



# EVIDENCE SYNTHESIS

THE ROLE OF TAX INCENTIVES AND SUBSIDIES AND THEIR  
PLACE IN SOCIAL POLICY TO SUPPORT OLDER CANADIANS

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## Important Terms

Tax incentives- ways of reducing taxes for businesses and individuals in exchange for specific desirable actions or investments on their parts<sup>i</sup>:

Credit – allows a person or business to subtract some or all eligible expenses from amounts payable in taxes. Therefore, paying less tax, due to credit<sup>ii</sup>.

Refundable credit – helps reduce or eliminate the amount of tax owed, and excess credits may be paid as a refund after personal income tax return is assessed<sup>iii</sup>.

Non-refundable credit – helps reduce or eliminate the amount of tax owed, however, excess in credit does not create a tax refund<sup>iv</sup>.

Deduction – allows a person or business to subtract some or all eligible expenses from taxable income. Therefore, taxed on a smaller amount of income<sup>v</sup>.

Exemption – excuses a business or person from paying tax<sup>vi</sup>.

Subsidies- a form of financial assistance, typically direct expenditures from government or a private body to support desirable activities, keep prices low, maintain employment levels, etc.

## EVIDENCE BRIEF

# The Role of Tax Incentives and Subsidies and Their Place in Social Policy to Support Older Canadians

### Background:

Technology has the potential to reduce social isolation among older Canadians. However, a significant barrier to technology uptake and maintenance for older Canadians is the affordability of internet services and/ or social technologies. APPTA recommends leveraging the tax policy system to address the accessibility and affordability of technologies for older adults. The following report provides an overview of the different forms of Canadian tax incentives and subsidy programs to assess the effectiveness of this proposal and identify the appropriate components of the policy option put forth. This report was conducted using a rapid review approach with a targeted search strategy to attain credible information from government webpages and academic literature. This review focuses mainly on the context of tax incentives for businesses and individuals but acknowledges that Canada's taxation system is complex and that the intricacies of the regime may not be fully represented in this brief.

# Uses of Tax Incentives & Subsidies

## Tax Incentives

Tax incentives are popular instruments used by government to reduce taxes for businesses or individuals in order to stimulate certain actions and behaviours that ultimately improve social outcomes.<sup>vii</sup>

These incentives require an upfront expense to the individual or business, which can then be claimed each year on a tax return as a credit, deduction, or exemption under a set of eligibility criteria. Tax incentives can also be used as a means of disincentivizing particular actions and behaviours.

Rather than providing a benefit to those who follow recommended actions, governments may elect to administer penalties for those who choose not to comply with recommendations<sup>viii</sup>.

### Example

Canada Revenue Agency delivers the Scientific Research and Experimental Development (SR&ED) program which is a tax incentive for businesses to implement research and development. This program allows businesses to both deduct R&D expenditures from income, and provides an investment tax credit, which further reduces income tax payable.

The inherent nature of tax incentive programs is well suited for those who are able to absorb an initial cost, however, literature has shown that incentives like tax credits tend to benefit profitable businesses and wealthier individuals<sup>ix,x</sup>. In the interest of tax credits targeting consumers, investigators found them to be less effective when the price difference between what is incentivized and a standard product is small, therefore when the credit does not overly exceed the benefit of a regular discounted item<sup>xi</sup>.

## Subsidy Programs

Subsidies, similar to tax incentives, are often used to influence social outcomes and the economy in a particular way. One notable issue, however, is a general lack of consensus around defining what a subsidy is, however, for the purpose of this report, subsidies are defined and applied as above. A review indicates subsidies may be more attractive than tax incentives in their ability to

be amended more easily for a specific targeted group. Subsidies can support businesses in many ways, for example, subsidizing wages to increase employment opportunities or innovation opportunities such as green outcomes. In many cases for business, subsidies have shown to be the most effective investment for increasing employment that businesses may not have otherwise been able to afford<sup>xii</sup>. At an individual level, they can also support social needs such as child care and other benefits.

Subsidy programs can assist individuals with low (or fixed) income, such as many Canadian seniors. These programs typically require an application process which is based on annual gross income and other eligibility criteria depending on the subsidy purpose. Overall, an incentive such as a subsidy program is often used as a means for social policy, to resolve equity or access issues when affordability is a major barrier<sup>xiii</sup>.

There are many benefits to initiating subsidy programs for the public, in terms of supporting the labour force and other essential social needs. However, one review suggests designing such targeted programs do not necessarily mean the intended beneficiary actually benefits<sup>xiv</sup>. It is vital when designing subsidy programs to anticipate unintended side effects and where the subsidy is actually put to use, so that governments can better ensure the targeted beneficiary gains from the policy. Narrowing the scope of the defined group of recipients, as well as setting well-established eligibility criteria, can mitigate the potential for unintended side effects for intended beneficiaries.

## Tax Incentives and Social Policy Objectives

As previously mentioned, tax incentives and subsidies are well-used policy instruments to improve social outcomes. These instruments both provide financial assistance for certain actions or needs. They are commonly used to provide relief to individuals in particular situations that are financially straining such as caregiving, persons with disabilities, or those with other costly medical conditions<sup>xv</sup>. These programs also offer support for individuals living with low or fixed-income such as rental assistance programs<sup>xvi,xvii</sup>.

