

The image features a dark grey background with silhouettes of hands reaching towards each other. The top half shows two hands in a light yellow color, while the bottom half shows two hands in a dark blue color. The hands are positioned as if they are about to shake or are in the process of shaking.

A fortune left on the table

**Why should low-income adults have
to pass up government benefits?**

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Contents

1

How much do governments save when
low-income people don't file taxes? 2

TABLE 1 : 2016-17 ESTIMATE OF SINGLE SOCIAL ASSISTANCE RECIPIENTS IN ONTARIO
WHO DID NOT FILE AN INCOME TAX RETURN AND CREDITS FOREGONE 3

NOTES TO TABLE 1 3

2

Why do low-income people resist
filing their taxes? 4

A SHORT HISTORY OF HOW INCOME FOR THE POOR GOT TIED TO TAX FILING..... 4

WHAT WORRIES LOW-INCOME PEOPLE ABOUT FILING TAXES? 5

3

Is there any reason why social
assistance recipients should have
to file taxes to get their credits? 9

THE TAX FILING PROCESS AS RESPONSIVE READING..... 10

1

How much do governments save when low-income people don't file taxes?

In 2012, Ontario's Ministry of Community and Social Services completed an internal study of the tax filing habits of social assistance recipients using income tax data to which it had access through a data sharing agreement with the federal government.¹

The study revealed that only 64% of single male and 70% of single female Ontario Works recipients filed an income tax return for the tax year 2010.² That meant that a good third of single OW recipients did not collect refundable credits they could only have claimed by filing their taxes.³

The income that is available to (and is not clawed back from) single social assistance recipients includes GST/HST credits, Ontario Trillium credits, and, for the working poor, the Working Income Tax Benefit (renamed the Canada Workers Benefit in the most recent federal budget).⁴

The authors of the study said that over the years, these numbers tend to be largely "invariant" – they stay much the same. Assuming that's the case for the most recent tax year, I used the same percentage of non-filers to estimate in **Table 1**:

- How much money an individual social assistance recipient would typically be eligible for in refundable credits
- How much money got left on the table in total in 2016-17.

The total? Almost **\$128 million**.

Only 64% of single male and 70% of single female Ontario Works recipients filed an income tax return for the tax year 2010.

1. "Social Assistance – Personal income tax linked data," Policy Research and Analysis Branch, Ministry of Community and Social Services, 2012
2. The tax filing rate was higher among social assistance recipients with disabilities, with 85% of single male and 90% of single female ODSP recipients filing tax returns. Among low-income single parents, take-up was very high – 93% for those on OW and 97% for those on ODSP.
3. A recent Finance Canada study of poor nationwide uptake on the WITB (<http://www.cbc.ca/news/politics/working-in-come-low-poor-canada-revenue-agency-tax-benefits-1.4423280>) supports the observations of the MCSS internal study. However the 2012 report remains our most complete and reliable set of data on credits forfeited by low-income individuals. The refundable tax credits aimed at single people are largely paid at their full amount. In other words, the amounts of social assistance income (recorded on a T5007) rarely impinges on the amount of the credits they would receive. Therefore the analysis is 'cleaner' and more straightforward.
4. Refundable tax benefits or 'credits' are paid to tax filers through the income tax system without regard to whether the tax filer owes taxes. Non-refundable credits, in contrast, can only reduce taxes for filers who owe taxes.

Table 1 : 2016-17 Estimate of single social assistance recipients in Ontario who did not file an income tax return and credits foregone

Recipient type	Estimated number of income tax non-filers to nearest hundred	Average Ontario refundable credits foregone per individual	Average federal refundable credits foregone per individual	Total average refundable credits per individual	Total refundable credits – Ontario and Canada – all non-claiming individuals
Single OW male	32,000	\$700	\$280	\$980	\$31.4M
Single OW female	12,900	\$700	\$280	\$980	\$12.6M
Single ODSP male	15,800	\$724	\$280	\$1,004	\$15.8M
Single ODSP female	6,700	\$724	\$280	\$1,004	\$6.8M
All recipient types	67,400	\$708	\$280	\$980	\$127.8M

