

Non-refundable Tax Credits Are an Inequitable Policy Instrument for Promoting Physical Activity Among Canadian Children

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ABSTRACT

A clear income gradient exists for the sport and physical activity (PA) participation of Canadian children. Governments in Canada recently introduced tax credits to alleviate the financial burden associated with registering a child in organized physical activity (including sport). The majority of these credits, including the Children's Fitness Tax Credit, are non-refundable (i.e., reduces the amount of income tax a person pays). Such credits are useful only for individuals who incur a certain level of tax liability. Thus, low-income families who may pay little or no income tax will not benefit from the presence of non-refundable tax credits. In this commentary, we argue that the non-refundable tax credit is inherently inequitable for promoting PA. We suggest that a combination of refundable tax credits and subsidized programming for low-income children would be more equitable than the current approach of the Canadian government and several provinces that are expending approximately \$200 million to support these credits.

Key words: Taxes; policy; child; adolescent; exercise; sports

La traduction du résumé se trouve à la fin de l'article.

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Canada is one among a few countries in the world to offer incentives, in the form of tax credits, to discount or subsidize the costs associated with registering a child in an organized physical activity (PA) program. These tax credits can be claimed at a federal level and in some provinces. In this article, we question the idea that a tax credit, especially a non-refundable one (i.e., reduces the amount of income tax a person pays), will support equitable access to PA opportunities for all Canadian children.

Canadian children from low-income families are more likely to be physically inactive and engage in sedentary pursuits compared to children from middle- and high-income families.¹ Specifically, children from families reporting the lowest income take approximately 1,200 fewer steps per day than children from the highest-income families.¹ Similarly, Canadian families in the lowest-income quartile are 2.5 times less likely to have enrolled their child in organized PA programs.² Such findings led to the assignment of a 'failing grade' for the PA of Canadian children over the past six years in the Active Healthy Kids Canada report card. Specifically, the 2010 report card concluded that, while approximately 50% of Canadian children and youth participate in sport, "the presence of disparities continues to hamper any grade increase." (ref. 3, p. 16) Thus, a very clear income gradient exists for PA and sport participation of Canadian children. Given the externalities associated with a sedentary lifestyle (e.g., costs to taxpayers attributed to treatment of obesity and other chronic diseases), economists would argue that the low level of PA among Canadian children is an example of market failure that requires government intervention.⁴

Costs associated with registration, equipment and transportation are also barriers to participation for both able-bodied children⁵ and

children with disabilities.⁶ Not surprisingly, 63% of Canadian parents in the lowest-income quartile spend less than \$100 per annum on registration fees for their children's organized PA.² In contrast, 85% of parents in the highest-income quartile spend \$100 or more on their children's sport and PA. However, there is currently insufficient provision for removing financial barriers and engaging more children in PA and sport.

To reduce the cost of participation in organized PA (including sport), the Province of Nova Scotia adopted the Healthy Living Tax Credit (HLTC) in 2005.⁷ It is a \$500 non-refundable credit that is available for children up to 17 years old, as long as the organization is registered with Nova Scotia Health Promotion. This was followed soon after by the Children's Fitness Tax Credit (CFTC) which was implemented by the Canadian government in 2007. The CFTC allows a non-refundable tax credit of up to \$500 to register a child 16 years of age or younger in an eligible PA program.⁸ Depending on the net taxable income of a household, this would amount to, at most, a tax reduction of \$75 per child (i.e., \$500 X 15% marginal tax rate). In the case of children with disabilities, the parent may claim an extra \$500 for children up to 18 years of age and include costs for equipment, assistive devices, and transportation. Manitoba and the Yukon offer similar non-refundable tax credits.^{9,10} More

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TAX CREDITS FOR PHYSICAL ACTIVITY

Table 1. Provincial Expenditures for Child Fitness Tax Credits

Province	Year	Credit	Type	Cost (\$ million)
Manitoba	2007	Fitness Tax Credit	Non-refundable	3.0
Nova Scotia	2005	Healthy Living Tax Credit	Non-refundable	2.2
Ontario	2010	Children's Activity Tax Credit	Refundable	75.0
Saskatchewan	2009	Active Families Benefit	Refundable	18.0
Yukon	2007	Yukon Child Tax Credit	Non-refundable	0.2
Total Expenditures				98.4

recently, Ontario and Saskatchewan introduced refundable (i.e., low-income parents can claim the full amount of the credit even if they pay little or no income tax) tax credits.^{11,12} The actual or estimated expenditures for these tax credit programs are approximately \$98.4 million across the provinces (Table 1) and somewhere between \$110 and \$165 million for the CFTC (Figure 1).¹³ Thus, governments in Canada are awarding approximately \$210 million in tax credits to promote PA and sport participation among children.

