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When is $500 not $500?

When it is a tax credit introduced in a federal Budget.

Most tax credits, including the ones just announced in the 2011 Budget, are designed as 'non-refundable credits.' This design means that recipients of these tax benefits do not receive any direct cash payment. Rather, they obtain their benefit in the form of an income tax reduction when they file their taxes.

So Canadians should not rush to the mailbox looking for dollars. Their cheque is *not* in the mail.

Ottawa sells its growing collection of non-refundable credits in less than a straightforward and transparent manner. The proposed Children's Arts Tax Credit, for example, is cryptically described in the Budget as "a 15-per-cent non-refundable credit on an amount of $500."

The answer, to those who can do arithmetic in their head, is $75. Maybe the federal government has an additional purpose in mind for its tax credits – exercising the multiplication skills of taxpayers.

A $75 tax reduction is a lot less than a $500 'amount.' Seventy-five dollars does not go very far when expenses for arts and culture programs can run in the hundreds and even thousands of dollars.

It can get worse when parents fill out their income tax form to claim the Children's Arts Tax Credit. It will be one of a list of two dozen-odd other 'amounts' that have to be summarized and then multiplied by 15 percent, producing a total amount far larger than its constituent credits. Figuring out the true value of the Children's Arts Tax Credit from the tax form will be difficult for many applicants.

The same visibility problem holds for other current and proposed refundable tax credits. The proposed Family Caregiver Tax Credit and Volunteer Firefighter's Tax Credit were introduced as 'amounts' of $2,000 and $3,000, translating into actual benefits in the form of tax savings of $300 and $450, respectively. These measures are modelled on the existing Children's Fitness Tax Credit and Home Buyer's Tax Credit, whose true value is $75 (not $500) and $750 (not $5,000), respectively.

A more serious shortcoming to these tax benefits stems from their non-refundable design. If you pay no income tax, you don't qualify for the credit because you have no tax to reduce. If you pay a small amount of income tax, you receive a tax savings much less than the maximum. So poor Canadians, who pay little or no income tax, are generally excluded from non-refundable tax credits.

Most people eligible for the maximum tax savings from non-refundable tax credits likely do not need them: They would undertake the activity that the government wants to encourage whether they received a modest tax cut or not. Or at least they need a tax break less than other households that pay minimal or no tax because their incomes are so low in the first place. Ironically, these are the people who most need the assistance.

Take, for example, the case of the Children's Arts Tax Credit. The intent of this measure is good. It recognizes the value of arts and culture in contributing to the well-being of children, their self-esteem and positive development, and the expression of their identity.

Yet it is low-income children – excluded from the Children's Arts Tax Credit – who would benefit most from arts programs because they typically do not have access to various personal enrichment activities. These families simply cannot afford what might be considered a 'frill' when they struggle daily with the choice of paying the rent or feeding the kids.

Unless the Children's Arts Tax Credit is refundable, it is of little or no value to children who most require financial assistance to take advantage of the benefits of various arts-related programs. If the government is serious about tackling the significant social need it has identified, then it should use an instrument that is more appropriate to the Canadians who truly could benefit from this type of initiative.

Our preference is to use scarce public resources to provide opportunities for all children, the poor in particular – not simply for those whose families already can afford to buy access to these programs in the first place.

It is clear that several weaknesses of current tax credits need to be resolved. Transparency regarding their actual value – their true amount – would be a good place to start.

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