SENATE OF CANADA
Second Session, Thirty-third Parliament, 1986-87

CHILD BENEFITS

Proposal for a Guaranteed Family Supplement Scheme

Report of the Standing Senate Committee on Social Affairs, Science and Technology

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COMMITTEE MEMBERSHIP

The Honourable Arthur Tremblay, *Chairman*
The Honourable M. Lorne Bonnell, *Deputy Chairman*

and

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Jacques Flynn, P.C.
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- The following senators also served on the Committee from time to time during the examination: The Honourable Senators E.W. (Staff) Barootes, Martha P. Bielish, Paul David, Azellus Denis, P.C., C. William Doody, Richard J. Doyle, Joyce Fairbairn, B. Alisdair Graham, Tom Lefebvre, Jean Le Moyne, Len Marchand, P.C., Gildas L. Molgat, Orville H. Phillips, Duff Roblin, P.C., Peter Stollery and Andrew Thompson.

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Elizabeth Macaulay
(Committees Branch)

Nicole Brunette
(Research Branch, Library of Parliament)

Orders of Reference

Extract from the Minutes of Proceedings of the Senate, Wednesday February 13, 1985:

"The Honourable Senator Tremblay moved, seconded by the Honourable Senator Marshall:

That the Standing Senate Committee on Social Affairs, Science and Technology be authorized to examine and report upon the Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, tabled in the Senate on 5th February, 1985; and

That the Committee be empowered to engage the services of such professional, clerical and technical personnel as may be required for the purpose of the said examination.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of Proceedings of the Senate, Thursday, November 6, 1986:

"The Honourable Senator Tremblay moved, seconded by the Honourable Senator Simard:

That the Standing Senate Committee on Social Affairs, Science and Technology be authorized to continue the study undertaken in 1985-1986 on the Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, tabled in the Senate on 5th February, 1985 and to report thereon;

That the papers and evidence taken on the subject and the work accomplished during the First Session of the Thirty-Third Parliament be referred to the Committee; and

That the Committee present its report no later than Tuesday, 22nd December, 1987.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Charles A. Lussier
Clerk of the Senate

Orders of Reference

Extract from the Minutes of Proceedings of the Senate, Wednesday, February 12, 1986:

"The Honourable Senator Tremblay moved, seconded by the Honourable Senator Marshall:

That the Standing Senate Committee on Social Affairs, Science and Technology be authorized to examine and report upon the "Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, tabled in the Senate on 5th February, 1985; and

That the Committee be empowered to engage the services of such professional, clerical and technical personnel as may be required for the purpose of the said examination.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

Extract from the Minutes of Proceedings of the Senate, Thursday, November 6, 1986:

"The Honourable Senator Tremblay moved, seconded by the Honourable Senator Simard:

That the Standing Senate Committee on Social Affairs, Science and Technology be authorized to continue the study undertaken in 1985-1986 on the Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, tabled in the Senate on 5th February, 1985 and to report thereon;

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PREFACE

On the 5th of February 1985, the Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, was tabled in the Senate. The next week, the Standing Senate Committee on Social Affairs, Science and Technology was authorized to examine and report on this Consultation Paper. In subsequent committee meetings, it was agreed that discussion would focus on the interaction between federal and provincial child benefits as well as the implications of restructuring existing federal child benefits for the various types of families living in different provinces. A report was produced in December 1985 called "Analysis of Child and Family Benefits in Canada: a Working Document". In part 1 of this report, a methodology for analysing the relationship between federal and provincial child benefits was developed, while part 2 contained an analysis of federal and provincial benefits to families with children.

During Committee hearings on amendments to the *Family Allowances Act* (Bill C-70), many witnesses expressed opinions about restructuring federal child benefits. As a continuation of our earlier study and in an attempt to incorporate these ideas about improving child benefits, the Committee initiated a more in depth analysis of federal child benefits in Canada. The following report is the culmination of this study and presents the Committee's ideas about how federal child benefits could be restructured to target more money to children living in poverty.

PREFACE

1.1 On the 5th of February 1985, the Consultation Paper on Child and Elderly Benefits, issued by the Department of National Health and Welfare, was tabled in the Senate. The next week, the Standing Senate Committee on Social Affairs, Science and Technology was authorized to examine and report on this Consultation Paper. In subsequent committee meetings, it was agreed that discussion would focus on the interaction between federal and provincial child benefits as well as the implications of restructuring existing federal child benefits for the various types of families living in different provinces. A report was produced in December 1985 called "Analysis of Child and Family Benefits in Canada: a Working Document." In part 1 of this report, a methodology for analyzing the relationship between federal and provincial child benefits was developed, while part 2 contained an analysis of federal and provincial benefits to families with children.

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CHAPTER 1: THE ANALYSIS OF FAMILY BENEFITS

INTRODUCTION: THE FAMILY IN TRANSITION

Over the past 40 years, the social and economic basis of Canadian family life has changed sufficiently to justify rethinking policies relating to families with children. We will examine some of these changes affecting family life, discuss existing child benefits and propose a new federal benefit to replace some of the five existing programs.

Benefits such as Family Allowances were designed in an era of larger families with one earner and low divorce rates. Over the past few decades, average family size has declined, mothers have entered the labour force, divorce rates have soared; young people now remain dependent longer. But family life remains popular. Over 85% of Canadians marry at least once and most of these couples produce children. Nearly three-quarters of those whose marriages dissolve move into new relationships and second marriages are becoming more common. This means that many children are living in " blended families" with step-siblings from previous marriages. The "traditional" family, with a breadwinner father and homemaker mother, is no longer the most typical, and social policies need to reflect this reality.

As fertility rates have declined, the typical family has become smaller and now contains only one or two children.(1) Increasingly, mothers with young children are working outside the home to counteract the rising costs of living and childraising, to support their children, to stabilize the family income, to increase their autonomy, or simply to use their education and skills. Consequently, more than half of Canadian pre-school children are now being cared for by someone other than their parents for at least a portion of the work week. While for many families finding reliable and high quality child care is a continual problem, others wrestle with the issue of how to care for their own children at home when prices are rising and one income is insufficient.

Although 63% of mothers with children under 16 years old work outside the home, there is no uniform system of child care in this country. Instead, the availability and quality of non-profit and commercial child care vary considerably by province and region and by the financial resources of

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(1) Birthrates, however, vary considerably by province and region. Quebec, which traditionally had an extremely high birthrate, now has the lowest (13.4 births per 1,000 population). The Northwest Territories has the highest birthrate (29.2, reflecting high fertility among Native people). Statistics Canada, *Births and Deaths*, Cat. 84-204, Ottawa, March 1986, p. 2, 3.

the family. While income tax deductions are available for parents able to obtain receipts, many families use informal care which they pay for in cash, without receiving receipts, or which they exchange for other services. Consequently, parents cannot always take advantage of the deduction for child care in their income tax calculations.

High rates of separation and divorce have augmented the number of households headed by only one parent. Although children living in so-called "one-parent families" may have two parents interacting with them and contributing to their socialization, many separated and divorced mothers are left with the primary economic and emotional burden of custody. Furthermore, most mothers must enter the labour force after marriage breakdown, in order to support themselves and their children, since alimony is now seldom awarded and many non-custodial fathers stop paying the court-awarded child support payments. Moreover, enforcement procedures have proven inadequate to ensure that child support is paid.

The social and economic climate has also changed for older children. Adolescents are staying at home longer than a generation ago, because higher education is increasingly necessary in order to find permanent work. Many adolescents who would prefer to work part-time while attending school cannot live independently from their family because low- level jobs for inexperienced workers are difficult to find in these times of high unemployment. Since more "children" over 18 are living with their parents than several decades ago, the relevance of present government programs should be reviewed. Should these continue to offer child tax exemptions for parents with dependent children over 18 or should assistance be granted directly to the young people, from a different budget?

Although the state has taken over some of the former functions of the family, such as educating and protecting the young, caring for the sick and assisting the unemployed, family members still provide valuable services for each other. Housework and pre-school child care remain largely unpaid jobs performed by wives and mothers. But other relatives also provide free accommodation, interest-free loans, unpaid child care, nursing care for the sick and elderly and additional services which are invaluable and would cost millions of dollars if provided by private industry or governments.(2)

Although there were many reasons for initiating the Family Allowance Program in 1945, the principal objective was to provide financial assistance to parents with the costs of raising their children.(3) Although the Family Allowance and later child benefits were never intended to be related to childrearing costs, it is important to recognize that these costs have increased. Even if

(2) Maureen Baker, "Families" in L. Tepperman and J. Richardson (ed.), *The Social World: An Introduction to Sociology*, McGraw-Hill Ryerson, Toronto, 1986, p. 264-265.

(3) Government of Canada, *Inventory of Income Security Programs in Canada*. Ottawa, July 1985, Ottawa, p. 49.

families were eligible for all the available federal benefits for families with children -- Family Allowance, the Child Tax Credit, the Child Tax Exemption, the Child Care Expense Deduction, and the Equivalent to Married Exemption -- as well as provincial benefits, many community groups have informed us that the money would not be sufficient to provide needy children with an adequate standard of living.

The cost of raising children has been calculated by researchers in several countries; it varies by the number of children and the standard of living expected by the family. Despite these variations, a reliable rule of thumb seems to be that families with one child typically spend about 30% of total family expenditures on that child, families with two children spend 40-50% of family income on the children, and families with three children spend nearly 50%.(4) Over the first 18 years of a child's life, a Canadian family can expect to pay an average of $3,694 per year in today's dollars without daycare costs or as much as $5,888 with daycare costs, according to the Social Planning Council of Metropolitan Toronto.

Changes have also taken place in the value of employment income relative to investment income and government transfer payments in determining total family income. Increasing unemployment rates, tight money, insofar as it has caused high interest rates, and stagnant economic growth have not had a serious adverse impact on economic equality because government transfer payments have risen considerably since the late 1960s, the elderly have increased their investment income and families are now more likely to have two earners.(5) Without indexed transfer payments, however, the discrepancy between the rich and the poor would have been much larger.

Although the incidence of poverty was cut by one-third between 1969 and 1983, the recession of the early 1980s reversed the long-term reduction in poverty. Real family income, adjusted to inflation, declined from 1980 to 1984.(6) Young families headed by women now comprise a large segment of poor families, and four in ten families headed by women are poor compared to only one in ten led by men.(7) The dramatic rise in the rates of separation and divorce and in the rates of unmarried mothers keeping their children have led to more female-led families over the last 15 years, and many of these families are poor. This has prompted some social analysts to talk of the

(4) T.J.Espenshade, "Value and Cost of Children", *Population Bulletin* 32: 2-47, April 1977.

(5) Michael C. Wolfson, "Stasis Amid Change - Income Inequality in Canada 1965-1983", *Canadian Statistical Review*, February 1986.

(6) National Council of Welfare, *Poverty on the Increase*, Ottawa, March 1985, p. 2; Colin Lindsay, "The Decline of Real Family Income, 1980 to 1984", *Canadian Social Trends*, Winter 1986, p. 15-17.

(7) *Ibid.*, p. 7.

