

Policy Options for Retargeting the Canada Child Benefit

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L'allocation canadienne pour enfants (ACE) est le deuxième programme de transfert en importance au pays et contribue pour beaucoup à réduire la pauvreté chez les enfants. Le programme pourrait mieux cibler la réduction de la pauvreté si l'on faisait varier les paramètres du programme fédéral ou si chaque province disposait de la latitude nécessaire pour faire varier les paramètres de son programme, sans engager de coûts supplémentaires. L'auteur décrit l'ACE, documente les huit programmes provinciaux de prestations pour enfants et étudie différents scénarios de réforme de l'ACE à l'échelon fédéral ou de variation du modèle provincial. Il propose une simulation des répercussions de ces scénarios de politique sur la distribution et les incitatifs pour différents groupes, en s'intéressant en particulier aux familles monoparentales, et il évalue les principales considérations politiques qui s'y rattachent.

Mots clés : allocation canadienne pour enfants, allocation canadienne pour les travailleurs, ciblage, prestations pour enfants

The Canada Child Benefit (CCB) is the nation's second largest cash transfer program, and it contributes significantly to reducing child poverty. The program could be further targeted to poverty reduction either through federal program changes or by giving each province the discretion to vary its parameters on a cost-neutral basis. This article describes the CCB, documents the eight provincial child benefit programs, and investigates various scenarios for federal reform of or provincial variation in the CCB. The article presents simulated impacts of the cost-neutral policy scenarios on distribution and incentives for various groups, with a special focus on sole-parent families, and it assesses major related policy considerations.

Keywords: Canada Child Benefit, child benefits, Canada Workers Benefit, targeting

Introduction

The Canada Child Benefit (CCB) is the second largest national cash transfer program, with annual expenditures exceeding \$24 billion.¹ Maximum benefits for a family with two children (one aged younger than 6 years and one older) now approach \$12,000 per year. Although the program contributes significantly to reducing child poverty (Harding 2018, 23–25), its funds could be targeted more toward that goal without sharp cuts to benefits for most median-income families. Net benefits are now being paid even to families with relatively high incomes: for a family with one younger and one older child, benefits are paid at income levels approaching \$200,000; for families with several children, benefits are paid at income levels of more than \$250,000. Even without eliminating benefits to families with incomes above the median, current CCB expenditures could be redirected to provide greater support to children in families at lower income levels. This study examines a range of options for achieving that goal using either of two approaches. First, the phase-out parameters

of the CCB could be modified nationally so as to direct more benefits to lower- and moderate-income households. Alternatively, federal legislation could provide each province the discretion to modify CCB program parameters to make benefits for its residents more income targeted.

This study examines a range of scenarios for such cost-neutral “retargeting” reforms at both jurisdictional levels and assesses their distributional and incentive effects. The study takes a special interest in the differential impacts on smaller and larger families by income level and by province as well as on sole-parent families, who have the highest rates of poverty. I begin by discussing the policy context and considerations in undertaking reforms at the national level versus via provincial discretion. I then describe the structure and operation of the CCB program, followed by an outline of the eight provincial child benefit programs (and recent reforms in Quebec and British Columbia). The structures of provincial child benefit programs provide insight into their priorities that might inform policy choices at either the national or the

provincial level. The distributional and incentive impacts of six illustrative reform scenarios are then assessed quantitatively – first as cost-neutral national reforms and second as cost-neutral reforms that any province might undertake if given that option.

Policy Context and Considerations

The CCB was a signature policy of the Liberal Party in its 2015 campaign with a pledge to increase net benefits for more than 90 percent of families relative to the preceding Conservative government's child-related benefit provisions.² Although the CCB eliminated all federal child benefits for families at the highest income levels, it was aimed at raising net benefits across a wide range of incomes but not specifically at poverty reduction.³ The CCB was a break from the policies of the preceding Conservative government that sought to enhance the tax-transfer recognition of children even for families at the highest income levels. Given this background, the federal government under the Liberal administration might be reluctant to retarget CCB payments so as to exclude many upper-middle-income families. It might also be averse to pursuing retargeting that would carry cross-provincial shifts in payments. However, the current analysis shows that such shifts would be relatively small. Moreover, because the target is families on the basis of income regardless of where they reside, such shifts might be moot.

Given the federal government's political and policy context, it might be more receptive to providing the provinces with some discretion to retarget the CCB for their residents. The federal and all provincial governments have each issued an official poverty reduction plan or strategy. In some cases, the goals for poverty reduction are embedded in legislation, such as the federal *Poverty Reduction Act* (Canada 2018), which has target rates for 2020 and 2030 but does not specifically reference child poverty rates (Canada, Department of Employment and Social Development 2018), and British Columbia's 2018 act (British Columbia Legislature 2018), which mandates a 50 percent reduction in child poverty rates from the 2016 level by 2024. Provincial discretion over CCB would serve the federal government's poverty reduction goals without their bearing direct onus for reducing benefits to high-income families or altering their signature policy. It would also accommodate differences in provincial priorities and social policies. Variations in the eight provincial child benefit programs (described later) reflect these diverse considerations; all the provincial program benefits are more targeted to families at low and moderate incomes than the CCB.

Provincial Discretion to Vary Benefits

The schedule relating net CCB benefits to a family's income is fixed in federal tax legislation and thus the same for all provinces; the only permitted variations

are the amounts per child by age or number (Canada 1985, Division E, Subdivision A.1 Canada Child Benefit, 122.63[1]–122.63[2]).⁴ This provision follows similar restrictions in the preceding federal child benefit programs. The Family Allowance program permitted provinces to vary benefit levels by age and number of children, with the payment for any type of child being at least 60 percent of the basic rate. The Child Tax Benefit that replaced Family Allowances in 1993 also permitted provinces to enter into agreements with the federal government to vary the per-child amounts. Again, the only allowable variations were for the age and number of children in a family, but this time benefits had to be at least 85 percent of the standard amount. A similar provincial option continued with the shift to the National Child Benefit System in the late 1990s, and it has been replicated in CCB with the same 85 percent limitation. All of these provisions have constrained any provincial variation to be cost neutral relative to the federal government.

In contrast to the limited scope for provincial variation in the federal child benefit programs, the Canada Workers Benefit (CWB; recast from the Working Income Tax Benefit (WITB) in 2019) allows each jurisdiction to negotiate a “re-configuration” agreement, varying program parameters such as benefit phase-in and phase-out rates, thresholds, and maximum benefits.⁵ Total program expenditures for any province choosing different parameters must match their default entitlement. The relevant legislation (Canada 1985, Division E, Subdivision A.2 Working Income Benefit, 122.71) allows for provincial variation but does not specify acceptable formats. Instead, the government applies general criteria that have been described by Finance Canada as follows (personal correspondence from Acting Director, Personal Income Tax Division, Tax Policy Branch, Canada Department of Finance, 24 October 2018):⁶

CWB agreements will continue to be guided by the following principles:

- they build on actions taken by the province or territory to improve work incentives for low-income individuals and families;
- they are cost-neutral to the federal government;
- they provide for a minimum benefit for all recipients of the benefit; and
- they preserve harmonization of the benefit with existing federal programs.

Analogous criteria for CCB reconfiguration agreements allowing for provincial variation of program parameters such as phase-out rates and thresholds could easily be developed.

Canada Child Benefit Provisions

The CCB program was introduced by the newly elected Liberal government of Canada in July 2016 to amalgamate

several benefit provisions for children (Canada Finance 2016). It replaced the Universal Child Care Benefit (UCCB), the Canada Child Tax Benefit, the National Child Benefit Supplement, and the Family Tax Cut (FTC; a short-lived scheme for income splitting by couples with children). The UCCB and FTC had been initiatives of the previous federal Conservative government. The UCCB started in 2006 as a taxable benefit for parents of children aged younger than 6 years, and anticipating the 2015 election, it was extended for children aged up through 17 years. Unlike some of the provisions it supplanted, the CCB was a non-taxable benefit. Also unlike some of the earlier provisions, the CCB eliminated all net benefits for families at the highest incomes.

From mid-2018 to mid-2019, the CCB offered a guarantee amount for families at the lowest incomes of \$6,496 for each child aged younger than 6 years and \$5,481 for each child aged 6–17 years.⁷ The net amount paid to the family is reduced if their income⁸ exceeds an annual threshold of \$30,450. The benefit is reduced by a specified percentage of income exceeding the threshold, with this phase-out rate rising with the number of children. For family incomes exceeding a second annual threshold level, now \$65,976, a separate lower set of benefit phase-out rates is applied (that also increase with the number of children). Table 1 displays the applicable phase-out rates for the two ranges of income above the respective income thresholds. The application of these phase-outs results in income levels at which benefits are fully eliminated; these are called *break-even income levels*.

Table 1 shows the break-even levels for families based on number of children, each calculated under three alternative assumptions: (1) all children aged 6–17 years (B-low); (2) each child at a weighted average of the two benefit levels (B-wt);⁹ and (3) all children aged younger than 6 years (B-high). The CCB's high break-even levels can be explained in part by the Liberal Party's campaign pledge to increase net child benefits for 90 percent of families. The median income in 2015 for two-parent families with one or more children aged 0–17 years was \$108,823; the corresponding figure for sole-parent families was \$45,339 (Statistics Canada 2016). All of the break-even income levels shown in Table 1 greatly exceed these figures. The choice of these CCB parameters disperses substantial funds for small net benefits at higher income levels. For example, a family with two younger children has a total guarantee of \$12,992, but at an income of \$180,000 the family receives a net benefit of just \$1,696, or less than 1 percent of their income. As a result of this design, the CCB's total cost is elevated or, for the same cost, its poverty-reduction potential is attenuated.

