

Innovation in cash benefits to families with children: The Canada Child Benefit

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1 Introduction

The commitment to address child poverty has waxed and waned in Canada since an all-party resolution was passed in the House of Commons in late 1989 committing the federal government to “seek to eliminate child poverty by the year 2000.”¹ Poverty and social policy are now high on the agenda of the current government, which intends—over the course of the next six months—to articulate a poverty reduction strategy, but which has already taken a major step toward this goal by introducing the “Canada Child Benefit” in its first budget. This program came into effect in July 2016, and represents a major revamping of cash support to families with children.

It should, however, be noted that in Canada the federal government is not the only player, with all but two of the provinces having adopted an explicit poverty reduction strategy, some having made considerable reforms to existing income support programs, and others introducing significant innovations in the delivery of both cash and non-cash benefits. For example, one recent and innovative policy development is the Ontario government’s decision to pilot a basic income in three communities of the country’s most populous province.²

But many of the provinces are clearly looking for more federal leadership in this area, and the Canada Child Benefit represents an important improvement in the incomes of families with children, the government forecasting that by the end of its first full year of operation in 2017 the program would almost halve the number of children in poverty from the level prevailing in 2013.³ This innovation merits attention.

*This paper is prepared as a background report for “The Committee on Building an Agenda to Reduce the Number of Children in Poverty by Half in 10 Years” of the National Academies of Sciences, Engineering, and Medicine. I am professor of economics with the Graduate School of Public and International Affairs at the University of Ottawa, Ottawa Canada, and “Economist in Residence” at Employment and Social Development Canada during the 2017 calendar year. I am grateful to Ken Battle and Sherri Torjman of the former Caledon Institute for their feedback, but am solely responsible for the content, and in particular for any interpretations or opinions. I can be reached at MilesCorak.com, and on twitter [@MilesCorak](https://twitter.com/MilesCorak). © Miles Corak, all rights reserved.

¹Government of Canada, *Hansard*, November 24, 1989

²Government of Ontario (2017), “Ontario Basic Income Pilot,” <https://www.ontario.ca/page/ontario-basic-income-pilot>.

³The government claimed that there were 755,000 children in poverty during 2013, and suggested that the Canada Child Benefit would lower this to 471,000 in 2017.

2 A brief sketch of the Canada Child Benefit

The generosity of the Canada Child Benefit varies with family income and the number of children, with a base amount of benefits being phased out at two different rates as income passes over two thresholds. It consists of a monthly tax-free cash payment to families with children amounting to a maximum of \$6,400 per year for each child under the age of six, and a maximum of \$5,400 for each child aged six to 17. It is targeted according to family income, which is calculated every July based upon the net income reported in the income tax return filed in the previous calendar year.⁴ Figure 1 illustrates the annual benefit amount by family income for two extreme settings of the program parameters: a family with one child six or older, and a family with four children under the age of six.

