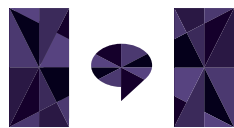



Canada Social Report  
Social Policy Record,  
Child Benefits

April 2016



CANADA SOCIALREPORT



Child benefits are intended to assist families with the expenses associated with raising children. The first child benefit was created in 1918 in the income tax system and provided taxpaying parents with an income tax reduction. Over the years, child benefits have developed as a means of helping to offset the costs associated with raising children and improving the financial security of families living on low incomes.

## CHILD BENEFITS HIGHLIGHTS

*Child benefits* refer to income security programs that provide financial assistance to families on behalf of children. These programs seek to achieve the following key objectives:

*Parental recognition* acknowledges the fact that families with children are securing the social and economic well-being of the nation by raising future citizens, workers and taxpayers.

*Horizontal equity* recognizes that parents have heavier financial demands than childless couples and single persons with the same pre-tax incomes.

The *anti-poverty objective* supplements low incomes of households with children and seeks to fill the gap between wages and the poverty line.

*Economic stimulus* puts cash into the hands of families with children and thereby helps boost consumer demand.

### 1918: INTRODUCTION OF THE CHILDREN'S TAX EXEMPTION

This exemption was brought in as part of the personal income tax system, created as a 'temporary' measure to help finance Canada's contribution to the First World War. It delivered its benefits in the form of income tax savings that increased in value as taxable income went up and excluded families that did not owe income tax – the majority in those days. Canada's first child benefit pursued only the parental recognition objective and only for non-poor families that owed income tax.

### 1945: ANNOUNCEMENT OF UNIVERSAL FAMILY ALLOWANCES


Federal child benefits were greatly extended via the newly-introduced Family Allowances to include all families with children, no matter their income. Better-off households still got more because they received both the Children's Tax Exemption and Family Allowances. Child benefits now addressed both the parental recognition and poverty reduction objectives, though the former more strongly than the latter.

### 1972: INTRODUCTION OF THE CHILD CARE EXPENSE DEDUCTION

This measure provided a tax deduction to families with child care expenses related to paid work. The Child Care Expense Deduction could be claimed in addition to the Children's Tax Exemption, and was only applied to families that required child care in order to earn a living. This measure was one of the few deductions not converted to a tax credit in the 1988 tax reform.

### 1973: ENHANCEMENT OF FAMILY ALLOWANCES

Family Allowances were tripled and indexed to the cost of living. Taxability



for the higher-income parent, most of whom were men, was introduced. The latter change meant that Family Allowances became progressive. The higher the claimant's top marginal tax rate, the more he paid in income tax on Family Allowances and the lower the family's after-tax child benefits.

#### 1978: CREATION OF THE REFUNDABLE CHILD TAX CREDIT

This pioneering new program, administered through the income tax system, delivered its maximum amount to low-income families, a smaller payment to middle-income families in an amount that decreased as incomes increased and nothing to the well-off. This benefit was referred to as 'refundable' because it was paid to families even if their incomes were too low to pay income tax. The refundable Child Tax Credit laid the foundation for a new architecture of child benefits in the country.

#### 1986: PARTIAL INDEXATION OF FAMILY ALLOWANCES

Family Allowances were no longer fully indexed to inflation but rather adjusted by the amount that inflation exceeded three percent per year. Low-income families suffered most from this measure.

#### 1987: REDUCTION IN THE VALUE OF THE CHILDREN'S TAX EXEMPTION

The Children's Tax Exemption was reduced from \$710 per child in 1986 to \$560 per child in 1987.

#### 1988: CONVERSION OF THE CHILDREN'S TAX EXEMPTION TO A NON-REFUNDABLE CHILD TAX CREDIT

The Children's Tax Exemption was a regressive program providing benefits in the form of income tax savings that increased with taxable income. The non-refundable Child Tax Credit, by contrast, gave all taxpaying families equal income tax savings. However, like the Children's Tax Exemption, the non-refundable Child Tax Credit excluded poor families below the taxpaying threshold.

#### 1988: CONVERSION OF THE EQUIVALENT-TO-MARRIED DEDUCTION TO A NON-REFUNDABLE CREDIT

This child benefit was made available in respect of the first child in a single-parent family.

#### 1989: INTRODUCTION OF A CLAWBACK ON FAMILY ALLOWANCES

Upper-income families in which the higher-income parent had a net income of \$50,000 or more were required to repay part or all of their Family Allowances through an income test operated via the income tax system.

#### 1993: REPLACEMENT OF THE THREE MAJOR CHILD BENEFITS BY THE NEW CHILD TAX BENEFIT


Family Allowances, the refundable Child Tax Credit and the non-refundable Child Tax Credit were replaced by a single, income-tested Child Tax Benefit. The new benefit increased payments for working poor families through a Working Income Supplement. The Child Tax Benefit maintained benefits for other low-income families, reduced payments to middle-income families and stopped paying benefits to high-income families.

