The 1992 Budget and Child Benefits

A Report by the
National Council of Welfare

Autumn 1992

Canada

THE 1992 BUDGET AND CHILD BENEFITS

A Report by the

National Council of Welfare

Autumn 1992

Copies of this publication may be obtained from:
National Council of Welfare
Jeanne Mance Building
Ottawa K1A 0K9
(613) 957-2961

Également disponible en français sous le titre:
Le budget de 1992 et les prestations pour enfants

Cat. No. H68-32/1992E
ISBN 0-662-19970-7

TABLE OF CONTENTS

INTRODUCTION

In the budget speech of February 25, 1992, the federal government proposed a sweeping revision of child benefits that would take effect in 1993. Family allowances, the refundable child tax credit and the non-refundable children's tax credit all would disappear and be replaced by a new, integrated child benefit.

The government's proposals would set up a system of child benefits that is targetted toward low-income and middle-income families. At the same time, they would eliminate the last vestiges of universality in the field of federal child benefits.

The purpose of this report is not to reopen the debate about universality, however. That debate really ended in 1989 with the federal government's decision to proceed with a repayment or "clawback" of family allowance payments from parents with net incomes over $50,000 a year. Instead, this report looks at the government's proposals on child benefits and related proposals on child care expenses, analyzes their impact and recommends improvements.

For readers who want to compare the federal proposals with the current system of child benefits, the appendix of this report outlines the current system.

THE WHITE PAPER ON CHILD BENEFITS

Plans for a new, integrated child benefit were announced by the federal government in the budget speech of February 25, 1992. Additional information was contained in a White Paper issued that same evening by the Minister of National Health and Welfare.

Simply put, the government proposes to take the money now spent on family allowances, the refundable child tax credit, and the non-refundable children's credit and use it for a new program called the child tax benefit. The new benefit would be paid monthly starting in January 1993. The basic credit would be $85 a month - $1,020 a year - for each child under 18. The amount of $1,020 is exactly the same as the maximum amount now provided by family allowances plus the refundable child tax credit.

The design of the new benefit is similar in some respects to the current child tax credit. It is aimed at low-income and middle-income families, with the largest payments going to poor families. The amounts families receive would decline and eventually disappear as family income rose above certain ceilings or thresholds.

The new benefit would be non-taxable and refundable. A refundable benefit is one that goes to people whether or not they pay income taxes. Families who are too poor to pay taxes would still be able to take advantage of the program.

Like many other federal government programs, the child tax benefit would increase with increases in the Consumer Price Index of Statistics Canada in excess of three percent a year. If the index rose four percent, for example, benefits would increase by one percent. This arrangement, known as partial indexation or partial indexing, means that the face value of benefits increases over the years, but their purchasing power quickly falls behind the cost of living.

Under the White Paper proposals, the last monthly family allowance cheques would be mailed to parents in December 1992. The last refundable child tax credits would be paid at income tax time in the spring of 1993, and the last non-refundable children's credits would also be claimed at tax time. The non-refundable equivalent-to-married credit for single-parent families would remain.

Non-refundable credits reduce the amount of income tax owed. By their very nature, they are of no use to families who are too poor to pay taxes.

The federal government estimates that more than 3.1 million families would receive the new child tax benefit. About 600,000 families would be excluded because of their high incomes. The 600,000 is roughly the same number that now lose all or part of their family allowances because of the repayment of social benefits or "clawback" that was introduced in the 1989 federal budget.

The 1992 budget said the amount of additional benefits paid out by the federal government would be nearly $2.1 billion over five years: $520 million in the 1992-1993 fiscal year, $645 million in 1993-1994, $315 million in 1994-1995, $310 million in 1995-1996 and $300 million in 1996-1997. The larger estimates for the first two fiscal years appear to be due to the overlap between the current and new systems. The small year-to-year declines in the last three years are presumably due to the lack of full indexation in the system.

Also in the budget, the federal government announced an increase of $1,000 a child in the amounts taxpayers can claim for receipted child care expenses. The maximum claim, starting in the 1993 tax year, would be $5,000 a child for children under age seven and $3,000 a child for children aged seven to 14. The government estimates that 600,000 taxpayers would benefit from larger deductions.

The projected cost of the increase in the child care expenses deduction to the federal government is $135 million through the end of the 1996-1997 fiscal year: $10 million in 1993-1994, $40 million each in 1994-1995 and 1995-1996, and $45 million in 1996-1997. The child care expenses deduction also reduces taxable income for provincial tax purposes. The total cost to provincial governments over five years would be approximately $75 million.

Legislation to put the proposed new child benefit into effect was introduced in Parliament on May 13, 1992, as Bill C-80. The government said it wants to have final passage of the bill by fall. The proposed increases in the child care expenses deduction are part of a series of amendments to the Income Tax Act.

Here, in more detail, is how the proposed new child tax benefit would operate.

The basic credit for each child would be $85 a month or $1,020 a year.

The main ceiling or threshold for maximum benefits would be net family income of $25,921 a year, the same as the threshold for the current refundable child tax credit. Net family income means earnings, interest and other income, minus deductions for items such as child care expenses, union dues, and contributions to pension plans and registered retirement savings plans (RRSPs). Welfare income or income from workers' compensation also has to be included in the total, even though such income is not taxable.

Families with incomes above $25,921 a year would get reduced benefits or no benefits at all. Families with two or more children would be subject to a reduction rate of five percent - that is, their benefits would be reduced by five cents for every dollar of income above $25,921. Families with one child would have a reduction rate of 2.5 percent - they would lose 2.5 cents of benefits for every dollar of income over the threshold. The White Paper offers no explanation for having two different rates, but this is presumably to target benefits better.

Working poor families with children would be eligible for an earnings supplement of up to $500 a family. The size of the supplement would depend on a family's earned income. Families with children who get all or most of their income during any given year from welfare, unemployment insurance or other government programs would not qualify for the supplement.

The supplement would begin as soon as family earnings passed $3,750 a year. The amount of the supplement would be eight cents for every dollar of earnings over $3,750 to a maximum of $500 once earnings reached $10,000 a year. Families with net incomes above $20,921 would lose ten cents of the supplement for every additional dollar of income until the supplement disappeared at net family income of $25,921. From there, the basic child tax benefit would be reduced by five percent or 2.5 percent of any additional income, depending on the number of children in the family.

For families who do not claim the child care expenses deduction and who have children under the age of seven, the new child tax benefit would be increased by an additional $213 a year for each child under seven. That amount is the same as the existing supplement to the refundable child tax credit for families with children under seven.

For larger families, the new system would offer an additional credit of $75 for the third child in a family and each child after the third. The supplement corresponds to the larger non-refundable children's credits now paid for the third and subsequent children in a family.

Provincial governments would be able to have the federal government restructure the new child tax benefit to meet their own priorities. Under the current system, children in Quebec and Alberta have family allowance rates that are different from the rest of Canada. Presumably, the two provinces would want to continue some kind of variation under the new system.