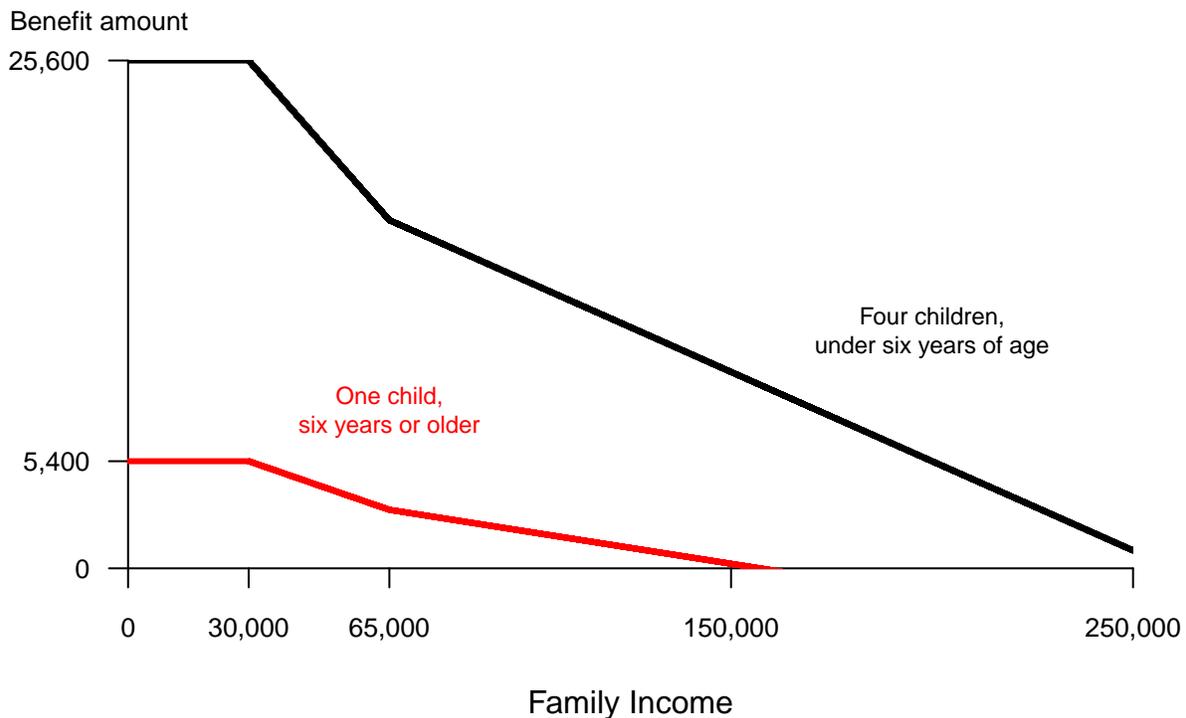


Figure 1: Canada Child Benefits vary with family income, number of children, and their ages

There is no phaseout of benefits for annual incomes below \$30,000, beyond which they decline by 7 percent if there is only one child in the family and 23 percent if there are four or more. This phaseout rate is in effect for incomes up to \$65,000. Beyond this income level it declines to 3.2 percent and 9 percent, implying that families with an older child continue to receive some benefits until their incomes reach just over \$150,000. Families with four young children would receive some benefits until their incomes just exceed \$250,000.

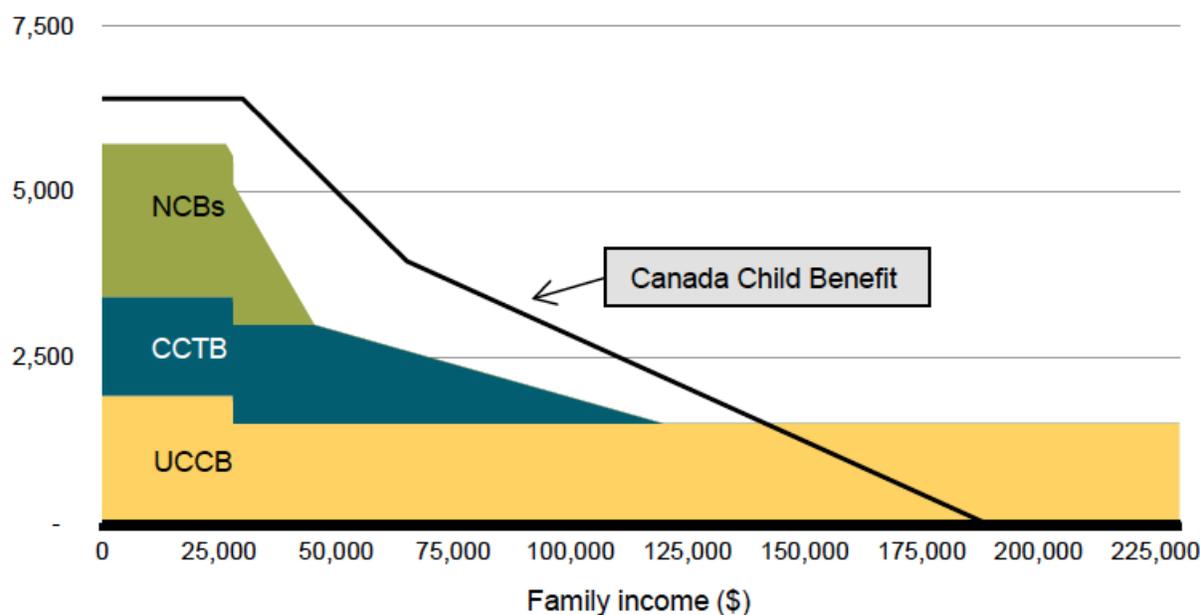
⁴Family income does not include any net income reported by the children in the family, and also makes adjustments for registered savings or payments for disabilities.

