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Retro-Social Policy

Child benefits under the Harper government

Ken Battle

GOOD SOCIAL POLICY is a rare and endangered species. It took the Harper government just two years to unravel decades of hard-won progress under both Liberal and Progressive Conservative governments towards a rational, progressive and fair child benefit, the Canada Child Tax Benefit. Families now must contend with a child benefits system that is complex, irrational, and unfair.¹

“Child benefits” are government payments in the form of cash or tax savings to families with children. Child benefits serve two core purposes: reducing child poverty and helping parents with the cost of raising children. Child benefits have proven to be a powerful instrument in poverty reduction initiatives in the U.K. and Ireland, and are being advocated by a growing number of governments and political parties in Canada.

Child benefits under the Liberals

When the Conservatives came to power in 2006, they inherited a federal child benefits system composed of a single program, the Canada Child Tax Benefit (CCTB). Launched in 1998, the CCTB is an enriched version of the Child Tax Benefit created in 1993 as a replacement for three programs that did not mesh well together: family allowances, the refundable child tax credit, and the non-refundable child tax credit.

The Canada Child Tax Benefit boasts several strong features. It is a non-stigmatizing, inclusive program that delivers benefits to the large majority (9 in 10) of Canadian families across the country, excluding only those with high incomes. It is “portable,” providing a stable and assured supplement to income no matter where families live or work (or do not work, in the case of families receiving Employment Insurance, social assistance or other benefit).

The CCTB is progressive; its payments decline as incomes rise. It provides the same amount to all families with the same income, regardless of the source of that income, jurisdiction in which they live, or family type.

The Canada Child Tax Benefit has enjoyed substantial increases over the years, from a maximum \$1,605 in 1998 to \$3,332 by 2008 — significant progress towards the target of \$5,000 proposed by social groups.

Back to the future

The major social policy plank of the Conservatives’ 2006 election campaign was the Choice in Child Care Allowance, renamed the Universal Child Care Benefit (UCCB) after they won office. The UCCB pays \$1,200 for every child age 5 or younger, regardless of family income. In 2007, Ottawa added a non-refundable child tax credit providing federal income tax savings up to \$300 per child under 18 to all except the poorest families, which get nothing.

These two “new” child benefit programs are basically social policy dinosaurs from the past. Unlike the Canada Child Tax Benefit, the UCCB and non-refundable child tax credit bestow sizeable benefits upon high-income families, re-introduce serious inequities, and embody social policy by stealth.

Because the Universal Child Care Benefit is subject to federal and provincial/territorial income taxes, most families do not end up with the much-touted \$1,200 per child. For example, the UCCB for a Manitoba two-earner couple with net family income of \$60,000 and two children is \$889 after tax. In some provinces, even poor families get less than \$1,200 (see Figure 1).

Another stealthy aspect is the elimination of the Canada Child Tax Benefit's young child supplement of \$249 per year, paid mainly to low- and modest-income families. Few households that received the supplement would be aware of this loss.

Despite its name, the Universal Child Care Benefit is not tied to use of child care. Even if used for this purpose, its annual maximum \$1,200 buys little in the way of child care, decent or otherwise.

There is also less than meets the eye to the non-refundable child tax credit. When introduced in 2007, it was billed as "\$2,000" per eligible child. The federal budget went on to acknowledge that the real value is \$2,000 times the lowest tax rate of 15%, but makes readers do their own math. The missing answer is \$300, a lot less than \$2,000.

Inequitable

The actual value of the Universal Child Care Benefit varies according to family type. One-earner couples and two-earner couples with the same income get different benefits because the latter are based on the income of the lower-income parent. Moreover, families with the same net income but living in different jurisdictions end up with different after-tax benefits because their UCCB is subject to variable provincial/territorial income tax regimes.

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

The three federal child benefit programs each operate differently. Unless employed as tax accountants or in finance departments, few families have any idea what they actually get from federal child benefits. Confusion reigns — and probably not by accident: social policy by stealth is alive and well in the nation's capital.

The Canada Child Tax Benefit sends out monthly payments on behalf of children under 18 that vary according to the family's net income. Benefits are non-taxable, so what families see is what they get.

The Universal Child Care Benefit delivers monthly payments for children under 6 that are the same for families at all income levels. But benefits decline in value as the marginal tax rate of the lower-income parent (or single parent) rises.

The non-refundable child tax credit delivers payments once a year for children under 18 in the form of a federal income tax reduction. Most eligible families get the same tax break, worth \$300 per child; low-income families get less or nothing.

A bigger and better child benefit

The only positive aspect of the Harper government's child benefit changes is the fact that it raised payments not only to low-income families, but also to those with modest and middle incomes. A mature and effective child benefits system should serve both its poverty reduction and parental recognition objectives.

There is a better way to design child benefits than the Conservatives' problem-ridden approach, illustrated in Figure 2. The Caledon Institute of Social Policy has developed a proposal that would abolish the UCCB and non-refundable child tax credit, using the savings to help finance a stronger Canada Child Tax Benefit. The maximum amount, payable to low-income families, would be \$5,000 per child, up from the current \$3,332 for a first child.

A \$5,000 CCTB would reduce the family poverty rate by a full percentage point, from 9.3% to 8.3%, moving 40,000 families above the poverty line. It also would improve child benefits for the majority of families with modest and middle incomes.

The current child benefits system costs Ottawa \$13 billion. Caledon's proposed \$5,000 Canada Child Tax Benefit would require only an additional \$4 billion. This is certainly an affordable way to strengthen one of the most powerful and proven tools for reducing child poverty.