#### 1997: INTRODUCTION OF THE NATIONAL CHILD BENEFIT

This measure broadened the scope of reform beyond federal programs to include provincial/territorial child benefits. The main objective of the National Child Benefit was to raise the Canada Child Tax Benefit to the point where it alone, or in combination with provincial/territorial income-tested child benefits, displaced basic welfare-embedded child benefits estimated at about \$2,500 per child in 1998.

Unlike paid employment, welfare payments took into account differences in family size. This feature meant that families on welfare received child benefits about twice as large as other low-income families. The Caledon institute coined the term 'welfare wall' to characterize this problem.

Parents on welfare (i.e., social assistance) who managed to find paid work risked forfeiting thousands of dollars in welfare-embedded cash child



benefits and in-kind benefits – e.g., supplementary health and dental care, disability supports, child care and special benefits such as winter clothing allowances. They also saw their low wages reduced by federal and provincial/territorial income taxes as well as by federal payroll taxes and work-related costs such as child care, clothing and transportation.

The main engine of reform was the Canada Child Tax Benefit (CCTB), a restructured version of the earlier Child Tax Benefit. It was composed of two layers – a basic benefit for poor and most non-poor families and the National Child Benefit Supplement (NCBS) targeted to low-income families only.

As Ottawa gradually increased payments under the NCBS portion of the Canada Child Tax Benefit, provinces and territories were expected to reduce their social assistance-provided child benefits by the amount of the federal increase. Provincial/territorial governments agreed to reinvest the resulting savings in programs and services for low-income families with children including early learning and child care, supplementary health care, income-tested child benefits and earnings supplements.

#### 1998: ENHANCEMENT OF THE NATIONAL CHILD BENEFIT

The National Child Benefit was enhanced by means of multi-year increases to the Canada Child Tax Benefit through 2002.

#### 2003: ADDITIONAL ENHANCEMENT OF THE NATIONAL CHILD BENEFIT

The National Child Benefit was boosted again via multi-year increases to the Canada Child Tax Benefit through 2007.

#### 2003: INTRODUCTION OF THE CHILD DISABILITY BENEFIT

The Child Disability Benefit, delivered through the Canada Child Tax Benefit, is payable to low- and modest-income families with a child with a severe disability.

#### 2006: INTRODUCTION OF THE UNIVERSAL CHILD CARE BENEFIT

The Universal Child Care Benefit (UCCB) paid \$100 a month and originally was restricted to children under age 6 because it was intended to help pay for child care. To help finance the UCCB, Ottawa abolished the Canada Child Tax Benefit's supplement (\$249 a year in 2006) paid on behalf of young children ages 5 and under.

The UCCB is taxable in the hands of the lower-income parent in the case of couples, and the sole parent in the case of single-parent families. Single parents were given the option of including the total UCCB amount in the income of the child for whom the UCCB is paid. Effectively, this change meant that one-parent families would receive their Universal Child Care Benefit tax-free.

Unlike almost all social benefits, the UCCB was not indexed to the cost of living and so lost value steadily over the years.

Welfare families owed no income tax on their UCCB, working poor and modest-income families pay a small amount of tax on their UCCB, middle-income families paid more and upper-income families the most.

#### 2007: (RE)-INTRODUCTION OF THE NON-REFUNDABLE CHILD TAX CREDIT

Ottawa re-introduced the same program with the same name that operated between 1988 and 1992. In 2007, its maximum real value, in federal income tax savings, was \$2,000 times the lowest income tax rate of 15 percent – or \$300.

All non-poor families received \$300 per child, including the very rich. Some low-income families with a small tax liability (between \$1 and \$299) received a smaller amount, while the poorest got nothing at all because they do not owe income tax.



#### 2015: ENHANCEMENT OF UNIVERSAL CHILD CARE BENEFIT

Ottawa boosted the Universal Child Care Benefit from a maximum \$1,200 a year to \$1,920 for children ages 5 and under. The program extended to children ages 6 to 17 and pay them \$720 a year per child.

#### 2015: END OF NON-REFUNDABLE CHILD TAX CREDIT

To help pay for the increases to the Universal Child Care Benefit, the federal government abolished the non-refundable Child Tax Credit.

#### 2016: INTRODUCTION OF THE CANADA CHILD BENEFIT

Budget 2016 announced that the new Canada Child Benefit will replace the previous Universal Child Care Benefit with a new program that pays maximum payments of \$6,400 per child age 5 and under and \$5,400 per child ages 6 to 17. It will not be subject to income taxation. The new benefit is slated to lift an estimated 300,000 children out of poverty.

Like its predecessor the Canada Child Tax Benefit, the Canada Child Benefit builds on two core objectives – to reduce child poverty (vertical equity) and to supplement the incomes of most non-poor families (parental recognition). Only very high-income households with incomes over \$200,000 will receive no benefit.

It is essential to ensure that the Canada Child Benefit is indexed in order to maintain its value over time. If the benefit is unindexed, its \$6,400 value in 2016 will drop to an estimated \$5,900 in real terms by 2020. Unfortunately the federal government has decided not to begin indexing the Canada Child Benefit until 2020.