3 The Canada Child Benefit and what it replaced

Figure 2 illustrates the Canada Child Benefit in relation to the system of cash transfers to families with children that it replaced. This figure is drawn directly from the March 2016 Budget document, and uses the case of a family with one child under the age of six to highlight the considerable increase in income support to lower and middle income families.⁵

CHILD BENEFITS FOR ONE CHILD UNDER 6, 2016–17 BENEFIT YEAR (DETAILS ON CURRENT SYSTEM)

Annual benefit amount (\$)



Notes: Benefits received under the current system are illustrative and reflect federal and provincial/territorial taxes paid on the Universal Child Care Benefit. The actual after-tax amounts would depend on the family's province or territory of residence. It is assumed that the single parent includes the Universal Child Care Benefit in the child's income. The family income referred to in this chart is known as "adjusted family net income." This income is a family's net income (the net income of the individual and the individual's spouse or common-law partner reported on line 236 of the income tax return) minus any Universal Child Care Benefit and Registered Disability Savings Plan income received plus any Universal Child Care Benefit and Registered Disability Savings Plan amounts repaid. Adjusted family net income will be used to determine entitlement to the Canada Child Benefit. NCBs = National Child Benefit supplement; CCTB = Canada Child Tax Benefit; and UCCB = Universal Child Care Benefit.

Source: Department of Finance.

Figure 2: The Canada Child Benefit and what it replaced

This increase of support involved reducing the number of families eligible for benefits by eliminating a demogrant called the Universal Child Care Benefit (UCCB in the figure), and also by injecting more money into the system in a way that enhanced the targeting that was taking place through the Canada Child Tax Benefit (CCTB), and a supplement to it (the National Child Benefit Supplement, NCB). This figure does not make clear an important change. The Budget repealed provisions in the Income Tax Act for indexation of benefits to the inflation rate. The failure to index the new measure will result in a loss in the real

⁵Government of Canada, *Growing the Middle Class*, Tabled in the House of Commons March 22nd, 2016, Chart 1.2B, page 60. Available at <http://www.budget.gc.ca/2016/home-accueil-en.html>.

value of the Canada Child Benefit over the next few years. The Parliamentary Budget Office has estimated that the program will increase cash support to families with children by \$4.3 billion dollars in its first full fiscal year of operation, but that this will decline to \$2.5 billion by 2020-21, and return to the level of support in the old system by 2024-25, whereupon the old system becomes more generous.⁶ As things currently stand, the federal government has stated that it plans to index the Canada Child Benefit beginning only in 2020.

4 Details of the program and its impact

The report issued by the Parliamentary Budget Officer offers detailed simulations of the impacts of the Canada Child Benefit on the number of families receiving support, and on its distributional consequences. These estimates are based upon a static simulation model with no account for behavioural change. The report is a useful reference, offering a clear description of the program parameters in a way that may be helpful in simulating the impacts of a similar design in the United States.

