



The Elephant Not in the Room

Let the election campaign begin! Yesterday afternoon, Prime Minister Harper and Finance Minister Joe Oliver announced several wide-ranging changes to benefits for Canadian families with children. These changes will figure prominently in the Conservative platform as we approach the upcoming federal election – whose date is uncertain but will likely occur after July 2015 when the new measures are slated to take effect.

Because the new benefits will be paid retroactively, the first cheque will be substantial, possibly giving Canadian families the false impression that subsequent payments will be equally large. Cheque-casher beware.

There was some good news in yesterday's announcement.

First, the ill-advised income-splitting scheme for two-parent families with one earner went ahead – but in a scaled-back version. This tax cut aims at reducing income taxes for one-earner families with children under age 18. It will shift taxable income (up to a limit of \$50,000) from the parent in a higher tax bracket to the spouse in a lower bracket (who traditionally is not in

the labour force or works part time). As a result, the higher-income parent will pay less tax while the lower-income spouse will pay more tax. Overall, the family's total tax bill will be reduced.

Family income splitting is a costly (about \$2 billion) and regressive tax scheme that will give little or nothing to most families, notably single parents and lower-income households, and most to the well-off. But it could have been worse.

There will be a \$2,000 cap on the tax windfall that any given family can claim under the new scheme. While there was little hope that the Conservatives would back-pedal on their flagship election promise, at least they backed off – a bit.

Second, the non-refundable Child Tax Credit was axed. It will not be missed, in part because few Canadians ever heard of it. It is costly at \$1.8 billion and provides a flat-rate tax savings to families at all income levels – except the poor, who do not qualify for it because they pay little or no income tax. Good riddance to this policy dinosaur.

Third, the Prime Minister and Finance Minister reiterated their commit-

ment to help hard-working middle-income families. That is a laudable objective, which we fully support. Unfortunately, the measures that they propose will do little to meet this important goal.

For one thing, even a scaled-back version of the income-splitting proposal confers its greatest benefit on families that are relatively well-off. They will gain a maximum \$2,000 in income tax savings, while Canadian households that do not benefit from income splitting will receive only an extra \$60 a month (\$720 a year) from the enhanced Universal Child Care Benefit announced yesterday.

The Universal Child Care Benefit for children under age 6 will increase from \$1,200 to \$1,920 a year. The program also will expand to pay \$720 a year for children ages 6 to 17. The total net cost of these changes will be a substantial \$2.6 billion.

But the Universal Child Care Benefit has its weaknesses. It is not indexed to the cost of living, so loses value each year. Despite its name, it is not tied to spending on child care. It is taxable, so is worth less at income tax time than its gross payment. The provinces and territories also tax the Universal Child Care Benefit, which further reduces its actual after-tax value.

Even with the modest improvements in yesterday's announcement, the Universal Child Care Benefit is still too small to represent a meaningful contribution toward the purchase of high-quality affordable child care. The new billion-dollar package could be better invested in a supply of child care that includes a wide range of arrangements. A government-financed scheme does not automatically mean that there is only one

type of child care arrangement. But it does mean that there is a public commitment to the quality of that service.

The Child Care Expense Deduction was enhanced by \$1,000. It will rise from its maximum \$7,000 to \$8,000, payable on behalf of children ages under 7, and from \$4,000 to \$5,000 for children ages 7 to 16. Some of this increase effectively will go to offset losses due to the fact that the deduction has been frozen since 1988 and not indexed.

In our view, this deduction should not be *expanded* – it should be *extracted* from the tax system entirely. If there were ever a child benefit that helped higher-income households, this is it. Higher-income taxfilers are more likely to claim it, they deduct more and they enjoy larger federal and provincial/territorial income tax savings because it reduces their taxable income. Moreover, the annual \$955 million spent on this tax goody for the well-off could be redirected toward high-quality child care for all Canadian families with children.

A lot of policy change, for sure, but its total estimated \$4.6 billion net cost still will deliver cash and tax cuts to better-off families, less to the middle class and least to low-income families.

There is a much better and simpler route to reform: Boost the Canada Child Tax Benefit, Canada's biggest and best child benefit. It is virtually absent from the current policy debate, the elephant not in the policy room.

The Canada Child Tax Benefit is an elegantly designed benefit that is paid to all low- and middle-income Canadian families

with children. Here's the formula: The less you earn, the more you get. It is simple, efficient and powerful as both anti-poverty measure and economic boost to middle-income households. It is not taxed, so what families see is what they get. A monthly benefit, it pays the same amount to families with the same income and of all types, whether one-income households, two-income households or single parents.

The small amounts that were promised to all Canadian families in yesterday's announcement, taken together, carry a multi-billion dollar price tag. These funds could have been far better spent on Canada's flagship benefit for children, the Canada Child Tax Benefit, which has been orphaned by

this federal government but is, without question, the strongest building block in the income security foundation for Canadian families.

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