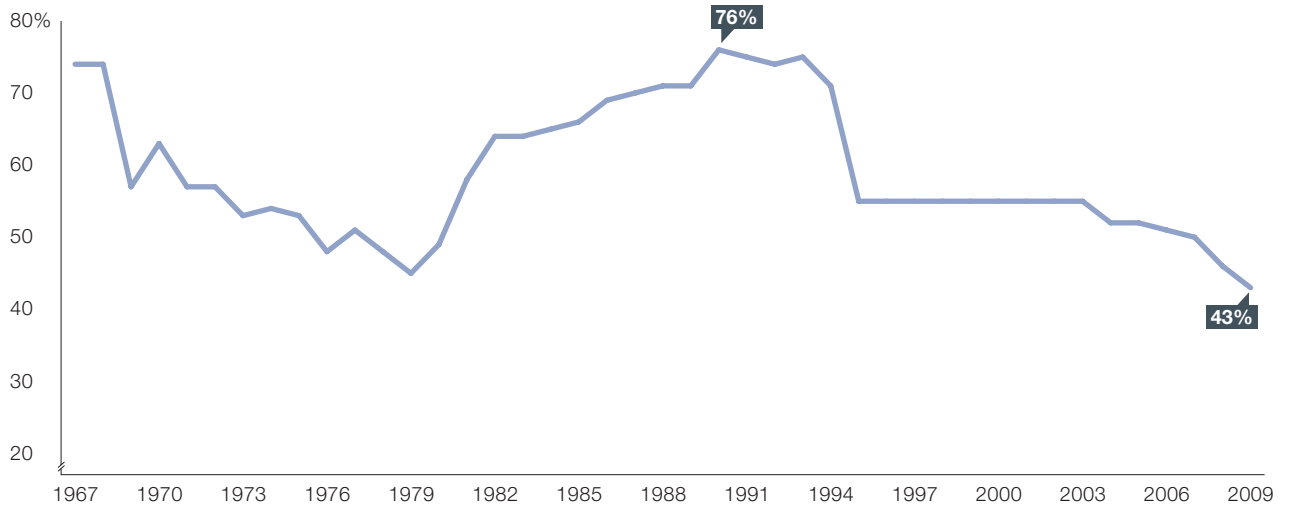
Annual Income from Social Assistance versus Full-Time Employment at Minimum Wage for a Single Earner in Ontario, 1967 to 2009



Note: Gross Annual Employment Income is calculated as gross income at full-time employment (at 32 hours per week) times minimum wage.
Source: John Stapleton, Open Policy Ontario.

Exhibit 14 The relative financial attractiveness of welfare versus 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



Note: Annual Income is calculated based on a 32 hour work week for a single person employed at minimum wage.
Source: John Stapleton, Open Policy Ontario.

Appendix

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Table A Details of WITB's current design impact on Jim

JIM CURRENT WITB-DESIGN				
Base Amount	\$3,000			
Phase-in Rate	25.0%			
Reduction Rate	15.0%			
Maximum Benefit	\$925			
Income Threshold (where reduction begins)	\$10,500			
	No Work	At 16 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 659	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	7,904	15,808	19,760
Net Income (Line 236)	6,864	10,993	15,808	19,760
Taxable Income (Line 260)	0	7,904	15,808	19,760
Annual "Take Home" Earnings	0	7,549	14,925	18,613
Annual Ontario Works	6,864	3,089	0	0
Annual WITB	0	851	129	0
Other Credits (GST, property & sales tax credits)	615	438	194	115
Total Annual Benefits	7,479	4,379	323	115
Annual Federal and Provincial Income Tax	0	0	(1,012)	(1,833)
Net After tax income + benefits	7,479	11,928	14,236	16,895
Relative to previous scenario				
Change in gross earnings		7,904	7,904	3,952
Change in Net after tax income and benefits		4,449	2,309	2,660
Marginal Effective Tax Rate		44%	71%	33%
Average Tax Rate		-58%	5%	9%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			6,757	9,417
Marginal Effective Tax Rate			57%	52%
Relative to "Part-time" scenario				
Change in gross earnings				11,856
Change in Net after tax income and benefits				4,968
Marginal Effective Tax Rate				58%