"feminization of poverty", meaning that more of the poor are now women and, in particular, unattached older women and mothers with young children heading a one-parent family. The more children in any family, the higher the chance of those children living in poverty.[8]

The Committee is particularly concerned about such children, as we are aware of the potential social and psychological consequences of being raised with insufficient income. Much has been written about the cycle of poverty, about generations of welfare recipients and about the long-term costs of unemployment and low family income. The Committee believes that the present family benefits are not adequately dealing with these issues, and that restructuring of federal benefits is therefore necessary.

Problems arise from the inconsistencies among the goals of various federal benefits to families with children and between social programs and the taxation system. If we want to target money to poorer families through the Child Tax Credit, why do we also provide child tax deductions and exemptions, which assist mainly those families with higher taxable incomes? Why is it possible for self-employed taxpayers to deduct all their work-related expenses from their income tax but not for parents to deduct all their child care expenses? Why can a family deduct only $710 for a dependent child under 18 but $3,666 for a dependent spouse, who in fact provides many useful unpaid services? Why do we give such low priority to our children, who are, after all, our greatest future resource?

GOALS OF THE FAMILY BENEFIT SYSTEM

Three goals have been expressed or implied by Canadian governments in creating and modifying benefits for children and families:

1) Although parents generally have children for their own personal reasons, by doing so they also contribute to the economy by producing and socializing the next generation, which will provide the future labour force. Governments have used family benefits as a symbolic recognition of the important social task of reproduction and childrearing. The Canadian government has, for example, provided tax exemptions for dependent children, tax deductions for the child care expenses of working parents and a universal payment to families with dependent children.

2) Family benefits have also been used to create horizontal equity between families with dependent children and those without. The Child Tax Exemption and the Child Care

(8) *Ibid.*, p. 15, Table 11.

Expenses Deduction, for example, recognize the additional expenses of childrearing by reducing the taxable incomes of families with children.

3) Some families need financial assistance more than others. Since money is always limited, it has often been targeted to those in greatest financial need. Since 1978, a federal Child Tax Credit has been used to supplement the Family Allowance for poorer families. Family benefits, therefore, have been used to help relieve poverty.

The present federal child benefits were designed at different times by governments with varying agendas. If we analyze the goals and delivery mechanisms of these benefits, we can see that some are directed to poorer families, others to wealthier families, and still others to families with special needs. The goals of any new system of child benefits would need to be consistent and explicit. For example, a benefit system could be designed to focus on administrative efficiency and cost-effectiveness, if it were approached from the government's point of view. On the other hand, benefits could be designed to suit mainly the needs of families of different sizes and income levels, with less concern about efficiency of administration. A benefit system could also be designed primarily to consider the needs of children regardless of family situation. Any perspective adopted may lead to a different conclusion about which type of benefit and administration is best. In reality, a family benefit system will have to consider all of these issues to be effective. Yet for analytical purposes, we can see that any benefit system could theoretically be slanted more in one direction than another.

In this report, we will discuss existing child benefits and their impact on children, families and governments and then propose alternatives to the present system. Financial, demographic and political constraints on governments considering changes to social benefits will be outlined. Finally, a new child benefit will be proposed - The Guaranteed Family Supplement (GFS) - which is designed to replace some of the existing benefits. The GFS would be aimed at families with dependent children living in poverty or with below-average incomes.

The fact that 20% of Canadian children live in poverty distressed Committee members. Being raised in poverty is an indignity in itself, but it also breeds a complex of educational difficulties, chronic unemployment and future psychological problems. By restructuring family benefits, the federal government could help poor families extend more opportunities to their children and at the same time could provide parents with real choices. Although we accept the fact that all children are a precious resource to any nation, we are realistic enough to acknowledge that some children and families need more assistance than others. Because several issues relating to children fall under provincial jurisdiction, while others (such as child benefits) are under federal jurisdiction, the task of improving social policy in this area is complicated. These jurisdictional problems should not, however, deter the federal government from taking a leadership role.

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CHAPTER 2: EXISTING BENEFITS AND THEIR IMPACT ON CHILDREN

INTRODUCTION

In order to evaluate the impact on families of any changes to federal child benefits, it is essential to look at all government resources available to Canadian families at different income levels. The frequent interdependence of federal and provincial benefits must also be investigated.

The federal child benefits discussed in the 1985 Consultation Paper entitled "Child and Elderly Benefits" were the Family Allowance Program, the Child Tax Credit and the Child Tax Exemption. Families with children may also deduct child care expenses from their income tax, however, and federal money is transferred to the provinces for child care facilities. One-parent families may claim the Equivalent to Married Exemption for one of their children. Families may also receive Unemployment Insurance, Worker's Compensation and child and orphan's benefit under the Canada and Quebec Pension Plans. For the purposes of this report, the three child benefits mentioned in the Consultation Paper, as well as the Child Care Expense Deduction and the Equivalent to Married Exemption are considered the most important federal child benefits and will therefore be the focus of our discussions.

There is also a variety of provincial programs to assist families raising children, the vast majority of which are geared to low-income families. These programs include social assistance, supplements to the Family Allowance, subsidized housing and other programs. Families in different provinces may have similar incomes but experience a wide discrepancy in standard of living because of provincial variations in social assistance and the cost of living. Because of varying regulations for social assistance, provincial comparisons are difficult to make; some provinces, for example, offer only housing allowances while others provide subsidized housing as well. Provincial benefit levels may also vary by the number of children or their ages.

FEDERAL PROGRAMS

A. Family Allowance Program

Initiated in 1945, the Family Allowance (FA) Program was designed to help parents to meet the cost of raising dependent children (initially those under 16 years). Monthly payments are mailed to the mother or the custodial parent or guardian.

From 1974 to 1982, FA rates generally increased with the Consumer Price Index. It must be noted, however, that in January 1976, Family Allowance payments were frozen at 1975 levels for one year, under legislation passed in December 1975. In 1977, Family Allowance payments were again indexed to CPI changes. In 1979, however, there was a reduction of the monthly Family Allowance when the Child Tax Credit was introduced. The indexation rate of the Family Allowance in 1983 and 1984 was limited to 6% and 5% in accordance with the federal policy on fiscal restraint, and as of 1 January 1986 the Family Allowance was partially deindexed.

The 1987 value of the FA is $31.93 a month per child under 18, but provinces may vary the amount that the federal government pays to their residents according to the age and/or number of children in a family. For example, Alberta varies the rate according to the age of the child and Quebec varies the rate according to both the age of the child and the number of children in the family. Federal family allowances must be reported as income for federal income tax purposes by the person who claims tax exemption for the child (usually the father). The Family Allowance program is administered by the Department of National Health and Welfare.

In 1982 FA cost the federal government $1,700 million; it is expected to cost $1,800 million in 1988, an increase of only 1% per year on average. Although the nominal level of benefits has increased at a faster rate than 1% since 1982, the number of children receiving the benefit is expected to fall from 6.7 million in 1982 to 6.4 million in 1988 because of declining birth rates.[9] In addition, real income growth and higher taxes are also reducing the net cost to the federal government.

Since the Family Allowance is treated as taxable income, this program is redistributive in nature, delivering greater net benefits per child to poorer families. This effect is relatively mild, however, and the program continues to be broadly based. Its main feature is to grant a financial benefit only to those families with children. It thus imparts a measure of horizontal equity into the fiscal system. The Family Allowance has also come to be regarded as a symbolic gesture towards assisting all families, regardless of their financial situation, with childraising expenses.

The ratio of children per family varies widely by income group (see Table 2:1). It is true, however, that those in the lowest income class receive more of the net benefits because less is taxed back from them and because the poor tend to have more children.

To put the estimates presented here in perspective, the National Council of Welfare projected that the net cost of the FA to the federal government in 1985 was $1,990 million,[10] 8.9% higher than our own estimate of $1,822.3 million.

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(9) This projection is based on unpublished data from Health and Welfare Canada.

(10) National Council of Welfare, *Opportunity for Reform*, Ottawa, 1985, p. 58.

Table 2:1

BENEFIT: FAMILY ALLOWANCE, 1988

Income Group(1)	% Claimants	Total Claimants	Total Cost to Federal Government
$ 5,000 or less	7.44	270,623	$ 142.1 million
$ 5,000-$ 10,000	6.40	232,794	116.0 "
$ 10,000-$ 15,000	6.91	251,345	128.0 "
$ 15,000-$ 20,000	8.04	292,447	146.1 "
$ 20,000-$ 25,000	8.87	322,638	161.9 "
$ 25,000-$ 30,000	10.18	370,288	182.9 "
$ 30,000-$ 40,000	17.22	626,361	316.8 "
$ 40,000-$ 50,000	13.74	499,779	242.6 "
$ 50,000+	21.21	771,494	385.9 "
TOTAL	100.00	3,637,405	$1,822.3 "

(1) Since these figures were calculated from tax statistics, "income group" refers to the income of the parent paying tax on family allowance income - usually the father. It does not refer to total family income.

Source: Prepared by M. Wrobel, Research Branch, Library of Parliament for this report.

B. Child Tax Credit

The federal Child Tax Credit (CTC) program, first implemented in 1979, is designed to provide additional assistance to low to middle-income families in meeting the costs of raising children. The program is administered through the income tax system by Revenue Canada.

Any parent or guardian who receives Family Allowance (usually the mother) is eligible to apply for the Child Tax Credit when filing an income tax return. Eligibility is based on annual net family income and CTC benefits vary according to family income and the number of eligible children. The maximum benefit payable per child for the 1986 taxation year was $454, payable if the net annual family income for 1986 was less than $23,500. For each $1 of net family income above that figure, the maximum credit per child is reduced by five cents. In other words, the CTC ceases to be available to families with one eligible child and net income of $32,580 or over and to families with two eligible children and net income of $41,660 or more.

For families with taxable incomes, the refundable credit reduces the tax which must be paid. Families whose taxes are less than the credit, or who owe no tax at all, receive a non-taxable lump sum payment from the federal government's Consolidated Revenue Fund. The Child Tax Credit is the only component of the federal child benefits package which is uniform across Canada because it is invariant with respect to taxable income and therefore is not affected by variations in provincial tax rates.

Legislation effective 1 January 1986 increased the maximum CTC payment by $140 per child over a three year period and reduced the income threshold to $23,500. After these discrete changes have been made, both elements are to be partially indexed to Consumer Price Index changes. Two installments will now be paid to families with an income of $15,000 or less. This may remove the necessity for poor families to seek a cash rebate for their CTC payment from companies which prepare income tax returns. Incidentally, the government recently lowered the interest rate these finance companies can charge for this advance payment.

The Child Tax Credit is aimed at the same age group of children as the Family Allowance but it is designed to be delivered only to poorer families. Historically, the ratio of CTC children to FA children has been about 0.75:1.(11) The forecast values used here have maintained this ratio to 1988. The Child Tax Credit is taxed back at the rate of 5% of family net income in excess of $23,500 and is now only partially indexed.

