

CALEDON



INSTITUTE OF  
SOCIAL POLICY

# **A \$5,000 Canada Child Tax Benefit: Questions and Answers**

*by*

**Ken Battle**

**January 2008**

**A \$5,000 Canada Child Tax Benefit:  
Questions and Answers**

*by*

**Ken Battle**

**January 2008**

Copyright © 2008 by The Caledon Institute of Social Policy

ISBN 1-55382-269-2

Published by:

Caledon Institute of Social Policy  
1390 Prince of Wales Drive, Suite 401  
Ottawa, ON K2C 3N6  
CANADA

Phone: (613) 729-3340  
Fax: (613) 729-3896  
E-mail: [caledon@caledoninst.org](mailto:caledon@caledoninst.org)  
Website: [www.caledoninst.org](http://www.caledoninst.org)

## ***What are ‘child benefits’?***

Cash payments on behalf of children, delivered either in the form of cheques or income tax reductions. Both the federal and provincial/territorial governments provide child benefits of various kinds.

## ***What are the objectives of child benefits?***

1. to help reduce child poverty (poverty reduction)
2. to help parents with the cost of raising children (parental recognition).

## ***What child benefits does the federal government provide?***

Ottawa offers three child benefit programs: The Canada Child Tax Benefit (CTTB), the Universal Child Care Benefit (UCCB) and the non-refundable child tax credit (CTC).

## ***Who is eligible for federal child benefits?***

The Canada Child Tax Benefit pays monthly benefits to the large majority of families with children under 18, excluding only those living in high-income families (e.g., for one or two children, net family incomes over \$101,328).

The Universal Child Tax Benefit pays monthly benefits to all children age 5 and under.

The non-refundable child tax credit pays an annual federal income tax reduction to the large majority of families with children, excluding only those with low incomes (e.g., for an Ontario single parent with one child, those with net family incomes below \$19,000).

## ***How much do federal child benefits pay?***

The Canada Child Tax Benefit pays a maximum amount of \$3,271 per year (for July 2007 through June 2008) for the first child, \$3,041 for a second child and \$3,046 for a third and each additional child. Maximum benefits go to families with net incomes under \$20,883, and payments decline gradually as incomes increase above that level.

The Universal Child Tax Benefit pays \$1,200 per year for each child 5 and under. However, the UCCB is subject to both federal and provincial/territorial income taxes, so most families end up with less than \$1,200 after they have paid income taxes on their benefits.

The non-refundable child tax credit is worth \$300 in federal income tax savings per eligible child under 18.

### ***What is wrong with the federal child benefits system?***

1. It is stealthy.

Most families that qualify for the Universal Child Care Benefit do not end up with the much-touted “\$1,200 per child” because they have to pay federal and provincial/territorial income taxes on their benefit. For example, the after-tax UCCB for a Manitoba two-earner couple with net family income of \$60,000 and two children (one under 6 and thus receiving the UCCB) is \$889 after factoring in federal and Manitoba income taxes payable on benefits.

The Canada Child Tax Benefit’s young child supplement (\$249) was eliminated to help pay for the UCCB. Few of the families that received the supplement – most of them lower-income – would be aware of this loss.

Despite its name, the Universal Child Care Benefit is really just a child benefit, not a child care benefit. Families can use the money as they see fit, whether for child care or some other purpose.

When it was introduced in the 2007 federal Budget, the non-refundable child tax credit was advertised as being worth “\$2,000” per eligible child. The Budget goes on to acknowledge that the actual value of the “\$2,000” child tax credit is \$2,000 times the lowest tax rate of 15 percent, but leaves readers to do their own math – the missing answer is \$300.

2. It is inequitable.

The actual (after-tax) value of the Universal Child Care Benefit varies according to family type; one-parent families, one-earner couples and two-earner couples with the same income get different benefits. Moreover, families with the same net income but living in different provinces and territories end up with different after-tax benefits because their UCCB is subject to variable provincial/territorial income tax regimes (with different tax brackets, rates and credits).