NOTES TO TABLE 1

- I have applied the Ministry report's percentages against the June 2017 social assistance caseload reports in Ontario, which show that there were approximately 155,000 single Ontario Works recipients in Ontario during 2016. About 2 out of 3 are male (103,333) and 1 in 3 is female (51,667). The same report shows that there were 275,000 single ODSP recipients. About 57% are male (157,700) and 43% are female (133,300).
- I have excluded 5% of social assistance recipients from the estimate to account for those who would not be eligible to claim credits regardless of whether or not they filed taxes, for reasons such as not meeting residency requirements. Included however are those who are deliberately avoiding tax filing for other reasons.
- I have assumed that the remaining 95% would be eligible for the full value of all refundable credits.
- In calculating Trillium credits I have assumed that social assistance recipients have low rental costs. I assumed an average rent of \$500 a month for OW recipients and \$600 for ODSP recipients.
- I have assumed that each social assistance recipient receives about \$2,000 per year in other income.

2

Why do low-income people resist filing their taxes?

On an individual level, the average amount that a non-filing social assistance recipient in Ontario foregoes annually is about \$1,000. For a single person on a low income, that's a significant amount – one that goes quite a way to reducing what we call the 'cost of poverty'.

It means, for example, that a person eats better and endures less stress about meeting essential costs like rent. When low-income people do better financially, they cost the health care system less, in terms of both physical and mental health. They cost the justice system less, and their future plays out better based on other social indicators.⁵

If the delivery mechanism is not working, we are all paying for it socially and economically, through the cost of poverty.

It is in our interest as a society to figure out why up to 36% of single people on social assistance leave money lying on the table by not filing their taxes. Because if the delivery mechanism is not working, we are all paying for it socially and economically, through the cost of poverty.

Let's start by looking at how receiving tax credits got so inextricably tied to filing taxes in the first place.

A SHORT HISTORY OF HOW INCOME FOR THE POOR GOT TIED TO TAX FILING

In the early 1970s, the Ontario government converted a rent rebate program – formerly largely paid in cash to tenants by landlords – into one of the first refundable tax credit programs in Canada. It consisted of a property tax credit and a sales tax credit. Tax filers with low incomes received a modest boost in their tax refund in the form of a once-yearly credit.

In the late 1970s, the federal government gave the green light to payment of federal tax benefits for the first time. The modest but important result was a yearly child tax benefit first announced by National Health and Welfare Minister Monique Begin in 1978.

Things snowballed from there. Each and every new income benefit announced since 1978 by the federal government has been paid through the income tax system. These include all child benefits, sales tax credits, and the Working Income Tax Benefit (WITB).

5. <http://openpolicyontario.com/wp/wp-content/uploads/2016/11/Cost-of-Poverty-R10-Final-forweb.pdf>

In Ontario, the principal refundable tax credits for single people flow through the Trillium program.

*The **entire** process of documenting and disbursing income to social assistance recipients from government sources is **fully automated**.*

By the early 1980s, the federal government had come to an agreement with all provinces and territories on their treatment of refundable tax credits under their social assistance programs. They exempted both provincial and federal refundable tax credits as income for social assistance recipients. In other words, all social assistance recipients were allowed to keep their refundable credits with no 'clawbacks' of this income from their social assistance payments.⁶

At the same time, the federal government began to require provinces to issue income tax notices (T5007 slips) documenting people's social assistance income. The purpose was not to make the money taxable, but rather to help with the determination of refundable tax credits.

The early 1980s also saw the slow beginnings but relentless progress of automated banking. Today, direct deposit of social assistance and tax credit income is the norm, and payments by cheque or cash are exceptions.⁷

What this means is that *the entire process of documenting and disbursing income to social assistance recipients from government sources is fully automated*. This point becomes important later in this paper, when we ask ourselves the question: "Is there any reason why social assistance recipients should have to file taxes?"

WHAT WORRIES LOW-INCOME PEOPLE ABOUT FILING TAXES?

Over the past six years, I have presented a seminar called Retirement on a Low Income about 50 times in various Ontario communities. These workshops have given me the opportunity to engage with more than 2,400 low-income people on tax filing issues. Together we have probed their knowledge and their fears, their perceptions and their misconceptions.

-
6. In Ontario and some other provinces, the only exception to this 'clawback' was from 1998 to 2008, when the National Child Benefit Supplement was clawed back from social assistance recipients with children.
 7. There is a fairly inert cadre of homeless, addicted, and mentally ill people who come to government offices on 'check day' to pick up a paper check. They are often unbanked and face confiscation of any funds that would show up in a bank account because of liens.