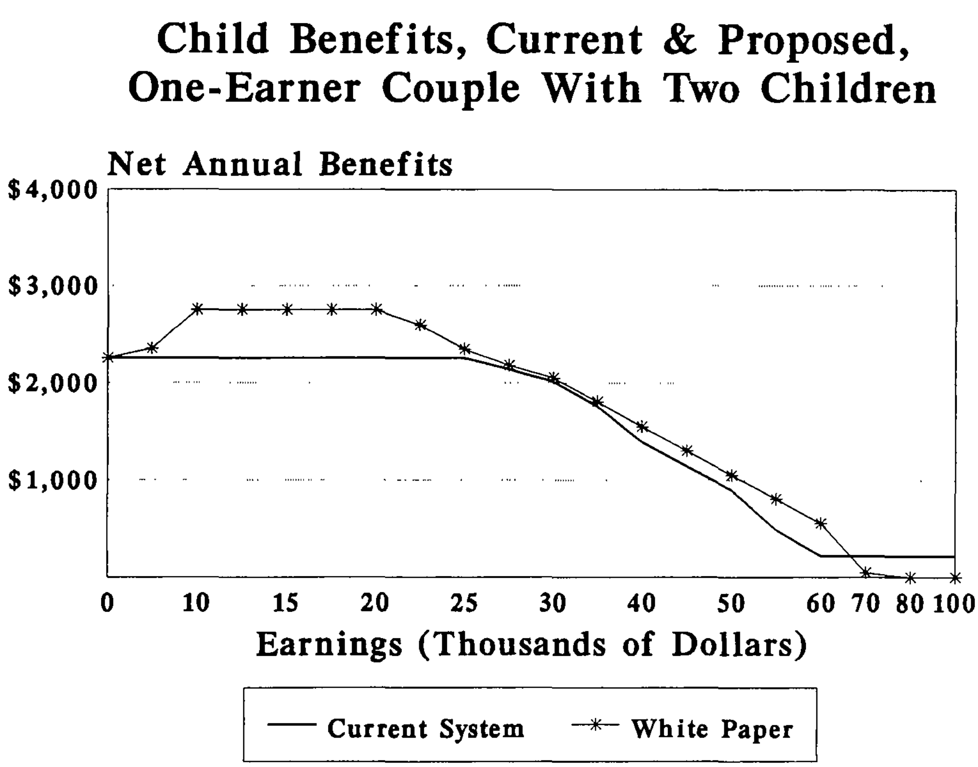
The calculation of child benefits under the new system would be done by the federal government rather than by individual recipients. The first monthly payments would be based on 1991 income as reported to Revenue Canada. Beginning in July 1993, payments would be based on income reported for the 1992 tax year.

Health and Welfare Canada and Revenue Canada would administer the program. Presumably, mothers would have to apply for benefits following the birth of a child. And presumably, all recipients would get statements from the federal government each year outlining how their benefits had been calculated.

THE IMPACT OF THE PROPOSED NEW SYSTEM

One of the striking features of the proposed new child tax benefit is that the vast majority of families would be better off under the new system than they are under the current system. Virtually all single-parent families would do as well or better under the government's proposals. Many two-parent families would also see an increase in benefits. Two-parent families with high incomes would have their benefits reduced or eliminated. However, the proposed increase in the child care expenses deduction would provide larger benefits to all families who were able to claim it, and the main beneficiaries would be well-to-do families.

The following three graphs focus on child benefits and show how different types of families with different incomes would fare under the current system and the proposed new system. All the calculations are for the calendar year 1993.



Graph A

Graph A shows a one-earner couple with two children, one under the age of seven and one aged seven to 14. The solid line shows the benefits that would be provided in 1993 under the current system of child benefits, and the line marked with stars shows the amounts a family would receive under the White Paper proposals.

Parents on welfare or unemployment insurance who have little or no earned income would receive exactly the same amount - $2,253 a year - as they do under the current system. The $2,253 under the new system would be made up of two basic credits of $1,020 each, plus a supplement of $213 for the child under seven. Improved benefits under the new system would start once a family's earned income reaches $3,750 and the $500 earnings supplement is phased in. Working poor families with earnings of $10,000 to $20,921 would receive the full supplement. Total benefits would start declining after $20,921 and would disappear at net income of $70,981.

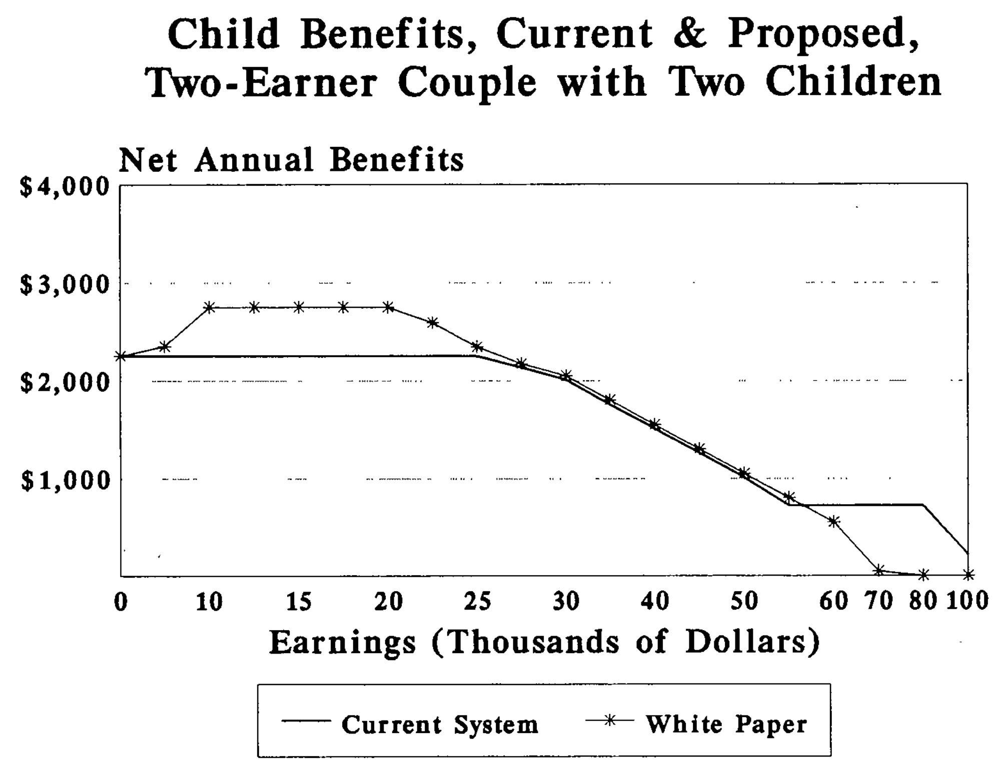
Very wealthy families would receive no benefits at all. One-earner families with two children and net incomes above $58,801 already lose their family allowances to the clawback under the current system. The White Paper would take away their last remaining child benefit, the non-refundable children's credit. The credit is worth $110 a child - $71 a child in federal income tax savings and $39 on average in provincial tax savings.

The impact of the new system would be much the same for two-earner couples with two children, as shown in Graph B on the next page. For the sake of consistency, we assumed that one of the spouses in the family earned 60 percent of total family earnings and the other earned 40 percent.

