2016 federal budget: impact on families

April 2016

The new Liberal government's first budget included a number of measures impacting families. The new Canada Child Benefit, replacing the existing Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB) programs, is the one that has been highlighted by the government. However, there were other measures as well, including the elimination of the Family Tax Cut income-splitting tax credit, and the phasing out of both the children's fitness and children's arts credits.

UCCB and CCTB programs

The UCCB currently provides families with monthly payments of $160 for each child under the age of six, and $60 for each child ages six to 17. The benefit is taxable, generally to the lower income earning spouse or common-law partner, and is not income-tested. The CCTB pays non-taxable benefits to low- and middle-income families, providing a base benefit of up to $1,490 each for the first and second child, and up to $1,594 for each subsequent child. Supplemental benefits are provided for low-income families and for families caring for a child under the age of 18 who is eligible for the disability tax credit. CCTB payments are income-tested and, therefore, benefits begin to be reduced when family net income exceeds $44,701 and are phased out completely when family net income reaches $118,251 for families with one or two children and $157,601 for families with three or more children.[1]

New Canada Child Benefit program

The new Canada Child Benefit program will replace both the UCCB and CCTB programs, effective July 1, 2016. It will be non-taxable, income-tested, with payments made to eligible families on a monthly basis. It will provide a maximum benefit of $6,400 per child under the age of six and $5,400 per child ages six to 17. Benefits will begin to be phased out once family net income exceeds $30,000, but the family net income level at which benefits will be phased out completely will depend on the number of children, their ages and the amount of income earned by each spouse. For example, for a one income-earning family with one child under the age of six and one child over the age of five (but under age 18), benefits will be phased out when net income exceeds approximately $189,000.

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[1] All figures are in respect of the July 2015 to June 2016 benefit period.

There will be an additional benefit of up to $2,730 for each child that is eligible for the disability tax credit. This supplemental benefit will begin to be phased out once family net income exceeds $65,000. Entitlement to the Canada Child Benefit for the first benefit year, July 2016 to June 2017, will be based on family net income for the 2015 taxation year.

Unlike payments under the UCCB, amounts received under the Canada Child Benefit will not be taxable or included in income for the purpose of other federal income-tested benefits. To be eligible for the Canada Child Benefit, an individual must be a Canadian resident for tax purposes, reside with the child and be the parent who primarily fulfils the responsibility for the care and upbringing of the child (or be a shared-custody parent).

Although low- and most middle-income families will be better off under the new Canada Child Benefit program, higher-income families will often receive less, or even no benefits at all, as the new program is income-tested. The break-even point in respect of family net income, when comparing the amount of benefits received under the existing programs with the new program, will depend on the number and age of the children, the amount that each spouse earns and the province of residence. Let's look at a few examples:[2]

Impact on families – example #1

Bob and Sharon have two children, ages four and seven. Bob's taxable income is $125,000 and Sharon's is $70,000. Under the existing programs, they are not entitled to any CCTB benefits, but they receive a total of $2,640 in UCCB taxable benefits for the year ($160 x 12 in respect of the four year-old, plus $60 x 12 for the seven year-old). Under the new Canada Child Benefit program, however, they will not receive any benefits at all as their family net income is above the threshold for the complete phase out of benefits.

Impact on families – example #2

Steve and Ellen have three children, ages three, six and nine. Steve's taxable income is $65,000 and Ellen works part-time, earning $25,000 per year. Under the existing programs, they receive a total of $5,472 (on an after-tax basis) from the CCTB and UCCB programs, but they will receive $8,550 per year under the Canada Child Benefit, a $3,078 increase.

Impact on families – example #3

Bill and Donna have two children, ages one and three. Donna's taxable income is $82,000, while Bill's is $78,000. In this case, they receive $2,631per year (on an after-tax basis) under the existing programs, but will receive only $29 more (or $2,660 per year) under the new Canada Child Benefit. Their family income is $160,000 which is right around the break-even mark for spouses earning a similar amount of income with two children under the age of six.

Although it doesn't compare the benefits under the new system, as opposed to the old one, the government has prepared a calculator that can be used to determine the monthly benefit you can expect to receive starting in July 2016.

[2] In all cases, assume the taxpayers are residents of Ontario.

Elimination of Family Tax Cut

The Family Tax Cut is a non-refundable tax credit (maximum $2,000 per year) which was introduced beginning with the 2014 taxation year. It is an income-splitting credit for couples with at least one child under the age of 18. It involves a notional transfer of up to $50,000 of taxable income by the higher income-earning spouse or common-law partner to the lower income-earning spouse or common-law partner. To the extent that both spouses are subject to income tax at the same marginal rates, there is no benefit/credit. The 2016 federal budget has proposed to eliminate this credit for 2016 and subsequent taxation years.

Phase out children's fitness and children's arts credits

For the 2015 taxation year, the children's fitness tax credit provided a refundable 15 percent credit on up to $1,000 of eligible fitness expenses for children under 16 years of age at the beginning of the taxation year, while the children's arts credit provided a non-refundable 15 percent credit on up to $500 in eligible fees for programs of artistic, cultural, recreational and developmental activity for children under 16 years of age.[3] For the 2016 taxation year, the maximum eligible amount for the children's fitness and arts credits will be reduced from $1,000 to $500 and from $500 to $250, respectively.[4]

Both the children's fitness tax credit and the children's arts credit will be eliminated for the 2017 and subsequent taxation years.

If you would like to learn more about these measures or other measures announced in the 2016 federal budget, please consult with your tax advisor.

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[3] There is a supplemental credit amount of $500 for children under the age of 18 who are eligible for the disability tax credit and have at least $100 of eligible expenses.
[4] The $500 supplemental credit amount will remain in place for the 2016 taxation year.