The CTC is claimed by the parent who receives the Family Allowance, not by the parent who reports the FA as taxable income. Thus it is typically received by the mother, who has generally

(11) Health and Welfare Canada, unpublished data.

a lower income than the father. That is why this benefit is so skewed in reverse proportion to the income of the recipients (see Table 2:2).

Table 2:2

BENEFIT: CHILD TAX CREDIT, 1988

Income Group(1)	% Claimants	Total Claimants	Cost to Federal Government
$ 5,000 or less	41.39	1,045,007	$ 920.8 million
$ 5,000-$ 10,000	21.60	546,012	435.1 "
$ 10,000-$ 15,000	12.14	306,879	201.5 "
$ 15,000-$ 20,000	8.48	214,360	118.1 "
$ 20,000-$ 25,000	6.25	157,990	84.8 "
$ 25,000-$ 30,000	4.39	110,972	57.4 "
$ 30,000-$ 40,000	3.56	89,991	37.0 "
$ 40,000-$ 50,000	1.49	37,665	9.0 "
$ 50,000 +	0.77	19,464	3.9 "
TOTAL	100.00	2,527,834	$1,867.6 "

(1) Based on the income of the parent claiming the CTC, usually the mother.

Source: Prepared by M. Wrobel, Research Branch, Library of Párliament for this report.

The effect of the threshold level reduction has been estimated and included in the forecast costs for the years 1986 to 1988. This reduction in 1986 can lower CTC payments by as much as $142 for each family with a net income of $26,330 or more. In the case of small families, it more than fully offsets the gain due to the increased maximum payment whereas large families are still better off by the combination of changes in that year.

By 1988 this program is expected to cost the federal government $1,867 million, up from $1,514 million in 1982. This 3.5% average annual increase takes place despite the fact that the program will be delivered to almost 9% fewer children (4,820,579 in 1988 rather than 5, 271,567 in 1982).

The base calculations for 1982 and 1983 program cost are almost identical to Department of Finance estimates. However, the 1988 estimates here are less reliable because of the lack of family income data and the complexities produced by the change in the income threshold.

C. Child Tax Exemption

Child tax exemptions for children under 16 were introduced as early as 1918 and, except for a few years when they were abandoned (1942-46), they have increased sporadically with the cost of living. From 1974 to 1983, the child tax exemption was indexed to the cost of living; it is currently $710 for a child under 18. The exemption not only reduces federal taxes payable but also reduces provincial taxes in all provinces except Quebec. It is the intention of the Government to reduce the CTE for younger children, starting in 1987, until it reaches the annual value of Family Allowance payments in 1989.

The Child Tax Exemption consists of two distinct parts: that available to families with children under 18 years of age and that available for older children. In 1989, the nominal value of the latter will be set at twice the amount of the former.

1. CTE for Children Under 18

The nominal value of this exemption has been frozen at $710 per child since 1983. Starting in 1987, it will fall in stages, until it equals the annual value of Family Allowance payments in 1989. In 1982 this program was estimated to have cost the federal government $903 million and was claimed for 5,891,554 children. By 1988, the cost of this program is expected to have fallen to $674 million and the benefit is expected to have been claimed for 5,432,140 children. This exemption is claimed by the higher income parent, typically the father. The distribution of claimants is very similar to that of the Family Allowance, but unlike the FA, the CTE clearly provides higher benefits to those with higher incomes and thus higher marginal tax rates. It is for this reason that this program and all tax exemptions are considered by many to be unfair.

2. CTE for Children 18 and Over

The nominal value of this exemption continued to be indexed while the CTE for younger children was frozen. The 1986 nominal value was frozen at the 1985 level of $1,420, and it will fall in subsequent years. The number of children for which this program is made available continues to increase, unlike the CTE for younger children. This simply reflects the aging of the child population because the birth rate has fallen. For a wholly dependent child who is disabled or attending school, this exemption continues to be available beyond the age of twenty-one years.

The exemption for older children was estimated to have cost the federal government $176 million in 1982 and we calculate that it will cost $251 million in 1988, a compound annual increase of 6.1%. Like the CTE for younger children, this measure provides the greatest benefits to claimants who are in the highest tax brackets. The income distribution of claimants is quite different for these two versions of the CTE. The proportion of CTE claimants in the lowest four income classes will be 36% higher for the younger children CTE than for the program designed for older children (see Tables 2:3 and 2:4). A similar pattern exists when we look at the highest income categories; 64% of those claiming the exemption for older children will be in the three highest income classes in 1988, as against 56% of those claiming the exemption for younger children. This is not surprising, because older children are likely to have older parents who are probably at or near their peak in lifecycle earnings. Thus, their income distribution should differ from that of younger parents.

The 1982 and 1983 estimates of CTE cost (for older and younger children) were $890 million and $940 million respectively,(12) whereas we calculated the costs to be $1,079 million and $1,124 million - about 20% higher. The National Council of Welfare's estimates were also higher than the Department's. They provided two estimates for the cost of the CTE, $1016,5 million(13) and $980 million,(14) which are closer to our own estimates.

It is not clear just how valid these comparisons are. It appears that the National Council of Welfare estimates relate only to the CTE for younger children whereas the Department of Finance numbers are for both groups. In that case, our own estimates actually fall between the two. It should also be pointed out that the calculation of the cost of the CTE for older children does not take into account the decrease in the rate at which the exemption is reduced on the basis of the child's income. This change was announced in the 1985 federal budget.

(12) Department of Finance, *Account of the Cost of Selective Tax Measures*, August 1985, p. 44.

(13) National Council of Welfare, *Opportunity for Reform*, Ottawa, 1985, p. 62.

(14) *Ibid.*, footnote 16, p. 95.

Table 2:3

BENEFIT: CHILD TAX EXEMPTION, UNDER 18 YRS, 1988

Income Group(1)	% Claimants	Total Claimants	Cost to Federal Government
$ 5,000 or less	4.72	139,325	$ 19.1 million
$ 5,000-$ 10,000	5.50	162,349	23.1 "
$ 10,000-$ 15,000	6.62	195,410	32.5 "
$ 15,000-$ 20,000	7.82	230,831	37.8 "
$ 20,000-$ 25,000	8.74	257,988	45.4 "
$ 25,000-$ 30,000	10.31	304,331	62.4 "
$ 30,000-$ 40,000	18.21	537,524	123.0 "
$ 40,000-$ 50,000	14.87	438,934	124.2 "
$ 50,000 +	23.29	687,476	206.9 "
TOTAL	100.00	2,951,809	$ 674.4 "

(1) Based on the income of the parent claiming the CTE, usually the father.

Source: Prepared by M. Wrobel, Research Branch, Library of Parliament for this report.

Table 2:4

BENEFIT: CHILD TAX EXEMPTION, 18 YRS AND OVER ,1988

Income Group(1)	% Claimants	Total Claimants	Cost to Federal Government
$ 5,000 or less	1.86	16,202	$ 2.7 million
$ 5,000-$ 10,000	3.69	32,193	6.0 "
$ 10,000-$ 15,000	5.48	47,735	9.8 "
$ 15,000-$ 20,000	7.07	61,586	12.5 "
$ 20,000-$ 25,000	8.25	71,865	15.7 "
$ 25,000-$ 30,000	9.81	85,453	21.6 "
$ 30,000-$ 40,000	17.44	151,917	41.4 "
$ 40,000-$ 50,000	15.07	131,273	43.2 "
$ 50,000+	31.34	272,998	98.0 "
TOTAL	100.00	871,085	$ 250.9 "

(1) Based on income of the parent claiming the CTE, usually the father.

Source: Prepared by M. Wrobel, Research Branch, Library of Parliament for this report.

D. Equivalent to Married Exemption

The Equivalent to Married Exemption (EME) was introduced in 1918 along with the Married Exemption and the Child Tax Exemption. It was designed for tax-paying heads of one-parent families, to increase horizontal equity between one- and two-parent families. In a two-parent family where one spouse is earning an income of not more than $490, the higher income earning spouse can at present deduct $3,666 from his or her income.

In one-parent families,(15) a tax-paying parent may deduct $3, 666 in 1986 for one child as a spouse-equivalent. All other children under 18 must be deducted as children, at a deduction rate of $710 per child. The Equivalent to Married Exemption is a substitute for the Child Tax Exemption in the event that the taxfiler has no spouse, and is clearly a child benefit.

In this report, we treat the Equivalent to Married Exemption (EME) as similar to the Child Tax Exemption and thus include it as part of the child benefits package. The Married Exemption, however, is <u>not</u> considered to be part of this package because it can be used by families without dependent children.

The nominal value of EME in 1988 is expected to be $3,740, which will be $3,270 greater than the CTE for young children and $2,740 greater than the CTE for older children. This benefit has been indexed in the same manner as the basic personal exemption: fully indexed most of the time, subject to the 6 and 5 restraints and now partially indexed. The EME has substantially improved the position of the one parent-one child family relative to other family configurations.

The bonus conferred on families making use of the EME (i.e. the difference between the nominal and after-tax values of this program and the CTE which would otherwise be available) is, unlike the CTE, larger for families with young children than for families with older children. In addition, younger children, unlike older children, are eligible for the Family Allowance and the Child Tax Credit.

The future cost of this program depends upon the growth of one-parent families and the rate of entrance of separated and divorced women into the labour force. In 1982, this exemption was estimated to have cost the federal government $303 million and to have been claimed by 500,588 taxfilers. From 1980 to 1983 the use of this exemption grew by 9.35% per year. Such a growth rate would result in a federal cost of $667 million in 1988, with 847,000 taxfilers claiming the exemption. But considering that the divorce rate has declined since 1983, according to Statistics Canada, we used a growth rate of 4.68% per year, which is only half the rate cited above. The 1988 cost is now estimated will be $542 million with 681,000 families claiming this exemption.

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(15) The relevant definition of the family here comes from the *Income Tax Act* and thus does not recognize common law arrangements.

The EME is primarily used by single mothers since most one-parent families are mother-led. The income distribution of these claimants reflects the fact that these families tend to have relatively low incomes. In 1988, we estimate that 44% of claimants will have incomes below $20,000, whereas only 29% of those with Family Allowance payments will have such income in that year (see Tables 2:5 and 2:1).

As the EME usually is not thought of as a tax expenditure separate from the Married Exemption, we have no estimates to compare with our own.

Table 2:5

BENEFIT: EQUIVALENT TO MARRIED EXEMPTION, 1988

Income Group(1)	% Claimants	Total Claimants	Cost to Federal Government
$ 5,000 or less	9.95	67,766	$ 40.9 million
$ 5,000-$ 10,000	10.64	72,465	45.6 "
$ 10,000-$ 15,000	11.35	77,301	53.8 "
$ 15,000-$ 20,000	11.94	81,319	56.4 "
$ 20,000-$ 25,000	12.08	82,272	59.7 "
$ 25,000-$ 30,000	11.95	81,387	67.8 "
$ 30,000-$ 40,000	14.25	97,052	87.7 "
$ 40,000-$ 50,000	8.35	56,869	59.6 "
$ 50,000+	9.50	64,701	70.1 "
TOTAL	100.00	681,066	$ 541.6 "

(1) Based on the income of the parent claiming the EME, usually the mother.