Families on welfare or unemployment insurance would get no additional benefits under the new system, while working poor families would get up to $500 more a year because of the earnings supplement. Benefits would disappear once family income reached $70,981.

Well-to-do families would lose the non-refundable credits they now receive. As well, families with earnings of $60,000, $70,000 and $80,000 would no longer receive family allowances. Two-earner families get an unusual break under the current system, because the clawback of family allowances is based on the income of the spouse with the higher earnings. The family with $80,000 in earnings in the graph, for example, consists of one spouse earning

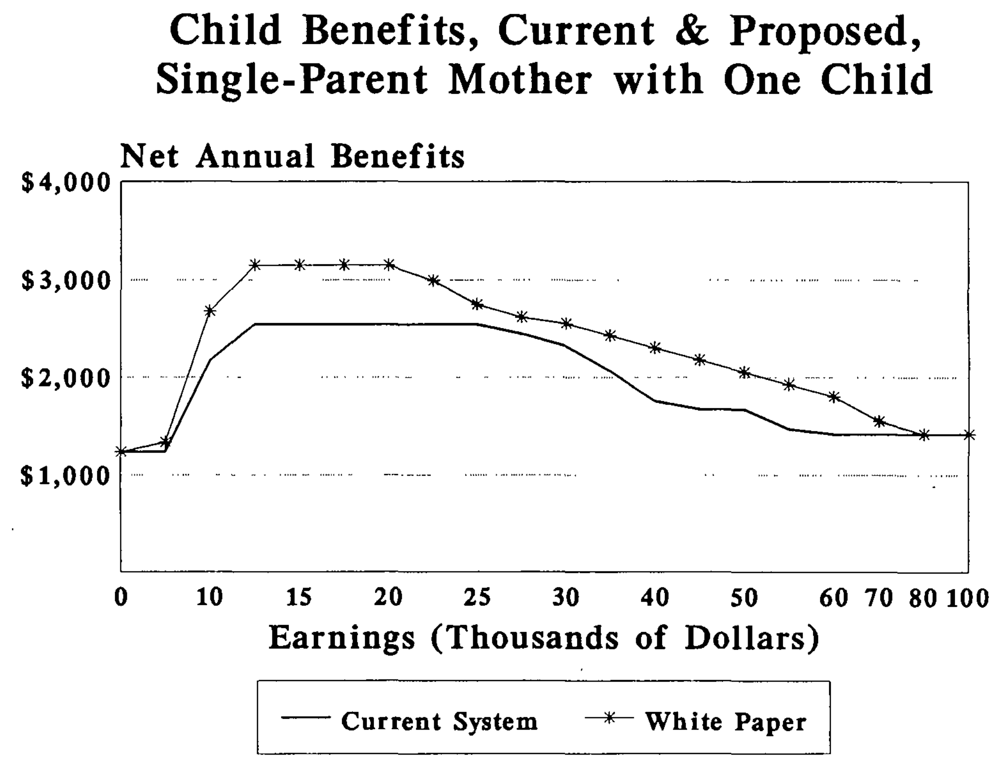
$48,000 and the other earning $32,000. Neither spouse earns enough to have family allowances clawed back.



<u>Graph B</u>

The impact of the new system is slightly different for the single-parent families with one child under age seven shown in Graph C. Most of them would still be able to claim an equivalent-to-married credit worth $1,418 - federal income tax savings of $915 and provincial tax savings of $503 on average. Families with little or no earnings are not helped by the credit, however, because it is non-refundable and can be used only to offset taxes payable.

The graph shows that maximum benefits under the new system would go to working poor families, as they would with other family types. The upward "bulge" in both lines that begins as family income approaches $10,000 is due in part to the equivalent-to-married credit. The additional bulge in the starred line at this same income range is due to the earnings supplement proposed in the White Paper.



<u>Graph C</u>

A disproportionate number of single-parent mothers rely on welfare as their main source of income, and none of these families would get any increases in benefits under the White Paper proposals. At the extreme low end of the graph, a single-parent family with no earned income would receive $1,233 from the child tax benefit - a basic credit of $1,020 plus a supplement of $213 for a child under seven. At the other extreme, a family with earnings of $100,000 would get no child benefit but a total of $1,418 in tax savings from the equivalent-to-married credit.

Overall, the progressive nature of the system is seriously compromised by the child care expenses deduction. Deductions of any kind in the income tax system are regressive because they deliver the largest benefits to taxpayers in the highest tax bracket.

Graph D on the next page shows how the child care expenses deduction makes both the current system and the proposed new system much less equitable. The cross-hatched portion of the bars shows child benefits - family allowances, the child tax credit and non-refundable credits under the current system and the child tax benefit under the proposed new system. The solid black portion of the bars shows savings on federal and provincial taxes from the child care expenses deduction based on the tax bracket of the spouse with the lower income in the family.

The amounts used for the child care expenses deduction are estimates by the National Council of Welfare based on Revenue Canada taxation statistics projected to 1993. In the case of the proposed new system, the figures were increased by a further one-third as an approximate measure of the impact of the federal government's plan to add $1,000 to the maximum claim for each child.

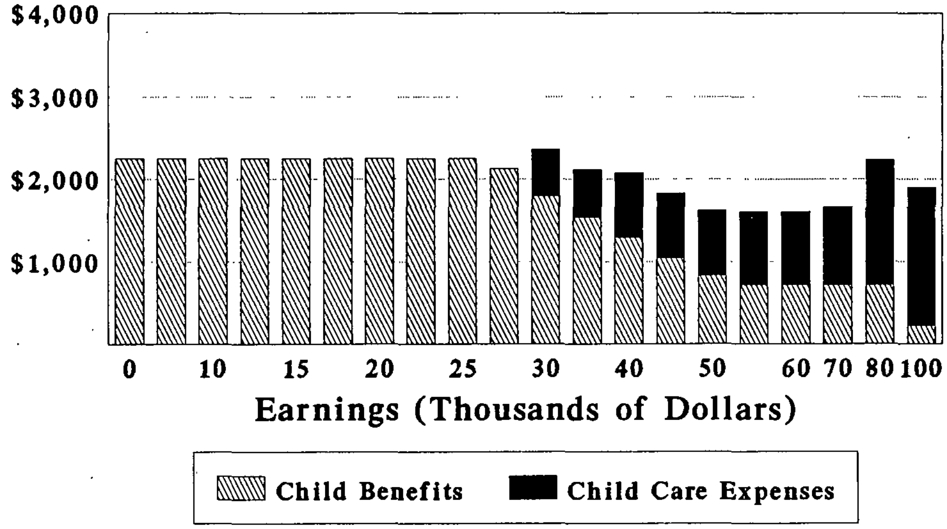
The largest benefits from the child care expenses deduction under both systems go to families with earnings of $100,000 and the smallest benefits go to families with earnings of $30,000. Families earning less than $30,000 are not prohibited from claiming the deduction, but they would get only minimal benefits because their taxable incomes are so low. Also, if they claim the deduction, they would lose the $213 supplement to the refundable child tax credit under the current system or the comparable $213 supplement proposed for the new system.

