

PROFILE OF A FEDERAL FISCAL MEASURE

A DESCRIPTIVE STUDY OF THE WORKING INCOME TAX BENEFIT (WITB)

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What is the WITB?

In 2007, the federal government introduced the Working Income Tax Benefit which has a dual purpose: to provide a financial support to low-income workers to stay in the work force, and to help reduce the disincentives that welfare recipients face when they leave welfare for work.

This is a refundable tax credit. That means it can help reduce or eliminate the amount of tax owed, or may be paid as a refund, even if no income tax is due. It helps people with low earnings by supplementing their wages. For those on welfare who qualify, it further increases their income because it is fully exempt: welfare benefits are not reduced.

The WITB calculation is based on a combination of earnings or working income and total family net income, including welfare benefits, making it a challenge to understand and estimate. The family income is also used by Canada Revenue Agency to calculate amounts such as the Canada Child Tax Benefit, the GST/HST credit, etc.

From the outset, the federal government invited provinces and territories to modify or 'reconfigure' the WITB design to harmonize best with their income security programs. Quebec, British Columbia and Nunavut have had their own WITB model since 2007. Alberta developed its own model in 2009.

In *Welfare Incomes 2009*, the National Council of Welfare recommended that the federal government evaluate the extent to which the WITB is achieving its objectives. With this short document, the NCW presents a descriptive analysis of the measure for 2008.

Highlights

- Almost 4% of Canadian households received a WITB payment in 2008; 3.7% of households who did not receive any social assistance in that year received WITB, whereas there was almost twice the proportion for households reporting some social assistance benefits (7.3%).
- The average WITB payment ranged from \$312 to \$537 for all Canadian households and from \$293 to \$465 for social assistance recipients.
- Among all Canadian households who received a WITB payment in 2008, 24% received the maximum benefit, compared to 14% for the social assistance recipients.

- Across Canada, 7% of social assistance households reported earnings in 2008¹. Broken down by type of family, the proportion varied from a low of 3% for couples without children to a high of 20% for lone parents. Among jurisdictions, the proportion varied from 4.5% for British Columbia to 20.4% for Nunavut.
- 2008 median earnings of all Canadian households ranged from \$8,641 in provinces and territories using the federal WITB model to \$17,177 in Nunavut. Median earnings of social assistance recipients alone ranged from \$6,090 in Quebec to \$15,338 in Nunavut; they were \$7,165 under the federal model.

Who received the Working Income Tax Benefit?

Family types

Among the sample of 25,251,594 Canadian households, 986,743 households or 3.9% received a WITB payment in 2008. More unattached individuals than any other family type received the payment.

Fifty-eight percent of all households who received a WITB payment were unattached individuals, but they only made up 40% of the sample. On the opposite, couples without children made up only 14% of the WITB recipients but they represented 45% of the sample. Eighteen percent of the lone parent families received a WITB payment, four times more than their share of the sample (4% only).

Recipients of the Working Income Tax Benefit and of social assistance

We wanted to know more about the recipients of the Working Income Tax Benefit who also received welfare payments in 2008, because they are one of the key groups the measure was created for. Therefore, we looked at households who received both benefits and compared their family structure to the rest.

There were 1,412,360 households who reported a social assistance payment in 2008, comprising 5.6% of the total sample of Canadian households. The unattached individuals represented 40% of the sample of all households, but 68% of the social assistance recipients. Lone parents were also over-represented in the social assistance recipients group.

In 2008, among the 1,412,360 households who received a social assistance payment, 103,707 households or 7.3% received a WITB payment. Among those who received both payments, 46,701 were unattached individuals and 39,368 were lone parent families.

¹ We don't have the same statistics for all Canadian households.

Geographic variation

Illustrating the number of Working Income Tax Benefit recipients according to the different models, there seems to be a great variation by jurisdiction. Where the proportion of all households reached 12.5% in Nunavut, take-up was around 4% everywhere else. For the social assistance recipients, the WITB take-up rate was even higher: 20.5% in Nunavut, but below 8% elsewhere.

Is the geographic variation in using WITB linked to the models themselves? This explanation is quite possible, since there are several elements that have been reconfigured by the three jurisdictions that opted for their own model: the maximum WITB payments, the working income base amount for WITB eligibility, and the maximum income level for eligibility. It could also be affected by the possible difference in the population's earnings. It could possibly also be based on a different level of knowledge of the benefit by the potential users. Unfortunately, we did not find any information on this.

Average Working Income Tax Benefit payment by type of family and model

The average payment ranged from \$312 in Nunavut to \$537 in British Columbia for all households and from \$293 in Quebec to \$465 under the federal model for social assistance recipients' households.

On average, lone parent families and couples with children received higher WITB payments, especially under the federal model and in British Columbia.

Average payments are always lower for social assistance households than for all households. As with all households, lone parent families and couples with children on social assistance received, on average, higher WITB payments than other types of families. In Nunavut, there is less variation between average payments of all households and social assistance households.

The maximum WITB payment

The maximum WITB payment varies with each WITB design. The following table reports the amounts for the 4 models effective in 2008.