In addition to these interactions, I served on the management team for a research project into the informal economy conducted at West Neighbourhood House in Toronto. In 2014 and 2016, this community organization conducted two rounds of research into the local informal economy with support from the Metcalf Foundation.

The research approach was to build relationships particularly with low-income people who had lived experience of the informal economy. From a policy perspective, there was interest in how this activity affected government coffers, including both uncollected revenue in the form of taxes and savings on expenditures in the form of foregone credits that are triggered by tax filing⁸

“I may get caught doing something I didn’t know I was not allowed to do.”

All of these consultations have enabled me to compile this list of the concerns, both founded and groundless, that make many low-income people skeptical of government and averse to tax filing:

They’ll just claw back my credits from my social assistance.

The child benefit clawback years⁶ haunt people on social assistance to this day. The federal/provincial ‘no clawback’ rule I referred to in our short history is poorly, if at all understood by those it protects. Although refundable tax credits paid to the poor are fully exempt from social assistance clawbacks, some still do not believe it.

To get tax credits, you have to pay tax.

At some point in each of the many sessions I conduct with low-income people, I ask someone to volunteer to tell the assembled what an income tax refund is. No one has yet provided a minimally credible explanation. No one! They can’t articulate that a refund occurs when the tax they owe (usually nothing) is exceeded by the money due to them.

I tell them how refundable credits act kind of like gift cards – we financial literacy educators do our best with metaphors and similes and visuals. But frankly, we are swimming up the currents and sideways through the eddies of a convoluted tax system – a system that most of us with middle-class resources navigate by turning to professional accountants or sophisticated tax software. Why do we expect Ontario’s least resourced and most vulnerable people to just go to a workshop and walk away confidently saying “Sure, I get it”?

8. West Neighbourhood House published two reports on the project’s findings available at: <http://www.westnh.org/programs-and-resources/public-policy-work/informal-economy/>

I don't want to 'awaken the beast'.

Uncertainty is an outsized problem for low income people. You never know when filing an official document might 'awaken the beast' – alert the system to your existence and start making your life hell. Because once the tax system finds you, all the other systems will find you too.⁹

They may start looking at your old student loan, or your child support, or your unpaid fines. There is the fear that the phone calls day and night from collection agency might start again. You hear tales about wage garnishments, frozen bank accounts, liens on property, going to jail, losing your passport, losing your rights.

It is very common, when I speak with people, to hear "I may get caught doing something I didn't know I was not allowed to do." That kind of uncertainty can immobilize people, even if they have no real reason to fear filing their taxes.

I work 'under the table' and don't want to get caught.

In our focus groups with low-income people for the West Neighbourhood/Metcalf project, everyone on a low income we spoke with (more than 140 people) had worked in the informal economy for small amounts of money in service jobs such as home repairs, cleaning, or child care for cash.

Some were making enough money to make a significant difference in their financial position (albeit only on the small scale of the working poor). They did so by choice, and were willing to take the risk of evading taxes. In a companion piece to this paper, we give some examples of people in this situation, and suggest that they might best be left alone, for their good and the good of society as a whole.¹⁰

The amount of money leaking out of the formal economy due to transactions of this kind among people on assistance and the working poor is so miniscule as to be almost invisible in Statistics Canada reports.¹¹ For government to crack down and enforce formal arrangements would entail high payroll costs for investigators. The tax money realized would likely not cover the costs, and the informal work itself, rather than migrating to the formal economy, would more likely slip further underground or disappear altogether.

9. For more about the harassment that low-income people face when they join the financial mainstream, see http://vibrantcanada.ca/files/jsbb-report-final_hires-1-1.pdf

10. Stapleton, J., & Yip, C. Low-income adults in the informal service economy: Tax cheats...or survivors and community builders? Available in August 2018 from: <http://openpolicyontario.com/publications/>.

11. <http://www.statcan.gc.ca/pub/13-604-m/13-604-m2014073-eng.pdf> Page 13 notes that the whole of the underground economy is equal to about \$40 billion or 2.3% of Canada's economy. On page 14 we see that just one illegal activity (skimming) is responsible for over \$20 billion of that.

I make extra income and want to report it, but I don't understand the rules.

I often attend conferences where I meet non-profit agency volunteers and the low-income people whose taxes they help to file.¹² I always run into a guy who manages tax audits for the Canada Revenue Agency. Let's call him 'Brad'.

Brad is a well-intentioned fellow who enjoys this part of his job where he shows up at conferences to help people understand the tax rules.