As shown in the top half of Graph D, the current system of child benefits combined with the child care expenses deduction provides a fairly flat level of benefits to two-earner couples until family earnings reach about $30,000. Total benefits decline until family earnings reach $50,000 or $60,000, then start climbing again to $100,000 and beyond. There is a measure of fairness, but the overall system is certainly not progressive because of the large child care deductions claimed by upper-income taxpayers.

The budget proposals, shown in the bottom half of the graph, would add more anomalies to the system and make it less equitable. Families who depend largely on government programs would get less than working poor families. Some working poor families would get less than others as the $500 earnings supplement is phased in and phased out. At the extremes shown in the graph, the family with no earnings would get $2,253 a year in benefits and the family earning $100,000 would get $2,240.

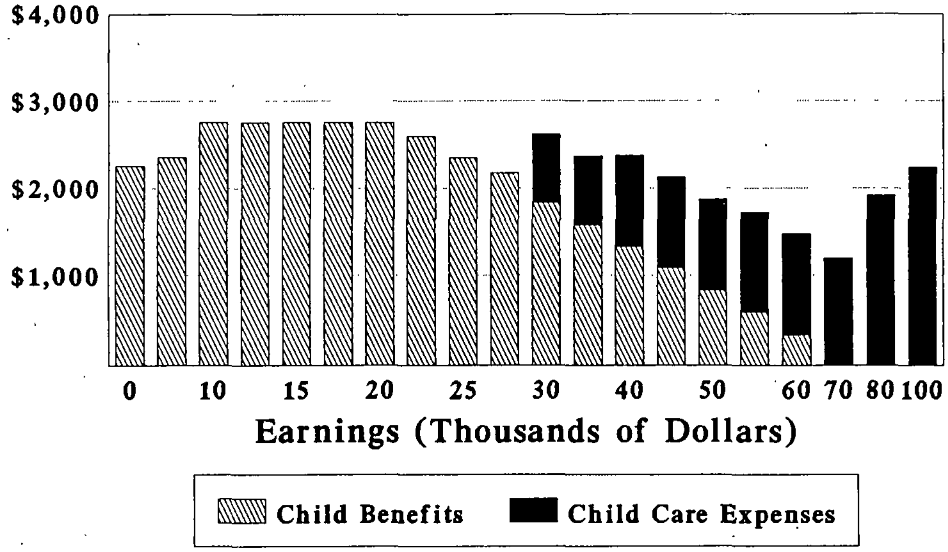
Net Benefits for a Two-Earner Couple With Two Children

Current System



Graph D

Budget Proposals



Two other government announcements need to be considered when assessing the impact of the proposed child tax benefit and the proposed increase in the child care expenses deduction. One is the decision to abandon plans for a new government-supported system of child care. The other is the budget proposal on the status of couples living in common-law relationships.

On February 26, 1992, one day after the budget speech, the Minister of National Health and Welfare told the Commons that the government had decided not to proceed with a new national child care program because of the high costs involved. Instead, the Minister said, additional money would be spent on children at risk. The decision means that child care programs will continue to be funded by Ottawa and the provincial and territorial governments through the Canada Assistance Plan.

The National Council of Welfare is disappointed with the change in federal policy and hopes that the debate on child care will be revived as soon as possible. The Council's 1988 report Child Care: A Better Alternative referred to the chronic shortage of subsidized child care spaces and the pressures this places on low-income parents. "The lack of adequate child care is a major obstacle to single mothers on social assistance, preventing them from returning to the work force or taking the training or upgrading courses they need to get a job," the report said.

The second change in policy relevant to child benefits is the budget proposals on common-law spouses. Beginning in 1993, common-law spouses would be treated the same as married couples by the tax system if they have lived together in a conjugal relationship for at least 12 months or are the natural or adoptive parents of the children living with them. They would be able to take advantage of the non-refundable tax credit for a spouse who does not work outside the home, and they would be able to contribute to spousal registered retirement savings plans. On the other hand, they would no longer be able to claim the equivalent-to-married credit for one child in the family, and they would have to combine their net incomes in the calculation of the proposed new child tax benefit and the existing Goods and Services Tax credit.

The federal government expects to gain $985 million in tax revenue through the 1996-1997 fiscal year from the changes affecting common-law spouses, and provincial governments would gain an additional $540 million in revenue. A portion of this money would come in the form of smaller child benefits for some families where the spouses are not married.

IMPROVING THE FEDERAL PROPOSALS

The new child tax benefit proposed by the federal government is a reasonable starting point for improving the current system. We believe that a few modifications would make the new system better and provide more support to more low-income families. The changes we would like to see are discussed in this section of the report and restated as formal recommendations in the next section.

Our two most important suggestions are to make the $500 supplement available to all low-income families, not just working poor families, and to restore full indexation to the child benefits system. We urge the federal government to make sure that all eligible families actually receive the new child tax benefit, and we urge Ottawa to make sure that provincial and territorial governments do not reduce their benefits to families once a new federal system is in place. On the related issue of child care expenses, we propose that the eligible amount of expenses be raised, but tax assistance for child care should be in the form of a tax credit rather than a tax deduction.

The additional $400 million or so a year to be provided to families under the child tax benefit relates primarily to the $500 earnings supplement for working poor families. The White Paper says the federal government wants to provide more work incentives for low-income families. As much as the National Council of Welfare sympathizes with this objective, we think it would be wrong to use child benefits as a work incentive.

Child benefits are paid by the federal government to parents, but they are really intended for children. We believe that children should be entitled to benefits on the basis of family income alone. They should not have their benefits raised or lowered simply because their parents happen to be in or out of the paid labour force at some point in their lives.

There are many other ways of helping the working poor. One way is to provide tax breaks to taxpayers to help offset work-related expenses. Another idea that has long had the support of the National Council of Welfare is a low-income tax credit that would provide benefits through the tax system to all working poor taxpayers - not just working poor parents with children under 18.

Like the federal government, the National Council of Welfare believes decent jobs are one of the keys to our well-being as a nation. The Council is concerned about incentives and disincentives to work, and it intends to make recommendations to the federal government about work incentives at an early date. Meanwhile, we believe that the proposal in the White Paper for an earnings supplement linked specifically to child benefits should be dropped.

A second shortcoming of the White Paper proposals is the lack of full indexation. The federal government did away with full indexation of child benefits in 1986 at the same time that it eliminated full indexation in the income tax system. Since 1986, benefits have increased to cover only the amount of inflation in excess of three percent a year. Because of partial indexing, the purchasing power of child benefits is declining year by year.

The federal government has realized huge savings from partial indexing. The savings were deceptively modest the first year, but the cumulative savings over the years are enormous. The National Council of Welfare estimates that the federal government saved $2.4 billion on family allowances alone for the years 1986 through 1992.

The White Paper would continue partial indexation at a time when the federal government expects the inflation rate to remain below three percent a year. Under the partial indexing formula, there would be no increases at all in the amount of the new child tax benefit and no increase in the threshold of $25,921. The purchasing power of the benefit would fall by about eight percent between 1993 and 1997 and would continue to fall in subsequent years. More and more families would see their benefits trimmed as their incomes rose and the threshold for maximum benefits remained frozen.