Source: Prepared by M. Wrobel, Research Branch, Library of Parliament for this report.

E. Child Care Expense Deduction

The Child Care Expense Deduction (CCED) was introduced in December 1971. Originally it was designed only for one-parent families, but, as more mothers entered the labour force, it came to be considered an employment expense deduction to enable both parents to be part of the labour force or training programs. CCED has always been an employment-related tax item designed to offset the extra costs of childcare when no parent is available to stay home with the children. Up to $2,000 per child or $8,000 per family for children under 14 years of age can be claimed by the lower income spouse, but the total claims must not exceed two-thirds of that spouse's income.

The value received by the taxpayer claiming this deduction varies by family income and with the marginal tax rates in the province of residence. Table 2:6 shows the value by family income using 1984 Ontario tax rates.

Table 2:6

VALUE OF CHILD CARE EXPENSE DEDUCTION FOR ONE CHILD, 1984

Family Income	Two-Earner Couple ($)	Single Parent ($)
10,000	0	14
15,000	0	540
20,000	0	571
30,000	514	695
45,000	572	885
60,000	601	902
90,000	752	1,022
150,000	903	1,022

Notes: Families with one child, using 1984 Ontario tax rates.

Calculations for two-earner couples assume one spouse earns 1/3 of family income and the other earns 2/3.

Source: Task Force on Child Care, *Report of the Task Force on Child Care,* Status of Women Canada, Ottawa, 1986, p. 170.

A survey for the Cooke Task Force on Child Care (1986) found that only 61% of respondents who paid more than $20 for child care in the work week before the survey had claimed the deduction on previous income tax returns. Most of the rest said they could not obtain receipts from their babysitters, but there was also an indication that the Child Care Expense Deduction is not well understood by potential claimants.(16)

Since subsidies for child care are available only for poor families, the actual cost far exceeds the income tax deduction in all provinces. Furthermore, daycare spaces are not always available in provincially regulated centres or homes, despite the fact that guidelines for daycare subsidies have been established by the federal government. Consequently, most parents who need child care use informal care, as provided by babysitters or relatives. Parents are often not able to obtain income tax receipts, as this type of work often forms part of the " underground economy", and without receipts parents cannot claim child care expenses on their income tax. Table 2:7 shows the 1984 market value of child care by province.

In 1982, the deduction limits were half the size of those available today. The $2,000/$8,000 limits have not changed since 1983 and there is no indication that they will be altered before 1988. The cost to the federal government, then, is largely determined by the growth rate in numbers of families who make use of this provision. In our calculations we have used a growth rate of 4.63% per year.

In 1982, the Child Care Expense Deduction was claimed by 448, 000 families for 705,000 children; this is estimated to have cost the federal government $95 million.(17) In 1988 we estimate the program will cost $214 million, if delivered to 566,000 families for the care of 887,000 children. This tax deduction remains a relatively modest component of the child benefits package because it is used by fewer families.

Like personal exemptions, the Child Care Expense Deduction is of greatest value to those who are subject to the highest marginal tax rates, namely those with the highest levels of income. However, the proportion of upper income claimants making use of this deduction is low compared to the proportion claiming other child benefits. (See Table 2:8)

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(16) Task Force on Child Care, *Report*, (1986).

(17) The Department of Finance estimate for 1982 program cost is $75 million, 21% lower. The National Council of Welfare estimate is $89 million, 6% lower than our own estimate.

Table 2:7

FEES CHARGED FOR CARE OF INFANTS AND PRESCHOOLERS IN LICENSED AND UNLICENSED FACILITIES, BY PROVINCE, 1984

	Infants			Preschoolers		
Province/ Territory	Licensed Centre $	Licensed Family Home $	Unlicensed Family Home $	Licensed Centre $	Licensed Family Home $	Unlicensed Family Home $
Newfoundland	–	–	2,930	3,450	–	2,980
Prince Edward Island	2,870	2,130	2,620	2,930	2,400	2,600
Nova Scotia	3,110	3,080	2,930	3,140	2,930	2,670
New Brunswick	2,580	–	3,270	2,500	–	3,080
Quebec	3,450	2,930	2,890	3,300	2,980	2,840
Ontario	5,010	3,530	3,050	3,820	3,480	3,050
Manitoba	3,510	3,010	3,030	3,060	2,950	3,080
Saskatchewan	4,060	3,770	3,340	3,660	3,660	3,080
Alberta	3,220	3,590	3,030	3,240	3,350	3,200
British Columbia	5,220	3,740	3,820	3,450	3,610	3,540
Weighted Average	4,049[a]	3,531[b]	3,100[c]	3,443[a]	3,448[b]	3,055[d]

Notes: Fees are the amount that would be charged by a facility for a space occupied on a full-day basis, five days each week, for 52 weeks of the year. Fees are rounded to the nearest $10.

a Weighted average reflecting the distribution of licensed centre spaces across the country.

b Weighted average reflecting the distribution of licensed family home spaces across the country.

c Average weighted by the distribution of children under two years of age.

d Average weighted by the distribution of children aged two to five inclusive across the country.

Source: *Task Force on Child Care, Report*, (1986), p. 195.

Table 2:8

BENEFIT: CHILD CARE EXPENSE DEDUCTION, 1988

Income Group(1)	% Claimants	Total Claimants	Total cost to Federal Government
$ 5,000 or less	3.66	20,698	$ 2.0 million
$ 5,000-$ 10,000	8.60	48,634	8.4 "
$ 10,000-$ 15,000	12.70	71,820	18.7 "
$ 15,000-$ 20,000	15.38	86,775	25.6 "
$ 20,000-$ 25,000	15.98	90,368	31.0 "
$ 25,000-$ 30,000	14.57	82,395	36.2 "
$ 30,000-$ 40,000	15.06	85,166	40.5 "
$ 40,000-$ 50,000	7.51	42,470	23.6 "
$ 50,000+	6.56	37,097	28.0 "
TOTAL	100.00	565,508	$ 214.0 "

(1) Based on the income of the parent claiming the CCED, usually the mother.

Source: Prepared by M. Wrobel, Research Branch, Library of Parliament for this report.

GOVERNMENT FUNDING OF CHILD CARE

Under the Canada Assistance Plan, the federal government shares with provincial governments the cost of subsidized daycare to families which are "in need" or "likely to become in need". The contribution of the federal government to this program is estimated to have been $90 million in the 1984 fiscal year.(18) Under the social assistance provisions, the federal government will cost share programs of assistance established by the province to persons who are "in need" regardless of the source of the service. In the case of child care, the federal government will cost share any type of care the province is willing to subsidize: licensed, unlicensed, profit or non-profit. But provincial subsidies vary considerably and usually do not cover commercial daycare. The federal government has established guidelines for subsidizing families who require child care and maximum monthly incomes have been established for full and partial subsidies. These are shown in Table 2:9.

Table 2:9

NET INCOMES* OF FAMILIES ELIGIBLE FOR FEDERAL COST-SHARED SUBSIDIES, DECEMBER 1985

Family Composition	Monthly Income Allowed for Full Subsidy	Monthly Income Terminating Partial Subsidy
Single Parent		
1 child	$ 1,910	$ 2,865
2 children	2,228	3,342
Two Adults		
1 child	$ 2,228	$ 3,342
2 children	2,546	3,819

* After deductions for income taxes, UI and CPP/QPP premiums.

Source: Task Force on Child Care, Report of the *Task Force on Child Care, Report*, Status of Women Canada, Ottawa, 1986, p. 185.

(18) Task Force on Child Care, *Report*, (1986), p. 175.

Estimates of child care need are usually based on the number mothers with young children in the labour force, since women have been the principal caregivers to children. In 1986, 56.1% of mothers with children under the age of six were in the labour force and 61.2% of mothers with children under 16.[19] The need for affordable high quality care far outstrips the availability, especially for infants, and most parents must turn to *ad hoc* arrangements. Since informal care is unlicensed and not subject to quality control, parents must rely on their own assessments. The quality of these informal arrangements varies considerably and is a major stress for working parents.

PROVINCIAL SOCIAL ASSISTANCE PROGRAMS

The provinces have the responsibility of providing social assistance to families or individuals in need and income support is given to those with little or no ability to pay for the necessities of life. In all cases, long-term support is provided by provincial agencies or departments. In Nova Scotia, Ontario and Manitoba, short-term assistance is administered by the municipalities; elsewhere it is administered by the provinces.

The basic mechanics of social assistance do not differ by province. Essentially a needs test is employed which determines: 1) the financial requirements of the client family with respect to eligible expenses; 2) the financial resources of the family available to meet these expenses; and 3) the amount of assistance to be granted according to the calculated budget deficit and the allowable maximum level of benefits to be granted. While the determination of eligible expenses, financial resources and maximum social assistance levels vary by province, the basic criterion for assistance (i.e. the budget deficit test) remains the same. In some provinces this test is applied to the individual components of expenditures (e.g. food, clothing, shelter, utilities, personal needs, transportation, etc.) while in other provinces the test is applied to aggregate expenditures. The latter approach allows families greater flexibility than does the former.

The level of social assistance is determined by actual expenditures and is limited by maximum rates set by the provincial governments. However, maximum levels are seldom awarded.

Social assistance caseworkers can wield significant amounts of discretionary power in many aspects of the client family-social agency relationship. For example, we have learned that at least one province has its caseworkers actively seeking and approving shelter for clients such that the maximum level of shelter benefits is rarely paid to clients. This discretionary power exists elsewhere and in many cases makes the numerical data, based on maximum benefits, less meaningful. Despite

(19) Statistics Canada, *The Labour Force*, May 1986, Cat. 71-001, Ottawa, June 1986, p. 98.

the fact that maximum benefits rarely are given, clients have an incentive to spend in order to receive the maximum.

In some provinces, benefits are granted on the basis of total family size; the number of adults and the age of children are irrelevant. In other provinces, the formulae for delivering social assistance benefits are far more complicated. For example, in British Columbia benefits are based on the age of the parents as well as the age of the children and vary according to the duration of assistance to client families. Several provinces also distinguish between "employable" and "unemployable" clients.

A wide variety of "special" benefits are also available to clients. These include: special household allowances for the purchase or repair of appliances; financing for deposits on rental accommodation; the provision of funds for babysitting, day care, homemaker, or housekeeper services; free legal aid; special personal comfort allowances; and special recreation allowances for children, among others. In some instances these benefits are loans which are repaid through deductions from monthly benefits received while in other instances they constitute net additional funds to families. In some cases the provision of these services is at the discretion of the caseworker.

CONCLUSION

The present benefits to families with dependent children are inconsistent because they attempt to equalize the financial situation of families with dependent children and those without, to help alleviate poverty, and to recognize the expenses of childrearing - all at the same time. While these benefits may have been designed to reach as many families as possible, they have not made the most effective use of public resources. Nor have children been relieved from poverty. The Committee therefore feels that there are three major reasons for redesigning federal child benefits:

1) The structure of families has changed considerably since these programs were designed;

2) Government money is not being redistributed effectively to those who need it most; and

3) The programs have failed to protect children from poverty.

