

# THE CASE FOR A JOINT CANADIAN TAX RETURN

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Should Canada consider introducing a “joint tax return filing option” (similar to the United States)? It's an idea I think can save the Canadian Government, and therefore us, millions of dollars. It's fashioned along the same concept as that used in the United States.

Let's look at the current systems used in Canada and the United States and compare the two.

### **The Current Canadian Tax System**

In Canada each individual is required to file a tax return, regardless of their marital status. So whether you're single, married, or living in a common-law relationship, you file a tax return and report only your income. You pay tax on a graduated basis, which means the more you make, the more you pay. In Canada there are currently five federal tax brackets (as of 2019).

As an example, let's say your taxable income is \$50,000. You would pay federal tax at the first and second tier tax brackets. You would also pay provincial tax. In Ontario, you would pay tax based on the same federal taxable income number, but with slightly different tax brackets. You can claim Personal tax credits to reduce your taxes, but these credits are all calculated using the lowest tax bracket (currently 15% federally), regardless of what income level you are at. So in our example, an individual who lives in Ontario, makes a \$50,000 salary and has no dependents will pay approximately \$7,800 in total tax (a 15.6% average), based on 2019 tax rates. If the individual made \$100,000, the total tax bill would be almost \$24,000 (24% average).

Seems simple enough. You pay tax based on what you (and you alone) make. But the rules are never that simple. For purposes of calculating certain deductions and credits, you must look at the incomes of both you and your spouse (or common-law partner). For example, child care expenses can only be claimed by the lower income earner in a married situation. Special tax credits like the HST and Ontario Trillium credits are based on a couple's combined income rather than separate incomes. Child Tax Benefits are calculated the same way, based on a couple's combined income. You also have the ability to split certain types of income with your spouse or common-law partner (for example, qualifying pension income, Canada Pension Benefits, and dividends). So are we really taxed as individuals?

### **The Current U.S. Tax System**

The United States uses the same graduated tax rate system as Canada, whereby tax rates increase as your taxable income increases. Single individuals report their income on their own (just like Canada). But married couples have an option. They can file as individuals (*Married-Filing Separate* option) OR they can file as a couple (*Married-Filing Joint* option). So what's the difference?

To encourage married couples to file joint returns, the marginal tax rates for a *Married-Filing Joint* tax return are lower than the rates for a *Married-Filing Separate* tax return. Therefore, the total tax bill for the married couple is less if they file a joint tax return. Here's an example. John and Betty are married and have a combined taxable income of \$100,000. John earns \$25,000 while Betty earns

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\$75,000. If they file a joint tax return and report total income of \$100,000, their federal tax is approximately \$8,700. But if they each file a separate tax return, John would pay approximately \$1,350 and Betty would pay approximately \$9,700, for a combined tax bill of \$11,050. They save \$2,350 by filing a joint return!

The U.S. system encourages couples to file a joint tax return. It reduces the number of tax returns that are processed, it reduces the number of auditors required to review the returns, and it simplifies the tax code because aggressive income splitting strategies are not as beneficial.

### Where Do We Go From Here?

Many articles have been written about the higher taxes a couple pays once they get married, versus what they paid when they were both single. I won't rehash the inequities, but does that seem fair?

Since our Canadian tax system focuses on the individual, there is a greater incentive for taxpayers and their professional advisors to come up with strategies to split income between spouses. While some of these strategies are sound and legitimate, others are aggressive and abusive. Our Canadian *Income Tax Act* is laced with rules to prevent couples from artificially splitting or dividing their income. These anti-avoidance rules are complicated, confusing, and expensive to monitor.

What if the Canadian Government introduced a joint tax return option and made the tax rates lower to encourage couples to file this way. Wouldn't it make sense to simplify our tax system? Not only would it eliminate aggressive income splitting schemes, but it would reduce the sheer number of tax returns filed each year.

A joint tax return option is one way I think our Government can realize significant cost savings without affecting the quality of service provided.

Just a thought ....

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