Another of our proposals is designed to ensure that all families who are eligible for the proposed new child tax benefit actually receive it. We suggest that the federal government take steps to advise all parents who now receive family allowances or child tax credits about the new benefit. The government should make arrangements so that mothers apply for additional benefits after the birth of each child. Furthermore, it should review the statistics on the new program to make sure that some parents are not missing out on benefits.

One situation that apparently was not anticipated by the White Paper was the danger that provincial governments might offset the impact of the federal child tax benefit by trimming other benefits that are within provincial jurisdiction. Press reports in May raised the possibility that Alberta might reduce welfare payments to families with children when the new federal benefit came into force in 1993 - even though the White Paper proposals would not provide one additional penny to families on welfare.

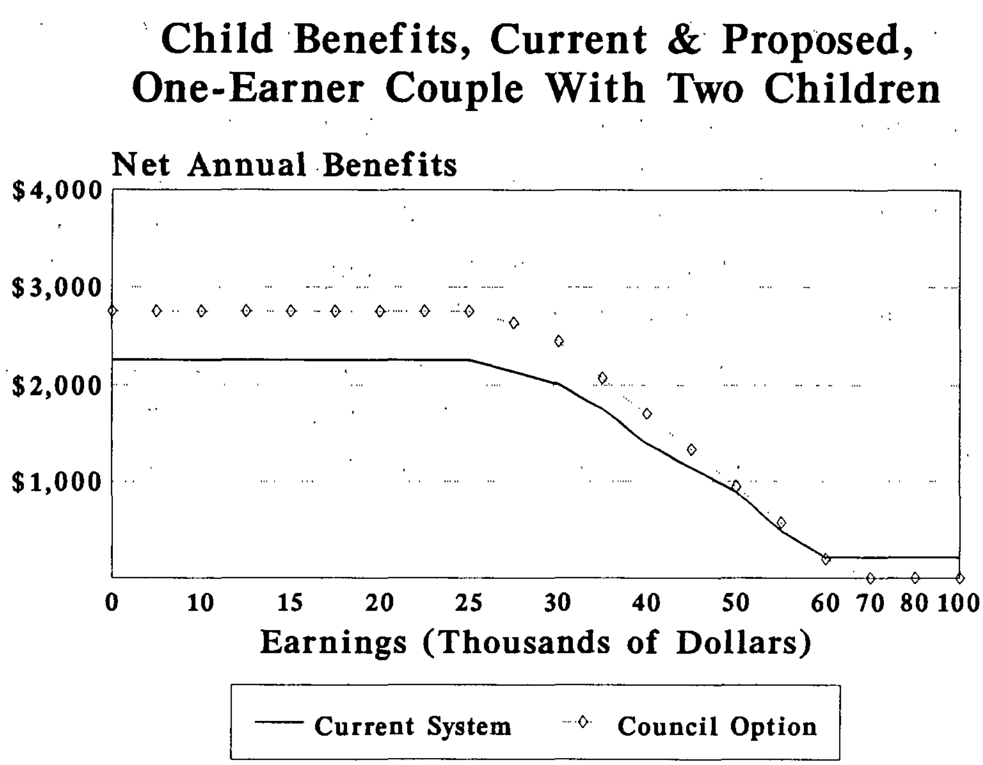
The National Council of Welfare believes it would be unfair and mean-spirited for provincial or territorial governments to reduce their own benefits. We hope this will not be the case, but we believe the federal government would be wise to head off the possibility. Our recommendation is that Ottawa make specific provision in the legislation to withhold an appropriate amount of federal funds from any province or territory which reduces its own benefits to families following the changes in federal child benefits.

The following variation on the White Paper was prepared by the National Council of Welfare as one possible way of improving the government's proposals. It is not the only way of improving the proposals, but we believe it is one that is worthy of serious consideration.

Under our proposals, benefits under the current system would be converted into one non-taxable benefit, like the government proposes. However, the new integrated benefit would be fully indexed to the Consumer Price Index. The basic credit would increase by $500 a family and would go to all families with low incomes - not just working poor families. The supplement of $213 for children under seven would remain. There would be a single threshold for maximum benefits, but two reduction rates - five percent for families with one child and 7.5 percent for other families. The reason for two reduction rates is better targeting of benefits. The higher rate for larger families avoids unduly large increases for well-to-do families.

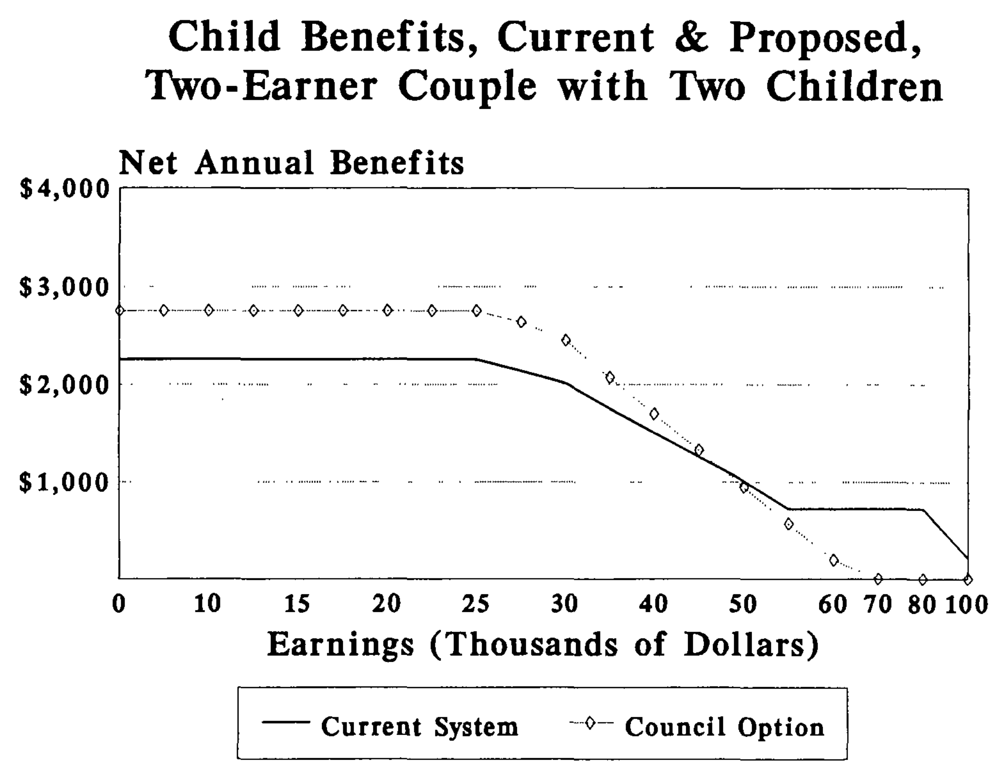
The next three graphs illustrate the impact of our proposals on different types of families with different levels of income.

