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Beneath the Budget of 2009: taxes and benefits

by

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Introduction

The 2009 federal Budget made changes to support for the working poor, child benefits and income tax. Our response to the Budget, *The Red-Ink Budget*, discusses these measures amongst many others. This short paper looks in more detail at the nuts and bolts underlying the changes to the Working Income Tax Benefit, Canada Child Tax Benefit and the personal income tax system, focussing on their distributional impact.

From WITB Lite Towards WITB Right: support for Canada's working poor

The 2009 federal Budget increased assistance to Canada's working poor. Ottawa will boost the Working Income Tax Benefit (WITB), a refundable tax credit launched in the 2007 Budget. This improvement will address two of the key weaknesses of the original program – its lean payments and its exclusion of full-time workers earning low wages.

objectives

The Working Income Tax Benefit has two major objectives – to reduce disincentives to work for Canadians recipients stuck behind the welfare wall, and to enhance incentives to employment among the working poor.

The term 'welfare wall' refers to the conundrum that some welfare recipients can end up worse off financially if they leave social assistance for the workforce. They may forfeit cash benefits for spouses and allowances for children; special benefits; and valuable services such as supplementary health, dental and drug benefits, subsidized housing and access to supports for recipients with disabilities. They see their typically low earnings from work reduced by federal and provincial/territorial income taxes and payroll taxes (Canada and Quebec Pension Plan contributions and Employment Insurance premiums). And they face work-related expenses such as clothing, transportation and child care.

The Working Income Tax Benefit aims at lowering the welfare wall by supplementing low earnings from employment to help 'make work pay,' to use the British term. WITB helps social assistance recipients make the often difficult move from welfare to work by topping up their low earnings.

A wage supplementation program like the Working Income Tax Benefit should be directed not only to social assistance recipients leaving welfare for work, but also to the many working poor families and individuals who never or rarely turn to social assistance. Close to half (44 percent) of low-income households in Canada include at least one working poor adult [Fortin and Fleury 2004] and just over one-third (34 percent) of poor kids are in families with at least one parent working full-time year-round [Campaign 2000: 2006]. About one in four workers earn $10 an hour or less.

The other aim of the Working Income Tax Benefit is to increase incentives for people to join the workforce, keep working (even for low earnings), and not have to fall onto the tangled safety net of welfare. Some of these workers eventually will be able to climb the earnings ladder and escape poverty.

flexibility in design

One of the strengths of the Working Income Tax Benefit is its effort to fit with individual provincial and territorial income security systems that serve both the working poor and welfare recipients.

The provinces and territories have the option of harmonizing the design of the Working Income Tax Benefit with their particular income security programs (e.g., welfare earnings supplements, wage supplements and minimum wages) and policy priorities. This is not a new idea: The old family allowances program permitted and the current Canada Child Tax Benefit allows for some variations in benefits in each province and territory.

Variations in the design of WITB must be consistent with several principles. They must build on actions taken by the province or territory to improve work incentives for low-income residents; be cost-neutral to the federal government; provide for a minimum benefit level for all WITB recipients; and preserve harmonization of WITB with existing federal programs [Department of Finance Canada 2007: 378-379]. In our response to the 2007 Budget [Battle et al. 2007], the Caledon Institute applauded this flexibility feature – which we had recommended in a *Globe and Mail* op ed [Battle and Mendelson 2005] when the idea for a Working Income Tax Benefit was first floated in the Liberal government's 2005 Economic Statement.

To date, three jurisdictions – BC, Nunavut and Quebec – have taken up the federal offer and reconfigured WITB for their low-wage workers. To help explain these differences, we give the design parameters in Tables A and B, which show WITB for single workers and families, respectively.

We begin with the standard version of WITB in 2008. All provinces and territories with the exception of BC, Nunavut and Quebec have elected to keep to the standard configuration.

Table A shows that, under the standard version, the 2008 WITB for single recipients phased in at the rate of 20 percent of employment earnings over $3,000; persons with earnings below $3,000 were not eligible for benefits. The maximum payment, $510, began once earnings reached $5,550 and extended to $9,681, above which payments declined at the rate of 15 percent over net family income of $9,681 to end at $13,081.

BC varied this configuration somewhat. WITB for single recipients phased in at the rate of 17 percent of employment earnings over $4,750; individuals earning under $4,750 were not eligible. The maximum benefit, $800, began once earnings reached $9,456 and extended to

Table A Working Income Tax Benefit, single persons, standard configuration versus BC, Nunavut and Quebec, 2008				
	standard	BC	Nunavut	Quebec
earnings threshold	$3,000	$4,750	$8,500	$2,400
phase-in rate	20%	17%	4%	12%
maximum benefit	$510	$800	$438	$887
begins	$5,550	$9,456	$19,450	$9,792
ends	$9,681	$9,681	$20,380	$10,421
income threshold	$9,681	$9,681	$20,380	$10,421
reduction rate	15%	17%	3.5%	20%
benefits disappear	$13,081	$14,387	$32,894	$14,856

$9,681, above which payments diminished at the rate of 17 percent over net family income of $9,681 to end at $14,387.

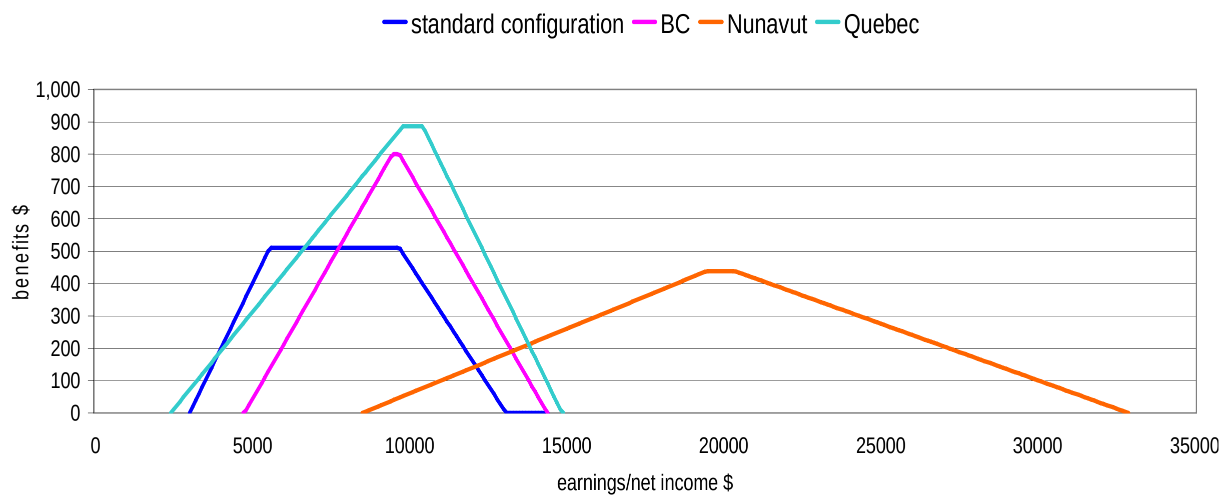
Nunavut varied its Working Income Tax Benefit the most. WITB for single recipients phased in at the rate of only 4 percent of employment earnings over $8,500; individuals earning less than $8,500 were not eligible. The maximum benefit, $438, began once earnings reached $19,450 and extended to $20,380, above which payments fell at the rate of 3.5 percent over net family income of $20,380 to end at $32,894.

Quebec also varied the standard version of WITB. WITB for single individuals phased in at the rate of 12 percent of employment earnings over $2,400; individuals earning under $2,400 were not eligible. The maximum benefit, $887, began once earnings reached $9,792 and extended to $10,421, above which payments declined at the rate of 20 percent over net family income of $10,421 to end at $14,856.

These design details are difficult to digest until translated into a graph illustrating the pattern of benefits for each configuration at different income levels. Figure 1 compares the picture for single workers under the four designs in 2008.

The BC and Quebec configurations are rather similar variations on the standard design. They both paid a higher maximum amount ($887 in Quebec and $800 in BC) as opposed to $510 under the standard scheme. Unlike the standard WITB, which resembles a plateau – maximum benefits were distributed fairly widely, from $5,550 to $9,681 – the Quebec and BC versions of WITB look like a teepee: This design likely was necessary for cost reasons, because they paid a higher maximum amount than the standard configuration and so could not afford as many recipients receiving the maximum benefit.

Figure 1
WITB for single persons, standard configuration versus BC, Nunavut and Quebec, 2008



Both the BC and Quebec versions of WITB were planted higher up the income scale, presumably in an attempt to help more low-wage workers with a more secure attachment to the workforce; the standard WITB ended sooner and so was more targetted to part-time earners. Under BC's configuration, maximum benefits were paid significantly higher up the earnings ladder – they began at $9,456 and eligibility for WITB ended at $14,387, as opposed to $5,550 through $13,081 under the standard configuration.