The Canada Child Benefit is tax-free, and is paid monthly. The base annual benefit is \$6,400 for each child under six years of age, and \$5,400 for each child between six and 17 years of age.⁷ These base amounts do not vary with the number of children, though the rate at which benefits are phased out does. The clawback also varies according to family income. There is no clawback of benefits for family incomes up to \$30,000, and then one set of rates applies if income is above this threshold and up to \$65,000, and another for incomes beyond this upper limit. These are described as percentages of benefits as follows, with families having more than four children facing the same rates as those with four.

Family income	one child	two	three	four
0 to \$30,000	0	0	0	0
\$30,001 to \$65,000	7.0	13.5	19.0	23.0
\$65,001 and higher	3.2	5.7	8.0	9.0

The only other eligibility requirement for benefits is the necessity to file an income tax return in the previous year. There are strong incentives for Canadians to file their tax returns, and this eligibility requirement is mostly a concern for some First Nations populations, where tax-filing is notably below the national average. As a whole the First Nations represent three to four percent of the entire population, but issues of income security and support may be particularly relevant in some of these communities.

⁶Office of the Parliamentary Budget Officer, *Fiscal Analysis of Federal Children's Benefits*, September 1, 2016, page 1 and Summary Figure 1. Available at <http://www.pbo-dpb.gc.ca/en/blog/news/CCB>.

⁷Families qualifying for the Disability Tax Credit are eligible to receive an additional \$2,730 per eligible child.

The report of the Parliamentary Budget Officer does not recognize this challenge to take-up rates. It estimates that in the fiscal year 2017/18 about 3.6 million families will be eligible to receive some amount of benefits. This consists of 888,000 having an income of less than \$30,000, and another 874,000 having incomes between \$30,000 and \$65,000, and almost 1,800,000 with incomes higher than \$65,000. The major change compared to the former system concerns the number of families in this highest income bracket who receive benefits. While roughly similar numbers of families with incomes below \$65,000 continue to receive benefits, they get a higher average amount than under the previous system. Fewer households with incomes above \$65,000 receive the benefit but those who do get, on average, a higher amount.

	2017-18			
	Old System Children's Benefits*		New System of Children's Benefits	
Family Adjusted Net Income	Average benefit	# of eligible families	Average benefit	# of eligible families
\$0 - \$30,000	\$7,846	880,000	\$10,069	880,000
\$30,001 - \$65,000	\$5,991	874,000	\$8,077	874,000
\$65,001+	\$2,560	2,318,000	\$3,586	1,799,000
All	\$4,439	4,072,000	\$6,297	3,552,000

*net of income tax on UCCB

Figure 3: Number of Recipients and average benefit: Canada Child Benefit and what it replaced (Source: Parliamentary Budget Office, Table 5-1, page 12.)

This report focuses on simulating program expenditures, but makes no estimate of the impact on the child poverty rate. Poverty measurement is somewhat unclear in Canada, there being no official poverty statistic and with Statistics Canada publishing three alternative measures showing very different trends and cyclical movements.⁸ The federal government estimated the impact of the Canada Child Benefit on the number of children falling below the “Low Income Cut-off”, suggesting that the number will fall by 300,000 based upon the level prevailing in 2013, which at the time of the announcement was the most recently available data. The implication is that this would imply a 40 percent reduction in the number of poor children.⁹ The Low Income Cut-off is similar to the US official poverty line in that families are considered to be poor if they are estimated to have incomes associated with considerable expenditures on food, shelter and clothing compared to the typical family. These estimates are fixed at 1992 spending patterns, being only updated for inflation.

⁸Miles Corak (2016), “‘Inequality is the root of social evil,’ or Maybe Not? Two Stories about Inequality and Public Policy,” *Canadian Public Policy*, Vol. 42, No. 4 (December), pp. 367-414. Available at <http://www.utpjournals.press/doi/abs/10.3138/cpp.2016-056>

⁹Canadian Broadcasting Corporation, “New Canada Child Benefit program payments start today,” July 20, 2016. Available at <http://www.cbc.ca/news/business/canada-child-benefit-social-safety-net-baby-bonus-childcare-justin-trudeau-social-assistance-1.3685290>.