Graph E shows one-earner couples with two children. The line marked with diamonds and labelled Council Option traces our proposals, while the solid line shows the current system of child benefits. The across-the-board increase of $500 a family that we are suggesting would go to all low-income families, not just families with earned incomes. Families with incomes up to about $40,000 would see sizable increases, because of the way our proposals are designed. Families with incomes between $40,000 and $55,000 would also receive some increases. Only families with high incomes would lose benefits, but the size of the individual losses would be small.



Graph E

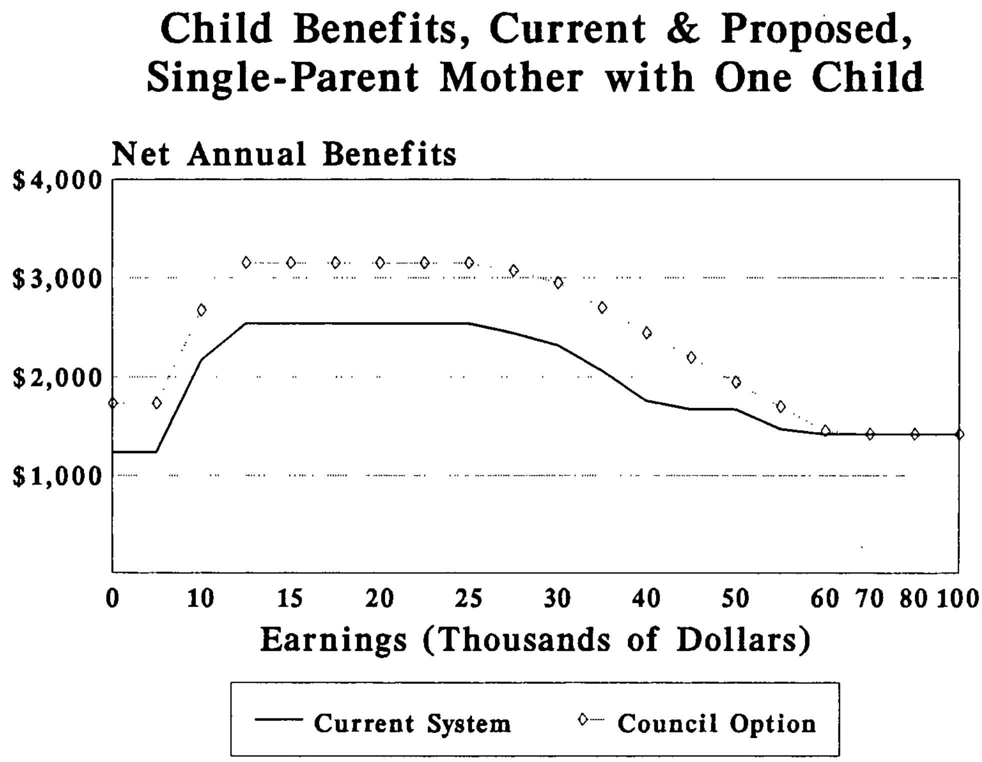
The same general pattern would apply to two-earner couples, as shown in Graph F. Families with earnings of up to about $46,000 would gain benefits, while families with higher incomes would lose benefits.



Graph F

Graph G on the next page shows how our proposals would affect single-parent mothers with one child. Because of the increase of $500 a family, there would be increases in benefits for all single-parent families with incomes up to about $60,000. That income range includes the vast majority of single-parent mothers in Canada.

The equivalent-to-married exemption would stay the same, just as under the White Paper.



Graph G

The National Council of Welfare asked Health and Welfare Canada for an estimate of the cost of this alternative. The Department estimates that the Council option would have cost $720 million more than the current system in 1992, compared to $390 million more for the White Paper proposals. That would put the cost of child benefits under our proposals at about $5.2 billion in 1992, compared to $4.9 billion under the White Paper proposals.

The National Council of Welfare estimates that providing full indexation of the new child tax benefit would cost an additional $650 million through the end of 1996. That figure assumes the first increase in benefits takes place in 1994.

Overall, the cost of the National Council of Welfare's option would be about $21.5 billion from 1993 through 1996. The cost of the White Paper proposals would be about $19.6 billion - or $2 billion less - over the four years.

The Council is naturally concerned about unnecessary government spending, but it sees considerable merit in providing additional benefits to children in low-income families.

First and foremost, every extra dollar in child benefits that is spent on infant formula, nutritious food, warm winter clothing, proper dental and eye care, and better housing is an investment in the future of our children. Study after study has shown it is far better to provide children with a decent start in life than to deal with the problems that arose from growing up in poverty.

Secondly, our proposal for enhancing child benefits is only a small step toward the long-term goal of eliminating child poverty. Figures from Statistics Canada show huge shortfalls between the incomes of poor families and the poverty line. In 1990, for example, the average couple with children under 18 living in poverty had a poverty gap of $7,871, and the gap for poor single-parent mothers and their children was $8,232. Providing an extra $500 a year to these families in the form of higher child benefits is a welcome step, but it is only a start.

Finally, even in times of restraint, governments have shown that money can be found if the political will is there. The 1992 federal budget, for example, contained surtax reductions that would cost the government $6.6 billion in lost revenue through the end of the 1996-1997 fiscal year. The largest tax savings would go to upper-income taxpayers. By contrast, our proposals on child benefits would cost only about one-third as much, and benefits would be targetted to families of low and middle incomes.

Further recommendations by the National Council of Welfare relate to the 1992 budget proposals for increasing the child care expenses deduction. In our 1988 report Child Care: A Better Alternative, we proposed that the child care expenses deduction be frozen at its existing level, coverted to a non-refundable credit, and eliminated completely after seven years. Our preferred alternative at the time was to abolish the deduction immediately, but we had reservations about doing that before there was a child care system large enough and flexible enough to meet the needs of parents.

The federal government's decision not to proceed with new child care programs has forced us to re-evaluate our position. In the absence of new child care programs, we now are prepared to support an increase in the limits on allowable child care expenses. However, we still believe that the tax assistance provided by governments should be in the form of a non-refundable credit rather than a deduction.

The tax break associated with child care is the only child benefit delivered through the tax system that is a deduction from taxable income rather than a tax credit. As a result, the largest benefits go to parents with the highest taxable incomes. A low-income person in the lowest income tax bracket saves $264 on average in federal and provincial taxes for every $1,000 paid for child care. A person in the highest bracket saves $450 for every $1,000 spent.

Credits provide the same benefit to taxpayers regardless of their tax bracket. Under our proposals, families with modest incomes would get an average credit of $264 against federal and provincial taxes for each $1,000 spent on child care. The very richest families would get the same credit of $264 rather than a deduction valued at $450.