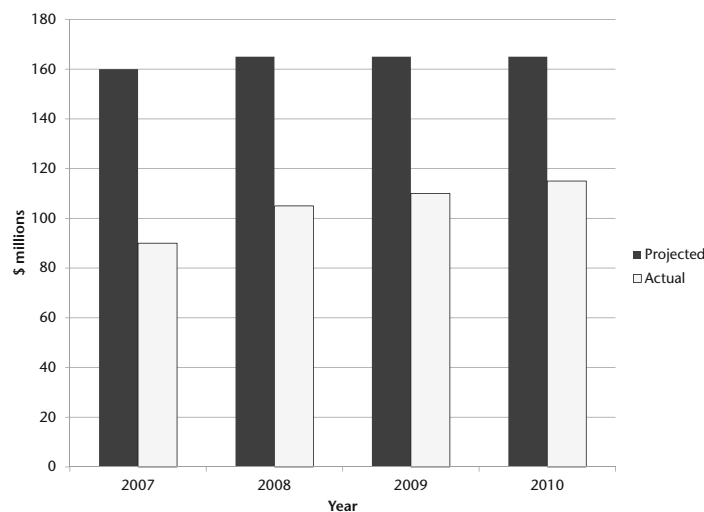
Limited information is available on the effectiveness of the tax credits for promoting PA. However, recent work has demonstrated that the CFTC, though technically available to any tax-paying Canadian to claim for their child, is inaccessible to a large segment of Canadian children.³ Specifically, parents from low-income families reported being less aware of the CFTC, were less likely to have claimed it in the previous tax year, and less likely to have plans to claim it in the current year. These reports are supported by actual claims data showing large differences in the proportions of families using the CFTC in the lowest- and highest-income categories.¹⁴ Presumably, families at the lower end of the income continuum could not afford the costs associated with registering a child in organized PA and thus were unable to take advantage of the tax credit. Furthermore, because the credit is non-refundable, low-income families may have no tax liability to reduce, or prepayment of taxes to refund, and thus will not receive any benefit from the tax credit. Therefore, the CFTC and similar non-refundable credits are examples of policy that may promote health inequity among Canadian children.

Potential solutions to the non-refundable tax credit

If tax credits such as the CFTC are not helping children from low-income families to engage in PA programs, one option is to allow tax-paying organizations that subsidize the costs of participation for such children (e.g., corporations) to claim the equivalent amount of a tax credit for a child (e.g., \$75.00 for the CFTC).² This would help address the upfront financial barrier that low-income families experience for PA programs, and also provide more equitable access to government tax credits.

If the non-refundable tax credit is preferred, then instead of allowing sponsoring organizations to claim a tax credit, a second option is for governments to directly fund the efforts of these organizations at the equivalent amount of a tax credit per child supported in the previous year. For example, KidSport has chapters across Canada organized at a provincial level. Though much of the funding is raised through individual and corporate donations, some provinces provide substantial funding for their provincial chapters. Nova Scotia distributes approximately \$400,000 per annum to KidSport Nova Scotia.⁷ Similarly, Sport Canada contributed \$719,000 to Canadian Tire Jumpstart Charities in 2009-2010.¹⁵ The problem with this option is that not all governments (federal and provincial)

Figure 1. Projected and actual tax expenditures for the CFTC, 2007-2010¹⁵



support these types of programs to the same extent and little information is available on the reach of these programs. Thus, in the absence of a concerted and explicit commitment on the part of governments, it is likely that distribution of funds is inequitable across the country.

Another option is to make the CFTC and similar provincial credits a refundable credit similar to the Children's Activity Tax Credit (CATC) in Ontario and the Active Families Benefit in Saskatchewan. Thus, regardless of income status, families would be able to apply for a credit relative to the amount of expense incurred for their child's participation in an organized PA program. Furthermore, as is the case with the Active Families Benefit, this option could be enhanced by including a certain limit up to which the fees (e.g., \$150), as opposed to a percentage, could be fully refundable.¹⁴ Though it is true that a refundable tax credit would cost governments more than a non-refundable tax credit, an examination of Figure 1 reveals that the CFTC is under-utilized by approximately \$50 million in comparison to what the federal government was expecting to expend when the credit was first introduced in the 2006 budget. Thus, converting the CFTC to a refundable credit may not result in much extra cost to what the Canadian government has already committed. Though this option addresses the previously discussed issue of inequity, it does not address the income gradient for PA and the associated financial barriers. Therefore, we recommend that the best overall option is a combination of a refundable tax credit and dedicated provincial and federal funding for subsidizing the costs of organized PA for low-income children.

DISCUSSION

Low PA among Canadian children and youth is a major public health concern that has been recognized by federal and provincial governments through tax credit programs currently in place. These tax credits come with a significant financial cost in terms of untaxed income (we estimate somewhere in the range of \$200 million), yet limited information exists on the effectiveness of these credits for promoting and enabling PA of Canadian children. There is evidence, however, that non-refundable tax credits are not useful for promoting PA among children from low-income families who do not qualify, or cannot afford the initial expense, to claim

these credits. Unless Canadian governments address the refundable nature of these credits and consider other mechanisms for sponsoring low-income families, these tax credits are in danger of creating more of a health inequity among Canadian children.

Policy should be informed by the best evidence available and this seems particularly so when the program is both expensive and addressing a critically important health issue. Though the current evidence regarding the effectiveness of a range of obesity and PA interventions is limited, it clearly tells us that the non-refundable PA tax credit is inequitable and likely ineffective.^{3,14}

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RÉSUMÉ

Il existe clairement un gradient du revenu et de la pratique des sports et de l'activité physique chez les enfants canadiens. Différents ordres de gouvernement au Canada ont instauré récemment des crédits d'impôt pour alléger le fardeau financier associé à l'inscription d'un enfant à une activité physique organisée (y compris un sport). La majorité de ces crédits, dont le Crédit d'impôt pour la condition physique des enfants, sont non remboursables (c.-à-d. qu'ils réduisent l'impôt sur le revenu payé par un contribuable). Ces crédits ne sont utilisables qu'à partir d'un certain niveau d'imposition. Les familles à faible revenu, qui paient peu ou pas d'impôt, n'en profitent donc pas. Dans ce commentaire, nous faisons valoir que le crédit d'impôt non remboursable est inéquitable en soi pour ce qui est de promouvoir l'activité physique. Nous sommes d'avis qu'une combinaison de crédits d'impôt remboursables et de programmes subventionnés pour les enfants de familles à faible revenu serait plus équitable que la méthode actuelle du gouvernement canadien et de plusieurs provinces, qui dépensent environ 200 millions de dollars pour ces crédits.

Mots clés : taxe; politique; enfant; adolescent; exercice physique; sports

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