In the next chapter, we will examine some alternatives to the present child benefits package.

CHAPTER 3: POSSIBLE ALTERNATIVE BENEFITS

CHARACTERISTICS OF A NEW SYSTEM

The current child benefits package is a collection of diverse programs which were designed to satisfy different client groups. Thus the package is not very coherent. A common criticism of the present system is that it does not redistribute enough funds to children in poorer families. Of all the child benefits, the Child Tax Credit is clearly the most redistributive, while tax exemptions and deductions are the least redistributive. The 1985 CTC and CTE budgetary changes were designed to target more benefit dollars to lower income groups.[20]

Redistribution, however, is not the only goal of federal child benefits and there has been continuing debate on the concept of universality. To some, universality is simply a delivery mechanism, while to others universality means that all families with children should receive some benefit, regardless of income. A closely related concept is that of horizontal equity, by which those in similar economic circumstances should be treated equally. The Child Tax Exemption is a part of the personal income tax system precisely to meet this criterion; a family with children is treated differently (i.e. pays less tax) than a family without children, even though the income of each may be the same.

The Family Allowance ensures that families with children will always receive some benefit which is not available to childless families. Even though this net benefit declines with income, it never disappears. The Child Tax Exemption, on the other hand, provides a measure of horizontal equity only for families in a taxable position.

Other characteristics of the present package may or may not be desired in a new system. These concern the provisions for the specific circumstances of parents with children. A prime example is the special treatment accorded to single parent families through the Equivalent to Married Exemption. There is also the Child Care Expense Deduction, aimed at younger children, but designed primarily to encourage parents to enter the labour force. Finally there is the matter of when child benefits should end. Should provisions exist for those over the age of 18, when the costs to

(20) Strictly speaking, the Family Allowance changes make that part of the package a less effective redistributive tool. This effect is, however, minor compared to the CTE and CTC changes announced by Mr. Wilson in his 1985 budget.

parents may be quite high, or should these families and their children be expected to be more self-reliant?(21)

In fact, an argument can be made that children of certain ages impose exceptional costs on parents. Very young children need close parental care, requiring that one parent stay at home or substitute care be provided. New and additional costs are encountered when children reach school age. At puberty, clothing, food and entertainment costs rise. Older children attending post-secondary school are even more expensive. If we follow the logic of these arguments, a child benefits system would contain many different programs and would likely be subject to the same criticisms that plague the current system.

REFORMS SUGGESTED BY WITNESSES

Groups which appeared before the Committee on Bill C-70 to amend the *Family Allowances Act* provided a number of valuable suggestions for modifying and improving federal family benefits. These included minor changes to the timing of payments as well as major reforms to the taxation system and to social benefits. Generally speaking, most groups argued for the continued indexation of Family Allowances because the payment is monthly, goes to the mother, and is universal. Many groups such as the Native Women's Association and the National Action Committee on the Status of Women argued that this is sometimes the only money which the mother can call her own. Just because a family income is above the poverty line, it does not necessarily mean that the wife has access to it if the money is earned by the husband in the family.

Some groups, such as the National Council of Welfare and Family Service Canada, argued that the Child Tax Exemption should be abolished or at least reduced because it benefits families with higher taxable incomes more than those with lower incomes. The money saved from the CTE could be used to raise the amount of the Child Tax Credit, which witnesses saw as an important benefit. More groups, such as the Canadian Home and School and Parent-Teacher Federation, the Canadian Labour Congress and the Vanier Institute of the Family, argued that CTE should not be reduced unless other tax exemptions are also eliminated or reduced. Otherwise, the impression might be created that the government does not view childrearing as a legitimate tax deduction or an important societal activity. A reform of the entire taxation and social benefit systems was viewed as essential by many witnesses.

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(21) The Child Tax Exemption for older children is also used to deliver benefits to the parents of mentally or physically infirm children. We do not know what proportion of program costs are attributable to this goal. It seems preferable that a separate mechanism should be put in place with the worthwhile aim of assisting such families rather than that such benefits be delivered through a program which is otherwise undesirable.

While all groups reiterated the importance of the Child Tax Credit, not all agreed on how often it should be paid. Many felt that it should be paid twice a year, but others argued that the annual lump sum was invaluable because it was the only large amount of money to which eligible families had access. The present timing of this payment [in the spring] apparently is less convenient and useful than it could be, as many large expenses come in early fall and winter when children need school supplies and winter clothing. Many witnesses argued that CTC is crucial for poorer families, but that the amount is too low to cover essential expenses. Especially in those provinces with below average social assistance payments, CTC and FA play a critical role in the survival of low-income families.

Representatives from organizations appearing before the Committee further mentioned that the turning point of the CTC (which was recently lowered to $23,500) is too low and should be raised. It could, as a representative from *Confédération des syndicats nationaux* suggested, be made equivalent to the median family income. Witnesses also questioned why the two installments are proposed only for those with a net family income of $15,000 or less.

Other modifications to family benefits could include changes to the Married Exemption from income tax. Some have suggested that the Married Exemption should be allowed only for those spouses caring for young children rather than all "dependent" spouses. Others have argued that it should not be paid at all, since it benefits mainly higher income families which can afford to have only one earner. Although the Married Exemption has not been perceived as a "child benefit", it is often used by families with a stay-at-home mother caring for young children and for this reason could be included in this discussion.

The discrepancy between the amount deducted from taxable income for children under 18 and that deducted for dependent children 18 to 21 also has been discussed by advocacy groups. Although students often require tuition fees and books, pre-schoolers require constant care, which is expensive by many families' standards. Either one parent must remain out of the paid labour force or an individual or organization has to be paid to take care of the child. The CTE could be raised for pre-schoolers to make it equivalent to the exemption for dependent children over 18.

The Child Care Expense Deduction from income tax has been criticized because it rarely covers the actual cost of purchasing child care. If it were raised to cover costs and extended to parents caring for their own children, many more families would benefit. Yet as long as the tax system is used to help pay for child care, those with lower incomes will benefit less than those with higher taxable incomes. A child care tax credit could be devised, which could be used both for stay-at-home parents and non-family caretakers.

Many witnesses have argued that higher child benefits should be paid to allow low-income families to live above the poverty line. The present level of assistance, they claim, is far too low.

RESTRUCTURING SOCIAL BENEFITS

Recent published articles and reports, as well as some of the witnesses who appeared before our Committee have provided additional ideas for restructuring family benefits. This section discusses five ways of reorganizing social benefits which are related specifically to children and families.

A. Guaranteed Annual Income

The idea of introducing a guaranteed income has been debated for decades in this country. Although different proposals have been put forward, all involve a fundamental reform of the social security and taxation system. Through restructuring the many social programs and tax benefits, one new program would target money to those in financial need. In this way, income could be redistributed without using stigmatizing means tests such as those used in some provincial welfare programs.

Proposals for a guaranteed annual income (GAI) vary. Some involve restructuring all federal and provincial programs and the income tax system, while others focus on certain federal programs and specific tax exemptions and deductions. Some proposals would leave provincial social assistance benefits intact, while others would attempt to negotiate a new federal-provincial agreement.

Some authors have argued that a guaranteed annual income already exists in Canada, in a piecemeal form, through existing federal and provincial benefits to the elderly, families with children, unemployed workers, single mothers and disabled persons.(22) The present system, however, is not only administratively complex, but certain aspects actually contradict each other. While some family benefits are targeted to the poor, for example, other tax deductions assist wealthier people. The idea of developing a guaranteed annual income is to create a more consistent and fairer system which would be simple to administer and would direct money to those who need it most. Behind these GAI proposals are not only humanitarian goals but also the recognition that poverty and all its consequences now cost governments more than if social security programs and tax benefits were reformed and streamlined.

Previous attempts to restructure federal programs in order to redirect money to those in need have met with numerous objections from private citizens, political parties and provincial governments. Some critics have argued that a guaranteed income would discourage the working poor

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(22) Michael C. Wolfson, "A Guaranteed Income", *Policy Options*, January 1986, p. 35-45.

from staying at their jobs.[23] A contradiction exists, they argue, between providing a benefit which is high enough to keep people out of poverty but low enough to provide work incentives.

In order to develop a GAI program, changes would be necessary to existing federal-provincial agreements, especially the Canada Assistance Plan, which governs money for welfare programs. Provincial governments have rejected past proposals[24] because they were considered inferior to or jeopardized existing provincial programs.

Although numerous GAI proposals have been developed over the years, programs which are both affordable and politically acceptable to all negotiators have been difficult to create. The Committee therefore remains pessimistic about implementing a new GAI scheme, and has suggested an interim program instead.

B. Tax Credits

Basic tax credits similar to the Child Tax Credit could be used to support individual incomes, supplemented by tax credits for dependents, for certain kinds of home care and home support, for costs of disabilities and for costs of enhancing employability. Tax credits would be particularly useful for child care, and could be used for a parent who stays at home to care for children, for a babysitter or for a daycare centre. While additional social programs would still be necessary, a tax credit system could provide an alternative for certain family and child benefits, resulting in a more rational, efficient and equitable system.[25] The elimination of tax exemptions in favour of tax credits would redistribute income downward.

C. Expanded Parental and Child Care Leave

Another way of improving family benefits would be to reform employment legislation so that parents would have more opportunities to combine work and family responsibilities. This could include birth and adoption leave, extended child care leave, leave to care for sick family members or other family responsibilities. The only leave which is now guaranteed with pay is maternity leave. Maternity leave and benefits have only recently been adopted in Canada, and are not as well developed here as in other industrialized countries.[26]

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(23) Derek P.J. Hum, "The Working Poor, the Canada Assistance Plan and Provincial Responses to Income Supplementation", in *Canadian Social Welfare Policy*, ed. Jacqueline S. Ismael, McGill-Queen's University Press, Kingston and Montreal, 1985, p. 123.

(24) For example, the federal Government's *White Paper on Social Security* in 1973.

(25) Terry Hunsley, "A Warming Climate for Reform", *Policy Options*, Vol. 7, June 1986, p. 11.

(26) Task Force on Child Care, *Report*, (1986), p. 19.

Unpaid leave from work is regulated by provincial law, and benefits during maternity leave are provided under the Unemployment Insurance program, administered by the federal government. But many employees are ineligible for leave or benefits under exclusionary rules. In most jurisdictions, maternity leave is available only to women who have been employed by the same employer for a specified period of time, ranging from 20 weeks in Quebec to one year plus 11 weeks in Ontario (see Table 3:1).

TABLE 3.1:

Qualifying Period for Maternity Leave, 1985

Jurisdiction	Qualifying Period
Federal	6 months of continuous employment with the same employer
British Columbia	None
Alberta	12 months of continuous employment with the same employer
Saskatchewan	12 months of continuous employment with the same employer
Manitoba	12 months of continuous employment with the same employer
Ontario	12 months and eleven weeks of employment before the expected date of birth, with the same employer
Quebec	20 weeks of employment with the same employer in the 12 months before leave
New Brunswick	None
Prince Edward Island	12 months of continuous employment with the same employer
Nova Scotia	12 months of continuous employment with the same employer
Newfoundland	12 months of continuous employment with the same employer
Yukon	12 months of continuous employment with the same employer
Northwest Territories	No maternity leave legislation

Source: Task Force on Child Care, *Report*, (1986), pp. 20-21.