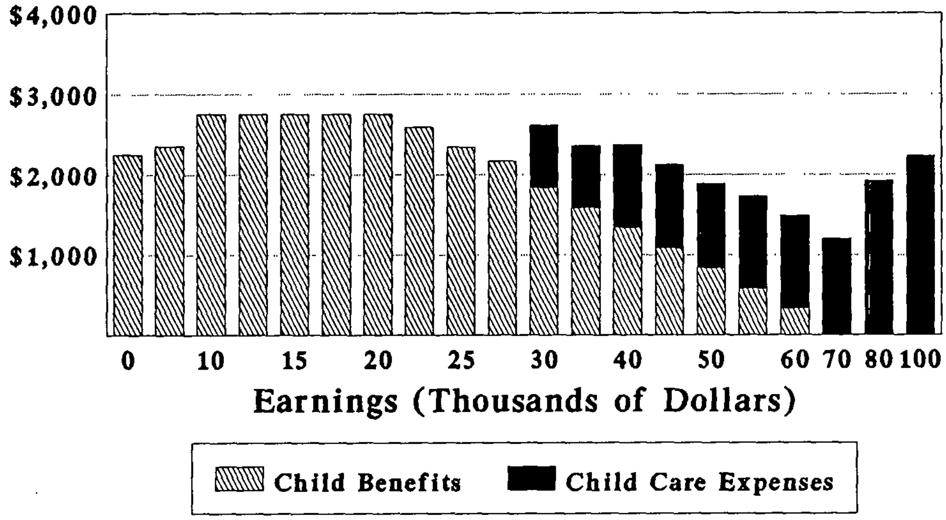
It is difficult to estimate the impact of converting the child care expenses deduction into a tax credit, because the latest available taxation statistics are several years out of date. Rough projections by the National Council of Welfare suggest the savings to the federal government could be in the order of $45 million a year. If the conversion to credits took place as of January 1, 1993, the impact of the change would not be felt until 1993 tax returns were filed in the spring of 1994.

Graph H on the next page shows how the federal government's proposals on child benefits and child care expenses compare with the modifications proposed by the National Council of Welfare. The graph shows benefits for two-earner couples with two children. The cross-hatched portions of the bars show the new child tax benefit, and the black portions show the tax breaks to be provided for child care.

The federal government's proposals, in the top half of the graph, provide no increase in benefits for low-income families with no earned income, yet they offer significant tax savings for very wealthy families to offset the cost of child care. The overall effect is not progressive. The family with no earned income would get a total of $2,253 in benefits, while the family with earnings of $100,000 would get $2,240.

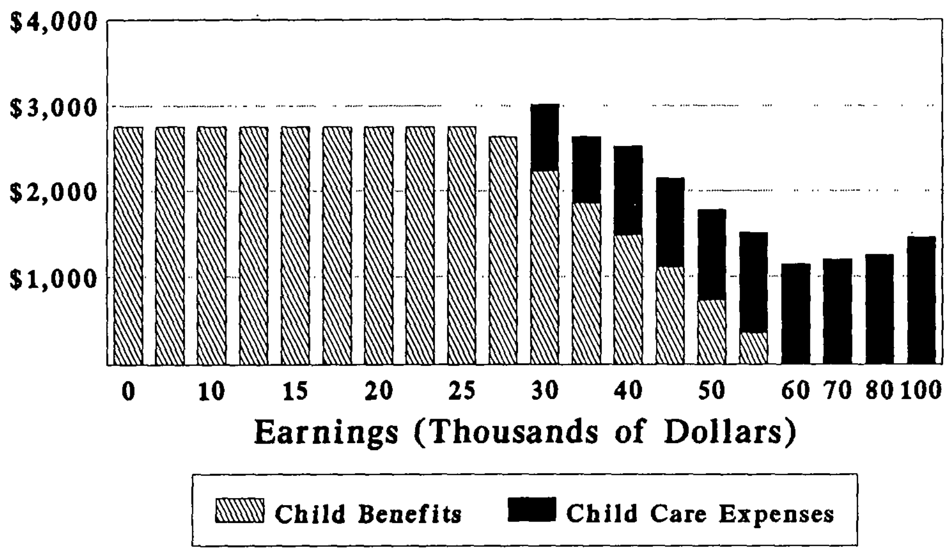
Net Benefits for a Two-Earner Couple With Two Children

Budget Proposals



Graph H

Council Proposals



The recommendations of the National Council of Welfare shown in the bottom half of the graph treat all low-income families the same. The tax breaks for child care expenses are still sizable, but the overall result is progressive. The largest benefits would go to families with low incomes. The smallest benefits would go to families with high incomes. The family with no earnings would get a total of $2,753, and the family earning $100,000 would get $1,456.

All the refinements that we are suggesting meet the criteria set forth in the White Paper. Our proposals simplify the current system of child benefits, and they would be noticeably simpler than the White Paper proposals. Like the White Paper, our proposals would deliver more money to parents month by month. Our proposals would increase benefits for more low-income and middle-income families than the government's proposals, and they would target benefits better.

For all these reasons, the National Council of Welfare urges the federal government to consider modifying the proposals in the White Paper and its companion proposals on child care expenses.

RECOMMENDATIONS

The National Council of Welfare welcomes proposals in the federal government's White Paper on child benefits that would increase benefits for low-income families and simplify the system of child benefits. At the same time, we make the following recommendations for improving the White Paper proposals and the proposals on child care expenses:

1. The additional benefit of $500 a family should go to all poor families, not just poor families with earned income. Other ways should be found to provide incentives for people to work.

2. The proposed new child tax benefit should be fully indexed to the Consumer Price Index of Statistics Canada. Full indexing should take place once a year and should apply to both the amount of the benefit and the income threshold for maximum benefits.

3. The federal government should take steps to ensure that all families eligible for the new child tax benefit actually receive the benefit.

4. The federal government should withhold an appropriate amount of federal funds from provinces and territories which reduce provincial and territorial benefits for families once the new child tax benefit comes into being.

5. In the absence of new federally sponsored child care programs, there should be an increase in the amount of child care expenses which are eligible for tax assistance.

6. Tax assistance for child care expenses should be in the form of a tax credit rather than a tax deduction. The credit should be 17 percent of the federal tax payable.

APPENDIX: THE CURRENT SYSTEM OF CHILD BENEFITS

Family Allowances

The federal government introduced family allowances in 1945. In 1992, families in most parts of Canada get cheques of $34.88 a month for each child under the age of 18. Special allowances are paid on behalf of about 31,000 children who are supported by social service agencies or government departments and institutions. The special allowance rate for 1992 is $52.03 a month.

Family allowances are paid to 3.7 million families on behalf of nearly 6.8 million children. Normally, the monthly cheques go to mothers rather than fathers. The gross cost of family allowances to the federal government is about $2.8 billion a year and the net cost about $1.9 billion.

Family allowances are considered taxable income for the purpose of federal and provincial income taxes. Parents who are too poor to pay taxes get to keep the full amount of the payments they receive. Parents who are subject to income taxes pay tax on family allowances according to their tax bracket. The higher the bracket, the more taxes paid and the lower the net or after-tax benefit.

Family allowance payments for all of 1992 add up to $419 a child. A parent in the 26-percent federal income tax bracket, for example, pays $109 in federal taxes and $60 on average in provincial taxes. The value of family allowances after taxes is $250.