The volunteers often ask about small amounts of income that don't appear to be reportable. If someone receives \$500 from a friend to help them with some gardening chores, should they report it?

*When **nobody** can explain how things work, it is not unreasonable to conclude that the system is unreasonably complex.*

How about if they receive several honoraria from different sources and the amounts are all below \$500? Should they still report it?

Brad has trouble with these questions. He knows that people are technically required to report all their income for tax purposes. He also knows that people who pay others for informal work are not obligated to provide a tax slip unless the amount is more than \$500.

That is CRA's way of saying they are not interested in any single source of income in any year that is below \$500. Except it appears that Brad can't say that.

Brad and I usually end up having a quiet side conversation – a word to the wise, a wink and a nudge. Brad must say that the income should be reported but he knows that nothing will happen if the income is not reported. It's kind of like jaywalking. The rule is on the books, but seldom prosecuted.

When no one, not even an official representative of the CRA, can clearly explain when and how a low-income person should report extra income, is it any wonder that people don't file taxes because they don't understand the rules?

When **nobody** can explain how things work, it is not unreasonable to conclude that the system is unreasonably complex.

12. Prosper Canada has published an infographic that highlights the need for more of these valuable and effective tax clinics, available at: <http://prospercanada.org/getattachment/877cb75f-4f8f-44ff-b762-af726c3afce7/Breaking-down-barriers-to-tax-filing.aspx>

The federal government responded in its most recent budget with the Community Volunteer Income Tax Program.

3

Is there any reason why social assistance recipients should have to file taxes to get their credits?

We could keep spending a lot of time and effort urging social assistance recipients to file taxes for their refundable credits. We could keep trying to initiate them into the wink/nudge mysteries that Brad the CRA auditor imparts to tax clinic volunteers.

Or we could do something a whole lot simpler.

At the end of our brief historical survey of how government income for the poor got tied to tax filing, I noted that **social assistance and taxation are now fully automated**.

Consider the following:

- ▶ The Canada Revenue Agency sends T5007 slips to all social assistance recipients in Canada. This means that the CRA knows how much social assistance money each recipient receives. They also know how much they received in other income.
- ▶ Social assistance authorities confirm the rent of all recipients and both social assistance authorities and the CRA independently confirm their income, their residency, their address details, and their bank account information.
- ▶ The income tax system 'knows' from multiple sources (employers, benefit providers like EI, and agencies) the exact amount of the value of refundable credits that are owing to social assistance recipients.

There is just one part of this impressive automated system that remains manual: social assistance recipients must file a tax return with the federal government to receive their refundable tax credits.

This is true even though the government has their banking information and knows the exact amount they are in line to receive. In fact, if a social assistance tax filer makes a mistake on the tax return, Canada Revenue will correct it to accord with the information they have on file.

So why don't they simply pay the amount of their refundable credits into their bank accounts?

THE TAX FILING PROCESS AS RESPONSIVE READING

I grew up in a church where the congregation responded aloud to the pastor as we read from the words of a prayer book. Liturgical responsive readings are a ritual – one with deep meaning for many.

*The CRA already knows what **each and every** social assistance recipient is going to say too, given the level of automated information sharing in our country.*

The CRA's 'tradition of application' is a bit like responsive reading in a church service. The pastor already knows what the congregation is going to say because it is spelled out in the prayer book.

The CRA already knows what each and every social assistance recipient is going to say too, given the level of automated information sharing in our country.

But that's where the comparison ends. Filing taxes for a low-income person is, as I have itemized in this paper, a scary, complicated process. It is not a meaningful ritual. For many, it is an exclusionary ritual.

As we have seen from the Ministry of Community and Social Services' own data, for up to a third of single social assistance recipients in Ontario, it is a broken ritual that costs them collectively more than one and a quarter million dollars a year.

Wouldn't it be better to use the information we have to pay these citizens the money they are entitled to, directly into their bank accounts?¹³

This is money we owe as a society to some of our poorest members.

It is long overdue.

13. This question is important not just in the context of money left on the table addressed in this paper, but also in the larger discussion of the architecture of a guaranteed annual income or basic income. Proponents of such ideas often choose the tax system as the logical and best delivery system for such benefits. Detractors point to the fact that low income people, especially social assistance recipients, often do not file tax returns. Both sides are correct, but the framing of the problem is wrong. There is no need to require them to apply in the first instance. There is nothing that a tax filing could add to the information the authorities already possess.



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