Assumptions

Jim – 2009, no children

Monthly rent = \$335

Health Benefits not included (assuming smooth transition from OW health card to employment benefits)

Additional OW in-kind/cash benefits are not included into the analysis

Table B Details of WITB's current design impact on Sally				
SALLY CURRENT WITB-DESIGN				
Base Amount	\$3,000			
Phase-in Rate	25.00%			
Reduction Rate	15.00%			
Maximum Benefit	\$1,680			
Income Threshold (where reduction begins)	\$14,500			
	No Work	At 20 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 823	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	9,880	15,808	19,760
Net Income (Line 236)	12,240	16,920	20,785	22,893
Taxable Income (Line 260)	1,200	5,880	10,008	13,960
Annual "Take Home" Earnings	0	9,393	14,925	18,613
Annual Ontario Works	11,040	6,343	3,577	1,733
Annual WITB	0	1,497	917	601
CTB	1,307	1,307	1,307	1,307
NCBS	2,025	2,025	2,025	1,829
UCCB	1,200	1,200	1,200	1,200
OCCS	0	710	647	614
OCB	600	600	600	465
Annual Child Benefits (including OCCS)	5,132	5,842	5,779	5,415
Other Credits (GST, property & sales tax credits)	990	897	820	777
Total Annual Benefits	17,162	14,579	11,093	8,526
Annual Federal and Provincial Income Tax	0	0	0	0
Net After tax income + benefits	17,162	23,972	26,018	27,139
Relative to previous scenario				
Change in gross earnings		9,880	5,928	3,952
Change in Net after tax income and benefits		6,810	2,046	1,121
Marginal Effective Tax Rate		31%	65%	72%
Average Tax Rate		-155%	-74%	-46%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			8,856	9,977
Marginal Effective Tax Rate			44%	50%
Relative to "Part-time" scenario				
Change in gross earnings				9,880
Change in Net after tax income and benefits				3,167
Marginal Effective Tax Rate				68%

Assumptions

Sally – 2009, 1 child under 6 yrs

Monthly rent = \$600

Health Benefits not included (assuming smooth transition from OW health card to employment benefits)

NCBS Clawback not included (was eliminated as of August 2008)

Table C Details of WITB's proposed design impact on Jim

JIM PROPOSED WITB-DESIGN				
Base Amount	\$4,940			
Phase-in Rate	8.28%			
Reduction Rate	19.07%			
Maximum Benefit	\$900			
Income Threshold (where reduction begins)	\$15,808			
	No Work	At 16 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 659	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	7,904	15,808	19,760
Net Income (Line 236)	6,864	10,993	15,808	19,760
Taxable Income (Line 260)	0	7,904	15,808	19,760
Annual "Take Home" Earnings	0	7,549	14,925	18,613
Annual Ontario Works	6,864	3,089	0	0
Annual WITB	0	245	900	146
Other Credits (GST, property & sales tax credits)	615	438	194	115
Total Annual Benefits	7,479	3,773	1,094	262
Annual Federal and Provincial Income Tax	0	0	(1,012)	(1,833)
Net After tax income + benefits	7,479	11,322	15,007	17,042
Relative to previous scenario				
Change in gross earnings		7,904	7,904	3,952
Change in Net after tax income and benefits		3,843	3,685	2,035
Marginal Effective Tax Rate		51%	53%	49%
Average Tax Rate		-50%	-1%	8%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			7,528	9,563
Marginal Effective Tax Rate			52%	52%
Relative to "Part-time" scenario				
Change in gross earnings				11,856
Change in Net after tax income and benefits				5,720
Marginal Effective Tax Rate				52%

Assumptions*Jim – 2009, no children**Monthly rent = \$335**Health Benefits not included (assuming smooth transition from OW health card to employment benefits)**Additional OW in-kind/cash benefits are not included into the analysis*