A province can have the family allowance rate varied according to the age and/or number of children in a family, provided that no allowance is less than 60 percent of the national rate and total payments over a four-year period are the same as they would have been under the national rate. Only two provinces have chosen this option. Alberta asked that the rate be varied with the age of the child, and Quebec asked for variations based on both the age of the child and the number of children in the family. The 1992 rates, shown in the table on the next page, range from $27.60 to $50.10 a month in Alberta and from $22.30 to $91.58 in Quebec.

<table>
<tr><th colspan="5"><u>FAMILY ALLOWANCE VARIATIONS, 1992</u></th></tr>
<tr><th colspan="2">Alberta</th><th colspan="3">Quebec</th></tr>
<tr><th rowspan="2">Age</th><th rowspan="2">Rate</th><th rowspan="2">Children in Family</th><th colspan="2">Rate</th></tr>
<tr><th>Ages 0-11</th><th>Ages 12-17</th></tr>
<tr><td>0-6</td><td>$27.60</td><td>First child</td><td>$22.30</td><td>$30.86</td></tr>
<tr><td>7-11</td><td>$33.40</td><td>Second child</td><td>$33.25</td><td>$41.81</td></tr>
<tr><td>12-15</td><td>$44.00</td><td rowspan="2">Third and subsequent child</td><td rowspan="2">$83.02</td><td rowspan="2">$91.58</td></tr>
<tr><td>16-17</td><td>$50.10</td></tr>
</table>

Beginning in 1974, family allowance rates were supposed to increase automatically each year in line with increases in the Consumer Price Index of Statistics Canada, an arrangement known as indexation or indexing. Full indexing of benefits was compromised in 1976, 1983 and 1984 as a federal government cost-cutting measure and was subsequently abandoned in 1986. Since that time, benefits have increased to cover only the amount of inflation in excess of three percent a year. Because of partial indexing, the purchasing power of family allowances has declined year by year.

Further reductions in family allowances were introduced in the 1989 federal budget speech in the form of a repayment or "clawback" of benefits from higher-income families. Initially, the clawback took effect when one-earner couples had net incomes in excess of $50,000 a year or when the higher earner in a two-earner couple had net income over $50,000. The threshold for the clawback increases each year by the rate of inflation in excess of three percent.

The clawback rate is 15 percent of family allowances for every dollar of net income over the threshold. If parents have income of $1,000 over the threshold, for example, they have to repay $150 of their family allowances. As income continues to rise, benefits soon disappear.

The clawback effectively ended family allowances as a universal social program for parents with dependent children and reduced the cost of the program to the federal government.

The initial estimates were that 15 percent of all families receiving family allowances would lose benefits. The federal government expected savings of $318 million a year.

Refundable Child Tax Credit

The refundable child tax credit was enacted into law by Parliament in 1978, and families got their first benefits in early 1979. The basic payment for the 1992 tax year is $601 for each child under 18. Children under seven get a supplement of up to $213 if their parents do not claim the child care expenses deduction.

Benefits are paid either once or twice a year to 2.3 million families on behalf of 4.7 million children. The credits are non-taxable income. The cost of the program to the federal government is about $2.2 billion a year.

The income threshold for maximum benefits for the 1992 tax year is $25,921. Since the very beginning of the program, the reduction rate has been five percent. In other words, the maximum credit is reduced by five cents for every dollar of net income over the threshold. As net income rises, benefits fall and eventually disappear.

The size of the credit and the income threshold both increase each year by the cost of living in excess of three percent. Because indexing is partial rather than full, the purchasing power of the credit automatically falls each year and fewer families qualify for maximum benefits.

Since the fall of 1986, the federal government has paid child tax credits to some poor families in two installments. About two-thirds of the total comes before Christmas as an advance payment. The rest is paid when parents file their income tax returns the following spring. Advance payments go to parents with three or more children who would normally qualify for the maximum child tax credit and to parents with one or two children whose net incomes are two-thirds of the normal threshold. The threshold for advance payments in 1992 for families with one or two children is net income of $17,281 in 1991.

Non-Refundable Tax Credits for Children

Since the income tax system began in 1918, taxpayers have received some kind of tax break for dependent children. The system now has three kinds of non-refundable credits for children. There are credits for children under 18, an enhanced credit for older children with disabilities and an equivalent-to-married credit for children in single-parent families. Non-refundable means that benefits go only to parents with taxable incomes. Unlike the refundable child tax credit, non-refundable credits are of no use to parents who are too poor to pay taxes.

The maximum credits for dependent children in 1992 are $71 for each of the first two children in a family and $142 for each additional child. The maximum credit for an older disabled child is $269. The maximum equivalent-to-married credit is $915, the same amount as the non-refundable credit for a spouse. Single parents claim the equivalent-to-married credit on behalf of one child in the family. Any other children qualify only for the normal credit. The amounts of the credits are indexed to the rate of inflation in excess of three percent a year.

Non-refundable credits also reduce provincial income taxes. Savings on federal and provincial taxes from the normal children's credit in 1992 average $110 a child, for example.

The cost of the normal credit to the federal and provincial governments plus the enhanced credit for disabled children is roughly $700 million in 1992. The cost of the equivalent-to-married credit is about $150 million.

Child Care Expenses Deduction

To help ease the burden of child care expenses, the federal government permits parents who work outside the home to deduct certain amounts for child care from their taxable incomes. Deductions are permitted only for child care that allows a parent to work in the paid labour force or take job training. Expenses have to be supported by receipts, and parents must supply Revenue Canada with the names and social insurance numbers of care-givers.

For 1992, parents are allowed to deduct up to $4,000 in child care expenses for each child under the age of seven and $2,000 for each child aged seven to 14 or for each older child with a disability.

The cost of the child care expenses deduction to the federal and provincial governments in 1992 is roughly $500 million. Unlike other child benefits, there is no provision for indexing the deduction, even partially. Unless the federal government specifically decides to make changes, the maximum deductions stay the same year after year.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

Mad. Ann Gagnon (Chairperson)
St-Ignace de Loyola (Quebec)

Ms. Enza Colavecchia
Brampton, Ontario

Ms. Ute Davies
Calgary, Alberta

Mad. Anne Marie Desmarais
Val d'Or, Quebec

Ms. Nova Dickie
Nanoose Bay, British Columbia

Ms. Sylvia Gwozd
Richmond, British Columbia

Mr. Marcel Lalonde
Ville Laval, Quebec

Dr. Myrna Lashley
Nuns' Island, Quebec

Ms. Sharon MacKay
Hunter River, Prince Edward Island

Ms. Judy Mintz
Dundas, Ontario

Ms. Nancy Nash-Foster
Kingston, Ontario

Mr. Ronald Noseworthy
Grand Bank, Newfoundland

Mr. Ted Paterson
Winnipeg, Manitoba

Mr. Thomas Power
St. Mary's Bay, Newfoundland

Ms. Wendy Terry
Toronto, Ontario

Mr. Gregory Zed
Renforth, New Brunswick

****

Acting Director: Steve Kerstetter

NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, medicare, poverty lines and poverty statistics, the retirement income system, the aged, tax reform, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, poverty coverage in the press and welfare reform.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, Pièce 1876, Immeuble Jeanne Mance, Ottawa K1A 0K9.