BC's WITB had a higher earnings threshold than the standard version ($4,750 as opposed to $3,000), whereas Quebec's earnings threshold was a bit lower ($2,400). BC's higher earnings threshold was intended, along with its larger maximum payment and higher reach, to provide incentives to full-time as opposed to part-time work, the latter often in concert with welfare. The BC government states its reasons as follows [BC 2008]:

> *We reached agreement with the federal government to redesign the new Working Income Tax Benefit for BC to better help families moving off of income assistance to full-time work. The maximum benefit in BC is higher and is paid to a higher level of annual earnings than under the federal parameters used in other provinces.*

Nunavut is the outlier in WITB design, as is clearly shown in Figure 1. It began higher up the earnings scale, at $8,500 as opposed to the standard configuration of $3,000. It phased in much more slowly, at the rate of 4 percent of earnings above $8,500 in contrast to the standard version's 20 percent. Nunavut's maximum benefit was lower ($438 versus $510 under the standard version, $800 in BC and $887 in Quebec) and was reached at a much higher level –

Table B Working Income Tax Benefit, families with one child under 6, standard configuration versus BC, Nunavut and Quebec, 2008				
	standard	BC	Nunavut	Quebec
earnings threshold	$3,000	$4,750	$8,500	$3,600
phase-in rate	20%	17%	8%	8%
maximum benefit	$1,019	$1,422	$876	$916
begins	$8,095	$13,115	$19,450	$15,050
ends	$14,776	$13,247	$25,475	$16,004
income threshold	$14,776	$13,247	$25,475	$16,004
reduction rate	15%	17%	7%	20%
benefits disappear	$21,569	$21,612	$37,989	$20,579

$19,450, versus $5,550 in the standard design, $9,456 in BC and $9,792 in Quebec. Eligibility for WITB in Nunavut ended at a relatively high $32,894 – double the territory's $15,096 minimum wage income in 2008 – that was much higher than the others ($13,081 in the standard version, $14,387 in BC and $14,856 in Quebec).

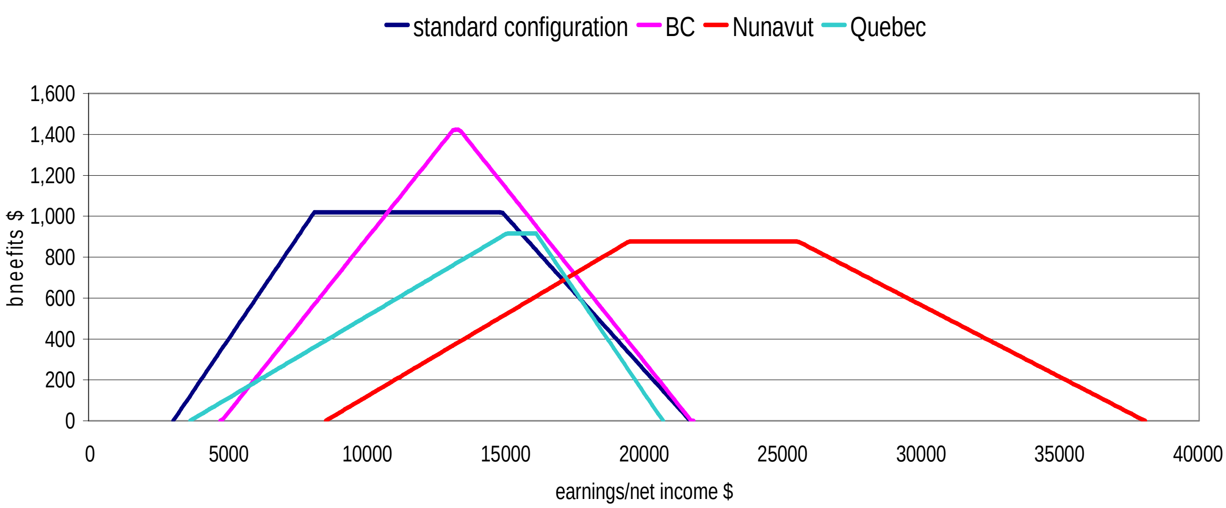
Nunavut's WITB appears designed to provide an earnings supplement to workers with low or modest earnings and a strong attachment to the labour force. It also must take into account the fact that Nunavut and the other territories pay the highest social assistance rates in Canada, which means that making work pay better than welfare requires a WITB that delivers its benefits higher up the earnings scale.

Table B gives the 2008 design parameters for the four versions of WITB for families, in this case families with one child under 6. The Universal Child Care Benefit is excluded from net family income for purposes of calculating WITB, so we have taken this feature into account and assumed the families have one child under 6 and thus receive the Universal Child Care Benefit. Quebec configured its WITB for single parents the same as for single persons, so Table B gives the amounts in Quebec for couples with a child. Note that WITB is also payable to childless couples.

Figure 2 compares WITB payments to families at different earnings levels under the four configurations. The picture is broadly similar to that for single recipients, in that the standard, BC and Quebec versions of WITB were situated lower on the earnings range than Nunavut's. But there are some differences when comparing WITB for families and singles.

For families, the highest benefit ($1,422) went to families in BC, followed by the standard version ($1,019), Quebec ($916), and Nunavut ($876). The standard, BC and Quebec WITBs ended around the same net family income level ($21,569 standard, $21,612 BC and $20,579 Quebec). The standard and Nunavut versions produce a plateau shape (maximum payments go to a wider range of recipients), while BC and Quebec are teepee-shaped and so deliver their maximum benefit to a small proportion of recipients.

Figure 2
WITB for families, standard configuration versus BC, Nunavut and Quebec, 2008



Nunavut paid the lowest benefit (a maximum $876) but covered a much broader range of recipients, their earnings ranging between $8,500 and $37,989. So the Nunavut version of WITB extended beyond the working poor to help families with modest incomes.

WITB's first two years: lean and limited

While promising in theory, the Working Income Tax Benefit launched in the 2007 Budget was geared more to the goal of helping recipients get over the welfare wall than aiding low-income Canadians already in the workforce.

In 2008 WITB provided a modest $510 maximum payment annually to single workers with such low earnings that they could only be employed part time or part year. Benefits phased in above earnings of $3,000 at the rate of 20 percent, so that the $510 maximum was paid between incomes of $5,550 and $9,861 – meagre earnings indeed. Above $9,861 benefits were reduced at the rate of 15 percent, so that eligibility for WITB ended at the low level of $13,081 in net income.

We explained above that Quebec, BC and Nunavut have taken up the federal offer to vary their WITB configuration. Quebec's maximum amount for single workers was $887 in 2008 (versus $510 for the standard configuration); BC paid up to $800; and Nunavut's maximum was $438.[1]

In most of the provinces and territories, single persons working full time at the minimum wage did not qualify for any benefits from the Working Income Tax Benefit in 2008. In Manitoba, for example, eligibility for WITB in 2008 ended at $13,081, which is $1,793 below the $14,874 annual income for someone working full-time year-round at the minimum wage (assuming 37 hours a week for 48 weeks). The picture is the same for most of the other jurisdictions. WITB eligibility ended below minimum wage in Newfoundland (by $924), PEI (by $794), Nova Scotia ($1,009), New Brunswick ($461), Ontario ($2,126), Saskatchewan ($1,985), Alberta ($1,660), Yukon ($2,064) and the Northwest Territories ($1,571).

There are three exceptions to this pattern – the jurisdictions that vary WITB. In Quebec, eligibility for WITB ended at $14,856 (somewhat higher than the $13,081 standard amount) or $56 above the province's $14,800 minimum wage earnings in 2008. In BC, which also varies its WITB configuration, eligibility for the program ended at $14,387, which is $179 above the province's $14,208 minimum wage earnings. The outlier is Nunavut, which redesigned WITB to provide benefits much higher up the income scale. Eligibility for WITB in Nunavut ended at a relatively high $32,894 in 2008, a hefty $16,910 above the $15,984 minimum wage earnings.

Note that the working poor include not just minimum wage workers, but also Canadians earning more than the minimum wage but not enough to raise them above the poverty line. Virtually none of these above-minimum wage but still-poor workers qualified for WITB in 2008.

To qualify for the maximum payment from WITB, in the large majority of jurisdictions single workers must be working only part time or part year. Single workers earning an income equal to three-quarters of the annual minimum wage income – in the $10,500 to $12,000 range – qualified for WITB in 2008 but received less than the maximum payment. Their benefits ranged from $251 in Ontario to $634 in BC. This is not much of a wage supplement.

In 10 of the 13 jurisdictions, a single person earning an income equal to half of annual minimum wage income for 2008 qualified for the maximum benefit in 2008; we are talking about very low earnings – ranging from a low of $6,938 in PEI to a high of $7,604 in Ontario. The exceptions are the three jurisdictions that have opted to vary their WITB parameters. Quebec workers earning half the annual minimum received $600 from WITB, which is $287 short of the $887 maximum payment. In BC, workers making half of the annual minimum wage earnings received $400 from WITB, which is only half the maximum payment of $800. In Nunavut, workers whose annual income equals half of annual minimum wage income ($7,992) got nothing from WITB because the program phased in at $8,500, which is above $7,992.

