



Caledon praises Federal Economic Statement

The Caledon Institute of Social Policy congratulates Finance Minister Bill Morneau and the federal government on its Fall Economic Statement issued on October 24, 2017. We especially welcome two social policy announcements in the Statement related to the Canada Child Benefit and the Working Income Tax Benefit.

The Canada Child Benefit is the product of many years of evolution. The result is an income security program with a number of important features that work for Canadian families.

As a non-stigmatizing, inclusive program, the Canada Child Benefit delivers its benefits to all eligible families through the same vehicle, the personal income tax. It is portable, providing a stable and assured supplement to income no matter where families live or move. It is progressive, meaning benefits decline as incomes rise. What you see is what you get because benefits are not subject to income tax. The program pays the same amount to all families with the same income, regardless of the source of that income, where they live or family type.

Best of all: The Canada Child Benefit is now a generous program, paying \$6,800 on average each year. The maximum payment for a child under 6 is \$6,400 and \$5,400 for a child between 6 and 17 years old. The result is a hefty reduction in child poverty: 300,000 children are no longer below the poverty line. It is estimated that child poverty by the end of this year will be reduced by 40 percent from where it was in 2013.

The positive effects of the Canada Child Benefit are not limited only to the families who get the payments. The extra income is spent on goods and services across Canada, employing many more Canadians and helping businesses thrive. If the economy slows down the Canada Child Benefit will boost economic activity.

But there was an Achilles heel threatening the scene: lack of indexation. When the Canada Child Benefit launched in July 2016, the plan was to wait until July 2020 before payments would be completely protected from inflation by fully indexing benefits. That means that the real value of unindexed benefits would decline each year (by the cost

of living) from 2016 to 2020. The annual income threshold for calculating maximum benefits also would erode in value over time, reducing the number of low-income households that qualify for maximum child benefits.

Fortunately, the federal government has just announced its intention to introduce full indexation of the benefit as of July 2018. This new date is two years before the previously scheduled indexation date.

Full indexation means that both the value of the benefit and the threshold for qualifying for the measure must be adjusted annually in line with the increase in the cost of living.

Caledon had made the case for full indexation in an op ed published in the *Globe and Mail* in April 2016. The announcement of an earlier indexation of the Canada Child Benefit is the right thing to do in order to protect the integrity of this vital measure.

The federal government also announced its intention to enhance the Working Income Tax Benefit (WITB) by \$500 million a year effective 2019. This increase is in addition to the annual hike of \$250 million that the last federal Budget brought in to help offset higher payroll contributions to the Canada Pension Plan.

No details were presented as to where the new funds would be allocated. The government acknowledged that substantial analysis will be required before any decisions are made.

This process makes sense. The Caledon Institute has argued over the years that the WITB needs to be both increased in terms of benefit levels and extended in its current coverage. Right now, substantial numbers of low earners do not qualify because the eligibility cut-offs are far too low.

In our own reports, Caledon has identified a number of design issues that must be taken into consideration in any reform of this promising program.

Another laudable feature is that provinces and territories have the ability to modify the design of the WITB in their respective jurisdictions in order to ensure alignment with their other income programs, including social assistance, child benefits and selected tax credits.

October 24, 2017, was a good day for social policy. While there is still substantial work to be done to improve the efficacy of income programs in Canada, several key pieces on the chess board have definitely moved in the right direction.

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