The solid budget line in Figure 1 illustrates the operation of CCB net payments as a function of a family's income. Term G represents the guarantee entitlement of a family based on the number and age of its children.

Table 1: CCB Policy Parameters and Break-Even Incomes

Children	%		\$		
	r_1	r_2	B-low ^a	B-wt ^b	B-high ^c
1	7.0	3.2	159,544	170,233	191,263
2	13.5	5.7	174,151	186,153	209,765
3	19.0	8.0	187,139	199,966	225,202
4 ^d	23.0	9.5	210,745	225,147	253,481
5 ^d	23.0	9.5	268,439	286,442	321,860

Notes: Computed by author using the formula $B = G/r_2 - (T_2 - T_1)r_1/r_2 + T_2$ based on the income thresholds $T_1 = \$30,450$ and $T_2 = \$65,976$ applicable for July 2018–June 2019, where B is the break-even income level, G is the family's guarantee level, and r_1 and r_2 are the applicable phase-out rates. CCB = Canada Child Benefit.

^a Break-even income assuming all children in family are aged 6–17 years and qualify for \$5,481 annual guarantee in July 2018–June 2019.

^b Break-even income assuming the children in a family follow population weights for ages younger than 6 years (33.7%) and ages 6–17 years (66.3%).

^c Break-even income assuming all children in family are aged younger than 6 years and qualify for \$6,496 annual guarantee in July 2018–June 2019.

^d These phase-out rates apply to all families with four or more children.

Source: Government of Canada (2018); break-even incomes computed by the author.

For incomes from the lowest and up to the first threshold level T_1 , the family is paid the full guarantee amount. For incomes higher than T_1 and up to the second threshold level T_2 , their benefit is reduced at rate r_1 on incremental amounts.¹⁰ Similarly, for incomes higher than T_2 , their benefit is further reduced at rate r_2 on incremental amounts. At a sufficiently high income, the family's net benefit becomes zero at the break-even income, denoted B in the figure. In the CCB formulation, phase-out rates r_2 are always less than r_1 , although the value of each depends on the number of children. The reasons for this design were threefold: (1) to phase out benefits more rapidly at lower income levels to economize on cost; (2) to retain partial net benefits at income levels that substantially exceed median incomes; and (3) to avoid high phase-out rates compounding with relatively high tax rates arising at higher personal incomes.

Provincial Child Benefit Provisions

Eight provinces have introduced their own form of cash benefits for children that are available regardless of a family's work or welfare status.¹¹ As with the federal CCB, the provincial programs provide net benefits that are based solely on family income and number (and some on ages) of children. Table 2 summarizes the main attributes of these programs, including their guarantee levels for

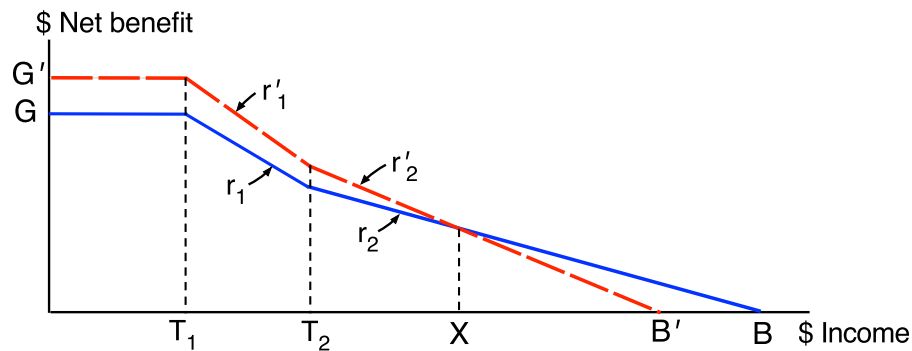


Figure 1: CCB and Provincial Variation in Both Phase-Out Rates

Notes: Solid budget line = national parameters for CCB (parameters T_1 , T_2 , r_1 , and r_2 and break-even B ; see Table 1); dashed budget line = illustrative provincial variant CCB (parameters T_1 , T_2 , r'_1 , and r'_2 and break-even B'); X = cross-over income (income at which net benefit is equal under default and variant parameters). Note that depending on the policy parameters, X may be either greater or less than T_2 ; B and B' = break-even income level (income at which net benefit is zero); CCB = Canada Child Benefit.

Table 2: Provincial Child Benefits, July 2018

Province	\$		Phase-Out Rate, %	Break-Even Income, ^b \$	Benefit Indexed?	FY 2018/19 Cost, \$millions ^c	Program Name
	Benefit for 1 Child ^a	Phase-Out Threshold					
QC	2,430	48,250	4.0	91,950 ^b	Yes	2,281	QC Child Assistance Payments (Soutien aux enfants)
ON	1,403	21,416	8.0	38,953	Yes	1,180	ON Child Benefit
AB	1,128	26,141	7.0	42,255	Yes	175	AB Child Benefit
BC	660	100,000	1.32 ^d	150,000 ^d	No	140	BC Early Childhood Tax Benefit
BC (2020)	1,600	25,000	4.0	97,500	Yes ^e	400	BC Child Opportunity Benefit
NS	625	18,000	7.81 ^d	26,000 ^d	No	25	NS Child Benefit
MB	420	15,000	7.73 ^d	20,435 ^d	No	2	MB Child Benefit
NL	398	17,397	5.07 ^d	25,247 ^d	Yes	7	NL Child Benefit
NB	250	20,000	2.5 ^d	30,000 ^d	No	11	NB Child Tax Benefit

Notes: All dollar amounts are per annum rates. FY = fiscal year.

^a Figures are the maximum benefit payable for each child aged younger than 18 years; in British Columbia, the payments are restricted to children aged younger than 6 years (but will be extended through age 17 years in October 2020). Some provinces vary the maximum per-child benefit with additional children beyond the first (e.g., in Quebec the figures are \$1,214 each for second and third child and \$1,821 for fourth and subsequent children; Nova Scotia offers per-child guarantee amounts that rise from the first to third child in a family).

^b Break-even incomes computed for a family with one child; for example, Ontario's break-even for two children is twice the tabulated figure. In some provinces, the break-even income does not vary with more children; see note d. For incomes above the cited break-even, Quebec provides a flat benefit of \$682 for the first child and \$630 for the second child without further phase-out.

^c Figures for all provinces other than Quebec are projections for FY 2018/19 in budget documents. Figure for Quebec are for calendar year 2017 and include \$122 million for supplementary payments to families with handicapped children (*Retraite Québec 2018*, 18). Figure for British Columbia (2020) is the projected annual cost of the Child Opportunity Benefit program once it is in full operation.

^d These provinces apply a phase-out rate equal to the cited figure times the number of eligible children (up to some ceiling; see text for variations), so for these families the break-even income is the same as that for those with one child shown in the table.

^e Phase-out thresholds for BC Child Opportunity Benefit are to be indexed, but basic benefit amounts are not.

Source: Assembled by author on the basis of program descriptions and budgets of each province provided online; phase-out rates and break-even incomes computed by the author when not available online.

one child, their phase-out thresholds and rates, and their break-even income levels for one child. Six of these provincial programs are administered and paid by the Canada Revenue Agency along with CCB benefits. Manitoba¹² and Quebec administer their own child benefit programs and make payments directly to families. All of the provincial programs use a single phase-out threshold, and with the exceptions of British Columbia and Quebec, these thresholds are very low, ranging between about \$15,000 and \$26,000. Quebec's phase-out threshold is just over \$48,000, and British Columbia does not begin phasing out benefits until a family's income exceeds \$100,000. Break-even incomes are far lower for the provincial programs than for the CCB, with the exceptions being British Columbia's break-even of \$150,000 and Quebec's break-even of \$91,950. However, Quebec also provides a flat benefit of \$682 for the first child and \$630 for the second child for families with income above the nominal break-even level.

All of the provincial schemes offer guarantee levels based on the number of children in a family. Several programs have guarantee amounts proportional to the number of children. Nova Scotia and Newfoundland and Labrador offer per-child amounts that increase with the number of children in the family, whereas Alberta has a guarantee for second and additional children of half the amount for the first child. Quebec offers guarantee levels of \$2,430 for the family's first child, \$1,214 each for the second and third, and \$1,821 for the fourth and subsequent children. In its 2018 budget update, the newly elected Coalition Avenir Québec Party made the first installment on its campaign pledge to raise the per-child amount for all children to the same \$2,430 as for a family's first child. For 2019, the maximum amounts for second and third

children are being increased by \$500 each, with phase-out thresholds over \$100,000 (Finances Québec 2018, B.9–B.15).¹³ Quebec supplements the guarantee by \$340 for sole-parent families, \$2,304 for a handicapped child, and \$11,544 for a handicapped child with exceptional care needs. Some provinces index their benefits for inflation.