WITB understandably pays more to single parents and couples than to single workers. Under the standard configuration in 2008, single parents and couples earning between $8,095 and

$14,776 received a maximum payment of $1,019, with diminishing benefits until eligibility ended at net family income of $21,569.

Quebec's WITB parameters for single parents are the same as for single persons. The maximum benefit of $887 for 2008 was payable between net family income of $9,792 and $10,421, ending at $14,856. Quebec couples received a maximum payment of $915, payable between $15,038 and $16,004 and ending at net family income of $20,579. In British Columbia, families (single parents and couples) got up to $1,422, payable at net family income between $13,115 and $13,247, and eligibility ended at $21,612. Nunavut's maximum payment of $876 went to families with net incomes between $19,450 and $25,475, and benefits ended at $37,989.

Unlike single recipients of WITB, who in most jurisdictions do not qualify for benefits if they work full time all year at the minimum wage, single parents and couples can earn the minimum wage and still receive some benefits. In fact, in 2008 eligibility for WITB ended between about $6,000 and $7,000 above the minimum wage in all jurisdictions except Nunavut, where eligibility stopped at a much higher $37,989 – $22,005 above the $15,984 minimum wage annual income.

Families earning the minimum wage full time all year qualified for the maximum WITB if they lived in Newfoundland, PEI, Nova Scotia, New Brunswick, Alberta and the Northwest Territories. Families in the rest of Canada got partial WITB benefits – $896 versus the maximum $915 in Quebec, $954 versus the maximum $1,019 in Ontario, $1,004 versus the maximum $1,109 in Manitoba, $976 versus the maximum $1,019 in Saskatchewan, $964 versus the maximum $1,109 in Yukon and $599 versus the maximum $876 in Nunavut.

Families earning three-quarters of annual income from the minimum wage received the maximum benefit everywhere except for the three jurisdictions that have reconfigured WITB. In Quebec, couples at that income level got $600 from WITB or $315 below the $915 maximum amount. BC families earning three-quarters of the annual minimum wage income got $1,004 or $418 below the maximum benefit of $1,422. In Nunavut, families at that earnings level received $279 from WITB, a sizeable $597 less than the $876 maximum payment.

Families with earnings equal to one-half of annual earnings from the minimum wage qualified for the maximum WITB in every jurisdiction except the three that vary their parameters. In Quebec, couples with such low earnings received only $304 from WITB or $611 less than the $915 maximum payment. BC families earning half the annual minimum wage income got $400 or $1,022 below the maximum benefit of $1,422. In Nunavut, families with half the annual minimum wage earnings do not qualify for WITB because their earned income ($7,992) was below the $8,500 threshold where eligibility for WITB began.

A good feature of the Working Income Tax Benefit is that it provides a supplement for low-income workers with disabilities (they must qualify for the disability tax credit). The disability supplement for single workers was a maximum $255 in 2008, payable to those with net family incomes between $3,025 and $13,007 and disappearing at $14,777. Quebec paid a maximum

$243 supplement for workers with net incomes between $2,415 and $14,859, and eligibility ended at $16,073. In BC, the maximum payment under the disability supplement was $346, which went to those with net family income between $4,785 and $14,386 and ended at $16,421. Nunavut's maximum disability supplement was $204, payable to workers with net family incomes between $8,520 and $32,899, ending at $34,259.

The disability supplement for recipients in families was also a maximum $255, payable between net family income of $3,025 and $21,569 and ending at $23,269. Quebec's maximum disability supplement, $242 for workers with net incomes between $2,410 and $20,581, ended at $21,791. The maximum payment under BC's disability supplement was $346, which went to those with net family income between $4,785 and $21,609 and ended at $23,644. Nunavut's maximum disability supplement was $204, payable to workers with net family incomes between $8,520 and $37,994, ending at $39,354.

The disability supplement for eligible single persons earning the minimum wage full time year round was less than the maximum $255 in all jurisdictions except for Quebec, BC and Nunavut, where they received the maximum benefit in 2008. Payments came to $116 in Newfoundland, $135 in PEI, $103 in Nova Scotia, $185 in New Brunswick, $242 in Quebec (the maximum), $0 in Ontario, $0 in Manitoba, $0 in Saskatchewan, $5 in Alberta, $346 in BC (the maximum), $0 in Yukon, $19 in the Northwest Territories and $204 in Nunavut (the maximum).

However, the disability supplement in 2008 for those earning three-quarters of an annual minimum wage income was the maximum amount in every province and territory, and of course also the maximum benefit for those earning half of annual minimum wage earnings. Many workers with disabilities work less than full time all year at minimum wage, so received the full disability supplement from WITB.

the 2009 Budget boosts WITB's benefits and increases its reach

The 2009 Budget boosted the Working Income Tax Benefit's payments and broadened its reach to help more of Canada's working poor.

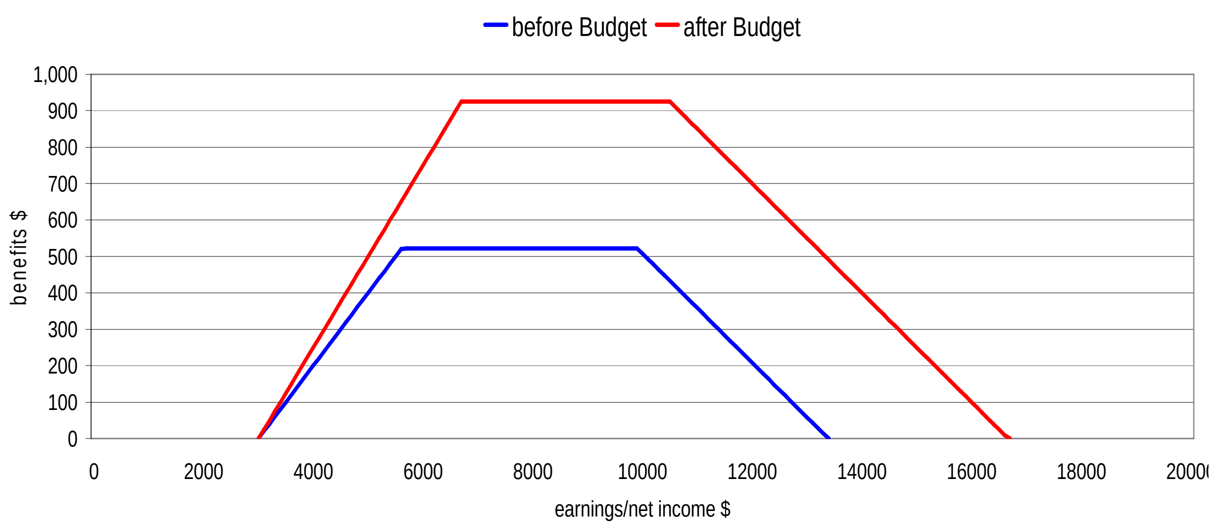
For single workers, the maximum benefit will rise from $510 in 2008 to $925 in 2009 – a large real (i.e., inflation-adjusted) increase of 77.2 percent.[2] Benefits will continue to phase in above earnings of $3,000, but will be increased at the rate of 25 percent instead of 20 percent under the current design. The maximum payment, $925, will go to workers earning between $6,700 and $10,500. Above $10,500, benefits will be reduced at the rate of 15 percent (the same as before), ending at $16,667. The net income level where eligibility for WITB ends will increase from $13,081 in 2008 to $16,667 in 2009. Note that the 2009 parameters are subject to discussion with the provinces and territories.

Figure 3 illustrates the pattern of WITB benefits for single workers before and after the Budget's proposals. The 'before' scenario shows WITB for 2009 if the federal government only had indexed the 2008 figures to the cost of living. The 'after' picture refers to WITB changes for 2009 as proposed in the 2009 Budget.

Two things stand out. Under the changes proposed in the 2009 Budget, WITB will pay substantially more to most of its beneficiaries. And the program will add more recipients, namely those workers earning between $13,389 and $16,667.

WITB now will deliver benefits to full-time workers at – and somewhat above – the minimum wage. Before the Budget, WITB would have ended below the minimum wage. Now it

Figure 3
WITB for single persons,
before and after Budget, 2009



will end above the level of full-time year-round earnings from the minimum wage, as demonstrated in Figure 4. Note that the three jurisdictions that chose to vary their WITB configuration – BC, Nunavut and Quebec – cannot be shown because we do not yet know how they will handle the new standard design.

Table C compares WITB payments before and after the Budget's changes for single recipients at three income levels in 2009 – earnings equal to the minimum wage working full time all year, earnings equal to three-quarters (75 percent) of minimum wage working full time all year, and earnings equal to one-half (50 percent) of minimum wage working full time all year. Remember that we cannot show figures for Quebec, BC and Nunavut because we do not know how they will adjust their configurations for 2009.

