



An anti-poverty provincial child benefit for British Columbia

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Introduction

An adequate child benefit is the cornerstone to securing the right of every child to their material needs for a healthy, happy childhood. For twenty years, the Caledon Institute of Social Policy – with the support of Maytree – advocated for a broad-based child benefit to offset the added cost of raising a child.

Over the Caledon Institute's two decades, with many fits and starts, the federal government's child benefits were increased and the benefits' targeting improved. The program's name and format have changed, evolving to become the current Canada Child Benefit. And with the announcement of full indexing to the cost of living in Canada's last budget, the Canada Child Benefit now largely fulfills the objectives originally set out by the Caledon Institute.

The Canada Child Benefit is the federal government's second largest cash transfer program at \$24 billion annually. It pays up to \$6,496 for each child under 6 years of age and \$5,481 for each child from age 6 through 17. Maximum benefits are reduced gradually for family incomes above \$30,450. Net benefits are fully eliminated only at family incomes well above the median – for example, \$192,000 for a family with two children, one under and one over 6 years of age.

The federal government pays child benefits according to one set of rules for every resident Canadian household, but the provinces have differing living costs, fiscal capacity, and social spending priorities. To reflect these differences, most provinces have implemented their own supplement to the Canada Child Benefit. Provincial child benefits are much less than federal benefits, in even the most generous province. Even so, provincial child benefits are an important income supplement for many families.

While provincial child benefits should be improved in many provinces, one province presents special circumstances: British Columbia. This is because British Columbia pays provincial child benefits only on behalf of children up to their sixth birthday so that it excludes the majority of children in the province. At the same time, British Columbia's child benefits go to relatively high-income families. This odd combination of policies creates an opportunity to improve substantially child benefits for low-income families in British Columbia with relatively modest budgetary costs. In this paper, we first briefly review provincial child benefits overall and then focus on options for British Columbia.

Provincial child benefits – overview

Table 1 below presents the basic parameters and costs for provincial child benefits in the eight provinces that have such a program (we do not here discuss the territories' similar programs). All of the provincial schemes offer guarantee levels based on the number of children in a family but with varying patterns for the per-child amounts. Benefits in four of the provinces are indexed annually for inflation.

| Table 1: Provincial child benefit programs, 2018 | | | | | | |
|--|---|--------------------------|--------------------|-------------------------------------|-----------------------|---|
| Province | Benefit for one child (\$) ^a | Phase-out threshold (\$) | Phase-out rate (%) | Break-even income (\$) ^c | Benefit indexed (Y/N) | FY2018/19 cost (\$ millions) ^e |
| BC | 660 ^b | 100,000 | 1.32 ^d | 150,000 ^d | No | 140 |
| AB | 1,128 | 26,141 | 7.0 | 42,255 | Yes | 175 |
| MB | 420 | 15,000 | 7.73 ^d | 20,435 ^d | No | 2 |
| ON | 1,403 | 21,416 | 8.0 | 38,953 | Yes | 1,180 |
| PQ | 2,430 | 48,250 | 4.0 | 91,950 ^c | Yes | 2,281 |
| NB | 250 | 20,000 | 2.5 ^d | 30,000 ^d | No | 11 |
| NS | 625 | 18,000 | 7.81 ^d | 26,000 ^d | No | 25 |
| NFL | 398 | 17,397 | 5.07 ^c | 25,247 ^d | Yes | 7 |

a. Figures are the maximum benefit payable for each child under 18 years. Some provinces vary the maximum per-child benefit with additional children beyond the first.

b. In British Columbia, the payments are restricted to children under 6 years; all other provincial child benefits are for children up to 18 years.

c. Break-even incomes computed for a family with one child; for example, Ontario's break-even for two children is twice the tabulated figure. In some provinces the break-even income does not vary with more children; see note d. For families with incomes above the cited break-even, Quebec provides a flat benefit of \$682 for the first child and \$630 for the second child without further phase-out.

d. These provinces apply a phase-out rate equal to the cited figure times the number of eligible children (up to some ceiling), so that for these families the break-even income is the same as for those with one child shown in the table.

e. Figures for all provinces other than Quebec are projections for fiscal year 2018/19 in budget documents. The figure for Quebec is for calendar year 2017 and includes \$122 million for supplementary payments to families with handicapped children. Source: Retraite Québec (2018, 18).