Table D Details of WITB's proposed design impact on Sally				
SALLY PROPOSED WITB-DESIGN				
Base Amount	\$4,940			
Phase-in Rate	13.48%			
Reduction Rate	9.88%			
Maximum Benefit	\$1,465			
Income Threshold (where reduction begins)	\$15,800			
	No Work	At 16 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 659	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	7,904	15,808	19,760
Net Income (Line 236)	12,240	15,984	20,785	22,893
Taxable Income (Line 260)	1,200	4,944	10,008	13,960
Annual "Take Home" Earnings	0	7,549	14,925	18,613
Annual Ontario Works	11,040	7,265	3,577	1,733
Annual WITB	0	400	1,091	883
CTB	1,307	1,307	1,307	1,307
NCBS	2,025	2,025	2,025	1,829
UCCB	1,200	1,200	1,200	1,200
OCCS	0	710	647	614
OCB	600	600	600	465
Annual Child Benefits (including OCCS)	5,132	5,842	5,779	5,415
Other Credits (GST, property & sales tax credits)	990	915	819	777
Total Annual Benefits	17,162	14,422	11,267	8,808
Annual Federal and Provincial Income Tax	0	0	0	0
Net After tax income + benefits	17,162	21,972	26,192	27,421
Relative to previous scenario				
Change in gross earnings		7,904	7,904	3,952
Change in Net after tax income and benefits		4,809	4,221	1,229
Marginal Effective Tax Rate		39%	47%	69%
Average Tax Rate		-191%	-75%	-47%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			9,030	10,259
Marginal Effective Tax Rate			43%	48%
Relative to "Part-time" scenario				
Change in gross earnings				11,856
Change in Net after tax income and benefits				5,450
Marginal Effective Tax Rate				54%

Assumptions

Sally – 2009, 1 child under 6 yrs

Monthly rent = \$600

Health Benefits not included (assuming smooth transition from OW health card to employment benefits)

NCBS Clawback not included (was eliminated as of August 2008)

The table shows the METRs for the enhanced WITB proposal, which levels the maximum WITB benefit between 32 to 40 hours of employment for Jim. This proposal is 10 percent more costly to implement than the current WITB structure. The METRs for Jim's income between \$0 and \$80,000 is shown in Chart A.

Table E Details of enhanced WITB's design impact on Jim				
JIM ENHANCED WITB-DESIGN				
Base Amount	\$7,904			
Phase-in Rate	8.6%			
Reduction Rate	10.0%			
Maximum Benefit	\$682			
Income Threshold (where reduction begins)	\$19,760			
	No Work	At 16 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 659	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	7,904	15,808	19,760
Net Income (Line 236)	6,864	10,993	15,808	19,760
Taxable Income (Line 260)	0	7,904	15,808	19,760
Annual "Take Home" Earnings	0	7,549	14,925	18,613
Annual Ontario Works	6,864	3,089	0	0
Annual WITB	0	0	682	682
Other Credits (GST, property & sales tax credits)	615	438	194	115
Total Annual Benefits	7,479	3,528	876	797
Annual Federal and Provincial Income Tax	0	0	(1,012)	(1,833)
Net After tax income + benefits	7,479	11,077	14,789	17,578
Relative to previous scenario				
Change in gross earnings		7,904	7,904	3,952
Change in Net after tax income and benefits		3,598	3,712	2,788
Marginal Effective Tax Rate		54%	53%	29%
Average Tax Rate		-47%	1%	6%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			7,310	10,099
Marginal Effective Tax Rate			54%	49%
Relative to "Part-time" scenario				
Change in gross earnings				11,856
Change in Net after tax income and benefits				6,501
Marginal Effective Tax Rate				45%

Assumptions

Jim – 2009, no children

Monthly rent = \$335

Health Benefits not included (assuming smooth transition from OW health card to employment benefits)

Additional OW in-kind/cash benefits are not included into the analysis

The table shows the METRs for the enhanced WITB proposal, which levels the maximum WITB benefit between 32 to 40 hours of employment for Sally. This proposal is 10 percent more costly to implement than the current WITB structure. The METRs for Sally's income between \$0 and \$80,000 is shown in Chart B.