Figure 4
Eligibility for WITB ends, versus minimum wage, before and after Budget, single persons, by jurisdiction, 2009

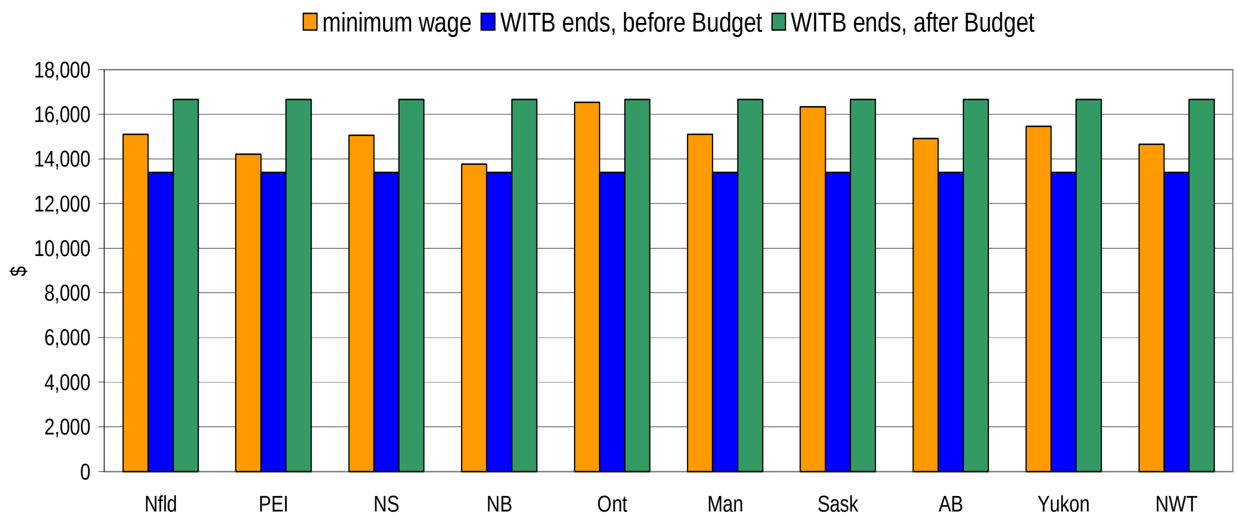


Table C
Working Income Tax Benefit, before and after Budget, single persons in three earnings groups, by province and territory, 2009

jurisdiction	full-time all-year minimum wage earnings		75% of full-time all-year minimum wage earnings		50% of full-time all-year minimum wage earnings	
	before Budget $	after Budget $	before Budget $	after Budget $	before Budget $	after Budget $
Nfld	0	236	310	802	522	925
PEI	0	369	410	902	522	925
NS	0	242	315	807	522	925
NB	0	435	460	925	522	925
Ont	0	19	148	639	522	925
Man	0	236	310	802	522	925
Sask	0	49	170	662	522	925
AB	0	262	330	822	522	925
Yukon	0	180	269	760	522	925
NWT	0	302	360	852	522	925

Single recipients working full time year round would receive nothing from WITB in 2009 in the absence of the Budget's changes. But now they will get some benefits (though below the maximum) in all jurisdictions, the amounts varying widely because of differences in minimum wages across the country.

WITB beneficiaries with earnings equal to three-quarters of full-time all-year minimum wage income will see a substantial improvement in their benefits. Their payments in 2009 before the Budget would have ranged from $148 in Ontario to $460 in New Brunswick, but thanks to the Budget's changes will go from $639 in Ontario to $925 (the maximum payment) in New Brunswick.

Singles whose earnings amount to one-half of annual minimum wage income would have received the maximum amount before the Budget ($522) and will get the maximum payment ($925) as a result of the Budget's enhancements.

However, even with the improvements proposed in the 2009 Budget, the Working Income Tax Benefit still will not reach all working poor Canadians. Take the case of a worker living in Toronto whose earnings equal the after-tax low income cut-off, an estimated $18,670 in 2009. The latter amount is $2,012 above the $16,667 level where eligibility for WITB ends. To receive the maximum benefit of $925 from WITB in 2009, the most a worker can make is $10,500 – far ($8,170) below the $18,670 level for someone earning at the poverty line.

For single parents and couples, the maximum WITB payment will rise from $1,019 in 2008 to $1,680 in 2009, for a sizeable real increase of 60.7 percent.[3] Benefits will continue to phase in above earnings of $3,000, but will be increased at the rate of 25 percent instead of 20 percent under the current design. The maximum payment, $1,680, will go to families earning between $9,720 and $14,500. Above $14,500, benefits will decline at the rate of 15 percent (the same as before), ending at $25,700. The net family income level above which eligibility for WITB ends will rise from $21,576 in 2008 to $25,700 in 2009. Figure 5 shows the distribution of WITB benefits before and after the changes made in the 2009 Budget.

As with single workers, WITB will pay substantially more to families in 2009. The program will extend to more recipients, namely those earning between $22,032 and $25,700.

Eligibility for WITB will end even higher than the minimum wage than it would have in 2009 before the Budget's changes. Figure 6 illustrates the results.

Table D gives WITB payments before and after the Budget's changes for families (i.e., single parents and couples) at three income levels in 2009 – earnings equal to the minimum wage working full time all year, earnings equal to three-quarters (75 percent) of minimum wage working full time all year, and earnings equal to one-half (50 percent) of minimum wage working full time all year. Again, we cannot show figures for Quebec, BC and Nunavut because we do not yet know how they will adjust their configurations for 2009.

Figure 5
WITB for families,
before and after Budget, 2009

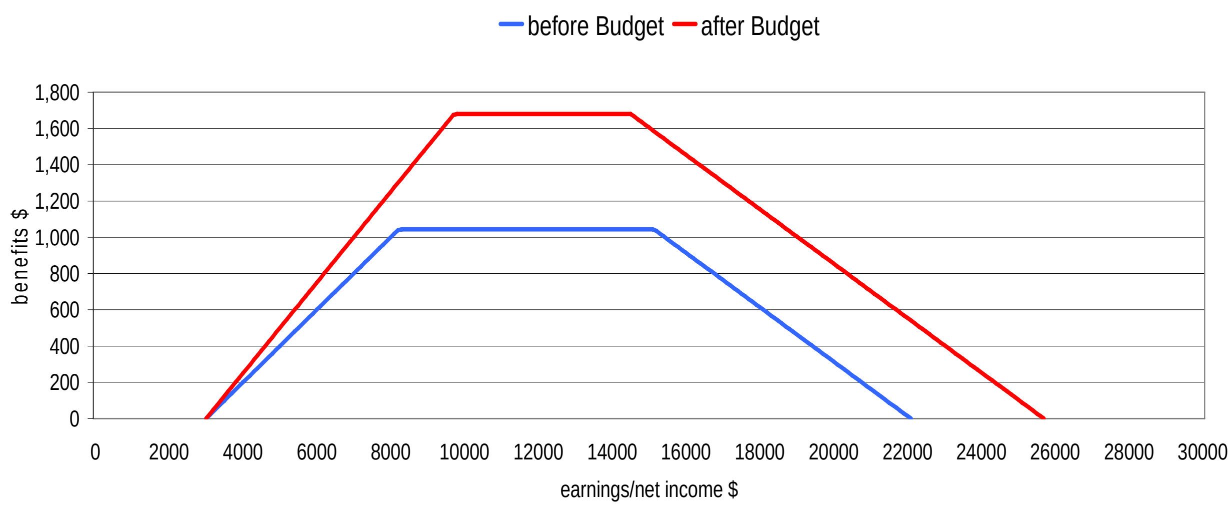


Figure 6
Eligibility for WITB ends, versus minimum wage,
before and after Budget, families, by jurisdiction, 2009

