

The non-refundable child tax credit is partially de-indexed, like family allowances, by the amount of inflation over three percent a year. In 1990 the credit is \$68 for the first and second child and \$136 for the third and each subsequent child; adding in average provincial income tax savings, total benefits average \$105 and \$211, respectively.

The conversion of the children's tax exemption to a non-refundable credit marked a victory of vertical equity over horizontal equity. The credit is fairer than the exemption if we measure fairness in terms of progressivity (i.e., social benefits should vary according to income, with the largest benefit going to the poor and vice versa). Although the non-refundable credit pays the same amount to all families which owe income taxes, measured as a percentage of income it is in fact a progressive social benefit since it is worth more to lower-income taxfilers.

On the other hand, the non-refundable child tax credit provides smaller tax savings to middle and upper-income families. Because the credit was set so low (14 percent of what the exemption would have been, which was the lowest of all the conversions from deductions and personal exemptions to credits), even many working poor and lower middle-income families get less from the credit than they got from the exemption. For example, a middle-income one-earner family with two children and income of \$40,000 will get \$211 in average federal and provincial income tax savings from the non-refundable credit in 1990; if the exemption were still in effect, the family would save \$322 in income taxes. A one-earner family earning \$80,000 will see its tax bill reduced by \$211 by the credit, but would save \$360 if the exemption still existed.

With the advent of the clawback on family allowances, the non-refundable child tax credit is the only child benefit program available to all well-off parents. But at an average value in federal and provincial income tax savings of just \$105 for each of the first two children (which is as many as most parents have), the non-refundable child tax credit provides little more than symbolic recognition of child-rearing costs. Moreover, partial de-indexation is steadily reducing the value of this program each year. Canada's child benefits system now only feebly realizes the goal of horizontal equity.

### **Refundable Child Tax Credit**

The refundable child tax credit was created in 1978. It is geared to lower and middle-income families with children and thus serves the anti-poverty/income supplementation objective of child benefits.

The credit is a "diminishing" benefit, which means that the full amount goes to families with incomes below a set level (the "threshold"), above which benefits are reduced increasingly to the point where they disappear altogether for higher-income families. Families which owe income taxes deduct their child tax credit from their tax bill; families too poor to pay taxes receive their tax credit in the form of a cheque from the federal government, which is why the benefit is described as "refundable".

The refundable child tax credit has been substantially enhanced in recent years. The credit was raised from \$384 per child in 1985 to \$454 in 1986, \$489 in 1987 and \$559 in 1988; its threshold was lowered from \$26,330 to \$23,500 in 1986. In 1988, an additional \$100 was added to the maximum refundable child tax credit for children six and younger for whom families do not claim the child care expense deduction, and the supplement rose to \$200 in 1989.