	Quebec	British Columbia	Federal Model	Nunavut
Single person without a child	\$887.52	\$800	\$510	\$438
Couples and single parents	Couples: \$915.52 Single parents: \$887.52	\$1,422	\$1,019	\$876

We found out that among all Canadian households who received a Working Income Tax Benefit payment, 24% received the maximum benefit for their respective jurisdiction. Among all social assistance households who received the benefit, only 14% received the maximum benefit. Because the benefit payment is linked to reported earnings, and earnings from social assistance households are lower than those of working population in general, this is not surprising.

When broken down by family type, there is some variation in the percentage of households who received the maximum WITB. When grouping the non-recipients, the unattached individuals had the highest percentage: 27% received the maximum benefit compared to 18% for the couples without children.

For social assistance households, the range was similar but percentages were lower: 16% of couples with children obtained the maximum benefit and only 8% of couples without children.

Reporting Earnings

In 2008, 7% of social assistance households reported earnings across Canada, with the exception of Nunavut with 20.4%. The different definitions of net earnings and productive work might explain the variation.

Among households receiving social assistance, lone parent families reported the greatest proportion of earnings (19.9%), followed by couples with children (15.4%). Couples without children (3.2%) and unattached individuals (4.8%) had smaller proportions.

Median earnings versus base and maximum amounts for WITB eligibility

The median of household earnings reported ranged from \$8,641 (federal model) to \$17,177 (Nunavut) for all households, and it ranged from \$6,090 (Quebec) to \$15,338 (Nunavut) for social assistance households.

	Federal Model	British Columbia	Quebec	Nunavut
Working income base amount for WITB eligibility	\$3,000	\$4,750	\$2,400	\$8,500
Median of social assistance households earnings	\$5,920	\$7,478	\$5,921	\$14,879
Median of all households earnings	\$7,940	\$9,691	\$9,157	\$18,076
Maximum income level for eligibility	\$13,081	\$14,387	\$14,859	\$32,894
Market Basket Measure , year 2008, 1 person living in the largest urban area in that province, Toronto, Vancouver and Montréal	\$15,565	\$15,019	\$14,046	n/a
After-tax Low income cut-offs , year 2008, 1 person living in a community size of 500,000 inhabitants and more, like Toronto, Vancouver or Montréal	\$18,373	\$18,373	\$18,373	n/a
Gap between median of social assistance earnings and base amount	\$2,920	\$2,728	\$3,521	\$6,379
Gap between the Market Basket Measure (MBM) for 2008 and maximum income level for eligibility	\$2,484	\$632	-\$813	n/a
Gap between after-tax LICO for 2008 and maximum income level for eligibility	\$5,292	\$3,986	\$3,514	n/a

Reference for after-tax LICO and MBM thresholds:

<http://www.statcan.gc.ca/pub/75f0002m/2011002/tbl/tbl01-eng.htm>

For all models, the federal one and the three reconfigurations, the median of the reported earnings fits between the base amounts and the maximum amounts. The gap between the social assistance earnings and the base amount varies between \$2,728 in British Columbia and \$6,379 in Nunavut. It will be interesting to see if analyses of subsequent years' data will show such a small gap between median earnings and base amount. Some could argue to have bigger gaps allowing for more eligible users at both ends of the earnings distribution (below the point where users are not yet eligible for the benefit or above the point where users are no longer eligible).

Maximum income level for eligibility compared to poverty measures

In 2008, the maximum income level for eligibility was \$5,292 below the after-tax LICO for 2008 for a single person in a community the size of Toronto, \$3,986 below the measure in Vancouver and \$3,514 below the measure in Montreal. The maximum income level for eligibility was as well below the MBM in Ontario by \$2,484 (one of the provinces using the federal model) and in British Columbia by \$632. Quebec was unique in 2008 in having configured its maximum income level for eligibility in such a way that it stood above the MBM for a single person in Montreal.

Note that in 2010, the WITB maximum income level for eligibility in Ontario was still below the after-tax LICO, but by less. In Toronto, the after-tax LICO was \$18,759, while the WITB income level was \$16,667, a difference of \$2,192 compared to a gap of \$5,292 in 2008. When using the MBM thresholds, we estimate that the WITB maximum income level of the federal model was exactly at the MBM threshold for one person in Toronto.

Benefits usually stop before people even reach a poverty level income, and depending on jurisdiction and circumstances, recipients can often face very high marginal tax rates just as they are starting to get ahead. ([The Dollars and Sense of Solving Poverty](#), 2011, 83)

What's Special About This Bulletin?

A statistical profile of WITB elements and recipients

We used basic customized data information on WITB recipients, provided by the Canada Revenue Agency, broken down by those household types used in our Welfare Incomes series. The customized information was also broken down by WITB configurations, since calculations differ from the federal model.

Limits to the profile

First, this profile is an overview of WITB recipients in 2008. Amounts and some models calculations have changed since then. For instance, Alberta was using the federal model, and has developed its own model since then. It does not look at whether children are under 6 years of age or not (definition of dependant

child) or if recipients of WITB are students or not; we recognize that there is no information whether individuals are men or women and this could be informative.