Some provinces have no qualifying period but exempt specific workers such as seasonal workers, many part-timers, women who have recently changed jobs, those who have been on strike or lockout (except in Quebec), those who have been ill for an extended period of time, and farm labourers. Extended child care leave without pay is available to very few workers and very few have the right to paid or unpaid leave for the purpose of caring for sick family members or dealing with other family emergencies.

Expanding the eligibility requirements for maternity leave, to make it available to employees working for shorter periods, part-timers, and seasonal workers would be one way to improve family benefits. In addition, parental leave or leave for family responsibilities should be available for both sexes. Several major government reports, such as those of the Macdonald Commission and the Forget Commission have recently recommended changes to maternity benefits under Unemployment Insurance.

D. Increased Public Support for Child Care

At present, the federal government indirectly funds child care through transfer payments to the provinces under the Canada Assistance Plan. This money, however, is for subsidizing daycare for families which are "in need" or "likely to be in need". Provincial subsidies vary considerably, but are generally available only for low income or one-parent families using non-profit daycare centres or licensed family homes. This means that commercial centres and unlicensed home care (either by a parent, relative, neighbour or babysitter) are unsubsidized. Publicly-provided daycare tends to exist in a social welfare context in Canada.

Rather than funding some child care in this indirect way, the federal government or the provinces could theoretically play a more direct and extensive role. A number of possible systems are outlined in the Report of the Task Force on Child Care (1986). Some countries have decided that it is desirable for all adults to participate in the labour force and governments have subsidized extensive daycare centre systems.(27) Alternatively, a government may subsidize a parent to stay at home to care for very young children, and so reduce the need for infant daycare centres. A third option might be to provide parents with quality daycare if they choose to use it, while at the same time offering sufficient income support to give a parent the option of remaining at home to care for the child. Another approach is to enable both parents (or a lone parent) to manage work and family life simultaneously. Generous paid parental leave and benefits, as well as extensive child care services, are viewed as necessary to ensure women's economic independence, labour force participation and equality with this approach.(28)

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(27) Task Force on Child Care, *Report*, (1986), p. 253.

(28) *Ibid.*, p. 257.

Since the Task Force on Child Care under Dr. Katie Cooke has already studied child care in great detail, and since the House of Commons Special Committee on Child Care just reported in March 1987, we will not elaborate further on these alternatives to the welfare approach to child care.

E. Taxation Reforms

Several witnesses appearing before our Committee (such as the Vanier Institute of the Family, National Action Committee on the Status of Women, la Centrale de l'enseignement du Québec and the Canadian Conference of Catholic Bishops) argued the necessity for a comprehensive review of the relationship between income support and social security programs, and the operation of Canada's systems of taxation, as part of a thorough study family and child benefits. They argued that more money would be available for family benefits if taxation were more progressive.(29) Several witnesses also advised that a number of tax shelters (such as the increases in the RRSP limits and capital gains tax exemptions) could be removed or reduced to free more money for family benefits. On the other hand, others have suggested that a flat tax rate could be lieved.

The National Council of Welfare has analyzed the impact of the 1985 and 1986 budgets on disposable income (April 1986) and concluded that the only family type which will have a higher real disposable income in 1990 than in 1986 is the one with no earnings. This family type will benefit from the sales tax credit and increases in the Child Tax Credit (assuming that provincial social assistance benefits keep up with the cost of living and that provincial governments do not deduct this additional income from social assistance payments). According to this analysis, other families will experience a modest but steady decline in their disposable income over the next five years.(30)

The government Consultation Paper on Child and Elderly Benefits of January 1985, stated that the "various tax exemptions and deductions are the most regressive components of the existing system and are therefore, those deserving most careful scrutiny ..."(31) Reforms to the taxation system were announced in June 1987. Without taxation changes, minor modifications to child benefits would not create an equitable system.

In the next chapter we discuss constraints on the delivery of federal child benefits. The section on federal provincial agreements analyzes in more detail how taxation rates and definitions of taxable income can affect the interaction between provincial programs and federal child benefits.

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(29) Louise Dulude, National Action Committee on the Status of Women, 25 February 1986, Proceedings of the Senate Committee on Social Affairs, Science and Technology, Issue No. 11, p.11:40.

(30) National Council of Welfare, *The Impact of the 1985 and 1986 Budgets on Disposable Income*, Ottawa, April 1986, p. 26, 27.

(31) Government of Canada, *Child and Elderly Benefits*, Consultation Paper, January, 1985, p. 9.

CHAPTER 4: CONSTRAINTS ON THE DELIVERY OF FEDERAL FAMILY BENEFITS

INTRODUCTION

The federal government is the major supplier of benefit programs directed specifically to children. In revising its package of benefits, the government faces several constraints, the most obvious of which is the financial or budgetary constraint. The recent recession, past government policies and high real interest rates have all combined to leave a legacy of high deficits which this government has committed itself to reducing. This situation seriously limits the options open to policy makers.

A major goal of any administration is to promote the efficient functioning of the economy. Social transfer programs and government activity in general affect this performance and these must also be considered when developing new policy. Economic effects thus present a set of constraints. Although this constraint is linked to the budgetary constraint, it has a different set of implications for policy.

Also influencing policy design are demographic changes which affect the need for benefits and the government's ability to provide them. In this regard, an important statistic is the dependency ratio, that is, the ratio of the dependent population to the population who generate the wealth to support these dependents.

Finally, federal programs are not provided in a vacuum, for the provinces also provide a series of social benefits which may be affected by the provision of federal benefits. In order to change federal benefits, federal-provincial agreement may be necessary. These constraints affect not only the size of social benefits but their structure and delivery mechanisms.

BUDGETARY CONSTRAINTS

By historical standards, the federal government budgetary deficit remains extremely high. It is only now coming in at less than $30,000 million and will continue to be in excess of 5% of GNP for several years. This deficit appears to be structural in nature and thus requires expenditure cuts and tax increases to reduce its size. Control of this high structural deficit is further hindered by the very large interest payments which the government faces.

In its budgets and economic statements, the government has cut projected expenditures and raised taxes. Some of the future deficit reduction is to be achieved by changes to the child benefits package. Nevertheless, by 1988 the cost to the federal government of this package is calculated to reach $5,400 million, up from $4,700 million in 1982, even though the number of children for whom these benefits are provided is falling.

If the federal government persists in its deficit reduction policy, any changes to the package of child benefits will be seriously constrained. The net costs of any restructured package cannot grow much beyond current projections and might even have to be curtailed further.

When the concern is the size of the federal deficit, the constraints on child benefits affect only the total size of net benefits. New or expanded programs which deliver large amounts of gross benefits but contain tax back provisions can accommodate the budgetary goals of the government -- a large sum of money may pass through the hands of government although the impact on the bottom line (i.e. the deficit) may be negligible.

This is desirable because many prefer a universal delivery mechanism to a selective one, even when the desired effect of the program is to benefit only a specific group of families. In other words, child benefits may be very specifically directed even though initial benefits are widely distributed. Such a distribution method eliminates the stigma associated with social benefits, reduces administration costs and is thought to generate public support for such programs.

A universal delivery mechanism does increase program costs, however. Monitoring activity must be increased and therefore administrative costs will rise somewhat. More importantly, the government will incur interest costs whenever gross benefits are paid throughout the year yet the desired recovery of funds through taxback provisions will not take place until later in the year. An example of this cost is an installment Child Tax Credit. If initial payments are made on the basis of demogrants, with reconciliation at the time of tax filing on the basis of family net income, the universal delivery of benefits could result in interest costs of over $200 million per year.

By many observers, the federal government's preoccupation with reducing the size of the budget deficit is viewed as a meaningless obsession with balancing accounts. But the real concern is that large deficits represent a drag on the performance of the economy, limiting its ability to generate employment and income. This leads to an additional constraint for the government, namely the negative consequences imposed by the poor performance of the economy.

Why not increase child benefits sufficiently and simply raise taxes to pay for them? This would simply constitute a transfer of resources from families without children to families with children. If the direction is controlled, then benefits are transferred to only some families with children.

In addition to administrative and interest costs, government programs generate inefficiency costs whenever individual behaviour is altered as a result of government programs, either in an attempt to receive more benefits or pay less taxes. Such inefficiency costs (also known as deadweight losses) are produced by both aspects of government activity, spending and taxation. As these costs are potentially the most onerous, it is important to design programs in such a way as to minimize them.

THE CHANGING AGE STRUCTURE OF THE CANADIAN POPULATION

Also affecting the design of a family benefit system is the changing age structure of the population. Canada's population is gradually aging, which suggests that money may have to be shifted from child benefits to elderly benefits as the "baby boom" generation reaches old age.

Declining fertility rates and increased life expectancy are the major reasons for the increasing proportion of elderly people in the population. Compared to some European countries, such as Denmark and Sweden with over 16% of the population 65 and over, Canada's population is relatively young, with about 10% aged 65 and over in 1981.(32) Even so, Canada's population is aging and changes in the age distribution affect dependency ratios and consequently government social programs. By <u>dependency ratios</u> we mean the percentage of the population assumed to be financially dependent (usually 0 to 19 years and 65 and over) compared to the percentage assumed to be working for pay (20 to 64 years old). In some more sophisticated analyses, the exact dependent population is compared with the exact population in the labour force. Dependency ratios can include both children and the elderly, but it is more useful if they are calculated separately because the social implications of changes to each are quite different.

While the dependency ratio for children has declined sharply since the 1960s, the ratio for the elderly has been gradually increasing since the 1920s. But contrary to popular opinion, the working population has actually <u>increased</u> as the baby boom generation entered the labour force. Total dependency ratios will continue to fall until about 2011, when the baby boomers reach their senior years. But even after that point, the dependency ratio is not expected to rise above its 1971 level which is <u>considerably</u> lower than that ratio at the turn of the last century.

Provincial and regional differences in dependency ratios have varying implications across the country. These differences are caused by disparate levels of economic development, immigration and internal migration and varying birth rates. Generally, adolescent and young families have been leaving farm areas and small villages for larger towns and cities, in search of educational and employment opportunities. Young adults have moved to frontier areas with expanding economic opportunities in order to find work. Consequently, Prince Edward Island, Manitoba and Saskatchewan have higher proportions of older people than other provinces, and Alberta, Newfoundland and the Northwest Territories have higher percentages of children.

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(32) National Council of Welfare, *Sixty-five and Older*, Ottawa, February 1984, p. 19.

