

From: Luc Godbout and Suzie St-Cerny  
To: Chrystia Freeland, Minister of Finance  
Cc: Karina Gould, Minister of Families, Children and Social Development  
Date: November 1, 2022  
Re: **A DARK SIDE TO THE CANADA CHILD BENEFIT**

Over the years, federal tax measures for children have evolved into a single benefit under the Canada Child Benefit (CCB), which is relatively generous for a large proportion of Canadian families.

CCB amounts vary according to the age and number of children and family income. It has two thresholds and eight reduction rates, which in some cases, result in a significant increase in the marginal effective tax rate (METR) for some people, which can have a negative impact on work incentives.

One recent [study](#) recently found evidence that CCB may have actually produce a labour supply disincentive.

In this context, is it possible to modify CCB parameters to make improvements to the work incentive? And if so, at what cost? How would those changes alter the value of the CCB received by families?

Four options to reduce METRs were outlined in a recent detailed [CCB analysis](#).

The first was designed to ensure there were no losing families, and the other three model were instead designed to keep the cost of the CCB unchanged, creating create winners and losers among families.

Two of the four options, although they significantly reduced METRs for families with three or four children, succeeded less well for families with two children and not at all for one-child families. That would bring unwelcome political consequences.

So what about the other two options that keep only the first reduction threshold and four different reduction rates according to the number of children, instead of eight? These options differ in the rates chosen. In Option 1, they ensure that the exit thresholds from the CCB remain the same (threshold where CCB is reduced to zero), while in Option 2, they are chosen to ensure that the cost of the program remains unchanged, thus requiring higher rates.

With Option 1, METRs are reduced by 3, 6, 8.5 and 11 percentage points respectively depending on the number of children. However, while this option ensures that no family will see their allowance decrease, it implies an increase in the annual cost to the government of \$3.5 billion in 2022 or 14 percent.

Option 2 has more modest effects on METRs. For illustrative purposes, Figure 1 shows the effect on METRs for an Ontario couple with two children. (A Quebec couple's illustration appears in the companion Memo in French.)

Table 2 shows the current and projected distribution of the CCB based on family income. For Option 1, the largest portion of the incremental cost falls on families with incomes between \$71,060 and \$150,000. Under Option 2, there would be a larger CCB share for families with incomes between \$32,797 and \$100,000 and conversely less for those with higher incomes.

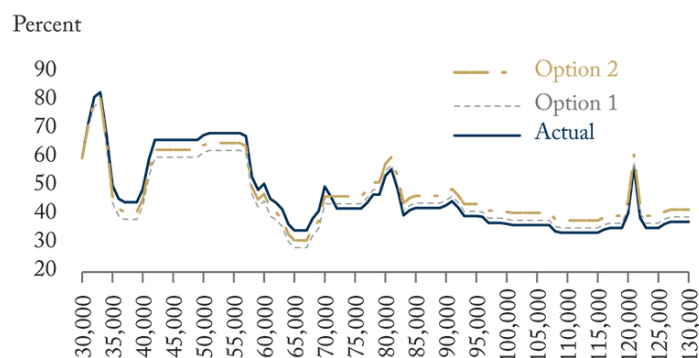
Finally, with respect to CCB variations, Option 1 allows increases of up to 25 to 30 percent depending on the number of children. Option 2 provides a maximum of 16 percent. In this case, let us remember, higher incomes reduce the CCB until it is eliminated.

It may seem too ambitious to increase the CCB program cost (Option 1). However, it should be noted that the overall cost of the program grew by 7.5 percent over five years (2017-18 to 2022-2023) even as all other transfers to persons increased by 42 percent. Thus, depending on the federal government's desire to add funds to the CCB (Option 1) or to reform it within the same budget (Option 2), other avenues can be explored.

Other recent proposals include a poverty reduction [idea](#) from Rhys Kesselman.

In the current context, however, we want to improve every incentive to work. As our labour shortages persist, every mitigation is worth considering.

Figure 1: METR, Ontario Couple with Two Children (3 and 7 years old),  
2022 – Current and Options



Source: Author's calculations.

**Table 1: CCB Reduction Rate – Current and Options**

		Actual		Option 1	Option 2
Reduction threshold		32,797	71,060	32,797	32,797
Rate of reduction according to number of children	1	7.0%	3.2%	4.1%	5%
	2	13.5%	5.7%	7.4%	10%
	3	19.0%	8.0%	10.2%	14%
	4 et +	23.0%	9.5%	12.0%	18%
Exit threshold		s. o.		unchanged	lower

Sources: Canada Revenue Agency and authors calculations.

**Table 2: Distribution of CCB Paid by Income Group – Current, Options and Spread, Canada**

	\$32,797 and less	\$32,797 - \$71,060	\$71,060 - \$100,000	101,001 - \$150,000	150,001 - \$200,000	200,001 - \$250,000	\$250,001 and more	TOTAL
Number of families ('000)	417.7	702.3	606.9	901.8	547.0	243.2	296.0	3,714.9
CCB - current (\$M)	5,445.0	7,478.8	4,575.7	4,869.5	1,892.3	346.6	206.1	24,814.0
CCB - Option 1 (\$M)	5,470.2	8,028.6	5,527.2	6,188.7	2,423.1	451.7	256.6	28,346.1
Gap (Option 1 - current)	25.2	549.8	951.5	1,319.2	530.8	105.1	50.5	3,532.1
<i>In % of current CCB</i>	0%	7%	21%	2%	28%	30%	25%	14%
CCB - Option 2 (\$M)	5,458.1	7,769.8	4,977.6	4,843.6	1,317.0	196.7	173.1	24,735.9
Gap (Option 2 - current)	13.1	291.0	401.9	(25.9)	(575.3)	(149.9)	(33.0)	(78.1)
<i>In % of current CCB</i>	0%	4%	9%	-1%	-30%	-43%	-16%	0%

Source: Authors' calculations based on Social Policy Simulation Database and Model (SPSD/M) v.29.0 (Statistics Canada).

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