Social needs, defined as basic human needs, are a foundation of necessity to be satisfied for a person's well-being<sup>xviii</sup>. With an average yearly income of \$23,200 (without private savings or workplace pension), Canadian seniors struggle to meet many basic needs. Statistics from 2009 indicate 89% of seniors are living with at least one chronic condition<sup>xix</sup>. These health implications are also financial strains to seniors, as treatment and management of chronic conditions typically depend on pharmaceuticals; an out-of-pocket expense for many. For example, a recent review found seniors may be paying up to three times higher out-of-pocket expenses for health-related expenses as the rest of the population<sup>xx</sup>. Moreover, social isolation and loneliness has been deemed as detrimental to health as smoking or obesity, and evidence indicates a strong link with increased risk of functional declines and mortality<sup>xxi</sup>.

For older adults, being connected and participating in hobbies were among the most important of social needs<sup>xxii</sup>. Social Isolation and loneliness is being described as an epidemic<sup>xxiii</sup>, and intervention is essential. Innovation has been at the forefront of conversations on how to support seniors to age in place and age well; this includes reducing social isolation. Policy-makers can play an important role in supporting technology adoption, by making efforts to mitigate the barriers that prevent its uptake by older adults. Tax incentive or subsidy programs are common practices to increase affordability of specific goods and services; social technologies and services that support them i.e. internet, should be included.

## Important Considerations

- Transparency of investments is highly recommended so as to avoid negative public perceptions of government expenditures of taxpayers' money; tax expenditures should be disclosed as part of the public budget<sup>xxiv,xxv</sup>.
- Given the findings under consumer-directed tax credits, it may be in the better interest of governments to incentivize businesses to promote discounted products to a target consumer group rather than providing a consumer tax credit on incentivized items. Noting

the importance to ensure the price difference between incentivized items and standard items is large enough to evoke effective outcomes (i.e. consumer behaviour).

- Governments have an opportunity through the tax system to provide businesses incentives for initiating seniors assistance programs. In previous years, the government offered businesses tax credits for investing in childcare spaces for the benefit of their employees and their children. Unfortunately, this did not succeed, likely due to barriers businesses would encounter such as infrastructure and upfront cost to including these spaces.
- Tax incentives should be automatic rather than discretionary so as to avoid difficulty in selecting recipients and possible negative public views of “favouratism”. With a well-defined set of criteria, investment into automatic tax incentives are realistic recommendations<sup>xxvi</sup>.
- Indexing benefits annually is a common practice, and a recommended component of incentive or subsidy programs<sup>xxvii,xxviii</sup>.

## Tax Incentives

### Advantage

- Ease of Implementation; can be introduced more rapidly
- Makes use of information CRA already collects
- Promotes attractive behaviours

### Disadvantage

- "Loading" the tax system and adding administrative burden or cost
- Difficult to assess the benefit of incentive over no incentive

## Subsidy

### Advantage

- Lower market price or production cost
- Helps businesses hire, thus improving labour market and economy
- Support individuals needs; specifically low-income

### Disadvantage

- Possible negative public perception of government spending
- Complex to implement through legislative process and more heavily reviewed

## Conclusion

Government decision-makers have several factors to consider when utilizing the tax regime to achieve a social purpose. Tax incentives and subsidies can be effective policy instruments for achieving certain social aims, but the advantages and disadvantages of both should be considered in light of the particular context within which they are being applied. For the purpose of this report and its contributions to policy options, there are opportunities for governments to implement either policy instrument to better support older Canadians. Ultimately, tax incentives and subsidies are both effective mechanisms of social change if implemented and utilized properly.

## References

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- <sup>9</sup> Ibid. 1.
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<sup>17</sup> BC Housing. Rental Assistance Program (RAP) Retrieved from: <https://www.bchousing.org/housing-assistance/rental-assistance-financial-aid-for-home-modifications/rental-assistance-program>

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<sup>20</sup> Ibid. 15.

<sup>21</sup> Perissionotto, C., Cenzer, I. S., Covinsky, K. E. (2012). Loneliness in Older Persons: A predictor of functional decline and death. Retrieved from: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4383762/pdf/nihms618430.pdf>

<sup>22</sup> Ibid. 17.

<sup>23</sup> NBC News. (2018). Loneliness is an epidemic with real public health consequences. Friends alone can't solve it. Retrieved from: <https://www.nbcnews.com/think/opinion/loneliness-epidemic-real-public-health-consequences-friends-alone-can-t-ncna933506>

<sup>24</sup> Ibid. 1.

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<sup>26</sup> Ibid. 7.

<sup>27</sup> Ibid. 15.

<sup>28</sup> Ibid. 10.

## Additional Resources:

Chapter 10. Unleashing Innovation: Excellent Healthcare for Canada – Report of the Advisory Panel on Healthcare Innovation

<https://www.canada.ca/content/dam/canada/health-canada/migration/healthy-canadians/publications/health-system-systeme-sante/report-healthcare-innovation-rapport-soins/alt/report-healthcare-innovation-rapport-soins-eng.pdf>

Definition of 'tax incentive'

<https://www.collinsdictionary.com/dictionary/english/tax-incentive>

Credits, benefits and incentives – Ontario Ministry of Finance

<https://www.fin.gov.on.ca/en/credit/business.html>

Claiming SR&ED Tax Incentives

<https://www.canada.ca/en/revenue-agency/services/scientific-research-experimental-development-tax-incentive-program/claiming-tax-incentives.html?wbdisable=true>

Provincial and territorial tax credits for individuals

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/provincial-territorial-tax-credits-individuals.html>

Canada – Corporate tax credits and incentives

<http://taxsummaries.pwc.com/ID/Canada-Corporate-Tax-credits-and-incentives>

Investment tax credits (individuals)

[https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/t2038\\_ind/t2038-ind-09e.pdf](https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/t2038_ind/t2038-ind-09e.pdf)