Unlike the other provinces, which like the CCB provide benefits for all children up to age 18 years, the British Columbia program covers only children aged younger than 6 years.¹⁴ However, in its 2019 budget British Columbia announced a major reform and expansion of its child benefits, to be renamed the Child Opportunity Benefit.¹⁵ Beginning in October 2020, BC child benefits will be extended through age 17 years, like in all the other provincial programs. Maximum annual benefits will rise to \$1,600 for a family's first child, \$1,000 for a family's second child, and \$800 for each of a family's third and any additional children. There will be two benefit phase-out thresholds (\$25,000 and \$80,000), each with phase-out rates of 4 percent and with an income range over which the benefit is a flat amount (no phase-out; ends at an income of \$80,000). Initial break-even income levels will be \$97,500 for one child, \$114,500 for two children, and \$131,000 for three children.

Each provincial child benefit scheme uses one of three basic formats for phasing out benefits, as depicted in Figure 2.¹⁶ First is the Quebec format, shown by the short-dashed budget line. The family's guarantee level G is based on their number of children, with a phase-out at rate r that applies to income above threshold T_1 . When income equals a second threshold level T_2 , no further phase-out is applied so that the benefit assumes the minimum value \underline{G} for families at all higher incomes. The

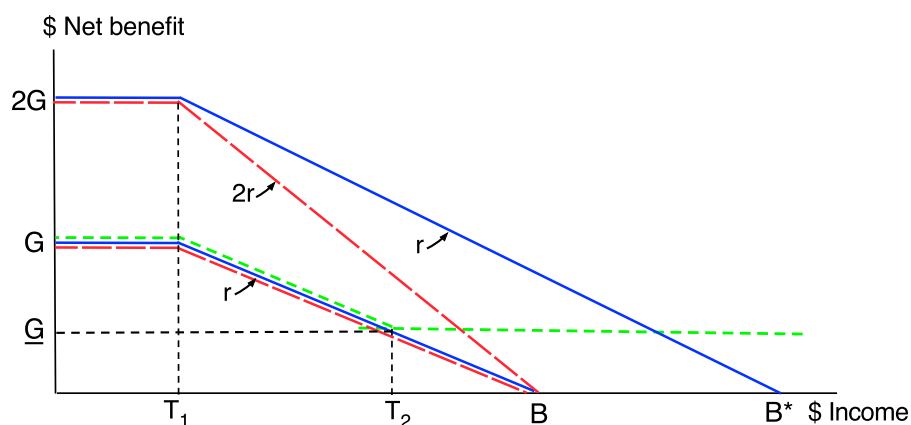


Figure 2: Types of Provincial Child Benefit Formats

Note: This figure does not depict the BC scheme to be implemented in 2020. Solid budget lines = phase-out rate is independent of number of children (hence break-even income increases, B or B^*), illustrated for a family with one or two children and thus a guarantee of G or $2G$ (Alberta, Ontario); long-dash budget lines = phase-out rate is a multiple of the number of children (invariant break-even income B), illustrated for a family with one or two children and thus a guarantee of G or $2G$ (British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia); short-dashed budget line = no benefit phase-out for incomes beyond T_2 (minimum flat benefit \underline{G} and hence no break-even income; Quebec).

second format, used in the Alberta and Ontario schemes, applies a single phase-out rate r for incomes above a threshold T_1 , as shown by the two solid budget lines. The guarantee levels for families with one and two children, respectively, are shown as G and $2G$. The corresponding break-even incomes for these two families are B and B^* (which is two times B); more generally, the break-even levels rise proportionately with the number of children. The third format is used¹⁷ by British Columbia, Manitoba, New Brunswick, Nova Scotia, and Newfoundland and Labrador, shown by the long-dashed budget lines. Here the phase-out rate is proportional to the number of children, as illustrated by G and $2G$ for one and two children, respectively. With corresponding phase-out rates of r and $2r$, this yields a constant break-even level B independent of the number of children.

With the exception of Quebec and British Columbia, the provincial child benefit programs are much more tightly targeted than the CCB on low- and moderate-income families. As a result of that focus, low guarantee levels, and British Columbia's age restriction, the provincial programs aside from Quebec's are far smaller in their budgetary cost than the CCB (Table 2). The seven provincial child benefit programs, not including Quebec's, together have a total budgetary cost of just one-fifteenth the cost of the CCB. This pattern may display a stronger taste for poverty reduction or redistributive goals at the provincial level, or it may reflect provincial priorities when building onto the base of relatively high-level CCB guarantees funded by the federal government and the need to effectively use the smaller sums available for provincial policies. Either way, this pattern suggests that provincial governments would prefer child benefits more tightly targeted on low- and moderate-income families.

Illustrative Canada Child Benefit Scenarios

CCB policy parameters could be varied from the existing program at the national level or through increased policy discretion by individual provinces. Some of the possible choices for variation might include

- Phase-out rates or their income thresholds that could differ by number of children
- Guarantee levels differentiated by age, number of children, or both beyond the current distinction between aged younger than 6 years and 6–17 years
- Different guarantee levels, phase-out thresholds, or phase-out rates for sole-parent versus two-parent families.¹⁸

This study explores only the first dimension of parameter variation, namely alternative values for both phase-out rates and the upper threshold. Table 3 presents the six selected scenarios for illustrating CCB policy variations that could be undertaken either nationally or via provincial

Table 3: CCB Policy Scenarios

Scenario and Children	Vary T_1	Vary T_2	Vary r_1	Vary r_2
Scenario 1; any	0	0	+2	+2
Scenario 2; any	0	0	+4	+4
Scenario 3; any	0	0	+6	+8
Scenario 4; any	0	+30,000	+4	+4
Scenario 5				
1	0	0	+2	+2
2	0	0	+3	+4
3	0	0	+4	+6
4+	0	0	+6	+8
Scenario 6				
1	0	No T_2 ; r_1	8%	Same rates as r_1 per number of children
2	0	applies to	14%	
3	0	all above	19%	
4+	0	T_1	24%	

Notes: Variations in values of parameters T_1 and T_2 are in dollars per year; variations in values of parameters r_1 and r_2 are in percentage points; for scenario 6, the figures are the actual phase-out rates and not increments to the existing CCB phase-out rates. CCB = Canada Child Benefit.

Source: Author's specification of scenario variations.

discretion. Clearly, an unlimited combination of changes could be considered. However, as noted earlier, most scenarios explored here are not so narrowly targeted as to sharply curtail benefits for most median-income families.

The primary focus of this analysis is on how much a cost-neutral reform could raise the child benefit guarantee by tighter targeting of net benefits, with break-even incomes reduced from current levels. The main results assume that the relative guarantee levels for older versus younger children remain at 84.4 percent; the results for G' are the dollar guarantee levels for children aged younger than 6 years and cost neutrality. With this assumption, the benefits for younger and older children increase in the same proportions. Secondary estimates are undertaken with the alternative assumption that all of the cost savings from tighter targeting of benefits would accrue to the guarantee for children aged younger than 6 years (denoted G''); for these estimates, the guarantee for older children is held constant at the current level of \$5,481. These results could be of interest if the policy objective were to augment benefits for parents of preschool children in view of the costs of child care for working parents or the foregone earnings of a parent staying out of the workforce to care for infants and young children.¹⁹

A salient aspect of how the various scenarios could affect the provinces in differential ways hinges on the varying family sizes. Both the current CCB program and the scenarios use phase-out rates that rise but less than

proportionately with a family's number of eligible children (Tables 1 and 3). The original CCB was designed to ensure that break-even incomes fell within a limited range for different family sizes; as shown in Table 1's figures for B -wt, the break-even incomes for families with one to three children range between only \$170,000 and \$200,000.²⁰ This pattern conforms to the Liberal Party's electoral promise to increase child benefits for 90 percent of families.

In more targeted designs, the phase-out rates are increased, and the extent to which they rise can vary by number of children. The number of children per family varies significantly both across provinces and between two- and sole-parent families, as shown in Table 4. Sole-parent families have on average fewer children than two-parent families (1.56 vs. 1.93), and families in some provinces (notably Alberta and Saskatchewan) have more children on average. Nevertheless, having one or two CCB-eligible children is the overwhelming situation nationally for both two-parent families (78 percent) and sole-parent families (88 percent). Whether the phase-out rates are increased more for smaller families or for larger families can thus have differential impacts for both the provincial outcomes and the dual- versus sole-parent outcomes.

The types of policy variation pursued in the simulations that follow can be shown graphically. Figure 1 illustrates the application of higher phase-out rates (r'_1 and r'_2) with unchanged thresholds (T_1 and T_2) and the impact on outcomes compared with the original phase-out rates (r_1 and r_2). The solid budget line depicts the original program benefit schedule, and the long-dashed budget line depicts the benefit schedule with the altered phase-out rates.²¹ Clearly, this more targeted benefit schedule

yields a lower break-even income (B' vs. B) and cost savings that can be applied to raise the basic guarantee from G to G' . Point X , where the two budget lines cross, is the income level separating gainers from losers. The area between the two curves to the left of point X represents the gains, and the area to the right of X represents the losses.²² Figure 3 similarly illustrates the application of a higher second threshold for phase-out (T'_2 vs. T_2) while holding both phase-out rates constant (at r_1 and r_2). The figure shows the cross-over income X at a lower income than T'_2 , although the reverse is possible depending on the program parameters.