All non-poor families receive the same \$300 per child from the non-refundable child tax credit, including the very rich. Some low-income families with a low federal income tax liability (between \$299 and \$1) get a smaller tax savings, while the poorest get nothing at all because they do not owe income tax.

3. It is complex and difficult to understand.

The three federal child benefit programs each operate differently, with different effects.

The Canada Child Tax Benefit sends out monthly payments – on behalf of children under 18 – that vary according to the family’s net income, with benefits declining as incomes increase. Benefits are not taxable, so families keep what they get. Benefits are the same for all types of families – single parents, one-earner couples and two-earner couples with the same net income.

The Universal Child Care Benefit sends out monthly payments – on behalf of children under 6 – that are the same for recipient families at all income levels. However, the UCCB is subject to federal and provincial/territorial income taxes, so its value declines as the marginal tax rate of the lower-income parent in the cases of couples, or the single parent, increases. After-tax benefits also differ according to family type and province/territory.

The non-refundable child tax credit delivers annual payments – on behalf of children under 18 – in the form of a federal income tax reduction at income tax time. For most recipients, benefits are worth \$300 per child; for families owing federal income tax under \$300, the value of the child tax credit is equal to the amount of income tax owing (e.g., \$250 for families owing \$250 in federal income tax). Families with incomes so low that they do not owe income tax get nothing from the non-refundable child tax credit.

### ***Why is the Canada Child Tax Benefit the best federal child benefit program?***

1. It is a non-stigmatizing, inclusive social program that delivers monthly cash benefits to the large majority of Canadian families across the country.
2. It is ‘portable,’ providing a stable and assured supplement to income no matter where families live or work (or do not work, in the case of families receiving Employment Insurance, social assistance or other such sources of income).
3. It is a progressive program, paying benefits that decline as family incomes increase. It pays the same amount to all families with the same net income, regardless of the sources of that income, the province or territory in which they live or the type of family. All low-income families receive the same maximum benefit from the Canada Child Tax Benefit, whether their major source of income is work, welfare or whatever.
4. The Canada Child Tax Benefit is such a well-designed, effective and efficient social program that it has been expanded over the years to add the Child Disability Benefit and is used to help deliver the Canada Learning Bond. A number of provinces and territories use the Canada Child Tax Benefit’s delivery machinery to operate their own income-tested child benefits, which generates administrative savings.

## ***What is the proposed \$5,000 Canada Child Tax Benefit?***

Our proposal would do away with the Universal Child Care Benefit and non-refundable child tax credit, using the resulting sizeable savings to build a stronger and more effective Canada Child Tax Benefit worth a maximum \$5,000 per child.

The Canada Child Tax Benefit has two parts. The basic benefit goes to the large majority of families, poor and non-poor, while the National Child Benefit Supplement is paid only to low-income families.

Our proposal would raise the Canada Child Tax Benefit's maximum amount from the current \$3,271 (for the first child) to \$5,000 by increasing the basic benefit to \$3,012 for the first child, \$3,242 for the second child and \$3,327 for the third and each additional child. A maximum \$5,000 child benefit would go a long way to meeting the cost of raising a child in a low-income family, and has been supported by social advocacy groups.

The reason for these proposed variations in the basic benefit is that the maximum National Child Supplement (NCBS) – the portion of the CCTB targeted to low-income families – is \$1,988 for the first child, \$1,758 for the second child and \$1,673 for the third and each additional child. Because we want to augment payments to non-poor as well as low-income families, we put our increase on the base benefit (which goes not only to low-income families, but also to the large majority of non-poor families) rather than the targeted-to-the-poor NCBS. Adding our enhanced base benefit to the current NCBS produces a total maximum payment of \$5,000 for every eligible child under 18, regardless of his or her order in the family.

## ***Why is the proposed \$5,000 Canada Child Tax Benefit designed to increase child benefits for most non-poor families?***

Canada should not continue to boost child benefits for low-income families only. A mature and effective child benefits system must better serve both the poverty reduction and parental recognition objectives.

