

The Effect of the Working Income Tax Benefit on Labour Supply in Canada

Kourtney Koebel
Dionne Pohler

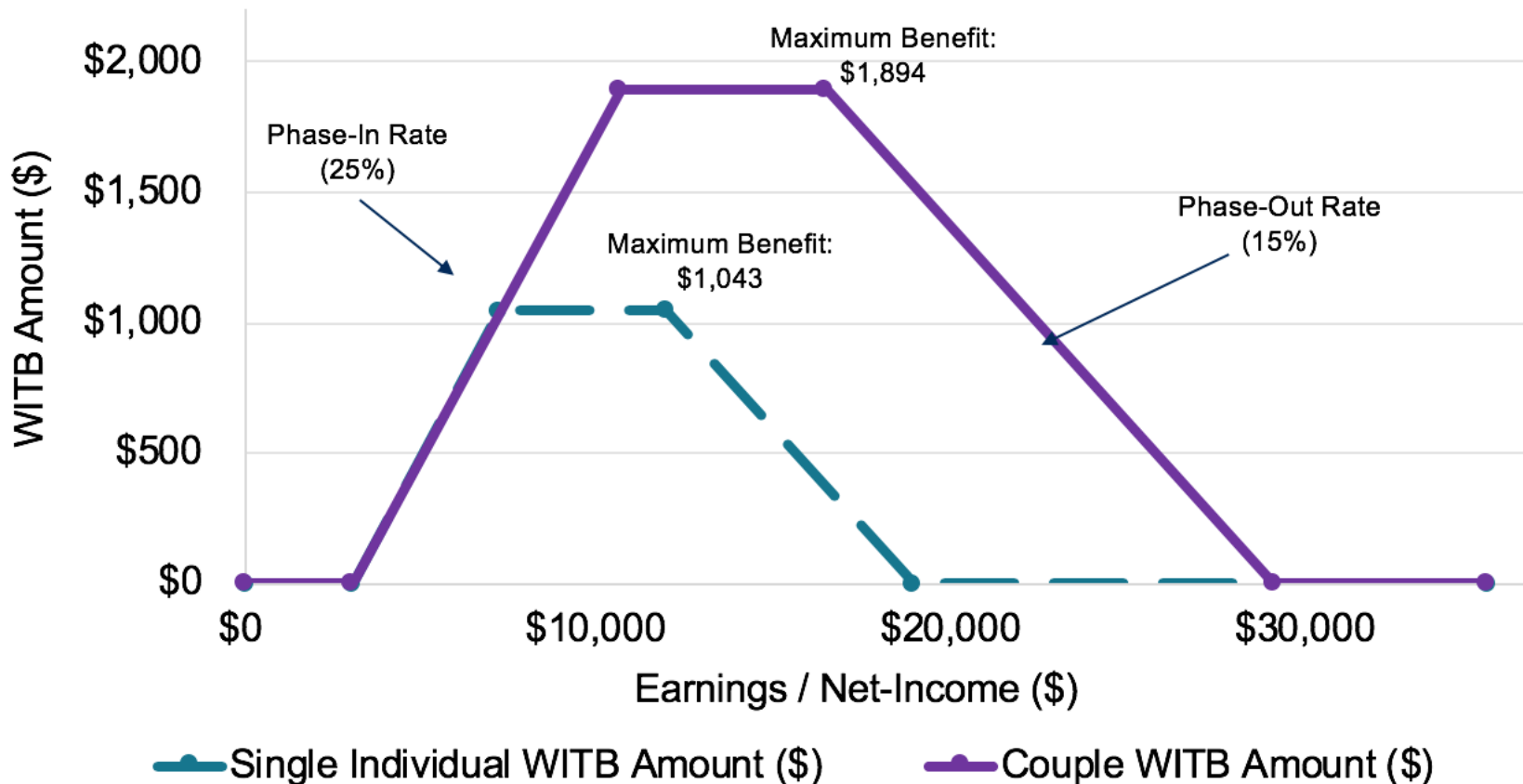


Centre for Industrial Relations & Human Resources
UNIVERSITY OF TORONTO

Working Income Tax Benefit

- Introduced by the federal government in 2007 (renamed Canada Workers Benefit in 2018)
- Refundable tax credit for low-income workers
- Max amount in 2017: ≈\$1,800 for couple/parent; ≈\$1,000 for single individual with no children
- \$1.58B in 2017
- ≈1.2M beneficiaries; 5.6% of working age people received WITB benefits (2015)
- Design criteria varies across provinces

Working Income Tax Benefit



Working Income Tax Benefit

- Policy goal: intended to “help make work more rewarding and attractive...[and] strengthen incentives to stay employed” (Finance Canada, 2007)
- Take-up varied among those eligible (take-up rate in 2015 was still only 85%):
 - No auto-enrolment; required application
 - Highly correlated with different ways of filing taxes
 - Complexity of design, lack of knowledge

Research Question

- What is the impact of the Working Income Tax Benefit on labour supply?