Table F **Details of enhanced WITB's design impact on Sally**

SALLY ENHANCED WITB-DESIGN				
Base Amount	\$4,940			
Phase-in Rate	11.0%			
Reduction Rate	10.0%			
Maximum Benefit	\$1,191			
Income Threshold (where reduction begins)	\$19,760			
	No Work	At 16 hrs/wk (PT)	At 32 hrs/wk (FT)	At 40 hrs/wk
Gross Monthly Earnings	\$ 0	\$ 659	\$ 1,317	\$ 1,647
Gross Annual Earnings	0	7,904	15,808	19,760
Net Income (Line 236)	12,240	15,984	20,785	22,893
Taxable Income (Line 260)	1,200	4,944	10,008	13,960
Annual "Take Home" Earnings	0	7,549	14,925	18,613
Annual Ontario Works	11,040	7,265	3,577	1,733
Annual WITB	0	325	1,191	998
CTB	1,307	1,307	1,307	1,307
NCBS	2,025	2,025	2,025	1,829
UCCB	1,200	1,200	1,200	1,200
OCCS	0	710	647	614
OCB	600	600	600	465
Annual Child Benefits (including OCCS)	5,132	5,842	5,779	5,415
Other Credits (GST, property & sales tax credits)	990	915	819	777
Total Annual Benefits	17,162	14,348	11,367	8,923
Annual Federal and Provincial Income Tax	0	0	0	0
Net After tax income + benefits	17,162	21,897	26,292	27,536
Relative to previous scenario				
Change in gross earnings		7,904	7,904	3,952
Change in Net after tax income and benefits		4,735	4,395	1,244
Marginal Effective Tax Rate		40%	44%	69%
Average Tax Rate		-190%	-76%	-48%
Relative to "No Work" scenario				
Change in gross earnings			15,808	19,760
Change in Net after tax income and benefits			9,130	10,374
Marginal Effective Tax Rate			42%	48%
Relative to "Part-time" scenario				
Change in gross earnings				11,856
Change in Net after tax income and benefits				5,639
Marginal Effective Tax Rate				52%

Assumptions

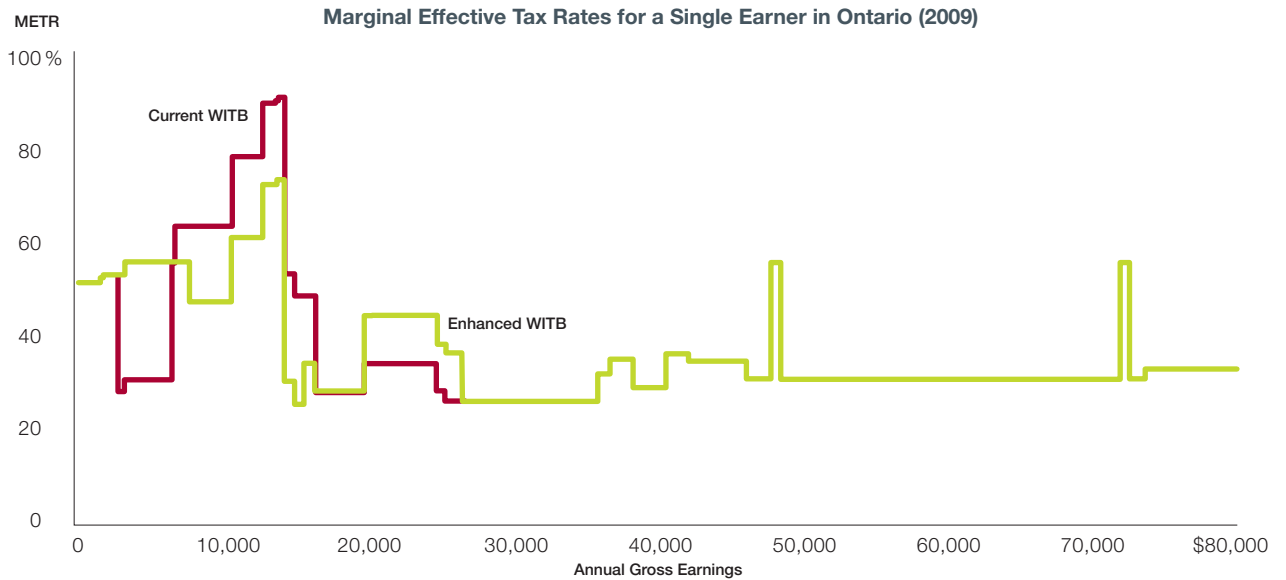
Sally – 2009, 1 child under 6 yrs

Monthly rent = \$600

Health Benefits not included (assuming smooth transition from OW health card to employment benefits)