Quantitative Implementation

The first stage of quantitative assessment will be each of the selected policy scenarios applied at the national level in a way that holds total CCB program spending constant. I examine how this would shift the distribution of CCB spending across the provinces for each policy scenario based on differences in simulated values. For each scenario applied nationally, the analysis also computes the guarantee levels (both G' and G'') as well as the cross-over incomes (X) and break-even incomes (B') for families of one to four children. In view of the interprovincial shifts of CCB expenditures that would arise with national application of the scenarios, the second stage undertakes the same assessment for each selected province under the assumption that the reform is cost neutral for that province. The outcomes for G' and G'' as well as for X and B' for families of different sizes will vary by province on account of their differing cost-neutral constraints, income distributions, family sizes, and the intercorrelation of those factors.

Table 4: Distribution of Children in Two- and Sole-Parent Families by Province

Province	Two-Parent Families					Sole-Parent Families				
	No. of Children (% distribution)				Mean No. ^a	No. of Children (% distribution)				Mean No. ^a
1	2	3	4+	1		2	3	4+		
BC	41.8	44.7	10.8	2.8	1.76	62.8	28.2	4.9	4.1	1.52
AB	26.4	42.2	22.5	9.0	2.16	47.9	32.1	14.5	5.5	1.82
SK	29.8	43.0	18.1	9.2	2.10	46.5	28.5	20.1	4.9	1.86
MB	34.1	40.3	17.9	7.9	2.02	62.6	21.1	9.6	6.6	1.66
ON	37.2	43.6	16.0	3.2	1.86	61.0	30.1	8.0	1.0	1.50
QC	34.3	41.7	17.3	6.6	1.99	60.9	24.2	12.5	2.3	1.59
NB	42.3	39.7	13.3	4.7	1.83	66.0	25.8	4.2	3.9	1.46
NS	33.5	46.6	14.9	5.0	1.92	62.8	25.7	7.9	3.7	1.53
NL	40.8	45.5	12.0	1.7	1.75	61.1	29.9	9.0	0.0	1.48
PE	36.5	40.1	20.0	3.4	1.90	64.6	32.3	3.0	0.0	1.38
All	35.4	43.0	16.5	5.1	1.93	59.9	28.2	9.4	2.5	1.56

^a Computed on the basis of families with four children and those with five-plus children assumed to have an average of 5.5 children.

Source: Computed by author using Social Policy Simulation Database and Model version 26.0 (Statistics Canada, Ottawa).

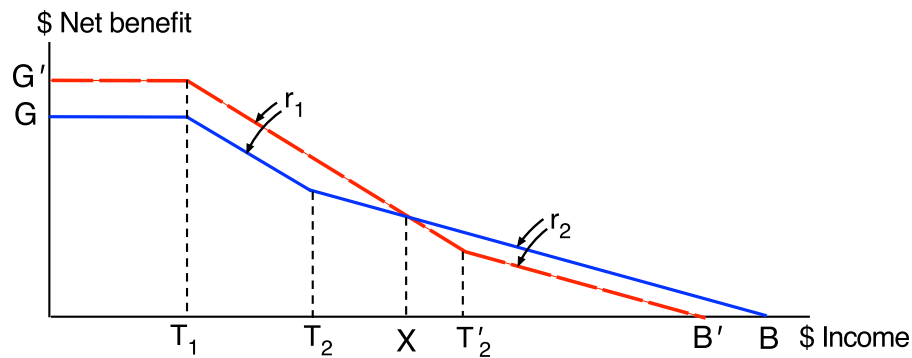


Figure 3: CCB and Provincial Variation in Upper Phase-Out Threshold

Notes: Solid budget line = national parameters for CCB (parameters T_1 , T_2 , r_1 , and r_2 and break-even B); see Table 1); long-dashed budget line = illustrative provincial variant CCB (T_1' , T_2' , r_1' , and r_2' and break-even B'); X = cross-over income (income at which net benefit is equal under default and variant parameters); note that depending on the policy parameters, X can be either greater or less than T_2 ; B and B' = break-even income level (income at which net benefit is zero); CCB = Canada Child Benefit.

Table 5: Interprovincial Shift of Funds from National Cost-Neutral CCB Scenarios

Scenario	Province and Baseline CCB Sums									
	BC; 2,744	AB; 3,141	SK; 932	MB; 1,203	ON; 9,031	QC; 6,201	NB; 526	NS; 609	NL; 254	PE; 1,115
1	-62.4	-0.1	10.7	27.9	-45.8	71.4	4.6	0.4	-8.3	0.6
2	-112.8	-2.4	18.9	48.8	-55.3	104.1	7.2	2.1	-12.8	0.6
3	-161.4	-31.9	23.4	71.3	-32.0	123.9	11.4	9.3	-16.2	0.4
4	-150.6	-58.7	16.9	71.2	-2.7	113.6	14.8	8.1	-16.2	1.5
5	-65.8	-79.1	3.4	42.4	-4.1	90.4	13.4	5.1	-7.9	1.1
6	-104.1	-96.0	-2.7	54.1	-4.9	141.0	16.1	4.5	-11.1	1.6

Note: Figures are simulated baseline levels and changes in each province's residents' total receipt of CCB in millions of dollars per year in 2018. CCB = Canada Child Benefit.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Estimates of the impacts of the policy scenarios are undertaken using the Social Policy Simulation Database and Model (SPSD/M), version 26.0 (Statistics Canada, Ottawa).²³ The SPSD/M database is well known to suffer from undercounts in the number of low-income households, and the accuracy is further compromised for provinces with smaller populations. To address this issue in this analysis, the SPSD/M has been supplemented with data on the number of CCB-beneficiary families by income in intervals up to \$30,000 (the original value of T_1) and by province (Canada Revenue Agency 2018, Table 1).²⁴ For the national-level simulations, each scenario was iterated to derive values of G' and G'' that were cost neutral with the baseline simulated cost within \$10 million. For simulations of scenarios at the individual province level, the tolerance level was reduced to within \$1 million of the baseline cost. As with the SPSD/M, the simulation analysis does not consider any behavioural responses to the scenario policies that would affect beneficiary earnings.

Impacts of National Cost-Neutral Scenarios

The first stage of quantitative analysis is to apply each of the CCB scenarios at the national level on an aggregate cost-neutral basis to assess their implications for cross-provincial gains and losses. Table 5 reports both the simulated baseline amounts of CCB received by families in each province and the estimated impacts on those figures for each of the scenarios. Families in Alberta, Ontario, Newfoundland and Labrador, and most notably British Columbia would lose benefits under almost all of the scenarios, whereas those in the other provinces would gain under almost all scenarios, most notably Manitoba and Quebec. The provinces with aggregate losses are not surprising, in view of the scenarios' increased targeting and the above-average incomes of many families in those provinces. Overall, the gains and losses are modest relative to the baseline amounts, with few entries in the table exceeding 3 percent of their baseline levels and only four above 6 percent (all in British Columbia and

Table 6: Impacts of CCB Policy Scenarios: National Cost-Neutral

Scenario	G^a		1 Child			2 Children		3 Children		4 Children	
	Value	% Increase	G^{nb}	X	B' (170,233 ^c)	X	B' (186,153 ^c)	X	B' (199,966 ^c)	X	B' (225,147 ^c)
1	7,001	7.78	7,720	53,106	125,184	75,762	157,480	98,418	179,657	121,074	207,047
2	7,431	14.40	8,703	51,408	104,219	72,366	139,231	93,325	164,419	114,283	192,298
3	7,924	21.98	9,782	51,777	88,157	71,322	119,099	87,318	143,642	103,313	169,451
4	7,847	20.80	9,559	60,732	93,566	74,463	122,797	80,728	146,243	85,542	173,349
5	7,330	12.85	8,462	67,851	130,855	76,732	141,031	79,693	148,420	76,732	157,300
6	7,367	13.41	8,543	74,838	112,996	82,647	124,789	87,267	134,719	85,061	140,512

Notes: All figures in the table except the % increase column are dollars per annum; figures for X and B' correspond to family net incomes with the assumptions underlying the estimates of G' and are computed for a weighted average of the corresponding guarantee levels for young and older children. CCB = Canada Child Benefit.

^a Cost-neutral guarantee for a child aged younger than 6 years; the corresponding cost-neutral guarantee for a child aged 6–17 years is 84.4 percent of that amount and increases by the same percentage relative to its current value.

^b Cost-neutral guarantee for a child aged younger than 6 years, holding constant the guarantee level for a child aged 6–17 years at the current value of \$5,481.

^c Corresponding break-even incomes are provided in parentheses for the same assumptions under the current CCB system; these are the figures for B-wt, as shown in Table 1.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Newfoundland and Labrador). Essentially, higher-income families lose regardless of where they live, so that the provinces per se are not the losers.

Uniform national application of the CCB scenarios would affect families of different sizes differentially, as shown in Table 6. These results follow from both the higher guarantee levels and the increased income targeting that varies by number of children. On a national cost-neutral basis, the various scenarios could finance a proportionate increase in the guarantees for younger and older children between about 8 percent and 22 percent (G' in the table). If all the cost savings from increased targeting were applied to raising the guarantee solely for younger children (G''), the increases would be more than twice as large (more than 50 percent in Scenario 3). Break-even incomes (B') decline substantially from the status quo but in almost all cases remain above median incomes. Cross-over incomes (X, which separates losers and gainers) rise with the number of children for most scenarios, with notable exceptions of Scenarios 5 and 6 (where they decline for between three and four children on account of the accentuated phase-out rates with family size).