Limiting future increase in child benefits to low-income families would further widen the child benefits gap between poor and non-poor families, and would be particularly unfair to modest-income families with incomes above the poverty line but below the average, which also struggle to raise their children. It could create a 'poverty wall' (a variant of the welfare wall), since families that manage to move from a low income to a modest income would suffer a sharp reduction in their child benefits that could leave them little better off – if not worse off – than when they were below the poverty line.

The proposed \$5,000 Canada Child Tax Benefit would increase child benefits not only for low-income families, but also for the large majority of non-poor families.

### ***How much would the proposed \$5,000 Canada Child Tax Benefit cost?***

The federal government currently spends \$9.5 billion on the Canada Child Tax Benefit, \$2.1 billion on the Universal Child Tax Benefit (net of federal income tax) and \$1.5 billion on the non-refundable child tax credit, for a total of \$13.1 billion.

We would abolish the Universal Child Care Benefit and non-refundable child tax credit and use the resulting savings to help build a stronger \$5,000 Canada Child Tax Benefit.

The proposed \$5,000 Canada Child Tax Benefit would cost an estimated \$17 billion. Thus the net cost of the proposal – factoring in expenditures on the three current programs, which would be replaced by the larger Canada Child Tax Benefit – would amount to about \$4 billion. In other words, it would require an additional \$4 billion over what Ottawa now spends to finance the bigger and better child benefit. This increased investment could be phased in over time, as has been the case for previous enhancements to the Canada Child Tax Benefit.

### ***What impact would the proposed \$5,000 Canada Child Tax Benefit have on poverty?***

The proposed \$5,000 Canada Child Tax Benefit would have a significant impact on poverty.

If there were no federal child benefits, the low-income rate for families with children would be 15.0 percent (i.e., 15.0 percent of all Canada's children would be in low-income families). Under the current system of federal child benefits, the low-income rate for families with children is 9.3 percent. Our proposal would reduce that figure further to 8.3 percent.

Without federal child benefits, there would be an estimated 566,600 low-income families with children; that number is 352,800 under present federal child benefits and would fall to 312,800 under our proposed \$5,000 Canada Child Tax Benefit.

The average depth of poverty for families with children, \$10,159 in the absence of federal child benefits, is \$7,546 under the current system and would be \$7,153 under our option.

### ***What impact would the proposed \$5,000 Canada Child Tax Benefit have on the incomes of low-income families?***

Substantial increases to federal child benefits in recent years have enabled them to contribute a growing share of income over the years for poor families. The proposed \$5,000 Canada Child Tax Benefit would lift that percentage even higher.

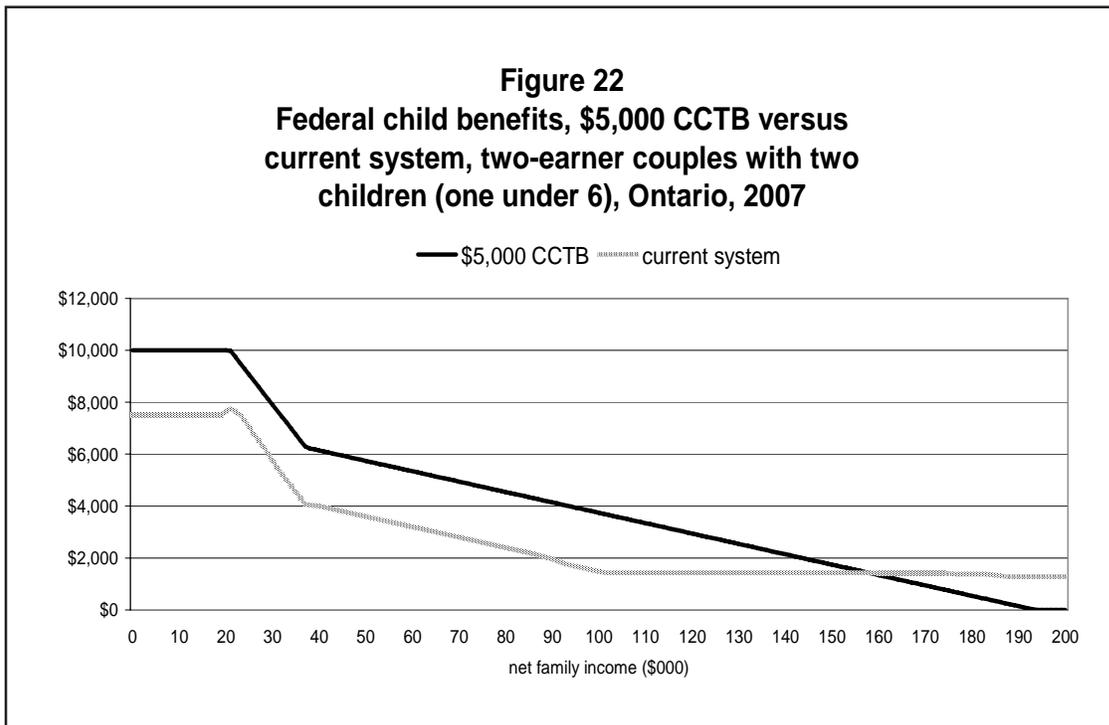
For a single parent in Ontario with one child under 6 and earned income of \$15,000, federal child benefits rose from 15.0 percent of income in 1993 to 15.8 percent in 1988, 22.1 percent in 2005 and 29.8 percent in 2007. Under the proposed \$5,000 Canada Child Tax Benefit, the 2007 rate would reach 33.3 percent – one-third of earnings.