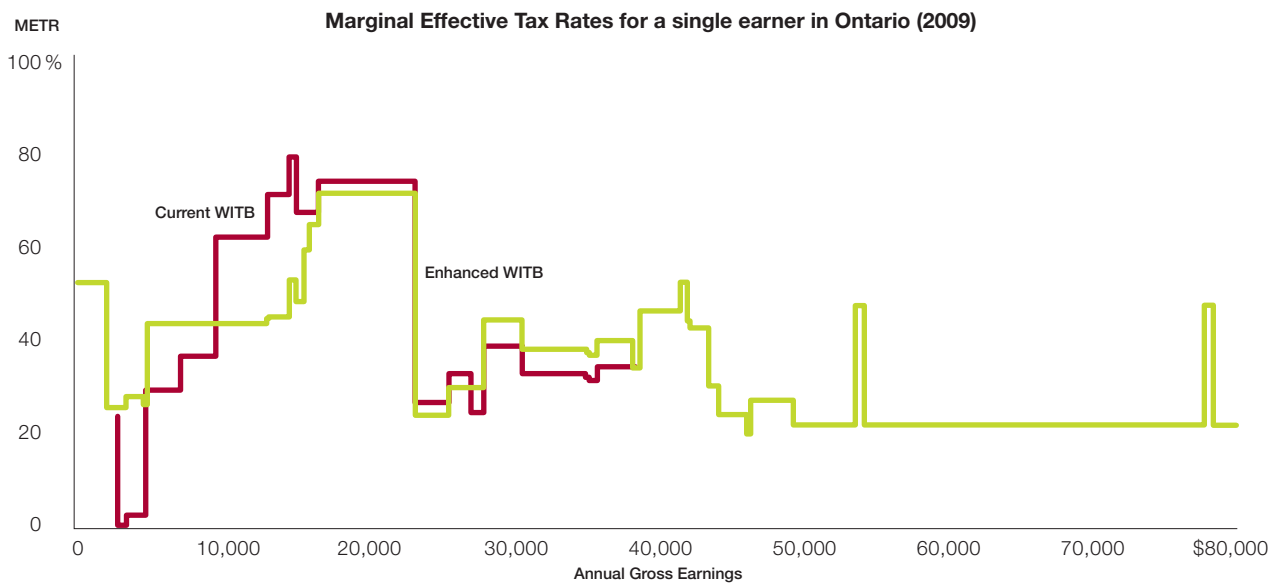
NCBS Clawback not included (was eliminated as of August 2008)

Chart A **Jim's Marginal Effective Tax Rates using enhanced WITB design**



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics, and John Stapleton, Open Policy Ontario.

Chart B **Sally's Marginal Effective Tax Rates using enhanced WITB design**



Source: Institute for Competitiveness & Prosperity analysis based on data from Drummond and Manning (2005) *From Welfare to Work in Ontario: Still the Road Less Travelled*, TD Economics, and John Stapleton, Open Policy Ontario.

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Glossary

CCTB – Canada Child Tax Benefit (Federal)

CPP – Canada Pension Plan (Federal)

EITC – Earned Income Tax Credit (US)

EI – Employment Insurance (Federal)

GST Credit – Goods and Services Tax Credit (Federal)

Harder to Serve – Welfare recipients facing multiple barriers to income

METR – Marginal Effective Tax Rate: the cost for every new dollar of earnings as a result of increased taxes and lost benefits as income rises.

NCBS – National Child Benefit Supplement (Federal)

OCB – Ontario Child Benefit (Ontario)

OCCS – Ontario Child Care Supplement (Ontario)

OW – Ontario Works (Ontario)

PIT – Personal Income Tax

Refundable Tax Credit – A tax credit that is payable even when the recipient does not pay taxes (in contrast to a non-refundable tax credit, which only offsets tax payable)

UCCB – Universal Child Care Benefit (Federal)

Welfare wall – Refers to barriers low-income earners face because of increasing taxes and welfare clawbacks as they participate in the labour market

WITB – Working Income Tax Benefit (Federal)