

# BACKGROUND ON THE CANADA CHILD BENEFIT

## Considerations for the Future

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### Introduction

The federal government has long recognized that raising children costs money, and thus it offers income-targeted and universal cash payments, tax credits, and deductions. The Canada Child Benefit (CCB), introduced in 2016, is the most recent federal cash benefit that is targeted to families with children.

The tax-free benefit is adjusted annually to inflation and provides flexibility to parents to direct funds where they determine the need is greatest. It is intended to assist with the expense of raising children, and the federal government estimates that about 90 percent of families with children have received payments.<sup>1</sup> The program is structured to deliver higher per-child amounts to lower-income families, families with children under age six, and families with children with disabilities. The federal government has credited the program with reducing poverty, but the CCB is broadly distributed across income levels, with much of the total funding going to middle-income families.<sup>2</sup> Should the CCB remain broadly applied, or should it be better targeted toward low-income families than it currently is?

<sup>1</sup> Prime Minister of Canada, “Families to Receive Increased Support through the Canada Child Benefit,” news release, May 3, 2020, <http://www.pm.gc.ca/en/news/news-releases/2020/05/03/families-receive-increased-support-through-canada-child-benefit>.

<sup>2</sup> C.A. Sarlo, J. Clemens, and M. Palacios, “Is the Canada Child Benefit Targeted to Those Most in Need?” Fraser Institute, October 6, 2020, <https://www.fraserinstitute.org/sites/default/files/is-the-canada-child-benefit-targeted-to-those-most-in-need.pdf>.

This background paper reviews some of the literature evaluating aspects of the CCB, in order to foster further conversation about the best way to support families. The paper contributes to ongoing work at Cardus.<sup>3</sup> The current paper identifies key questions about the application of the program. Should it be more focused on particular families? Is the program worth the expenditure? And, how does this benefit fit within the family-policy landscape?

## A Brief History

While the history of federal family benefits is complex, there are several notable policy changes that reflect shifting approaches to assisting families with children.

The 1918 Child Tax Exemption was the first significant family benefit, followed by the Family Allowance in 1945, which provided a cash benefit to all families with dependent children. Two significant changes were made during the 1970s. The Family Allowance amount was increased and indexed to inflation, and it became taxable. The Refundable Child Tax Credit was introduced in 1978, providing an income-tested benefit to low- and middle-income families.<sup>4</sup>

In the early 1990s, the federal government bundled tax credits and the Family Allowance into the Child Tax Benefit and paired this policy with a supplement for low-income parents who were in the workforce. In the late 1990s, the federal government added the National Child Benefit Supplement, targeted at low-income parents regardless of employment status, and replaced the Child Tax Benefit with Canada Child Tax Benefit.<sup>5</sup>

In the mid 2000s, the federal government introduced the Universal Child Care Benefit (UCCB), a taxable universal cash payment, as a supplementary measure to the Canada Child Tax Benefit. The UCCB was enhanced in 2015, increasing the monthly payment for children under age six from \$100 to \$160. The enhancement also included a new payment of \$60 per month for children aged six to seventeen.

In 2016, the CCB replaced the Canada Child Tax Benefit, National Child Benefit Supplement, and the Universal Child Care Benefit. More generous than the programs it replaced, the CCB is indexed to inflation and is tax-free.

## How the CCB Works

Unlike the Universal Child Care Benefit, the CCB is geared to an annual adjusted net household income and the number of children under age eighteen. The benefit is more generous for children under

<sup>3</sup> See P.J. Mitchell, “Envisioning a Federal Family-Formation Policy Framework for Canada: Increasing Opportunity for Partnership and Raising Children,” Cardus, 2023, <https://www.cardus.ca/research/family/reports/envisioning-a-federal-family-formation-policy-framework-for-canada/>.

<sup>4</sup> Government of Canada, “The National Child Benefit Progress Report: 2003,” 7, March 2005, [https://publications.gc.ca/collections/collection\\_2016/edsc-esdc/HS1-3-2003-eng.pdf](https://publications.gc.ca/collections/collection_2016/edsc-esdc/HS1-3-2003-eng.pdf).

<sup>5</sup> Government of Canada, “National Child Benefit Progress Report: 2003,” 7.

age six, and includes an additional Child Disability Benefit of up to \$3,173 per year in 2023 for each eligible child.