Source: Assembled by authors based on program descriptions and budgets of each province provided online; phase-out rates and break-even incomes computed by the authors where not available online.

Several programs have guarantee amounts that are the same for each child irrespective of number – but some provinces pay more for each additional child while other provinces pay less. For example, Nova Scotia and Newfoundland and Labrador offer per-child amounts that increase with the number of children in the family, while Alberta has a guarantee for a second child and any additional children that is half the amount for the first child.

Quebec offers by far the most generous child benefits. Its guarantee levels are \$2,430 for the family's first child, \$1,214 for each of the second and third, and \$1,821 for the fourth and subsequent children. Quebec further supplements the guarantee by \$340 for sole-parent families, \$2,304 for a child with disabilities, and \$11,544 for a child with disabilities having exceptional care needs. Based on a campaign pledge, the newly elected *Coalition Avenir Québec* party is raising the per-child guarantees for a family's second and third children closer to the level for the first child over a four-year phase-in period.

All of the provincial programs employ a single phase-out threshold based on a family's net income. With the exceptions of British Columbia and Quebec, these thresholds are very low, ranging between about \$15,000 and \$26,000. Low thresholds and low guarantee levels make most provinces' child benefit programs much more tightly targeted on low- and moderate-income families than the Canada Child Benefit. As a result of their benefit design, the provincial programs, aside from Quebec's, cost much less than the Canada Child Benefit. All of the other seven provincial child benefit programs together have a total budgetary cost of just one-fifteenth the cost of the Canada Child Benefit. As well, in some provinces the provincial child benefit offsets provincial social assistance, thereby further reducing net costs.

This pattern for the provincial child benefit programs may display a stronger preference for poverty-reduction or redistributive goals at the provincial than the federal level. Or it may reflect provincial priorities when building onto the base of relatively high-level Canada Child Benefit guarantees funded by the federal government and the need to use effectively the smaller sums available for provincial policies.

British Columbia's provincial child benefits

British Columbia was the leader in introducing a child benefit scheme in 1996 to replace child-related benefits in its social assistance program. British Columbia's Family Bonus paid maximum annual benefits of \$1,236 for each child under 18 years of age, with the amount reduced for families with incomes above \$18,000 (by 8 per cent for families with one child and by 16 per cent for those with two or more children). This reform was aimed at reducing the different levels of support for families with children on assistance versus those at work. The stated goal was to reduce the "welfare wall" impeding the movement of families from public support to employment.

But as can be seen in Table 1, British Columbia has moved from being a leader in child benefits to a laggard. The BC Family Bonus benefit level was designed to decline over time in response to increasing federal child benefits, and the program was ultimately eliminated. In 2016, British Columbia instituted a new provincial program called the Early Childhood Tax Benefit. However, unlike all other provincial benefit schemes, the new BC child benefit was payable *only* for children aged under 6 years. Further, unlike other provincial child benefit programs, British Columbia's provincial child benefit goes to families with much higher incomes. British Columbia's Early Childhood Tax Benefit begins to phase out payments only when family income exceeds \$100,000. Payments are fully eliminated at \$150,000.

British Columbia's opportunity

From the perspective of ensuring every child's right to their material needs, British Columbia's current child benefit system clearly falls short. It pays nothing at all on behalf of children aged 6 through 17. And for a wealthy province, it pays relatively little per child even to those families with children under the age of 6. Of the small sums British Columbia does pay on behalf of children, only about one-third goes to low-income families (see Table 2 below) while essentially nominal amounts are paid to higher income families. For example, the current BC child benefit pays just \$11 per month for a child in a family with income of \$140,000 – an amount which is of little or no significance to that household's budget. These payments to families with higher incomes raise program cost at the expense of families at much lower incomes and greater need.

This situation provides the province with an opportunity: British Columbia can expand coverage to children of all ages *and* increase the basic benefit level with only modest additional cost by targeting benefits to low-income families, as in other provinces. Tighter targeting of the provincial benefit would better align with the province's legislated poverty reduction strategy, which aims for a 50 per cent reduction in child poverty in 2024 from the 2016 rate. Since the national Canada Child Benefit already includes families with incomes extending well above the median, using provincial benefits to target more on low incomes would complement the federal program.

