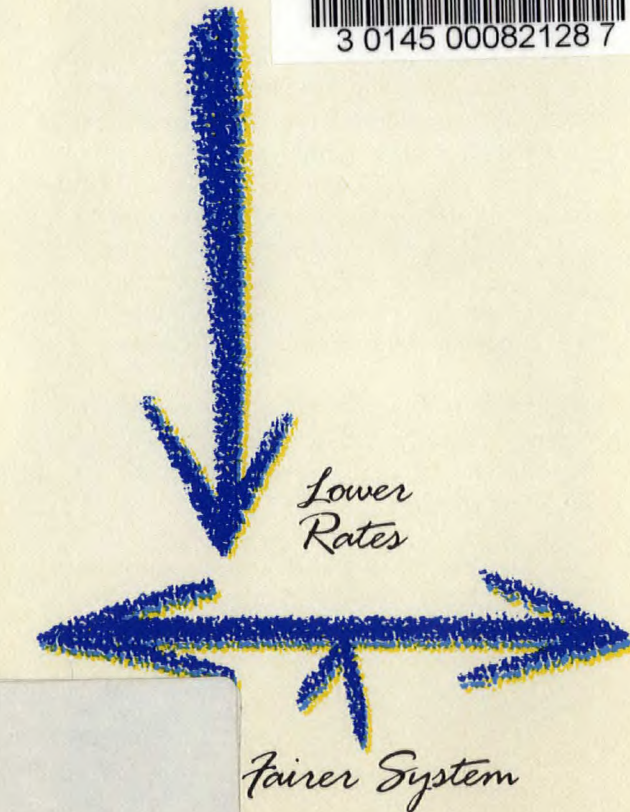


How
Tax Reform
Benefits
Families
With Children



Highlights for Families
with Children

Beginning in 1988, tax reform brings improved benefits for families with children. The vast majority will pay less tax.

The New System

Lower rates: Personal income tax rates will be lowered. Instead of 10 federal tax brackets rising as high as 34 per cent, there will be three.

Taxable income	Federal tax rate	Proportion of taxpayers
Under \$27,500	17%	66%
\$27,501 – \$55,000	26%	29%
Over \$55,000	29%	5%

Fairer System

All personal tax exemptions and some deductions will be replaced by tax credits. Exemptions and deductions, which reduce taxable income, are worth more to taxpayers in the higher income brackets than the lower brackets. The new federal tax credits are fairer. They directly reduce tax and provide the same tax reduction for all taxpayers.

Federal tax credits of special interest to families with children:

Basic personal*	\$1,020
Married or equivalent	\$ 850
First or second dependent child 18 and under**	\$ 65
Third and subsequent dependent child 18 and under	\$ 130

*The total value of these credits is about one and one-half times their federal value in all provinces except Quebec. For example, the basic personal credit of \$1,020 will also reduce provincial taxes by an average of about \$560 for a total value of \$1,580.

**Under the old system, the value of the child tax exemption was scheduled to equal the value of the family allowance by 1989. The new basic credit has been set at a level equal to about 17 per cent of the family allowance payable in 1988 for the first and second child 18 years of age and under.

Improved Benefits for Families
with Children

- The refundable child tax credit, which is income-tested, was previously scheduled to rise by \$35 per child to \$524 for 1988. With tax reform, it will be increased by a further \$35 to \$559. Because it is refundable, the higher credit helps all low-income families, including those who pay no tax. It also helps the majority of middle-income families, with greater benefit to larger families.
- The dependent child credit for the first and second child will be \$65.

- For the third and each subsequent child aged 18 and under the credit will be set at \$130 in order to provide additional assistance to larger families.
- The dependent child credit is available for dependent children up to age 18, including the year in which they turn 18.
- Children may earn up to \$2,500 before the dependent child credit begins to be reduced.
- For tax purposes, family allowance benefits will be reported by the higher-income spouse. There will be no change to the provisions which determine who receives the family allowance payment.
- Lower-income families will benefit from an increase in the refundable sales tax credit in 1988 – to \$70 from \$50 for adults and to \$35 from \$25 for children. This increase will protect lower-income families from changes being made in the federal sales tax in the first stage of reform.
- Families will benefit from changed treatment of education expenses. The current \$50 per month educational deduction will become a \$10 per month tax credit and the tuition fee deduction will become a tax credit at 17 per cent. Up to \$600 of these credits will be transferable from the student to a supporting parent, grandparent or spouse.
- As a result of tax reform, the income level at which families start paying tax will be higher. For example, a typical couple with one earner and two children will not pay any tax until their income reaches \$18,890, compared with the present threshold of \$16,770.

How Taxes Will Change

The tables that follow show how taxes will decrease for most families with children 18 and under, who have primarily wage and salary income and claim standard deductions and tax credits. Some families claiming special tax deductions or exemptions, or with substantial investment income or self-employment earnings, will be subject to stricter rules and therefore may experience tax increases. The increase in the sales tax credit and new child care provisions are not included in these tables.

Personal Income Tax Changes in 1988
for a One-Earner Couple With
Two Children, Claiming Standard
Deductions and Exemptions

(Federal and provincial taxes combined)

Income level	Old tax	New tax	Tax cut*
\$10,000	– \$1,015**	– \$1,120**	\$105
15,000	85	– 400**	485
20,000	1,470	885	585
25,000	2,925	2,215	710
30,000	4,705	4,115	590
40,000	9,010	8,725	285
50,000	13,465	13,150	315
75,000	25,350	24,370	980

(Numbers may not add due to rounding.)

*The federal-provincial calculation approximates the average tax cut in the nine provinces party to personal income tax collection agreements.

**A minus sign represents a refund. Tax cuts at the two lowest income levels in the tables take the form of larger refunds.

Personal Income Tax Change in 1988 for a
Married Two-Earner Couple With Two Children
Claiming Standard Exemptions and Deductions

(Federal and provincial taxes combined)

Income level	Old tax	New tax	Tax cut*
\$10,000	– \$ 1,050**	– \$ 1,120**	\$ 70
15,000	– 455**	– 735**	280
20,000	415	170	245
25,000	1,415	1,110	305
30,000	2,510	2,225	285
40,000	5,810	5,295	520
50,000	9,460	8,725	735
75,000	18,585	17,495	1,100

Further Increases
In Child Care Benefits

- In addition to improved benefits under tax reform, the government's new national child care initiatives will:
 - Increase the refundable child tax credit for children aged 6 and under or 7 to 14 with special needs by \$100 in 1988 and by \$200 in 1989 and subsequent years for lower- and middle-income parents who care for their children at home or who do not have receipts for child care;
 - Double the deductions for receipted child care expenses in 1988 to \$4,000 per child for children aged 6 and under and for older children with special needs. The deduction remains at \$2,000 for children aged 7 to 14, but the total limit of \$8,000 per family is being removed to ensure fair treatment of expenses for larger families.

For further information on child care write or call the Department of National Health and Welfare at the following address and phone number:

National Day Care Information Centre
Health and Welfare Canada
Ottawa, Ontario K1A 1B5
(613) 957-0611