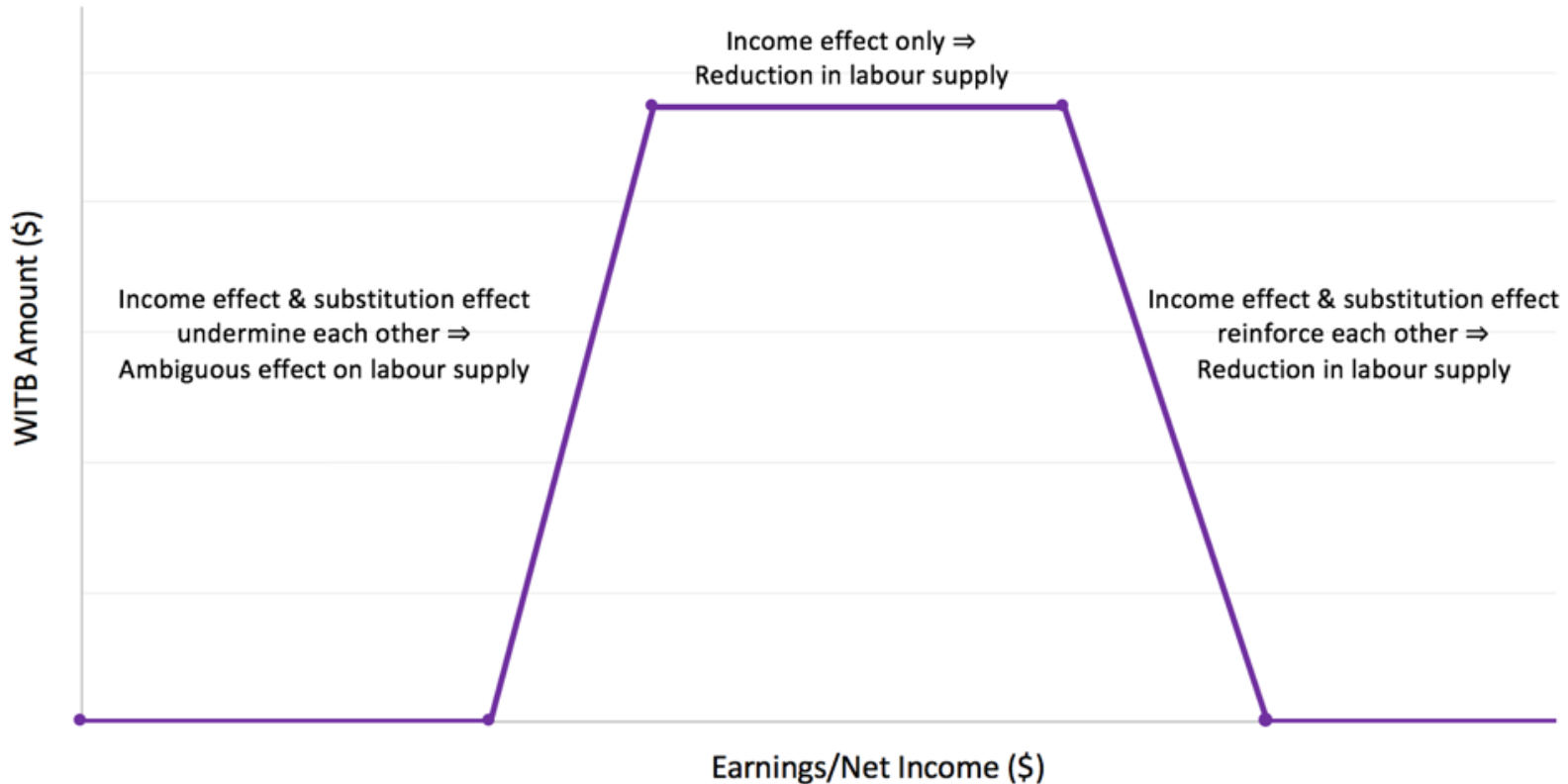
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- **Expectation:** Normally, the effect of a WITB-style program depends on where the individual falls in the earnings distribution

Theoretical Effect of WITB (Hours)



Research Design

- BUT.... theory assumes knowledge of design to affect behaviour
- Low income groups face a number of barriers to filing taxes: complexity, low awareness of benefits available, and lack of access to internet filing or tax advice
- Evidence suggests low-income individuals may be unaware of tax and transfer policies that affect them (Chetty & Saez, 2013)

Research Design

- Institutional details of WITB knowledge and receipt suggest it is an exogenous shock
 - Even when the benefit is received, often not associated with WITB (part of lump sum refund)
- Fixed effects model: use variation in WITB receipt within individuals over time to identify causal effect

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 - Upon receipt of a cash transfer, low-income individuals should reduce their labour supply
 - A cash transfer can help overcome fixed costs associated with working at the extensive margin

Survey of Labour and Income Dynamics (SLID)

- Panel data (individuals interviewed for maximum six years)
- Our population:
 - Single individuals interviewed anytime between 2006-2011
 - Net incomes between \$0 and \$30,000
- Four subsamples: men and women, with and without children

Variables

- Treatment: WITB receipt (0,1)
- Outcomes (Blundell et al., 2011):
 - Intensive margin: Usual hours worked
 - Extensive margin: Labour force participation and employment (percentage of year)
- Controls:
 - Social assistance (0,1) (in 2015 social assistance recipients made up 8.4% of WITB recipients)
 - Eligibility for WITB (0, 1)
 - Age
 - Individual fixed effects

Results

Please contact authors for most recent results.

Kourtney Koebel: kourtney.koebel@mail.utoronto.ca

Dionne Pohler: dionne.pohler@utoronto.ca

Research and Policy Implications

- Increasing international, national, and provincial interest in basic income guarantees
- Our results suggest that impact of a cash transfer has a positive effect on labour supply
- We also find consistently negative effects of social assistance on labour supply
- Our results confirm research on labour supply effects of EITC on single mothers in the US and of the child benefit on single mothers in Canada
- Our results extend work on EITC, which has not examined the impact on single individuals with no children (WITB is more generous than EITC for this group)