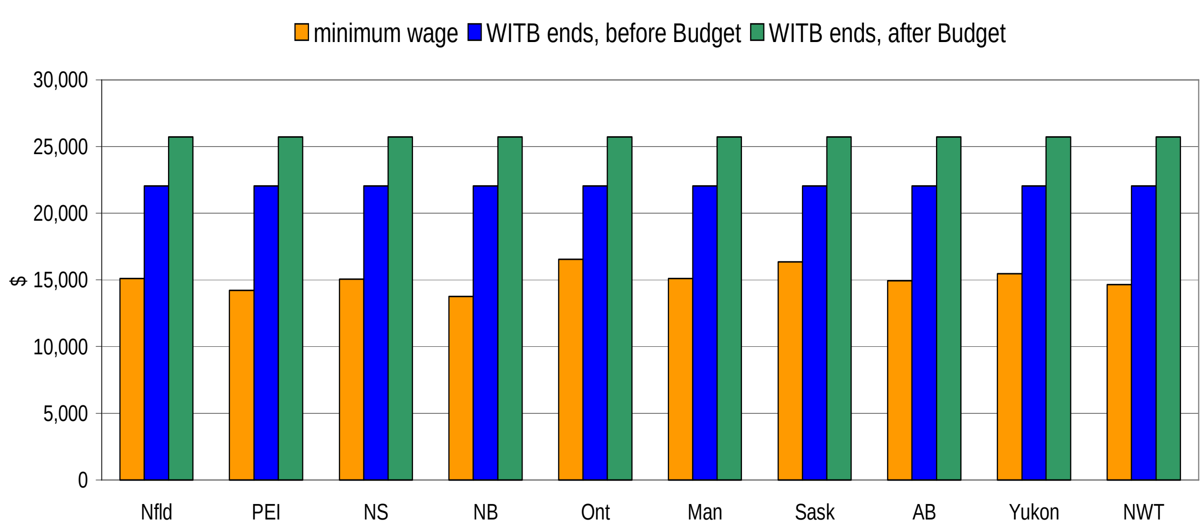


Table D Working Income Tax Benefit, before and after Budget, families in three earnings groups, by province and territory, 2009						
jurisdiction	full-time all-year minimum wage earnings		75% of full-time all-year minimum wage earnings		50% of full-time all-year minimum wage earnings	
	before Budget $	after Budget $	before Budget $	after Budget $	before Budget $	after Budget $
Nfld	1040	1591	1044	1680	910	1137
PEI	1044	1680	1044	1680	905	1026
NS	1044	1597	1044	1680	905	1132
NB	1044	1680	1044	1680	776	971
Ont	824	1374	1044	1680	1044	1318
Man	1040	1591	1044	1680	910	1137
Sask	854	1404	1044	1680	1034	1293
AB	1044	1617	1044	1680	892	1115
Yukon	985	1535	1044	1680	946	1183
NWT	1044	1657	1044	1680	865	1082

In the absence of the changes made in the Budget, families working full time year round would get payments ranging from $824 in Ontario to the maximum $1,044 in PEI, Nova Scotia, New Brunswick, Alberta and the Northwest Territories. They all will receive significantly more as a result of the Budget's changes. Benefits in 2009 after the Budget will range from $1,374 in Ontario to the maximum payment of $1,680 for PEI and New Brunswick.

All families earning three-quarters of annual minimum wage earnings receive the maximum payment before and after the Budget.

Before the Budget, WITB payments for families earning half the annual minimum wage income would have ranged from $776 in New Brunswick to $1,044 (the maximum) in Ontario in 2009. Thanks to the increases announced in the Budget, their benefits will range from $971 in New Brunswick to $1,318 in Ontario.

The WITB supplement for persons eligible for the disability tax credit will increase from $255 in 2008 to $463 in 2009. If the three jurisdictions that vary their WITB raise their supplement for persons with disabilities by the same percentage as the standard configuration, then the maximum benefits will increase from $346 to $628 in BC, from $204 to $370 in Nunavut and from $242 to $439 in Quebec.

The federal government says that close to one million individuals and families received WITB in its first year, 2007. As a result of the enhancements announced in the 2009 Budget, that figure is forecast to reach more than 1.5 million working poor Canadians in 2009. The cost will double from $555 million to $1.135 billion.

In summary, the 2009 Budget's actions to enhance the Working Income Tax Benefit – an important recent addition to Canadian social policy – are laudable. They strengthen both key aims of the program – helping welfare recipients get over the welfare wall, and supplementing the earnings of the working poor. The investment in WITB will foster economic stimulus by sending more money to more working poor Canadians.

However, as was the case with the Canada Child Tax Benefit, Ottawa should implement further improvements to WITB gradually over time. Maximum benefits should rise and the program should extend its reach higher up the income ladder so that it becomes a major income support for Canadians who work but remain poor. For those recipients who are on or just leaving welfare, Ottawa and the provinces/territories should also explore whether there are ways to more fully integrate the WITB into the phase-out of welfare benefits.

Canada Child Tax Benefit: small improvements for most families but none for the poorest

The 2009 Budget made some small albeit positive technical modifications to the Canada Child Tax Benefit. The increases are too small to have an impact as an economic stimulus or provide significantly better support to families, but are a necessary consequence of the change to the lowest income tax threshold, discussed later.

The federal government operates three child benefit programs – the Canada Child Tax Benefit (CCTB), Universal Child Care Benefit (UCCB) and the non-refundable child tax credit. These programs have been examined in detail in Caledon publications [Battle 2008].

Ottawa's child benefits system has two core purposes – to reduce poverty among families with children and to help parents with their childrearing costs. The Canada Child Tax Benefit is the largest and most important federal child benefit, delivering $9.5 billion worth of payments to around 3.9 million families on behalf of 6.8 million children under 18. So the CCTB is a powerful instrument not only in terms of reducing child poverty and supplementing the incomes of families with children, but also in its ability to deliver fiscal stimulus. Benefits are paid monthly, so the program makes a frequent infusion of cash into the hands of eligible families.

The Canada Child Tax Benefit is made up of two parts, each directed to one of the two basic aims of the child benefits system. The base Child Tax Benefit serves almost all – 9 in 10 – families and is intended to help parents with their childrearing expenses. For the current payment year (July 2008-June 2009), the maximum base Child Tax Benefit is $1,307 per child. The maximum amount of $1,307 is payable up to net family income of $37,885 – the same level as the income tax system's first tax bracket – above which benefits are reduced at the rate of two percent for one child, which means that eligibility for benefits ends at a high $103,235 in net family income (even higher in terms of gross income). For families with two or more children, benefits are reduced at the rate of four percent above net family income of $37,885 and also end at $103,235.

The National Child Benefit Supplement (NCBS) sits on top of the base Child Tax Benefit and provides an additional benefit to low- and modest-income families. Currently, the maximum amount is $2,025 for the first child, $1,792 for the second child and $1,704 for the third and each additional child. Like the base Child Tax Benefit, the NCBS is income-tested, though more steeply. Above net family income of $21,287, the NCBS is reduced at the rates of 12.2 percent for families with one child, 22.7 percent for families with two children and 27.8 percent for families with three or more children. Eligibility for the NCBS ends at the same point where the base Child Tax Benefit begins to be reduced – $37,885. The National Child Benefit Supplement is aimed at the poverty reduction goal, though the base Child Tax Benefit paid to low-income families also contributes for low-income families. Figure 7 illustrates the Canada Child Tax Benefit's two components and the overall benefit.

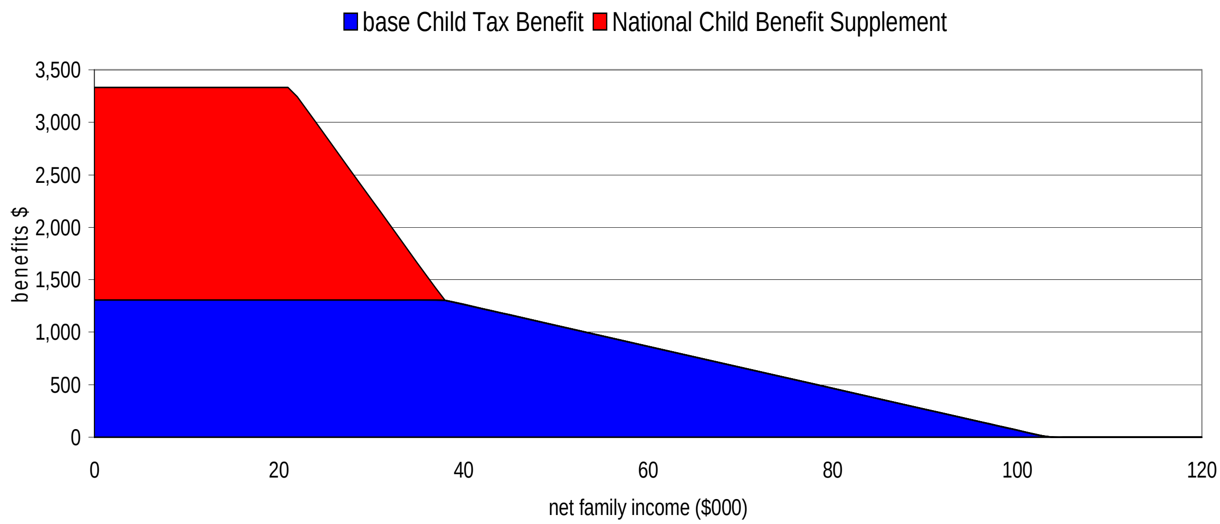
We mentioned earlier that the net family income threshold beyond which the base Child Tax Benefit is reduced is set at the same level as the first income tax bracket in order to help integrate the federal tax and benefit systems. Because the 2009 Budget raised the bottom and second tax brackets above their normal indexation adjustment, then it also increased the income threshold for the base Child Tax Benefit to the same level as the lowest tax bracket and lifted the income threshold for the National Child Benefit Supplement in the same proportion. These changes to the Canada Child Tax Benefit will take effect in the July 2009-June 2010 payment year.

Under normal indexation, the net family income threshold above which the base Child Tax Benefit is reduced would have been $38,832 in 2009; the 2009 Budget raised this to $40,726. The net family income threshold above which the National Child Benefit Supplement declines will rise from $21,926 (the 2008 number indexed for 2009) to $23,820.