The maximum benefit for 2023 is \$7,437 per year (\$619.75 per month) for each eligible child under the age of six and \$6,275 per year (\$522.91 per month) for each eligible child aged six to seventeen. The geared-to-income benefit begins to be phased out at an annual adjusted net household income above \$34,863. The phase-out proceeds at different rates depending on income. The first phase-out rate continues to an adjusted net household income of \$75,537, and a second phase-out rate kicks in over that amount.<sup>6</sup> The complete phase-out depends on the number of children and the annual adjusted net household income. By way of example, in benefit year 2021–22 the complete phase-out for a family with one child over age six occurred at an annual adjusted net household income of about \$170,000.<sup>7</sup>

The program is not cheap. According to the 2023 federal budget, the government allocated \$24.5 billion toward the CCB in fiscal year 2022–23, making it one of the largest national cash-transfer programs.<sup>8</sup>

## Assessing the CCB

How effective has the CCB been at supporting families with the cost of raising children? We highlight below some themes taken from current research and policy discussions.

### Reduction in Child Poverty

While the purpose of the program is to help families with the cost of raising children, the federal government has repeatedly emphasized that the program has reduced child poverty, claiming that the program has contributed to lifting as many as 782,000 children out of poverty between 2016 and 2020.<sup>9</sup> Since the pay-outs are scaled to income, lower-income families receive more benefit. Yet, the income level at which the program phases out completely means that most Canadian families receive the benefit.

Economist Christopher Sarlo conducted a simulation to contrast the effectiveness of the CCB with that of the Canada Child Tax Benefit and the Universal Child Care Benefit at reducing child poverty.<sup>10</sup>

<sup>6</sup> Canada Revenue Agency, “Canada Child Benefit: How Much You Can Get,” Government of Canada, last modified June 14, 2023, <https://www.canada.ca/en/revenue-agency/services/child-family-benefits/canada-child-benefit-overview/canada-child-benefit-we-calculate-your-ccb.html>.

<sup>7</sup> E. Elmarzougui, “The Impact of the Canada Emergency Response Benefits and the Three Canada Recovery Benefits on the Canada Child Benefit Program,” Office of the Parliamentary Budget Officer, June 8, 2022, 7, <https://www.pbo-dpb.ca/en/publications/RP-2223-007-M--impact-canada-emergency-response-benefits-three-canada-recovery-benefits-canada-child-benefit-progra--incidence-prestations-canadiennes-urgence-trois-prestations-canadiennes-relance-economique-programme>.

<sup>8</sup> Government of Canada, “Budget 2023: A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future,” 2023, 212, <https://www.budget.canada.ca/2023/pdf/budget-2023-en.pdf>.

<sup>9</sup> L. Powers, “Trudeau’s Numbers on Poverty Are Mostly True—but It’s Complicated,” CBC, September 13, 2019, <https://www.cbc.ca/news/politics/trudeau-election-poverty-line-fact-check-1.5280114>; L. Goldstein, “How the Canada Child Benefit Shifted Help Away from Low-Income Families,” *Toronto Sun*, August 17, 2022, <https://torontosun.com/opinion/columnists/goldstein-how-the-canada-child-benefit-shifted-help-away-from-low-income-families>.

<sup>10</sup> C.A. Sarlo, “Does the Canada Child Benefit Actually Reduce Child Poverty?” Fraser Institute, October 7, 2021, <https://www.fraserinstitute.org/studies/does-the-canada-child-benefit-actually-reduce-child-poverty>.

The study simulated the continuation of Canada Child Tax Benefit and Universal Child Care Benefit after the programs were ended and compared the results with the CCB. Sarlo used two measurements

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to define poverty: the Low-Income Cut-Off, widely used by the federal government before 2018, and the Market Basket Measure, selected as Canada's official poverty measure in 2018. The Market Basket Measure threshold for a family of four is about 20 percent to 30 percent higher than the Low-Income Cut-Off. Sarlo found that the CCB is more effective in reducing the number of children in poverty than the Canada Child Tax Benefit and the Universal Child Care Benefit using both poverty measures, but that it is significantly more effective using the Market Basket Measure.

The results of the study suggest that the CCB elevated over the threshold more families just below the Market Basket Measure than it did families just below the Low-Income Cut-Off. Based on these simulations, Sarlo argues that the CCB assists lower-middle-income families more than the lowest-income families. Sarlo's main contention is that a larger portion of the total CCB funding is directed to families that he classifies as middle class, compared with the previous benefit package.

Economists Michael Baker, Derek Messacar, and Mark Stabile examined the CCB's effect on child poverty, primarily in single-parent families.<sup>11</sup> They assessed the impact of the expansion of the Universal Child Care Benefit, which increased pay-outs for children aged five and under, and introduced a benefit for children aged six to seventeen. They also evaluated the impact of the CCB on poverty and labour-force participation.