Tables 7 and 8 display the average impacts on net benefits to families on the basis of family size and family income, respectively. Both use the policy variant in which the CCB guarantees for younger and older children are increased proportionately. Families with one or two children are net losers in most of the scenarios (Table 7). However, all of these losses arise in families at higher income levels, where the increased income targeting more than offsets the higher guarantee levels. In contrast, families with

Table 7: Impacts of CCB Policy Scenarios: National Cost-Neutral by Number of Children

Scenario	No. of Children			
	1	2	3	4+
1	-192	-92	382	1,080
2	-287	-194	621	1,889
3	-294	-329	741	2,630
4	-125	-313	452	2,036
5	76	-145	14	475
6	41	-184	143	665

Notes: Entries are average simulated values in dollars per year per CCB recipient family (under the current system) with the respective number of CCB-eligible children. CCB = Canada Child Benefit.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

three and particularly those with four or more children are clear gainers on average from all the scenarios; for them, the enhanced guarantees more than offset the increased targeting. As shown in Table 8, on average the gainers and losers from the scenarios are divided at incomes of roughly \$75,000. The largest gainers are those with incomes less than \$30,000, because neither the baseline nor any of the scenarios apply any phase-out rates in that range. Families in the \$30,000–\$50,000 income range also gain not much less than the poorest families on average. Unsurprisingly, in most scenarios families with incomes higher than \$150,000 on average lose less than families with incomes

Table 8: Impacts of CCB Policy Scenarios: National Cost-Neutral by Family Income

Scenario	Family Income, \$ (AFNI)					
	0–30,000	30,000–50,000	50,000–75,000	75,000–100,000	100,000–150,000	150,000+
1	810	638	172	–267	–869	–990
2	1,498	1,150	220	–659	–1,557	–1,332
3	2,288	1,767	333	–1,262	–2,359	–1,524
4	2,170	1,834	772	–1,385	–2,504	–1,510
5	1,338	1,095	417	–413	–1,611	–1,529
6	1,404	1,373	1,076	–365	–2,350	–1,571

Notes: Entries are average simulated values in dollars per year per CCB recipient family (under the current system) with total family income (adjusted family net income) in the indicated range. AFNI = adjusted family net income (see note 8); CCB = Canada Child Benefit.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Table 9: Benefit Totals and Changes for Two- and One-Parent Families with Income Less than \$40,000 in Cost-Neutral CCB Scenarios

Scenario	Canada			BC			AB			ON			QC		
	Total	2-Parent	1-Parent	Total	2-Parent	1-Parent	Total	2-Parent	1-Parent	Total	2-Parent	1-Parent	Total	2-Parent	1-Parent
Baseline total	24,756	18,213	6,543	2,744	1,882	862	3,141	2,409	732	9,031	6,637	2,393	6,201	4,805	1,396
Baseline ≤ \$40,000	11,590	6,268	5,322	1,334	593	741	1,231	610	621	4,372	2,530	1,842	2,747	1,602	1,144
Increase for families ≤ \$40,000 for each scenario															
1	892	481	411	122	54	68	95	47	48	351	202	149	190	111	80
2	1,647	888	760	227	101	126	176	87	89	639	368	271	359	209	150
3	2,515	1,356	1,160	349	155	194	277	137	141	959	552	407	556	324	233
4	2,397	1,294	1,102	330	147	183	271	134	137	904	522	382	531	310	222
5	1,477	796	680	191	85	106	178	88	90	556	321	236	323	188	135
6	1,562	847	715	217	97	120	193	96	97	592	344	249	324	189	135

Notes: All entries in the table are in \$millions per annum. Figures for “Baseline total” and “Baseline ≤ \$40,000” (top two rows) are estimated results for the actual program. Figures in the lower part of table are from national cost-neutral simulation for Canada and from provincial cost-neutral simulation for the provinces.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

of \$100,000–\$150,000, because the former group’s current CCB benefits are already relatively limited.

Impacts on Low-Income Families

Particular policy interest focuses on the impacts of various national reforms on lower-income families and the differential between two- and sole-parent families. In the baseline, 77.7 percent of all CCB-recipient families are two parent and 22.3 percent are sole parent. However, under the current program, an estimated 65 percent of all recipient families receiving full, unreduced benefits (with incomes below the original \$30,000 phase-out threshold) are single parent (Canada Finance 2017, 225). This outcome reflects the fact that poverty rates among families with children are far higher for those with a single parent present.²⁵ The upper two rows of Table 9

display the simulated national baseline distribution of total benefits for all families and for those with incomes less than \$40,000 (excluding CCB receipts). These figures distinguish between two- and sole-parent households at both the all-Canada level and for the four most populous provinces. Even in the baseline situation, all families with an income of \$40,000 or less are receiving nearly half of all CCB payments (47 percent). For British Columbia and Alberta in the baseline, low-income sole-parent families receive more CCB in aggregate than do low-income two-parent families; the converse holds for Ontario and Quebec.

The lower panel of Table 9 reports the simulated impacts of the scenarios on total dollars of benefits to families with incomes less than \$40,000 for Canada and the four provinces, again distinguishing between the two types of

households. In these cases, the all-Canada figures relate to national cost-neutral variations using the six scenarios, and the four sets of provincial figures relate to the corresponding provincially cost-neutral results. Scenario 3 emerges as the most redistributive both for national policy variation and for each of the four identified provinces. Nationally, it would shift an additional \$2.5 billion to the lower-income group, with sole-parent families reaping 46 percent of the total gain. Each of the scenarios would yield more total gains to sole-parent than to two-parent families in both British Columbia and Alberta; by a large margin, the converse would hold for both Ontario and Quebec. These differing outcomes across the provinces reflect differing patterns of family size and type, and income distributions and their correlations.

Impacts of Provincial Cost-Neutral Scenarios

The next set of quantitative simulations continues with the provincial cost-neutral constraint while exploring the impacts of the scenarios in the detail of the national cost-neutral results shown previously in Table 6. Because the interprovincial shifts of CCB spending under a uniform national reform were all relatively small, the differences among results for these provinces and others not shown here are also small. Tables 10–13 present results for Ontario, Quebec, Alberta, and British Columbia, respectively. As expected, the guarantees (G' or G'') are higher for the provinces that would lose under a uniform national scheme (Alberta, British Columbia, and Ontario) and lower for the province that would gain under a uniform

Table 10: Impacts of CCB Policy Scenarios: Cost-Neutral for Ontario

Scenario	G^a		G''^b	1 Child		2 Children		3 Children		4 Children	
	Value	% Increase		X	B'	X	B'	X	B'	X	B'
1	7,023	8.12	7,814	54,083	125,560	77,716	157,988	101,349	180,243	124,981	207,727
2	7,460	14.83	8,851	52,046	104,574	73,642	139,757	95,238	165,057	116,834	193,054
3	7,942	22.26	9,964	52,056	88,307	71,741	119,343	87,946	143,956	104,151	169,834
4	7,849	20.82	9,682	60,765	93,584	74,486	122,824	80,754	146,276	85,572	173,388
5	7,333	12.88	8,462	67,960	130,897	76,841	141,076	79,802	148,467	76,841	157,350
6	7,370	13.45	8,631	74,891	113,028	82,708	124,825	87,336	134,759	85,131	140,554

Notes: All figures in the table except the “% increase” column are dollars per annum; figures for X and B' correspond to family net incomes with the assumptions underlying the estimates of G' . CCB = Canada Child Benefit.

^a Cost-neutral guarantee for a child aged younger than 6 years; the corresponding cost-neutral guarantee for a child aged 6–17 years is 84.4 percent of that amount and increases by the same percentage relative to its current value.

^b Cost-neutral guarantee for a child aged younger than 6 years, holding constant the guarantee level for a child aged 6–17 years at the current value of \$5,481.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Table 11: Impacts of CCB Policy Scenarios: Cost-Neutral for Quebec

Scenario	G^a		G''^b	1 Child		2 Children		3 Children		4 Children	
	Value	% Increase		X	B'	X	B'	X	B'	X	B'
1	6,951	7.00	7,609	50,832	124,310	71,215	156,299	91,597	178,293	111,980	205,466
2	7,355	13.22	8,547	49,702	103,271	68,954	137,824	88,206	162,713	107,458	190,276
3	7,827	20.48	9,592	50,330	87,382	69,152	117,831	84,062	142,014	98,972	167,467
4	7,760	19.46	9,395	58,775	92,478	73,136	121,182	79,162	144,285	83,752	171,029
5	7,265	11.84	8,462	64,921	129,728	73,802	139,823	76,763	147,165	73,802	155,961
6	7,259	11.75	8,294	72,831	111,792	80,325	123,412	84,639	133,198	82,403	138,906

Notes: All figures in the table except the “% increase” column are dollars per annum; figures for X and B' correspond to family net incomes with the assumptions underlying the estimates of G' . CCB = Canada Child Benefit.

^a Cost-neutral guarantee for a child aged younger than 6 years; the corresponding cost-neutral guarantee for a child aged 6–17 years is 84.4 percent of that amount and increases by the same percentage relative to its current value.