The importance of these trends to family benefits stems from the fact that the per capita cost of supporting "dependents" is not the same for all age groups. While many of the costs of childrearing and childcare are paid for by the family, the state is heavily involved in the support of the elderly. A decline in the birthrate could reduce the total cost of family benefits for children, except that some benefits are partially indexed to the rising cost of living. A rise in the elderly population will undoubtedly mean that more resources will have to be allocated to pensions, health care, social services and housing for seniors, but not all of this money needs to come from government. The impact of the increasing elderly population on government resources should not be overestimated. Tomorrow's elderly will likely be more active and healthier than the elderly of today, and a variety of services are being developed to support them in their homes when they become more dependent. With new housing and care options, the pressure for high-cost institutional care should decrease, at least in relative terms.[33]

Dependency ratios can be used as one indicator of projected needs. We must keep in mind, however, that ways of delivering services could change as the population ages; for example, employers may play a more active role in pension contributions; co-operative housing and apartment living for seniors may largely replace institutions. Health professionals may be more likely to visit the elderly in their own homes, reducing rates and costs of hospitalization. While demographic changes operate as a constraint on the design and delivery of family benefits, decisions of how to allocate resources are essentially <u>political</u> rather than set by population characteristics.

FEDERAL-PROVINCIAL AGREEMENTS

In an earlier report on child benefits,[34] the Committee noted the relationship between federal and provincial programs and pointed out that this may result in increases in child benefits having a much smaller effect on some families. The report focused only on those programs that are linked in a systematic fashion.

The link, however, may in fact be stronger than the report suggests. Provincial governments normally set the size and scope of their programs to coincide with federal programs and may well view the two sets of programs as substitutes for one another. Changes to provincial programs in response to federal changes are difficult to prove, yet vitally important to beneficiaries.

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(33) Hunsley (1986), p. 12.

(34) Canada, Senate, Standing Senate Committee on Social Affairs, Science and Technology, *Analysis of Child and Family Benefits in Canada: A Working Document*, A Report Submitted by the Subcommittee on Child Benefits, Ottawa, December 1985.

Nevertheless, we can make some observations on this linkage. Though governments have many different goals when they set policy, it is safe to say that they all prefer a tax/transfer system that delivers the greatest net benefits to the poorest of families and charges the highest net taxes to the richest. The pattern of net benefits/taxes should be consistent and relatively smooth over different income levels.

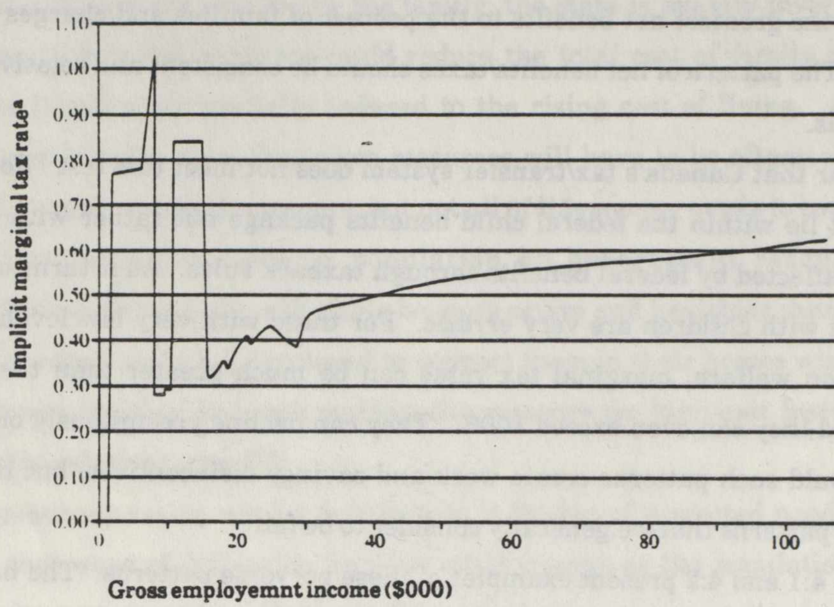
It is clear that Canada's tax/transfer system does not meet this test. For the most part, the problem does not lie within the federal child benefits package but rather with the other set of programs which are affected by federal benefits through taxback rules. As it turns out, the effective tax rates for families with children are very erratic. For those with very low levels of income, and especially for those on welfare, marginal tax rates can be much greater than they are at higher income levels - indeed they can even exceed 100%. They can decline precipitously only to jump back up again. Not only could such patterns create work and savings disincentives, but they do not come close to representing patterns that we generally consider to be fair.

Figures 4:1 and 4:2 present examples of these perverse patterns. The horizontal axis in both figures represents employment income; however, in many instances child benefits have the same impact on effective taxes as employment income. For example an increase in Family Allowance payments or a decrease in child-related tax exemptions or deductions all have the effect of raising taxable income. If other social programs are delivered on the basis of taxable income, child benefit changes have the same effect as employment income changes. From the two figures it is then clear that we cannot always predict the quantitative or even qualitative effects of changing child benefits for some groups of families.

Extensive restructuring of child benefits cannot be done efficiently without regard to other programs. Since the source of the problems often lies outside the federal child benefits system, that is where the corrections will have to be made. Clearly, it is not a job for the federal government alone.

Figure 4:1

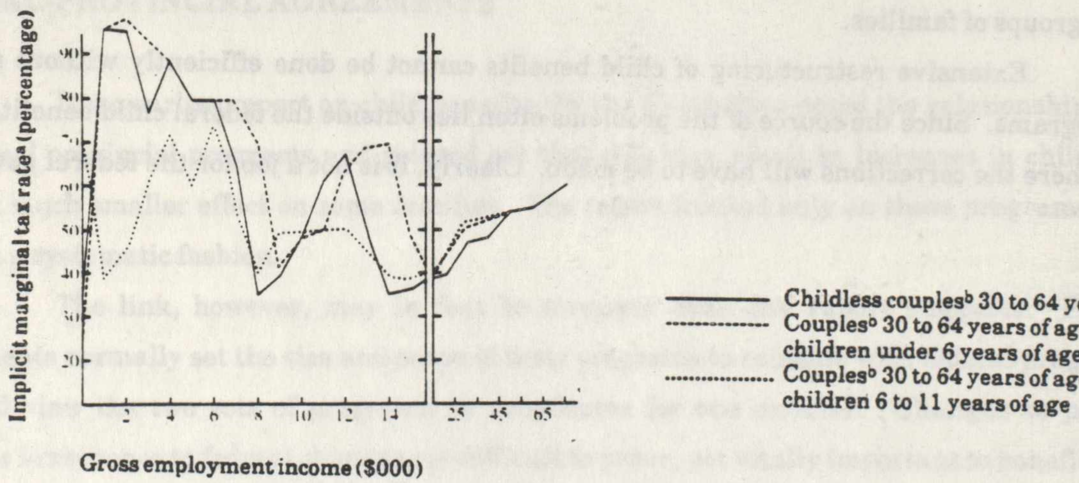
Marginal Rate of Selected Intervals of Increases in Employment Income, Toronto, 1983



a. Head of a single-parent family working 25 hours a week, 52 weeks a year, two children under six years of age, one child in daycare, rent $3,600 per year.

Figure 4:2

Marginal Rate for $1,000 Increases in Employment Income for Couples, Province of Québec, 1983



a. These marginal rates include income tax, transfers and employment expenses. They do not include taxes on consumption and property taxes, since these do not influence employment income directly. It is assumed that households eligible for subsidies for child-care expenses do obtain them.

b. It is assumed that both spouses work and the income of one spouse is $8,000.

Source: B. Fortin, "Income Security in Canada" in: F. Vaillancourt, Research Coordinator, *Income Distribution and Economic Security in Canada*. University of Toronto Press, Toronto, 1985.

CHAPTER 5: OUTLINE OF A GUARANTEED FAMILY SUPPLEMENT SCHEME

RATIONALE FOR A NEW PROGRAM

Raising children is rewarding but it is also expensive. Historically, governments have been aware of the costs of childraising to families and yet also of the important national and social contribution parents make in producing and raising the next generation. In Chapter Two, we outlined five federal benefits for families with children and mentioned various provincial programs to supplement family income and to assist families with dependent children. These programs, however, have not relieved poverty or redistributed income in any significant way. According to Statistics Canada, the poverty rates for families with children under 16 have <u>increased</u> from 16.5% in 1981 to 19.2% in 1985. At the same time, the rate for families without dependent children increased only slightly, from 9% to 10%.(35) It has always been evident that children are essential to the future of our country. Yet the Committee believes there is an injustice in the taxation and social security systems because the benefits we provide for our children and the benefits available to other sectors of our society are not comparable.

We begin by assuming that Canadians must continue to acknowledge the contribution made by parents in raising their children and that governments must try to offer as much assistance as possible. Noting that one child in five now lives in a family below the poverty line, the Committee feels that child benefits should nevertheless be directed to those living in poverty and families with below-average incomes.

Earlier in this report, we showed that the goals of the present family benefits package are not entirely consistent. Family benefits were initiated by a series of governments to meet national needs in eras with different family structures. Consequently, child benefits are not congruent with the present realities of family life. That so many Canadian children are living in poverty indicates that present federal and provincial child and family benefits are inadequate.

The idea of a guaranteed annual income was initially considered by the Committee with some interest. We are pessimistic, however, about the possibility of implementing such a proposal. It seems more realistic to devise an interim plan to supplement provincial and federal benefits or low wages for families with dependent children. We have called this plan the Guaranteed Family Supplement or GFS.

Since 1974, Saskatchewan has operated a similar program on a provincial level. The Family Income Plan (FIP) is a benefit for families with gross assets not exceeding a 1985 market

(35) Brigitta Arnoti, "Children in Low-Income Families", *Canadian Social Trends*, Winter 1986, pp. 18-20.

value of $150,000 and in receipt of Family Allowance on behalf of any dependent children under 18. It is an income-tested benefit, based on the estimated household income less deductions and exemptions. As of January 1987, maximum benefits of $100 per month for each of the first three children and $90 for each additional child are payable to families whose income is at or below $8,200 per year plus Family Allowances. For each $2 of income over that amount, FIP benefits are reduced by $1. FIP benefits are not taxable and are considered part of the social assistance entitlement of eligible families. [36] Although this program has been criticized for disqualifying farm families, through its regulation about gross assets, and for dealing with only the lowest income families, it nevertheless provides a Canadian example of an income supplementation plan currently in place for low income families with children.

CONSIDERATIONS

Given that:

1) one child in five lives in poverty and that we believe this is a national disgrace;

2) the existing federal programs were introduced at different times and for different purposes, and have not sufficiently relieved poverty among children;

3) fiscal reform by the federal government is now underway;

and given also that:

4) other studies of child care have already been completed and a child care policy is being debated,

we recommend:

RECOMMENDATIONS

1) that most federal child benefits should be targeted to families with poorer children;

2) that federal funds for parents (either alone or in a couple) with children under 18 be made more progressive to help relieve poverty;

3) that this redistribution should be done in a fashion which does not encourage parents to live separately in order to receive maximum benefits;

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(36) Government of Canada, *Inventory of Income Security Programs in Canada, July 1985*, Ottawa, September 1986, p. 64, 65.

4) that incentive should be built into the child benefit system to encourage beneficiaries to enter the labour force, to remain working, or to retrain;

5) that programs for children with special needs (i.e. children with disabilities) be retained;

6) that a program be designed to supplement family income, which would replace or restructure some of the existing child benefits.