These modifications will increase benefits in two ways. Because the base Child Tax Benefit will be reduced at a higher level ($40,726 instead of $38,832), more families will get the maximum benefit and fewer will get the reduced benefit. Similarly, more families will get the maximum National Child Benefit Supplement and fewer the reduced amount. And the net family income level when benefits disappear for families with one or two children will increase from $105,489 to $107,726. The impact of these changes is illustrated in the following graphs, which look at families with one and two children.

Figure 8 shows the impact of the changes to the Canada Child Tax Benefit – the base Child Tax Benefit and the National Child Benefit Supplement – for families with one child. The poorest families, with incomes below $21,000, will see no improvement in their child benefits. The large majority of families, with low, middle and high incomes, will see modest increases in benefits. Low- and modest-income families with incomes in the $25,000 to $40,000 range will

Figure 7
Canada Child Tax Benefit,
families with one child, July 2008-June 2009



enjoy the largest gains, ranging from $102 to $231. Families with net incomes over $40,000 will see very small increases ($23 for the $40,000 family and $38 for those above $40,000). Families with incomes over $107,000 do not qualify for the Canada Child Tax Benefit.

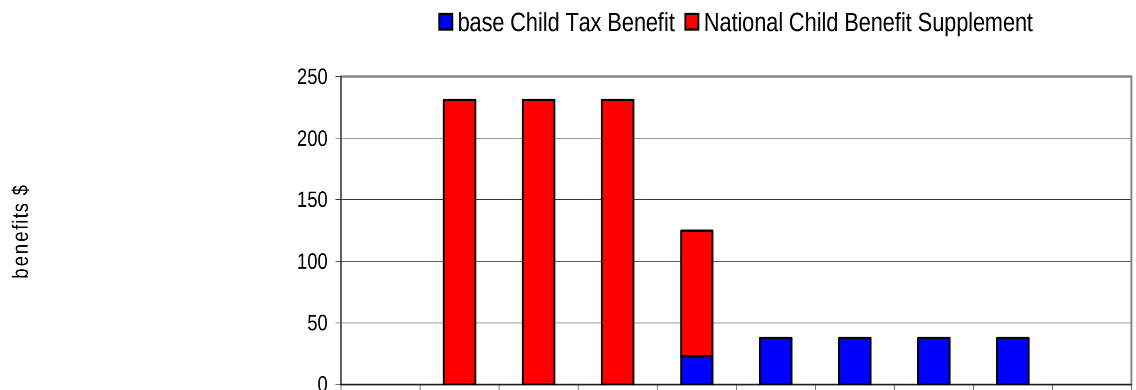
Figure 9 compares the total Canada Child Tax Benefit – i.e., from the base Child Tax Benefit and the National Child Benefit Supplement – for families with one child and incomes from $20,000 to $110,000. Relative to total benefits, the increases resulting from the 2009 Budget are small.

Figures 10 and 11 picture the results for families with two children. While the amounts differ, the overall pattern is the same as for families with one child: The poorest families see no gain, modest-income families enjoy the largest improvement (though still small relative to their total child benefits) and middle- and upper-income families receive tiny increases.

While fairly small and limited in scope, the increases in the Canada Child Tax Benefit for some lower- income families will enhance the poverty reduction objective; on the other hand, the poorest families gain nothing. The miniscule increases for middle- and high-income families constitute only a symbolic improvement in the child benefit system's capacity to help parents with their childrearing costs.

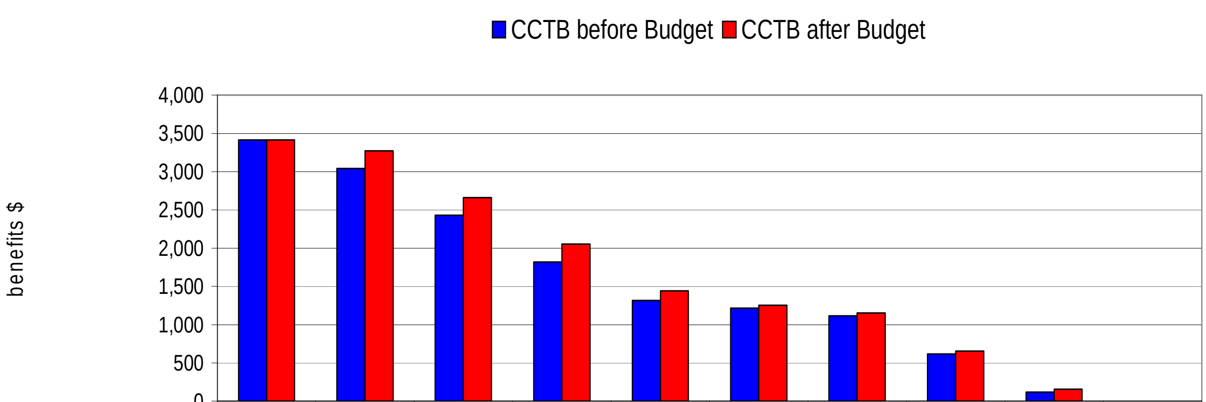
The federal government currently spends $9.5 billion on the Canada Child Tax Benefit, $2.1 billion on the Universal Child Care Benefit (net of federal income tax) and $1.5 billion on

Figure 8
Change in Canada Child Tax Benefit as result of Budget, families with one child, July 2009-June 2010



	\$20K	\$25K	\$30K	\$35K	\$40K	\$45K	\$50K	\$75K	\$100K	\$110K
National Child Benefit Supplement	0	231	231	231	102	0	0	0	0	0
base Child Tax Benefit	0	0	0	0	23	38	38	38	38	0

Figure 9
Canada Child Tax Benefit, before and after Budget, families with one child, July 2009-June 2010

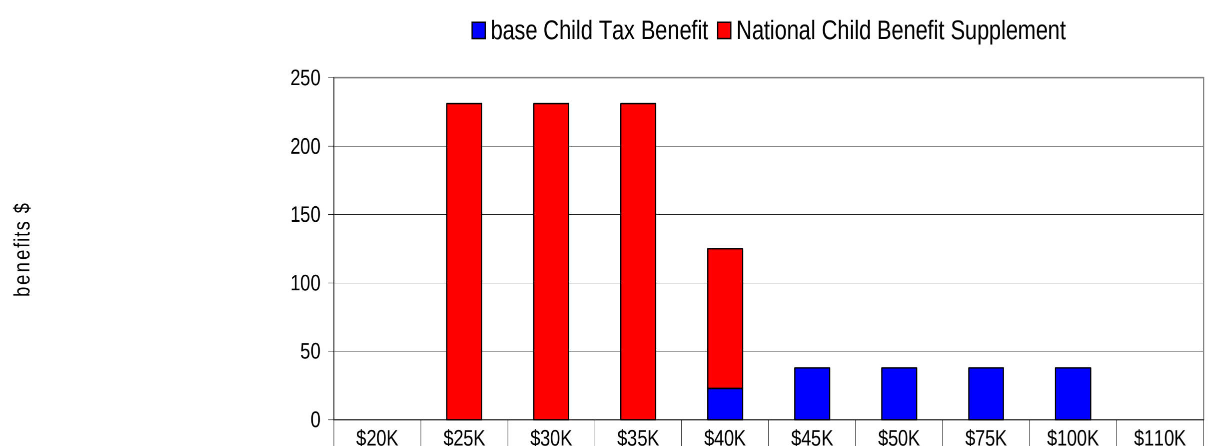


	\$20K	\$25K	\$30K	\$35K	\$40K	\$45K	\$50K	\$75K	\$100K	\$110K
CCTB before Budget	3416	3041	2431	1821	1317	1217	1117	617	117	0
CCTB after Budget	3416	3272	2662	2052	1442	1255	1155	655	155	0

the non-refundable child tax credit, for a total of $13.1 billion. The measures taken with the Canada Child Tax Benefit in the 2009 Budget will cost an estimated $230 million in 2009-10 and $310 million in 2010-11. Clearly, their fiscal stimulus power will be negligible.

Ottawa's three child benefits should be rationalized and combined to make a single, more effective and logical program [Battle 2008]. Simply rationalizing the current array of overlapping child benefit programs would itself have a stimulative effect, since more benefits would go to those with lower incomes. Even more stimulus could be achieved by progressing towards the target of a maximum $5,000 Canada Child Tax Benefit.

