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Complex calculations: Doing the Canada Child Benefit math for different income groups

By Jamie Golombek

The Canada Child Benefit scheme skews the progressive tax system and imposes a high effective tax on low income earners with children

If you've got kids under 18, chances are you've been receiving at least some of the new Canada Child Benefit (CCB) amounts for the past few months. The tax-free monthly payments began in July and are paid to eligible families to help them with the cost of raising children under age 18. They replaced the former Canada Child Tax Benefit and the Universal Child Care Benefit.

The CCB provides a maximum annual benefit of up to $6,400 per child under the age of six, and up to $5,400 for each child ages six through 17. The calculation of the benefit is complex because it's fully income-tested, such that the amount you get depends not only on your family's net income, but also on the number of kids you have and their ages.

Jay Goodis, one of the co-founders of Tax Templates Inc., which produces various tax planning and tax accounting worksheets for professional advisors, has developed the calculations that integrate the new CCB amounts into future tax projections. (The Canada Revenue Agency has an online calculator here [1]to determine your CCB amounts).

To illustrate the impact of the CCB on various levels of income earned in 2016, I asked Goodis to use his worksheets to calculate the amount of after-tax cash a family would keep in three scenarios, along with their effective tax rates.

Scenario 1 – Median-income family
A British Columbia couple has two children under the age of five. Their family's income, consisting solely of employment income, is $76,000, split equally between each spouse. Their $12,800 of CCB is reduced to $7,448; and after federal and provincial taxes, CPP, and EI, the family nets $69,135 of cash. In other words, even with the clawback of some of their CCB, the couple has kept 91 per cent of their earned income.

Scenario 2 – Low-income family
A Manitoba family has two kids under five and two working parents, each earning $15,000 of employment income. They are eligible for the entire CCB of $12,800; after paying CPP, EI, and a bit of tax, they net $39,560 of cash.

What would happen if one parent was able to work more, or was to get a higher paying job, such that she now made $25,000 - an increase of $10,000? While she's still in the lowest federal and Manitoba tax brackets, once you factor in the loss of CCB, the additional tax, CPP, and EI, her take-home extra cash is only $5,563, resulting in an effective marginal tax rate of a whopping 44 per cent (39 per cent if you ignore the additional CPP and EI contributions.)

As Goodis observed: "The CCB skews the progressive tax system and imposes a high effective tax on low income earners with children."

Scenario 3 – High-income earner
Finally, consider an Ontario professional with three kids, two under five and one teen, earning $200,000 annually. If he were to earn an extra $1,000 of income, he would keep only just under $400 of it, resulting in an effective marginal tax rate of just over 60 per cent once the loss of the CCB is taken into account.

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References

1. www.cra-arc.gc.ca/bnfts/clcltr/cfbc-eng.html