^b Cost-neutral guarantee for a child aged younger than 6 years, holding constant the guarantee level for a child aged 6–17 years at the current value of \$5,481.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Table 12: Impacts of CCB Policy Scenarios: Cost-Neutral for Alberta

Scenario	G^a		G^{nb}	1 Child		2 Children		3 Children		4 Children	
	Value	% Increase		X	B'	X	B'	X	B'	X	B'
1	7,001	7.78	7,618	53,094	125,180	75,737	157,474	98,381	179,649	121,024	207,039
2	7,434	14.44	8,512	51,476	104,257	72,503	139,287	93,529	164,487	114,555	192,379
3	7,972	22.71	9,568	52,495	88,542	72,398	119,727	88,932	144,449	105,465	170,435
4	7,933	22.12	9,450	62,657	94,636	75,769	124,385	82,268	148,168	87,302	175,631
5	7,440	14.53	8,462	72,764	132,745	81,646	143,057	84,606	150,526	81,646	159,546
6	7,511	15.62	8,657	77,527	114,609	85,756	126,632	90,786	136,757	88,621	142,663

Notes: All figures in the table except the “% increase” column are dollars per annum; figures for X and B' correspond to family net incomes with the assumptions underlying the estimates of G' . CCB = Canada Child Benefit.

^a Cost-neutral guarantee for a child aged younger than 6 years; the corresponding cost-neutral guarantee for a child aged 6–17 years is 84.4 percent of that amount and increases by the same percentage relative to its current value.

^b Cost-neutral guarantee for a child aged younger than 6 years, holding constant the guarantee level for a child aged 6–17 years at the current value of \$5,481.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

Table 13: Impacts of CCB Policy Scenarios: Cost-Neutral for British Columbia

Scenario	G^a		G^{nb}	1 Child		2 Children		3 Children		4 Children	
	Value	% Increase		X	B'	X	B'	X	B'	X	B'
1	7,095	9.22	7,946	57,293	126,795	84,136	159,655	110,978	182,169	137,821	209,960
2	7,613	17.20	9,100	55,490	106,487	80,529	142,597	105,569	168,500	130,608	197,135
3	8,215	26.47	10,348	56,136	90,493	77,861	122,917	97,126	148,546	116,391	175,430
4	8,112	24.88	10,065	66,329	96,861	78,485	127,689	85,473	152,175	90,965	180,379
5	7,434	14.44	8,462	72,487	132,639	81,368	142,943	84,329	150,407	81,368	159,420
6	7,546	16.16	8,944	78,179	115,001	86,510	127,079	91,639	137,251	89,484	143,184

Notes: All figures in the table except the “% increase” column are dollars per annum; figures for X and B' correspond to family net incomes with the assumptions underlying the estimates of G' . CCB = Canada Child Benefit.

^a Cost-neutral guarantee for a child aged younger than 6 years; the corresponding cost-neutral guarantee for a child aged 6–17 years is 84.4 percent of that amount and increases by the same percentage relative to its current value.

^b Cost-neutral guarantee for a child aged younger than 6 years, holding constant the guarantee level for a child aged 6–17 years at the current value of \$5,481.

Source: Computed by the author using Social Policy Simulation Database and Model version 26.0.

national scheme (Quebec), because cost neutrality is now imposed separately for each province. Yet, the differences are small; for example, under Scenario 3 the uniform national value of G' is \$7,924, whereas on a provincial cost-neutral basis, it is \$7,827 in Quebec, \$7,942 in Ontario, \$7,972 in Alberta, and \$8,215 in British Columbia.²⁶ Although differences for a given scenario are small, that does not discount the possibility that provinces would choose differing scenarios if given that option.

The tables show the distributional impacts of the various scenarios in terms of the higher guarantees and the reduced cross-over and break-even incomes for families with different numbers of children. Some patterns can be noted in comparisons across the provinces. Among the

four provinces shown, let us take the ones that would be the largest gainer (Quebec) and the largest loser (British Columbia) under national cost-neutral reforms. With cost neutrality now applied at the provincial level, British Columbia could afford more generous reforms and Quebec less generous reforms than the national cost-neutral results. Thus, for any given case of scenario and number of children, British Columbia achieves both higher cross-over and break-even levels than Quebec (Table 13 vs. 11). Note that although the break-even income levels across the two provinces for any given case are relatively close, in most cases the cross-over income levels diverge significantly.

Some other general patterns can be observed in the results for the four provinces shown in Tables 10–13.

With few exceptions, the break-even income levels remain above median family incomes. For most of the scenarios, the cross-over incomes rise with the number of children in a family. Cross-over incomes are well below median incomes for two-parent families with one child but in some cases approach or exceed median incomes for larger families. With respect to sole-parent families, the cross-over incomes exceed their much lower median incomes for all scenarios for any number of children in all provinces; thus, the overwhelming proportion of sole-parent families would be gainers from any of the reform scenarios. This observation confirms the results for aggregate gains by lower-income sole-parent families shown in Table 9.

Impacts on Incentives and Efficiency

The policy scenarios explored here entail increased targeting of CCB benefits to families with lower income levels by raising phase-out rates. Raising these rates increases the affected families' marginal effective tax rates (METRs) on incremental earnings, which can have a wide range of behavioural effects.²⁷ These impacts include labour-market behaviours (participation, hours worked, job choice, training and education, self-employment, occupational and geographic mobility), fertility and family composition and stability, and compliance (income reporting, work off the books). Of course, the extent to which increased METRs actually affect any of these types of behaviour, and for which types of families or which spouse in two-parent families, is an empirical issue to which much research has been devoted, with varying findings. That analysis lies beyond the scope of this study, in which the METR impacts of the scenarios on CCB-eligible two-parent and sole-parent families are simply computed by income class.

Typically, any policy initiative that redistributes incomes through the tax system will increase METRs, because it requires higher tax rates to generate revenues from taxpayers and higher phase-out rates to channel the funds to those at lower incomes. The present scenarios depart from that situation in important respects: (1) all of the scenarios are cost neutral, so that no additional revenues need to be collected; (2) CCB recipient families with incomes below the first phase-out threshold (T_1) obtain increased benefits but do not face any change in their zero phase-out rates, and thus their METRs are unaffected; and (3) some CCB families at higher incomes no longer receive any benefits (if their income falls between B' and B) because the break-even income is decreased, and they thus no longer face the original phase-out rate r_2 , so their METR decreases by that rate.

The majority of families originally receiving CCB do face increased METRs, to the extent that they bear the higher phase-out rates (r'_1 or r'_2) of the various scenarios. Moreover, in two-parent families receiving CCB, both spouses face the same higher METR (increased by the higher phase-out rate) of any of the scenarios. Even when

one spouse in a couple has income below the taxable threshold (which varies across federal and provincial jurisdictions), the operation of the spousal credit means that the same METR affects spouses' earnings and work choices until the lower-earning spouse earns above the taxable threshold and is required to file a separate return. Thus, with the CCB phase-out based on a couple's combined income, the increased METR confronts both spouses regardless of the lower-income spouse's earnings. As a consequence, high phase-out rates on larger families may pose barriers to labour force entry, particularly for those spouses who have a higher-earning spouse.

The upper part of Table 14 reports the distribution of CCB-recipient families by income class and their estimated baseline METRs. These statistics are shown separately for two- and sole-parent families, and for two-parent families the baseline METRs are further distinguished between the higher- and lower-earning spouse. Sole-parent families are far more concentrated than two-parent families in the lower of the tabulated income classes. For each scenario and income class, the rest of the table displays the impacts on average METRs for the national cost-neutral policy changes.²⁸ As expected, for families with incomes lower than the CCB's first phase-out threshold, no impact on METRs arises. Also as expected, for the highest income class of \$150,000 and more, the impacts on METRs for all scenarios are negative, because almost all previous CCB-eligible families at those incomes now fall above the new lower break-even levels. One of the scenarios for family incomes between \$100,000 and \$150,000 shows a small decline in the average METR. For almost all of income groups between \$30,000 and \$100,000, the average METRs increase under the scenarios, although typically less than 6 percentage points.

The incentive and efficiency effects of these METR impacts will hinge on the behavioural responses of CCB-recipient families. Without engaging in a quantitative analysis of these effects, a simple qualitative account can be offered. Take R to be a measure of the responsiveness to changes in tax rates, which can vary by a family's income, marital status, and other attributes. Small changes in METRs can create relatively large changes in efficiency costs, which are proportional to R and the square of the METR. For example, if a family's initial METR is 40 percent and the impact of a CCB scenario is to raise it by 4 percentage points, that is a 10 percent increase. Because the square of 1.10 is 1.21, this implies a 21 percent increase in the original efficiency cost.

The reductions in efficiency costs for families with an income higher than \$150,000 will offset the increased efficiency costs for most families with incomes between \$30,000 and \$150,000. However, the offset is likely to be at most partial. METRs for families with incomes less than \$30,000 are unaffected by all the CCB scenarios, but they receive increased net benefits. Empirical analysis

Table 14: METR Impacts of CCB Policy Scenarios by Income: National Cost-Neutral for CCB-Recipient Families

Family Income, \$ (AFNI)	0–30,000	30,000–50,000	50,000–75,000	75,000–100,000	100,000–150,000	150,000+
Distribution of 2-parent CCB families, %	14.4	10.5	18.3	19.7	27.7	9.3
Average METR for higher/lower earner spouse with baseline CCB, %	17.7/11.7	51.1/42.6	46.3/36.5	40.9/32.4	41.8/33.8	46.6/35.0
Distribution of sole-parent CCB families (%)	63.9	15.9	11.1	5.3	3.2	0.6
Average METR for sole parent with baseline CCB (%)	7.9	50.1	47.2	40.9	46.5	49.6
Scenario	Impact of scenario CCB on average METR, % points					
1	0.0	1.8	1.9	1.9	1.2	-2.4
2	0.0	3.7	3.8	3.7	1.0	-4.0
3	0.0	5.5	6.4	6.1	0.3	-5.3
4	0.0	3.7	6.2	9.1	-0.7	-5.3
5	0.0	2.6	3.0	3.5	2.4	-5.1
6	0.0	0.7	3.1	7.2	2.3	-5.7

Notes: Entries are simulated average values of baseline METRs and each scenario's impacts on METRs. Simulations include CCB phase-outs, federal and provincial income taxes, employee's Employment Insurance and Canada Pension Plan premiums less tax credits on premiums and any other income-tested tax provisions, and cash benefits included in the SPSPD/M. Income-tested in-kind benefits are not included in the SPSPD/M. Averages for all CCB-recipient parents are reported in the table (see text and note 28 for discussion of two- vs. sole-parent results). AFNI = adjusted family net income (see note 8); CCB = Canada Child Benefit; METR = marginal effective tax rates; SPSPD/M = Social Policy Simulation Database and Model.