DESIGNING A GUARANTEED FAMILY SUPPLEMENT

A. Defining Family

Because the structure of families has changed substantially in recent decades, it is important to ensure that social policies and benefits encompass the full range of family structures. In two-parent families, there are at least three possible structures: both parents may be employed outside the home (over 60%); only one might be working; both could be living on social assistance. In a one-parent family, the custodial parent is likely to be the mother (83% of one-parent families), but it could be the father. This parent may be employed or living on social assistance. Although the Canadian census definition of "family" includes childless couples, children are central to the definition used by this Committee. For the purpose of this report, we have defined "family" to include either one or two parents living together with at least one dependent child (under 18 years old).

B. Critical Income Levels for the Proposed GFS

Statistics Canada uses "low income cut-offs" to produce data on the low-income population. These cut-offs are defined as the point below which, on average, a family must spend 58.5% of its gross income (or 20% above the average) on the basic necessities of food, clothing and shelter. This income is often referred to as the poverty line but in reality, there is no single poverty line for all of Canada because these cut-offs vary by family size and place of residence. In total, there are 35 poverty lines.[37] While it would not be practical to use 35 different poverty lines as the basis for a federal family benefit, we can use the Statistics Canada figures as guidelines in designing the GFS.

In 1987, Statistics Canada estimated that a family of four needs $22,532 per year if it lives in a city of 500,000 or more and $16,575 if it lives in a rural area. Since these income levels are projected to increase by about 4% a year, this would mean that by 1988 a family of four would need

(37) National Council of Welfare, *1987 Poverty Lines*, Ottawa, March 1987, p. 9.

$23,433 in a large city and $17,238 in a rural area. We also know that in 1985 the average family income was $38,059,[38] (although Statistics Canada includes childless couples in these calculations). These figures should be kept in mind when designing a new family benefit but the basic idea remains that benefits should vary by family size and family income.

As we indicated in our December 1985 report,[39] the value of family benefits varies by:

(1) family income,

(2) family structure (1 or 2 parents),

(3) number of children,

(4) the age of the children,

(5) the need for child care and the subsequent use of the Child Care Expense Deduction, and

(6) provincial social assistance levels and other provincial benefits.

Despite these variations, it is possible to point to two critical income levels or turning points in the present delivery of family benefits:

(1) the level below which families pay no income tax (about $12,000 per year depending on province of residence and family size) and

(2) the point at which the Child Tax Credit begins to be reduced ($23, 500).

According to our calculations in the December 1985 document, most families with incomes below $1,000 per month cannot make use of the Child Tax Exemption, the Child Care Expense Deduction or the Equivalent to Married Exemption. This means that families with monthly incomes of $2,000 to $3,000 generally benefit more than poorer families from federal child benefits, especially if the parents can use the Child Care Expense Deduction. In other words, our present federal child benefits package is certainly not directed to the poorest families. This responsibility to look after the poor rests with the provinces and provincial social assistance levels vary considerably.

Families with incomes above $23,500 begin to lose the Child Tax Credit, and this turning point also needs to be kept in mind when designing a new child benefit program. Considering both of these critical income levels, we know that families gain most from federal child benefits if their incomes are just below $2,000 per month, or if they can use the Child Care Expense Deduction when their income is around $3,000 per month. (Larger families, of course, also benefit more because money is paid for each child.)

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(38) Statistics Canada, *Income Distributions by Size in Canada*, 1985, Cat. No. 13-207, Ottawa, December 1986, p. 47.

(39) Canada, Senate, Standing Senate Committee on Social Affairs, Science and Technology, *Analysis of Child and Family Benefits in Canada: a Working Document*, Ottawa, December 1985, p. 31-97.

Because three of the five child benefits are tax-related exemptions and deductions, federal benefits are structured in such a way that richer families benefit more. We feel that more of federal child benefit money should go to poor families than under the present system and that a new program has to be devised.

C. Financing the System

For this new program, two alternative methods of financing can be considered:

1) If we replace four out of five federal child benefits (i.e. FA, CTC, CTE, and EME), the money saved from these benefits would be used to finance the proposed Guaranteed Family Supplement.

2) If we replace three of the five federal child benefits (i.e. CTC, CTE, and EME), the money saved from these existing programs would be used to finance the proposed program and the amount necessary to compensate for the absence of FA (approximately $1,000 million to $1,300 million) should be added from the federal treasury.

Within the Committee, there were adherents of both methods of financing the proposed new program.

Earlier in this report, we calculated the 1988 cost to the federal government of each benefit to families with different income levels. The total amount channelled to the new program for option 1 is listed below:

<u>1988 Net Cost to the Federal Government of Four Child Benefits</u>

Family Allowance	$ 1,822.3 million
Child Tax Credit	1,867.6 million
Child Tax Exemption - under 18	674.4 million
Equivalent to Married Exemption	541.6 million
TOTAL NET COST -	$ 4,905.9 million

Since our primary concern in this Committee is to assist children living in poverty, we recommend reallocating resources to remove tax exemptions and deductions because these do not benefit the poorest families. Within the first funding option, it is the income of the family and not its structure which should establish the criteria for benefits. With the Equivalent to Married Exemption, one-parent families are being offered tax assistance equivalent to the one-earner two-parent family. But rather than supporting families <u>because</u> they have one parent on the assumption that they are in need, we would support families which are actually in need, regardless of structure. If our goal is to target existing resources to poor families, money from the Equivalent to Married Exemption and relevant child benefits should be reallocated to one new benefit.(40)

In the light of the previous discussion, money from the Child Care Expense Deduction could also be used for the new program. Although only a small proportion of families can use it, the Child Care Expense Deduction is potentially the most valuable to the individual family of the five child benefits. Families with four or more children can deduct up to $8,000, or $2,000 per child from their taxable income if they have receipts. Since we want to target money to poor families, we believe that tax deductions could be eliminated. Yet the problem of affordable and accessible child care goes beyond the issue of tax deductions. The federal government, for example, may want to expand parental leave, introduce child care tax credits to be used by parents at home or to purchase child care, or to subsidize day care spaces more fully. Since the government announced tax reform last June and since the Special Parliamentary Committee on Child Care has just reported on 30 March 1987, we anticipate some response to the serious problems of affordable and quality child care raised by that Committee. Attempting to solve these childcare problems exceeds the mandate of this report, but we will have an opportunity to study this issue at a later date.

If money was reallocated away from four child benefits and towards lower income families, more money would be available than if we reallocated money only from three benefits, leaving FA intact ($4,905.9 million compared to $3,083.6 million in 1988). If the universal benefit of FA were left unchanged as some members wished, new money would have to be found to provide sufficient funds for a GFS. Otherwise, poorer families could receive less money after restructuring than they do at present. Any new scheme, however, must operate on a sliding scale so that families with below average incomes as well as average incomes receive partial benefits. The present federal benefits mainly help families who live above the poverty level but have below average or average incomes. Even though more money would go to poor families under the new proposal, this middle income group must be protected because their childraising costs are considerable. A middle income family with two children could easily pay $8,000 a year for the care of two children, and also take the brunt of the taxation load.

(40) We have not included the tax exemption for older dependent children in our calculations of available money because we feel that this should be an educational benefit rather than a family benefit, since it is essentially for students. Similarly, we have omitted the Child Care Expense Deduction because we anticipate changes in this benefit resulting from the recent Report of the Special Parliamentary Committee on Child Care.

D. Eligibility and Method of Distribution

Entitlement for GFS would be based on net family income (before taxes)[41] in the previous calendar year as well as on the number of children in the family. Should the actual income in fact exceed the estimated amount, the excess would be deducted from any subsequent payments of the supplement. GFS benefits would be paid monthly to the mother or to the custodial parent or guardian, as is the present Family Allowance benefit.

Eligible families could apply for this benefit if they had dependent children under 18 living at home and if their before-tax family income was below the Canadian average.[42] The amount parents would receive would depend on the number of children and family income but would not be granted at all to families with above-average family incomes. The amount would be adjusted to family size and special circumstances of the family (i.e., having a child with disabilities), but those with the lowest incomes would receive the highest supplement. The new program would have to be designed to begin in the same month as Family Allowances were withdrawn, to prevent a waiting period without benefits.

E. Built-In Incentives

The proposed GFS would be neutral in that families would neither be encouraged to stay together nor to separate to raise their benefit level. This could be done by providing the supplement to one parent in a family with children -- including parents living together outside legal marriage as well as those legally married.

The amount of money granted, combined with provincial social assistance payments, would have to be high enough that families could live above the poverty level, but not so high as to provide work disincentives. GFS should not discourage parents from seeking part-time or full-time work or from pursuing education or training, as some welfare systems do. There should be an incentive to seek permanent work and become independent of the Guaranteed Family Supplement. GFS would supplement either welfare or low wages or both.

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(41) Prior to the implementation of the tax reform proposals of June 1987, net income refers to gross income minus allowable employment expenses and capital losses, deductions for CPP, UIC and RRSP contributions, union dues and for childcare, but before income taxes are paid. It is this existing concept of net income which the Committee has in mind for entitlement for GFS.

(42) The average family income in Canada was about $38,000 in 1985. The exact cut-off point would have to be established annually by the government.

F. Federal-Provincial Negotiations

Members of the Committee were concerned that raising federal family benefits for the welfare poor could cause provincial governments to cut back on welfare payments, to minimize or eliminate the annual cost of living increases to social assistance payments, or to reduce or freeze minimum wages. We suggest that this possibility would require a federal-provincial agreement that any increase in federal benefits would not alter provincial benefits, future increases, or the formula for such increases. The Canada Assistance Plan, which governs financial arrangements for social assistance, could be altered to incorporate increases in federal benefits. Federal-provincial negotiations necessary for the implementation of this proposal should guarantee a commitment by the federal government and the provinces to alleviate poverty in families with children and that the GFS will in no way reduce, now or in the future, any provincial support. Otherwise, this exercise will be self-defeating. The Guaranteed Family Supplement should be non-taxable and could give choices to parents for the care of their children.

G. Conclusion

Many tax exemptions and deductions in the Canadian tax system are expected to change in the near future. Furthermore, on 30 March 1987, the Special Parliamentary Child Care Committee recommended changes to child care funding. We, also, argue for the elimination of child tax exemptions and deductions. Committee members are also fully aware that there are other tax exemptions which need to be reconsidered. But it is important for us to begin to restructure child benefits in order to create a more equitable system. We do not wish to imply that the expenses of childrearing are any less important than other tax exemptions or deductions recognized by Revenue Canada. On the contrary, children are our nation's most important resource and governments should assist all families to raise their children. But tax-related exemptions and deductions are not the best way of doing so, because they are of more value to those who are already financially better-off. We feel that family benefits would be most useful if directed to those families with lower incomes. This is why we are proposing a new way of delivering family benefits. We want to acknowledge the financial difficulties experienced by lower income families in raising children, and contribute to the alleviation of poverty in which so many Canadian children live. We are confident that a Guaranteed Family Supplement would accomplish these goals.

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