Using several data sets and poverty measures, they found that poverty among single mothers fell after the expansion of the Universal Child Care Benefit and CCB, with a larger reduction in poverty generally found after the introduction of the CCB. The control group of single women without children also experienced a decline in poverty after the CCB's introduction, however, despite being ineligible for the benefit. This leads to the conclusion that CCB may account for only part of the reduction of poverty among single mothers.

Looking at micro data from the Canadian Income Survey, researchers Alison Dudu, Zeus Eden, Theo Iordache, and Nathan McLean found that the CCB increased the incomes of two-parent families with the primary earner earning less than \$30,000 annually. The CCB had little effect on overall income of two-parent families in which the primary earner earned between \$30,000 and \$60,000.<sup>12</sup> For the latter group, the economic gains were off-set by reduced working hours, income, and labour-force participation among secondary earners. We revisit this below.

<sup>11</sup> M. Baker, D. Messacar, and M. Stabile, "The Effects of Child Tax Benefits on Poverty and Labor Supply: Evidence from the Canada Child Benefit and Universal Child Care Benefit," National Bureau of Economic Research Working Paper no. 28556, <https://doi.org/10.3386/w28556>.

<sup>12</sup> A. Dudu et al., "Is the Canada Child Benefit an Effective Policy? Impacts on Earnings and Incomes," Finances of the Nation, October 28, 2021, <https://financesofthenation.ca/2021/10/28/is-the-canada-child-benefit-an-effective-policy-impacts-on-earnings-and-incomes/>.

Economist J. Rhys Kesselman argues that the CCB should be retargeted to better serve families with lower and moderate incomes.<sup>13</sup> Kesselman offers a number of cost-neutral options that would retarget the benefit. He argues that the federal government could initiate reforms or provide the provinces with leeway in determining the parameters by which funds are distributed. A number of variations could be explored, including adjusting phase-out rates by the number of children, number of parents in the home, or further differentiation by age, or a combination of these factors. He illustrates that there a number of cost-neutral reforms that could better target the CCB towards families at the lower end of the income scale.

The CCB has likely contributed to decreasing poverty, but, as studies show, there is reason to be modest about how effective the policy has been in this regard. As noted above, the CCB was introduced to recognize the cost that parents bear in raising children and is distributed across income levels. One advantage to this approach is that the CCB may create greater flexibility for families to make the care decisions that best meet their needs and desires. It can reduce financial stress, aiding family stability, and there is evidence that cash benefits have modest impact on fertility decisions.<sup>14</sup>

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Again, the question is about the purpose of the program. As the studies above indicate, the CCB could be more effective in alleviating poverty, if policymakers were intent on refocusing the program.

## Uptake

Are the families most in need of financial support accessing the CCB? Individuals are required to file a tax return in order to qualify for the CCB. Professors Jennifer Robson and Saul Schwartz have estimated that 10–12 percent of working-age Canadians do not file a tax return.<sup>15</sup> As a result, some families that would qualify may not be receiving the benefit. Robson and Schwartz also estimated that about \$1.7 billion in benefits across several programs went unclaimed by working-age non-filers in 2015, such as the GST/HST credit, the Working Income Tax Benefit, and federal and provincial child tax credits. Using 2016 data, they argue that some families may be losing out on thousands of dollars in benefits, and these absent benefits affect an estimated 34,000 children living in low-income families.<sup>16</sup>

The CCB is one such program that requires recipients to be a tax-filer. The tax assessment is used to determine the benefit amount. Non-filing families, therefore, do not collect the benefit. One possible

<sup>13</sup> J.R. Kesselman, “Policy Options for Retargeting the Canada Child Benefit,” *Canadian Public Policy* 45, no. 3 (September 2019): 310–28, <https://doi.org/10.3138/cpp.2019-003>.

<sup>14</sup> L. Stone, “Cash for Kids? Assessing the American Family Act,” Institute for Family Studies, March 12, 2019, <https://ifstudies.org/blog/cash-for-kids-assessing-the-american-family-act>.

<sup>15</sup> J. Robson and S. Schwartz, “Who Doesn’t File a Tax Return? A Portrait of Non-Filers,” *Canadian Public Policy* 46, no. 3 (2020): 332, <https://doi.org/10.3138/cpp.2019-063>.

<sup>16</sup> Robson and Schwartz, “Who Doesn’t File a Tax Return?,” 339.

solution proposed by Robson and Schwartz, along with researchers Lindsay Tedds and Anna Cameron, is to have the Canada Revenue Agency conduct automatic filings for low-income families, to ensure that they receive benefits for which they are eligible.<sup>17</sup> This, in turn, could improve the poverty-reduction effects of the program.