The following exercise explores the potential reform of the BC Early Childhood Tax Benefit by doubling the existing per-child benefit level, extending eligibility to all children under age 18, and tightening the benefit phase-out. These changes would make the program a more effective policy for poverty reduction and more in line with the child benefit provisions of other provinces.

Our interest centres on the revenue cost and distributional impact of alternatives using various phase-out ranges, rates, and structures. Increased targeting of benefits serves to control the rise in program cost while enhancing benefits for lower-income families. Since this exercise is largely motivated by the poverty-reduction objective, particular interest lies in the amounts and shares of benefits going to families with incomes below \$40,000.

Table 2 presents the results of a simulation analysis for 2018, with the components of the change shown both individually and in combination. We begin with the baseline features for the current BC Early Childhood Tax Benefit with its \$660 annual per-child benefit, the restriction to children aged under 6 years, and the phase-out at 1.32 per cent per child for incomes between a \$100,000 threshold and a \$150,000 break-even. The simulated current cost of the program is \$133 million (close to the official forecast of \$140 million), and the estimated share of total benefits paid to families with incomes under \$40,000 is 33 per cent. (The family incomes shown here do not include their national Canada Child Benefits.)

| Table 2: Expanded and reformed Child Benefit for British Columbia, 2018 | | | | | | | | |
|--|-------------------|------|---------------------|---|---|-------------------------------|-------------------------------------|----|
| Scenario | Benefit per child | Ages | Phase-out threshold | Phase-out rate ^b | Break-even income | Cost in millions ^c | Benefits to ≤ \$40,000 ^d | |
| | | | | | | | millions | % |
| Current program | \$660 | 0-5 | \$100,000 | 1.32% per child | \$150,000 | \$133 | \$44 | 33 |
| 1 | \$660 | 0-17 | \$100,000 | 1.32% per child | \$150,000 | \$377 | \$109 | 29 |
| 2 | \$1,320 | 0-5 | \$100,000 | 2.64% per child | \$150,000 | \$266 | \$89 | 33 |
| 3 | \$1,320 | 0-17 | \$100,000 | 2.64% per child | \$150,000 | \$754 | \$218 | 29 |
| 4 ^a | \$1,320 | 0-17 | \$80,000 | 6.60% per child | \$100,000 | \$505 | \$218 | 43 |
| 5 | \$1,320 | 0-17 | \$30,000 | 4.40% per child | \$60,000 | \$235 | \$207 | 88 |
| 6 | \$1,320 | 0-17 | \$25,000 | 5.28% per child | \$50,000 | \$195 | \$186 | 95 |
| 7 | \$1,320 | 0-17 | \$25,000 | 5.0% for 1 child 7.0% for 2 children 9.0% for 3 children 10.5% for 4+ children | 1 child \$51,400 2 children \$62,714 3 children \$69,000 4 children \$75,286 | \$224 | \$196 | 87 |
| 8 | \$1,320 | 0-17 | \$20,000 | 8.0% regardless of number of children | 1 child \$36,500 2 children \$53,000 3+ \$16,500 per child | \$188 | \$171 | 91 |
| <p>a. This formulation for reform of the BC program was proposed by First Call (2018).</p> <p>b. In scenarios 1 to 6, the phase-out rate is multiplied by the number of children. For example, in scenario 1 the phase-out rate would be 1.32% for 1 child, 2.64% for 2 children, 3.96% for three children, etc.</p> <p>c. Estimated direct costs for one full year. There may be offsetting second order savings, such as further savings in social assistance due to reduced caseload.</p> <p>d. Total BC child benefits accruing to families with incomes of \$40,000 or less; and those benefits as percentage of total program cost. All incomes in the table are a household's joint net incomes based on tax filing and do not include non-taxable Canada Child Benefits.</p> | | | | | | | | |
| <p>Source: Simulations using Statistics Canada's Social Policy Simulation Database and Model, v. 26.0. See Kesselman (2018) for description of adjustments to database for lower-income families receiving Canada Child Benefits.</p> | | | | | | | | |

Scenarios 1 through 3 in Table 2 show successively the cost and distributional impacts of each component of the BC Early Childhood Tax Benefit reform. In scenario 1, the benefit is extended to children through age 17 years with all the other program parameters held constant; the cost rises to \$377 million (nearly tripling) and the share of all benefits captured by the lower-income group declines to 29 per cent (because lower-income families tend to have younger children).