Source: Computed by the author using SPSPD/M version 26.0.

of an analogous program suggests that their behaviour may be affected by this "income effect." Married mothers reduce their labour force participation and hours worked, whereas divorced mothers increase their participation rates.²⁹ Unlike changes in METRs, these income effects do not carry inefficiency.

Policy Issues with Canada Child Benefit Retargeting

The proposal to make CCB payments more targeted by family income raises several policy issues. One such issue is the propriety of making the benefits more targeted on lower-income families under alternative views of equity; this issue arises equally with national or provincial policy variation. Another issue arising for both types of policy reform is the compounding of increased phase-out rates with existing income tax rates on upper-middle-income earners, as covered in the preceding section. Two additional issues that would arise with provincial discretion are the adequacy of CCB levels relative to income assistance (IA) support levels and possible federal constraints on the ways in which any province could vary the CCB benefit structure.

Fiscal Treatment of Children in Higher-Income Families

In supplanting other tax and transfer provisions for children, the CCB eliminated all fiscal recognition of the presence or number of children in families with incomes above the program's break-even levels. The history of

these kinds of provisions in Canada has reflected changing views about the appropriate treatment of families with children. From its start, the Canadian system provided varied benefits for children even in the highest income families, including exemptions, non-refundable and refundable tax credits, and Family Allowance. However, introduction of the Child Tax Benefit in 1993 eliminated all such fiscal benefits for children in families with relatively high incomes.³⁰ Commenting on this federal policy change, a Quebec budget document remarked,

Families, regardless of their income, are not in as good a position to pay taxes as childless households. This principle, which is a cornerstone of the Québec taxation and transfer system, no longer obtains in the federal taxation system in the wake of the reform that Ottawa will introduce on January 1, 1993. (*Gouvernement du Québec 1992*, Appendix A, 29)

At that time and continuing through its current provincial child benefits program, Quebec has maintained some level of support for children even at the highest incomes. At the federal level, a fiscal allowance for children at the highest incomes was restored via the Universal Child Care Benefit in 2006 and the Family Tax Cut in 2014.³¹ Both of those provisions were swept away by the CCB program in 2016, and again all federal fiscal recognition of the presence of children was eliminated for families at high incomes.

Implicit in these policy changes were differing views of the appropriate role of the tax-and-transfer system in the treatment of children.³² From the perspective of

traditional taxation policy criteria, at any given income level the presence of children connotes higher need and thus lower tax-paying ability; the implication of this “horizontal equity” view is that some form of fiscal recognition should be given for children even in families at the highest incomes.³³ From the alternative perspective of social policy and concern for “vertical equity,” fiscal recognition of children in families above a certain income level is deemed less essential. Consistent with that view is the notion that at high incomes, the choice to have children reflects benefits to parents such as enjoyment, social status, continuation of the family line or business, and a form of self-insurance and thus does not warrant fiscal recognition.

Empirical evidence that supports tilting fiscal support in favour of lower-income families with children comes from studies of the long-term benefits for their academic performance and physical and mental health.³⁴ Positive outcomes of these kinds arise for most children in higher income families regardless of fiscal support. In other words, income transfers for children in poor families have a public good attribute warranting fiscal support, which is weaker or lacking with respect to children in higher-income families. Two Canadian researchers studying these phenomena concluded,

For children in families with middle to high incomes (above C\$60,000 year), there is evidence to suggest income transfers will have no significant effect. Currently, many child benefits are designed progressively and decrease as income increases, but many of these extend past what the evidence suggests is the threshold where income has an effect on child outcomes. (McEwen and Stewart 2014, 106)

Adequacy of Benefit for Income Security

The appropriate level of CCB guarantees is clearly a matter of one’s distributional values, but it can be set in the context of particular policy objectives. If the purpose of the CCB program is viewed as shifting all public support for children outside of provincial IA, then the current level of benefits does that reasonably well, at least as assessed by poverty thresholds.³⁵ Current provincial child benefit programs further support this goal. Taking Statistics Canada’s (n.d.-a) after-tax Low-Income Cut-Offs (LICOs) for families of various sizes, one can calculate the additional income needed for one additional person. For most such increments, the current CCB per-child guarantee roughly matches that figure for families living in large cities, and it significantly exceeds that figure for those living in smaller communities. However, the LICOs represent just one view of poverty thresholds, which many might regard as penurious, so that a more highly redistributive goal such as that in the CCB scenarios might be deemed desirable.

Another perspective on this issue is the extent to which the various provinces have actually removed incremental

benefits for children from their IA programs. By relying more heavily or fully on child benefits provided outside the IA programs, one goal of the CCB predecessor National Child Benefit System was avowedly to “break down the welfare wall.” Empirical evidence suggests some success toward this objective.³⁶ Among the provinces that distinguish benefits between personal needs and shelter needs, four no longer include any allowance for the personal needs of children in the family.³⁷ Thus, the CCB is the primary benefit for the personal needs of children in IA-recipient families, although most provinces provide their own child benefits and also factor family size into the shelter portion of IA benefits. The remaining provinces make an allowance for children in both benefits for personal and housing needs of IA families. An enrichment of CCB guarantee levels would presumably allow more provinces to reduce or eliminate the provision for children in their IA benefit schedules. This would further diminish the height of the welfare wall, although it would also offset part of the enhanced CCB benefits for families receiving IA.

Federal Constraints on Provincial Discretion

If the federal government were to alter the *Income Tax Act* so as to allow reconfiguration agreements with the provinces concerning CCB, what, if any, limits on choices might be appropriate? From a purely administrative standpoint, the Canada Revenue Agency could easily accommodate provinces choosing variations in any of the program parameters considered in this study (phase-out thresholds, phase-out rates, and relative guarantee levels for children of different ages). It could also deal with other variations such as differential benefits for sole- and two-parent families. If a province chose a program variation that entailed additional cost for the Canada Revenue Agency to administer, the province could be charged those costs as prescribed in the Tax Collection Agreements. A more radical innovation for the CCB would be to permit payments to expectant mothers for a period before delivery. These prenatal payments could be linked to provision of early prenatal care and counseling, as is already done with Manitoba’s Prenatal Benefit.³⁸

An associated issue is whether a policy perspective might present good reasons for the federal government to impose constraints on the range of variation that a province could choose. These constraints could be embedded in the *Income Tax Act* or in federal government guidelines for acceptable agreements. For example, there might be sound policy or compelling political reasons to limit the extent to which the break-even income levels are reduced. The federal government might also wish to constrain provinces if they chose to reduce their own child benefits or welfare benefits as an offset to enhanced CCB payments to lower-income families. Similar to the federal–provincial agreements leading to the National Child Benefit System

in the late 1990s, federal terms could require that any such provincial savings be used for various reinvestments in services and in-kind benefits to lower-income households irrespective of welfare status.

Summary and Conclusion

This study explores the potential for retargeting part of the current \$24 billion expended on the CCB to families at low and moderate incomes. This change would reduce or eliminate payments now made to high-income families — such as incomes of nearly \$190,000 for those with two children and still higher incomes for larger families. These types of reforms could be undertaken on a cost-neutral basis and pursued either through changes in the program applied nationally or through giving each province the discretion to modify program parameters for benefits affecting its residents. Any of these retargeting changes would serve the poverty reduction goals that have been established by the federal and all provincial governments. They would concentrate more of the total funds on families with lower incomes for whom studies have found additional income to be most effective for improved child development and later outcomes.

This study illustrates the potential reforms by taking six scenarios that vary the benefit schedule by alterations in phase-out rates, thresholds, or both. The scenarios use differing phase-out schedules by number of children, and they thus create differential impacts on the provinces depending on their family-size distributions, family types, income distributions, and the intercorrelations. Undertaking reforms at the national level is estimated to create relatively limited shifts in the distribution of total benefits across provinces (with the largest losses in British Columbia and the largest gains in Quebec). These shifts may not be so large as to deter federal action, but the role of the CCB as a signature policy of the current Liberal government may make it more attractive to allow each province the discretion to vary its program parameters on a cost-neutral basis. Similar discretion is allowed for the Canada Workers Benefit, and several jurisdictions pursued such reconfiguration agreements with the federal government for the WITB program.