Figure 10
Change in Canada Child Tax Benefit as result of Budget, families with two children, July 2009-June 2010



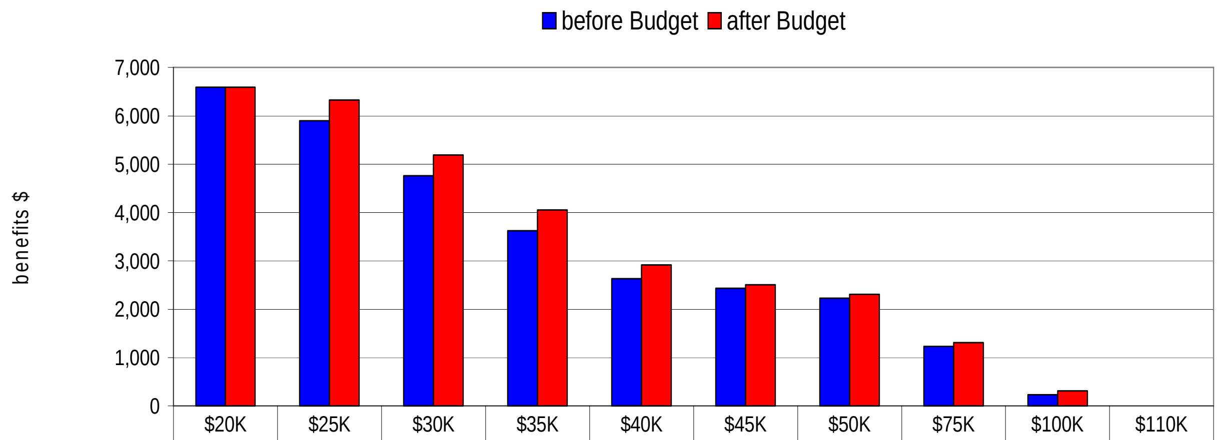
	$20K	$25K	$30K	$35K	$40K	$45K	$50K	$75K	$100K	$110K
National Child Benefit Supplement	0	231	231	231	102	0	0	0	0	0
base Child Tax Benefit	0	0	0	0	23	38	38	38	38	0

Income Tax Relief for Low – and Middle-Income Canadians?: gimme a break

The 2009 Budget made much ado about its measures to reduce income taxes for low- and middle-income Canadians, as well as seniors. In reality, the amount of tax relief is modest, and upper-income taxpayers not only share in the tax savings but also enjoy the largest amount.

The fiscal stimulus capacity of the Budget's tax breaks is of dubious merit. The stimulative impact of these tax cuts and their fiscal prudence are discussed in *The Red-Ink Budget*, our response to the 2009 Budget. Here we provide an analysis of the distributive impact of the income tax reductions.

Figure 11
Canada Child Tax Benefit, before and after Budget, families with two children, July 2009-June 2010



	$20K	$25K	$30K	$35K	$40K	$45K	$50K	$75K	$100K	$110K
before Budget	6593	5895	4760	3625	2633	2433	2233	1233	233	0
after Budget	6593	6325	5190	4055	2920	2509	2309	1309	309	0

The 2009 Budget made several changes to the federal income tax system. It raised the basic personal amount, spousal and common-law partner amount and eligible dependant amount from $9,600 in 2008 to $10,320 in 2009. The age credit went from a maximum $5,276 in 2008 to $6,408 for 2009. The Budget also raised the first income tax bracket from $37,885 in 2008 to $40,726 in 2009, and the second tax bracket from $75,769 in 2008 to $81,452 in 2009.

These changes, argues the Budget, will provide "significant new income tax relief that will provide immediate benefits, particularly for low- to middle-income Canadians" [Department of Finance Canada 2009: 109].

The much-trumpeted claim of "tax cuts for low- and middle-income taxpayers" is, to say the least, deceptive: The poorest Canadians, of course, will see no tax relief since they are already below the taxpaying threshold and pay no federal income tax. Lower- and middle-income taxpayers will get very small tax cuts, while those in the upper-income range will enjoy the largest tax break. But the amounts are so modest as to call into question their fiscal stimulus contribution, even if one believes that taxpayers will run out and spend their tax savings rather than bank them or pay down debt.

The Budget says that it will increase by 7.5 percent the basic personal amount, spousal and common-law partner amount, eligible dependant amount, and first and second income tax brackets, effective January 2009. This is correct if we compare the newly announced figures for 2009 with their 2008 amounts. However, the personal income tax system is indexed to the increase in the cost of living, so the Budget's 7.5 percent increase for 2009 over 2008 in fact includes some that would have been included anyway for indexation. To properly assess the Budget's impact on taxpayers, we have to compare the new figures for 2009 with what they would have been in 2009 before the Budget's changes. And what they would have been are the 2008 numbers indexed to inflation.

The basic personal amount, spousal and common-law partner amount and eligible dependant amount were $9,600 in 2008. They would have been $9,840 in 2009 before the Budget's changes, but they will be $10,320 after the Budget's tax relief measures. To confuse matters further, last year's Budget announced that the basic personal amount and related amounts would rise to $10,100 in 2009, but that figure has been superceded by the $10,320 introduced in the 2009 Budget.

The Budget also added $1,000 to the age credit, a tax break for taxpayers 65 and older. Unlike the basic personal and other non-refundable credits, the age credit is income-tested. In 2008, seniors with net income below $31,524 received the maximum amount ($5,276). Above $31,524, their age credit amount was reduced at the rate of 15 percent, which means that they no longer got the age credit once their net income reached $66,697.

The age credit amount, $5,276 in 2008, would have been $5,408 in 2009 under indexation but will be boosted by $1,000 to $6,408. Thus the age credit amount will see a bigger hike – 21.6 percent over 2008 – than the basic personal and related amounts (7.5 percent).

However, the net income threshold above which the age credit is reduced by 15 percent will remain at the same level in 2009 – $32,312 – as it would have been before the Budget measures. This change will raise the net family income level where eligibility for the age credit ends – from $68,365 in 2009 before the Budget to $75,032 after the Budget measures. Only a narrow range of upper-income seniors – those with incomes between $68,365 and $75,032 – will benefit from the decision to keep the income threshold for 2009 at its pre-Budget level.

The first tax bracket was $37,885 in 2008 and would have been $38,832 in 2009 as a result of indexation, but will rise to $40,726 for 2009 thanks to the Budget. The second tax bracket, $75,770 in 2008, would have been adjusted to $77,664 for 2009 but will increase instead to $81,452.

What does all this add up to? We illustrate the impact of the changes in Table E and Figure 12, which look at taxpayers under 65, and Table F and Figure 13, which give the results for seniors.

Table E gives the federal income tax savings resulting from the Budget for four types of household under 65 – single persons, single parents with one child, one-earner couples with two children and two-earner couples with two children [Department of Finance Canada 2009: 308-310]. We also calculated the percentage of income that the tax cuts constitute.

The tax savings for single persons range from zero for those with income of $10,000, who are below the taxpaying threshold, to $33 for those with incomes of $20,000 and $30,000, $115

income	single persons		single parents, 1 child		one-earner couples, 2 children		two-earner couples, 2 children	
	$	% of income	$	% of income	$	% of income	$	% of income
10,000	0		0		0		0	
20,000	33	.17	0		0		0	
30,000	33	.11	66	.22	66	.22	66	.22
40,000	115	.29	148	.37	148	.37	66	.17
60,000	166	.28	199	.33	199	.33	66	.11
80,000	259	.32	292	.37	292	.37	199	.25
100,000	317	.32	350	.35	350	.35	280	.28
150,000	317	.21	350	.23	350	.23	483	.32

Table E
Federal income tax savings from 2009 Budget, taxpayers under 65

for those at $40,000, $166 at $60,000, $259 at $80,000 and $317 for taxpayers with incomes of $100,000 and $150,000. The amount of tax break increases as incomes rise.

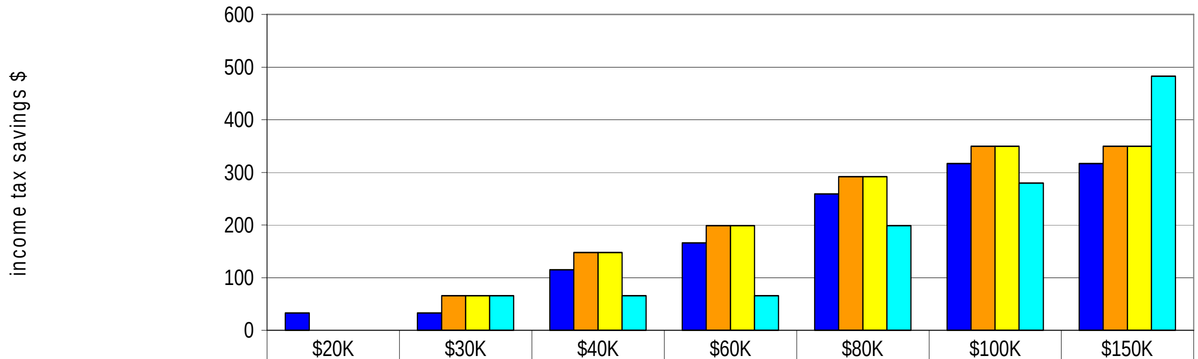
At all income levels, the tax reductions are very small relative to total income – less than half of one percent. They range from a low of .11 percent for taxpayers with incomes of $30,000 to .32 percent for those at $80,000 and $100,000. There is no systematic pattern to these results, though it is noteworthy that the income tax savings for single upper-income taxpayers in the $80,000 to $100,000 range are higher than those with modest and middle incomes.

The numbers differ but the overall pattern of results is the same for single parents with one child, one-earner couples with two children and two-earner couples with two children. Income tax savings rise with income and represent a tiny fraction of total income. Figure 12 illustrates the overall results.

Why do tax savings rise with income? The reason for this pattern is twofold.