Scenario 2 doubles the benefit level but maintains the age restriction to children under 6; this necessitates a doubling of the phase-out rate to 2.64 per cent times the number of children to maintain the original break-even levels. Program cost doubles to \$266 million, with the share captured by the lower-income group remaining at its baseline 33 per cent.

Scenario 3 combines both of those reforms – doubling the benefit and expanding the age coverage – yielding a sharp rise in program cost to \$754 million and a decline in the low-income share to 29 per cent.

Scenarios 4 through 8 apply both the benefit doubling and extension through age 17 while exploring alternative phase-out provisions that target benefits more than the current program. The British Columbia child and youth advocacy group, First Call, proposed to pair those changes with a modest reduction in the phase-out range to begin at \$80,000 and to break even at \$100,000. As shown in scenario 4 this yields a somewhat lower program cost of \$505 million (versus \$754 million without increased targeting as in scenario 3). It also yields the same increase in benefits as scenario 3 (\$218 million) for families with incomes under \$40,000, a four-fold increase from the status quo. However, nearly as much increase in benefits can be achieved for that lower-income group with much more modest increases in program cost by pursuing tighter income targeting as explored in scenarios 5 through 8.

The phase-out structures in scenarios 5 through 8 parallel those found in various other provinces' child benefit schemes. Phase-out thresholds have been reduced to incomes in the range of \$20,000 to \$30,000. In each of these scenarios, the phase-out rate has been adjusted for consistency with the stated phase-out threshold and break-even income (or vice versa). These threshold levels should ensure that few sole parents face any extra disincentive to participate in the labour force. However, the lower thresholds along with joint testing of couples' income could discourage participation by some spouses at very low incomes.

Scenarios 5 and 6 have a phase-out structure with the rate a multiple of the number of children, yielding a break-even income independent of the number of children. Scenarios 7 and 8 use phase-out structures that limit the phase-out rates for larger families and thus yield break-even incomes that vary by family size.

With the targeting embodied in scenarios 5 to 8, total program cost has been reduced (relative to scenario 4) to the \$188-235 million range. At the same time, the total benefits for families with incomes of \$40,000 and under is not much less, at roughly \$170-210 million or about a four-fold increase from the status quo. Moreover, because of the much more constrained program cost than in scenario 4, the share of all benefits received by that lower-income group more than doubles from the baseline to a range of 88 to 95 per cent.

Increased targeting of benefits controls the increase in program costs that result from raising the benefit level and expanding eligibility to all children. However, it also reduces or eliminates BC child benefits for most middle- and higher-income families. Given the larger application of the Canada Child Benefit for families with incomes extending beyond median levels, the reduction in their BC benefits would be comparatively small. The most that any family could lose would be the full BC Early Childhood Tax Benefit of \$660 per child which is available only for their children under the age of 6 years.

At the same time, the increased targeting for BC child benefits would entail higher phase-out rates for families still receiving the benefits. The positive side is that with lower break-even levels than the current scheme, the phase-out rates now compounding with higher income tax rates of upper earners would be eliminated, thus reducing total marginal effective tax rates facing middle- and higher-income families.

If the BC government felt that it could not withdraw benefits from families now receiving them, it could look at options to phase out the current program as children “age” out of the system. For example, it could give recipient families the option of continuing to receive benefits under the current program until their children reached six years of age. This would add to costs for the interim period, but these added costs would gradually disappear over five years.

Conclusion

British Columbia has a chance to improve sharply the effectiveness of its child benefits for low-income families for relatively little cost. The end result of a reformed BC child benefit scheme would be larger benefits, extended for children through age 17, more fully targeted on lower-income families – and all at a total program cost increase of less than \$100 million. Benefits for lower-income families would increase by about \$150 million, or more than the rise in program cost. British Columbia should at the same time take the further step of indexing its reformed child benefits to increase with inflation, so that the program does not shrink by “stealth” over the years.

Every child, regardless of their parents’ circumstances, has the right to fulfilment of his or her material and non-material needs. Governments have the obligation to establish the programs and policies that will ensure these rights are realized. British Columbia has the opportunity: it should act now to better meet its obligations to the children of the province. The path forward is clear.

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