For two-earner couples in Ontario earning \$25,000 and with two children, one under 6, federal child benefits went from 11.7 percent of earned income in 1993 to 12.6 percent in 1998, 21.3 percent in 2005 and 28.2 percent in 2007. If the proposed \$5,000 CCTB were in place, it would constitute a very substantial 40.0 percent of that working poor family’s income.

***How would the proposed \$5,000 Canada Child Tax Benefit compare to the current child benefits system?***

Figure 22, taken from the full report (*A Bigger and Better Child Benefit: A \$5,000 Canada Child Tax Benefit*), compares child benefits for two-earner couples living in Ontario with two children (one under 6) under the proposal with the current system.

The proposed \$5,000 CCTB would pay higher benefits to the large majority of families, ending at a relatively high net family income of \$193,000, making it a quasi-universal program. The



current system is fully universal, paying upper-income families in this example (i.e., two-earner couples with two children) a minimum of \$1,279.

The proposed \$5,000 Canada Child Tax Benefit option would deliver larger benefits up to net family income of \$156,000, above which the current system pays more. Under the \$5,000 CCTB, gains for most two-child two-earner families would range between \$1,900 and \$2,488, though the increases would tail off above \$110,000 and end at \$156,000.

Table A shows the same results but for select income levels, indicating resulting gains and losses from the proposal. Two-earner couples with two children (one under 6) with incomes up to

<p align="center"><b>Table A</b>  <b>Federal child benefits, \$5,000 CCTB option</b>  <b>versus current system, two-earner couples with</b>  <b>two children (one under 6), Ontario 2007</b></p>			
net family income	current system	\$5,000 option	change
\$	\$	\$	\$
0	7512	10000	2488
10,000	7512	10000	2488
20,000	7646	10000	2354
30,000	5745	7903	2158
40,000	4001	6141	2140
50,000	3601	5741	2140
75,000	2601	4741	2140
100,000	1479	3741	2262
150,000	1426	1741	315
200,000	1279	0	-1279

\$100,000 would see significant improvements in their child benefits, generally more than \$2,000. High-income families at \$200,000 would get nothing and so would suffer a \$1,279 loss in their child benefits.

### *A win-win proposition*

The proposed reform would boost federal child benefit payments to \$5,000 for every child in low-income families, covering much of the basic cost of raising a child in a poor family and significantly reducing the extent of poverty. It also would improve child benefits for the large majority of non-poor families, which have modest or middle incomes.

Finally, after close to a century of development, Canada would have a strong and mature child benefit system that would both significantly reduce poverty and provide greater financial recognition for families' child-rearing responsibilities.