The increase in the basic personal amount, spousal and common-law amount and eligible dependant amount, as well as the first and second tax brackets, benefit not only lower- and middle-income taxpayers, but also those in higher-income levels. The well-off claim the basic personal amount just like everyone else, and also will see tax savings on the amount of their

Figure 12
Income tax savings from Budget,
taxpayers under 65, by household type and income, 2009



	$20K	$30K	$40K	$60K	$80K	$100K	$150K
single persons	33	33	115	166	259	317	317
single parents, 1 child	0	66	148	199	292	350	350
one-earner couples, 2 kids	0	66	148	199	292	350	350
two-earner couples, 2 kids	0	66	66	66	199	280	483

taxable income in the first and second tax brackets – again, just the same as taxpayers in the other income groups.

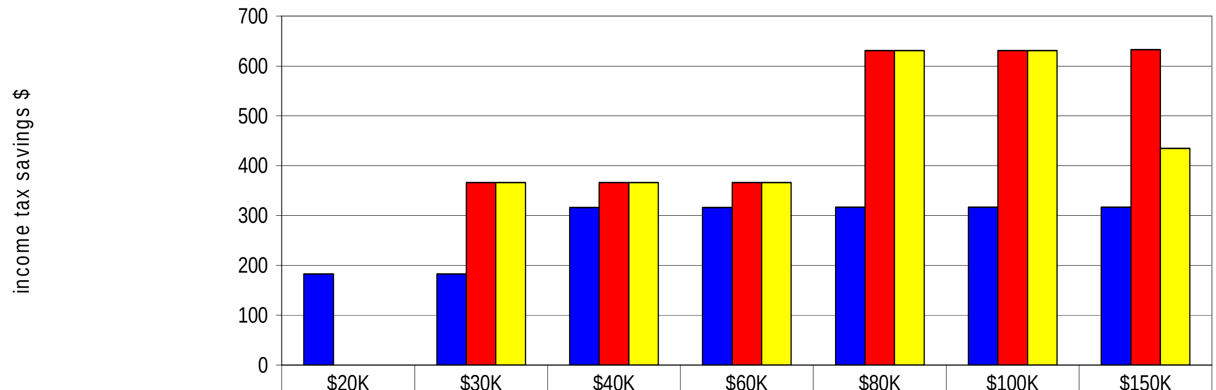
Moreover, the progressive nature of the income tax system means that high-income taxpayers, who pay more income tax, will enjoy larger tax cuts in absolute terms. In relative terms, the tax breaks are so small as to be the proverbial drop in the bucket for all taxpayers, whatever their income.

The results for seniors are similar overall, though the federal income tax savings are generally larger than for the non-elderly because the elderly benefit from the increase in the age credit as well as the other tax changes for the non-aged. Table F and Figure 13 show income tax savings for three elderly households – single seniors, one-pension senior couples and two-pension senior couples – at different income levels.

Income tax savings range from zero for poor elderly below the taxpaying threshold to $183 for those with modest incomes of $20,000 and $30,000, $316 at $40,000 and $60,000, and $317 at $80,000 and above. Measured as a percentage of income, the tax reductions range from a low of .21 percent for seniors with incomes of $150,000 to a high of .92 percent for those with incomes of $20,000. Unlike taxpayers under age 65, the larger tax cuts for seniors are progressive when measured relative to income although not in absolute amounts.

Table F Federal income tax savings from 2009 Budget, taxpayers 65 and older						
income	single seniors		one-pension senior couples		two-pension senior couples	
	$	% of income	$	% of income	$	% of income
10,000	0		0		0	
20,000	183	.92	0		0	
30,000	183	.61	366	1.22	366	1.22
40,000	316	.79	366	.92	366	.92
60,000	316	.53	366	.61	366	.61
80,000	317	.40	631	.79	631	.79
100,000	317	.32	631	.63	631	.63
150,000	317	.21	633	.42	435	.29

Figure 13
Income tax savings from Budget,
taxpayers 65 and older, by household type and income, 2009



	$20K	$30K	$40K	$60K	$80K	$100K	$150K
single seniors	183	183	316	316	317	317	317
one-pension senior couples	0	366	366	366	631	631	633
two-pension senior couples	0	366	366	366	631	631	435

In dollar terms, the Budget's tax breaks for upper-income elderly couples are not insignificant – $631 for one-pension senior couples with incomes of $80,000 and above, and $631 for two-pension senior couples at $80,000 and $100,000. Yet they are less than substantial relative to these couples' income. They will not add noticeably to anyone's standard of living.

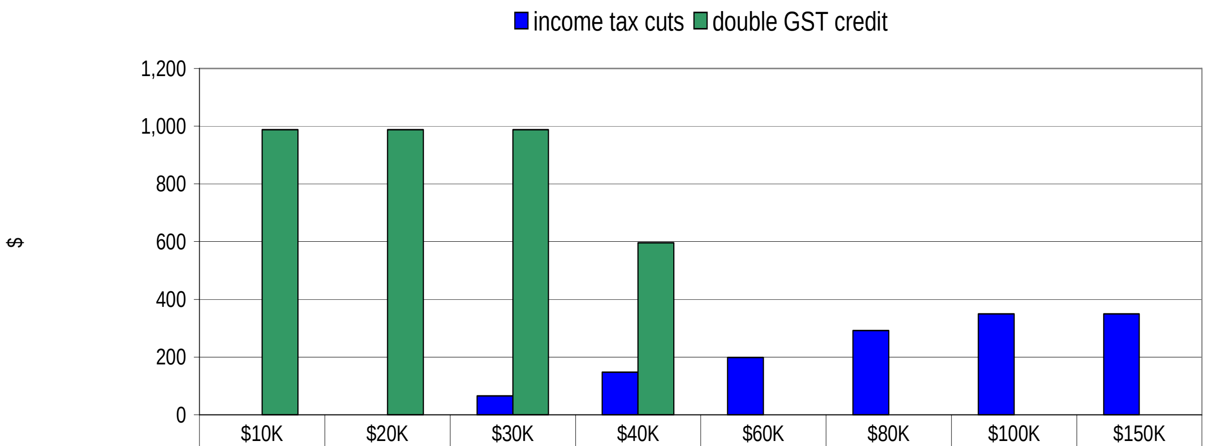
The income tax breaks in the 2009 Budget are very small compared to Canadian taxpayers' incomes, but the total cost to the federal treasury in lost revenue is considerable, at a forecast $2.2 billion in 2009-10. Some of the cost only reflects inflationary indexing, but the remaining cost is still substantial. These tax cuts will do next to nothing to ameliorate the effects of the recession on individuals, since the largest amounts are perversely going to those with the highest income.

In our pre-Budget statement, *The Forgotten Fundamentals*, Caledon proposed an alternative to income tax cuts as fiscal stimulus – doubling the GST credit [Battle, Torjman and Mendelson 2008].

The GST is a potentially powerful instrument for fiscal stimulus. It reaches a large group of low- and modest Canadians – at last count (2003) 9.1 million persons age 16 and over – or 36.7 percent of all taxfilers [Chawla 2006]. Since it is refundable, the GST credit includes poor individuals and families below the taxpaying threshold that get no benefit from income tax cuts. Because they struggle to get by on low or modest incomes, GST recipients are most likely to spend any extra money they receive, so the program is an efficient tool for fiscal stimulation. The GST credit is paid quarterly, so makes a frequent injection of cash into the hands of its recipients.

Figure 14 compares the 2009 Budget's income tax cuts with the Caledon proposal to double the GST. The contrast is striking. Granted, doubling the GST credit would cost approximately $3.3 billion, whereas the income tax cuts will cost Ottawa $2.2 billion [Yalnizyan and MacDonald 2009: 12]. But a less generous GST credit that cost the same as the income tax cuts would still pack a more powerful punch in terms of fiscal stimulus and equitable income support.

Figure 14
Income tax cuts versus double GST credit,
single parent with one child, by income, 2009



	$10K	$20K	$30K	$40K	$60K	$80K	$100K	$150K
income tax cuts	0	0	66	148	199	292	350	350
double GST credit	988	988	988	596	0	0	0	0

Endnotes

1. In 2008 WITB for single persons in Quebec phased in above $2,400 at the rate of 12 percent and reduced above net family income of $10,421 at the rate of 20 percent. WITB for singles in BC phased in at 17 percent over earnings of $4,750 and phased out at the rate of 17 percent above net income of $9,681. In Nunavut, WITB phased in at the rate of 4 percent of earnings over $8,500 and reduced at the rate of 3.5 percent above net family income of $20,380.

2. In 2008 the maximum WITB for single recipients was $510 and would have been $522 in 2009 if indexed. The Budget raised it instead to $925, which amounts to an increase of $403 over the $522 pre-Budget level or 77.2 percent.

3. The maximum WITB benefit for single parents and couples was $1,109 in 2008. That amount would have risen to $1,044 for 2009 under indexation. The 2009 Budget set it at $1,680, which is $636 or 60.9 percent above the pre-Budget amount for 2009.

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