## Labour-Force Participation

The CCB has the potential to discourage labour-force participation, since the benefit amount decreases as income increases. Economist Alex Laurin has suggested that the CCB phase-out reduces gains from increased labour-force participation, which may act as a disincentive to increasing time in the labour force.<sup>18</sup> On the other hand, Baker et al. suggest that “there is little evidence of an impact of the policy reforms on labor supply.”<sup>19</sup> Again, their study primarily examined single mothers.

Dudu, Eden, Iordache, and McLean looked at the impact of the CCB on two-parent families, with particular interest on the impact on the secondary earner.<sup>20</sup> As noted above, they found that among low-income, two-parent families (whose primary earner earned less than \$30,000 annually), the increase in benefits was correlated with higher after-tax incomes. Among middle-income families (whose primary earners earned \$30,000 to \$65,000 annually), there was little change in after-tax income. The reason was that the secondary earner in these families was more likely to reduce working hours and earned income in response to the CCB, off-setting any financial gain from the benefit.

The authors suggest that the phase-out of the CCB, as a family’s income rises, may be reducing the net financial return from work, thereby acting as a disincentive to work for these families. They argue that this increases the total cost of the CCB and lowers the impact of the program on middle-income families. They argue that the CCB could be better targeted toward lower-income families.

Dudu et al. note that middle-income families may have more flexibility to reduce work when receiving the CCB. The study cannot answer how those parents who reduced work hours used the additional non-working hours, but it is reasonable to consider that some of that time may have been used to care for children, which is also an economic good.

## Benefit Use

Do children benefit from cash payments to parents? An analysis by researchers Paniz Najjarrezaparast and Krishna Pendakur found that families who rent their home and are below the median income level increased their spending on food, shelter, and children’s clothing in response to the CCB.<sup>21</sup> This point suggests that these families leveraged the benefit toward basic needs, ultimately benefiting their children.

<sup>17</sup> A. Cameron et al., “Tax Policy Trends: The Merits of Automatic Income Tax Assessments for Low-Income Canadians,” University of Calgary School of Public Policy, February 2020, <https://www.policyschool.ca/wp-content/uploads/2020/02/Tax-policy-Trends-Feb-2020.pdf>.

<sup>18</sup> A. Laurin, “Two-Parent Families with Children: How Effective Tax Rates Affect Work Decisions,” C.D. Howe Institute, January 9, 2018, [https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/METRs%20for%20Families%20E-Brief.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/METRs%20for%20Families%20E-Brief.pdf).

<sup>19</sup> Baker, Messacar, and Stabile, “The Effects of Child Tax Benefits on Poverty and Labor Supply,” 18.

<sup>20</sup> Dudu et al., “Is the Canada Child Benefit an Effective Policy?”

<sup>21</sup> P. Najjarrezaparast and K. Pendakur, “How Did the Canada Child Benefit Affect Household Spending?,” *Canadian Public Policy* 47, no. 4 (2021): 479–96, <https://doi.org/10.3138/cpp.2020-137>.

## Conclusion

The CCB follows a long history of federal family benefits. Nearly nine out of ten families with children receive the benefit, but it comes with a nearly \$25 billion annual price tag and is projected to increase in the coming years. Could the CCB be more effective in helping families?

To answer that question, policymakers need to wrestle with the purpose and structure of the program. Although the benefit is geared to income, and the federal government credits it with helping to reduce poverty, the benefit is received by the majority of families, including middle- and higher-income households. Should the benefit be adjusted to focus more on lower-income families, and serve primarily as an anti-poverty tool? Or, at a time when housing costs and the cost of living generally is increasing, should the benefit continue to be distributed to families with a broader range of incomes? Whether the CCB is to be an anti-poverty tool or not, how should the government balance the effects of the program that might diminish incentives for participation in the labour market?

The Canadian family-policy landscape has shifted in recent years. Since the introduction of the CCB, an eighteen-month parental leave option has been introduced, and the federal government has substantially increased daycare funding through the Canada-Wide Early Learning and Child Care program. How do these and other benefits fit together in the family-policy landscape? Which families benefit?

These questions should be considered within the larger demographic context, in which the Canadian population is aging, young adults are forming families later in the life cycle, and the total fertility rate is at a historic low. What are the barriers and challenges facing Canadian families, and are policies such as the CCB calibrated to respond to these needs?

Questions such as these will continue to be explored at Cardus through roundtable discussions and further research.



### **About Cardus Family**

Cardus Family conducts, compiles, and disseminates research on family and marriage and their strengthening impact on civil society.

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