Even with retargeting scenarios that do not eliminate CCB payments to most families at above-median incomes, the payments for children in the lowest-income families could be increased by 8–22 percent. If all the fiscal savings from retargeting were devoted to increased benefits for children aged younger than 6 years, the maximum benefit could be increased by as much as 50 percent. Nearly half of all benefits of the current CCB program are received by families with incomes less than \$40,000 (excluding CCB benefits). The most redistributive scenario assessed here would shift an additional \$2.5 billion annually to this group. Moreover, sole-parent families receive more than one-quarter of current CCB payments, and they would

garner nearly half of all additional benefits from each of the policy scenarios (and more than half in British Columbia and Alberta).

Targeting benefits to sole-parent families is particularly effective in achieving the official poverty reduction goals because of this group's high incidence of poverty. The CCB reforms explored in this study could be bolstered in that objective by reforms related to the income tax system. Associated with the marital and equivalent-to-married credit is an "eligible dependant credit" that a sole-parent family can claim on behalf of its first dependent child. For sole-parent families with enough income to be taxable, the credit in 2019 is worth up to \$1,810 in federal tax savings and provincial tax savings ranging from about \$540 in Ontario and British Columbia up to \$1,937 in Alberta.³⁹ However, the eligible dependent credit is non-refundable, so it provides little or no support for sole-parent families with incomes insufficient to use it.⁴⁰ Potential reforms that would significantly assist lower-income sole-parent families include (1) making the existing tax credit refundable or (2) replacing the credit with a sole-parent supplement to the CCB (as exists in Quebec's child benefit program).⁴¹

The study also presents a detailed description and assessment of the eight provincial child benefit programs, six of which are fully administered by the federal government. All the scenario variants assessed here could also be administered by the federal government as part of the CCB. The study further undertakes estimates of the impacts of each scenario on the METRs faced by various income classes. The lowest-income beneficiaries would not face any increase in METRs, and those at high incomes who would no longer receive CCB would experience reduced METRs. Most other beneficiaries would face increased METRs, and the associated labour-market and efficiency impacts would need to be assessed. Several related policy issues are also surveyed, including the differing views about how the fiscal system should treat families with children at different income levels; the role of greater CCB targeting relative to provincial IA programs; and possible federal constraints on provincial discretion over CCB targeting. In short, the prospect for cost-neutral retargeting of the CCB at the national or provincial level shows much potential to reduce the incidence of child poverty.

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Notes

- 1 CCB expenditures are projected to be \$24.3 billion for 2019–2020 (Canada Finance 2019, 289).
- 2 This claim of 90 percent family gains has not been independently verified. Official figures appear to exclude the loss of savings from the rescinded Family Tax Cut from the comparison (see Canada Finance 2016, 60, 62). Also see Canada Parliamentary Budget Office (2016).
- 3 Figures in the Liberal campaign platform showed its CCB raising benefits far more for a family with one or two children in the \$45,000–\$90,000 income range than for those at \$15,000, although it cited 315,000 children being lifted from poverty (Liberal Party of Canada 2015, 4–5).
- 4 Thus far, no province has opted to vary its CCB level.
- 5 Alberta, British Columbia, Quebec, and Nunavut made such WITB reconfiguration agreements. The program parameter choices for each of these jurisdictions for 2018 are shown in TaxTips.ca (2018).
- 6 Also described was the mechanism used to maintain cost neutrality. Each year, the total WITB payments to a province are compared with what it would have received under the default federal design. Every three years, the cumulative ratio is assessed, and any departure by 1 percent above or below unity is applied to adjust the province's program parameters accordingly.
- 7 On introduction, the respective guarantee levels were \$6,400 and \$5,400, with a commitment to begin indexation in 2020; indexation was subsequently accelerated to begin in mid-2018. Associated with the CCB is the Child Disability Credit, with an annual guarantee of \$2,771 for each child eligible for the disability tax credit; it is phased out above a single \$65,976 threshold.
- 8 The technical measure of income for the CCB income test is adjusted family net income, defined using the income tax measure of net income (sum, if two spouses are present) minus any income received from UCCB (now defunct) and Registered Disability Savings Plans. CCB benefits received are not included in this measure of income because they are non-taxable. Throughout this study, I use the term *income* as shorthand for adjusted family net income.
- 9 Throughout the study, I use the Canada-wide population averages of 33.7 and 66.3 percent, respectively, for younger and older children in these types of comparisons.
- 10 For those who are mathematically inclined, the slope of the budget line in that segment is $-r_1$, where r_1 is expressed as a real number rather than as a percentage (e.g., 0.07 for 7 percent).
- 11 The three territorial governments also offer similar child benefit programs. Moreover, some provinces offer other refundable tax credits (to offset sales or carbon taxes) and earnings subsidy schemes (notably the Saskatchewan Employment Supplement and the Alberta Family Employment Tax Credit) with benefit rates conditional on the presence or number of children as well as earned income. All of these programs are beyond this study's scope.
- 12 Manitoba's child benefit program is unique among these provinces in that it is not available for families receiving income assistance; the other provincial programs impose no such restriction. Unlike the other provinces that use Canada Revenue Agency administration for their child benefits, Manitoba does not pay its benefits to families on reserve because the federal government has refused to compensate it for such payments.
- 13 For the party's earlier campaign commitment, see Coalition Avenir Québec (2018, 6) and (Serebrin 2018).
- 14 See Kesselman and Mendelson (2019) for analysis of this and related reform schemes for British Columbia.
- 15 For details, see British Columbia Department of Finance (2019, 8–9, 60–61).
- 16 The exception is British Columbia's forthcoming reformed program with its two phase-out thresholds and a flat benefit range, which is not depicted in the figure.
- 17 Some of these provinces deviate from strict application of this format. For British Columbia, this multiple applies irrespective of the number of children. New Brunswick applies the multiple for one or two children, but a higher break-even arises for families with more children. Manitoba and Newfoundland and Labrador use the multiple phase-out rates for up to three children. Nova Scotia also adjusts its phase-out rates such that the break-even level is independent of number of children, but because of its rising per-child guarantee with family size, its phase-out rates rise more than proportionately to the number of children.
- 18 WITB reconfiguration agreements varied the phase-out rates and thresholds between single people and families with children in Alberta, British Columbia, and Nunavut and also between single people (with or without children) and families (with or without children) in Quebec.
- 19 One could also consider another scenario that directed much of the cost savings to parents in the first two years of a child's life, given the high propensity of parents to return to full-time work not long after their child's birth as well as the very high costs of child care for infants and toddlers.
- 20 These outcomes follow from the CCB phase-out rates: r_1 for two children is almost twice its value for one child, and r_2 for two children is roughly double its value for one child (Table 1).
- 21 For those unfamiliar with graphical exposition, a higher phase-out rate is shown by a more steeply inclined segment of the relevant budget line.
- 22 However, because the actual gains and losses need to be weighted by the number of families at each income level, the two areas need not be equal despite the cost neutrality assumption.
- 23 Responsibility for the results and their interpretation lies with the author.
- 24 Before making this adjustment, the simulated total expenditure on CCB was \$21.2 billion; with the adjustment, the figure was \$24.8 billion, which is closer to the projected amount for 2018/19. Before adjustment, the share of CCB recipients with incomes lower than \$30,000 was 18.8 percent in the SPSPD/M, and after adjustment the share was 26.4 percent, close to the actual share of 26.5 percent reported by the CRA.
- 25 In 2016, poverty rates for people aged younger than 18 years in female lone-parent families versus couple families were 44.6 versus 10.1 percent by the low-income measure after tax; 25.7 versus 4.8 percent by the after-tax LICO measure;

- and 37.3 versus 7.6 percent via the market basket measure (Statistics Canada n.d.-b).
- 26 The spread in values of G' across the provinces is even smaller for the other scenarios.
 - 27 The simulated policy changes would convey both income and substitution effects, but the latter are most relevant to distortions of behavioural incentives and associated efficiency costs. Pure income effects on work hours and labour force participation are typically found to be relatively small. Thus, I focus on the impacts of each scenario on METRs that affect relative prices.
 - 28 These impacts have also been computed separately for two-parent and sole-parent families, with the finding that almost all of the results are very close and differ by more than 1 percentage point in only three cases (all in the \$75,000–\$100,000 income range).
 - 29 These negative effects are particularly large for lower-educated married women (Schirle 2015). In contrast, Koebel and Schirle (2016) find positive impacts on the labour force participation of divorced mothers.
 - 30 See Kesselman (1993, 110) for a chronology of these earlier provisions from 1918 onward.
 - 31 A federal non-refundable tax credit for children, which had value to all families with taxable income regardless of amount, was also in place from 2007 to 2014, after which it was replaced by an expanded Universal Child Care Benefit.
 - 32 For discussion of this issue, see Kesselman (1979, 1993) and references therein and Milligan (2016). Also see Battle and Mendelson (1997) and Battle (2008) for detailed assessments of Canada's child benefit system preceding the CCB.
 - 33 Even Ken Battle, a strong advocate of increased child benefits to address poverty, also acknowledged "the parental recognition objective [that] views child benefits as an important way for society to provide some financial recompense for the fact that parents bear expenses that childless households, at the same income level, do not" (2015, 2). Also see Kesselman (1993, 2014), Boessenkool and Davies (1998), Vincent and Woolley (2000), Laurin and Kesselman (2011), and Milligan (2016).
 - 34 See McEwen and Stewart (2014), Milligan and Stabile (2011), Yeung, Linver, and Brooks-Gunn (2002), and Jones, Milligan, and Stabile (forthcoming) and the studies cited therein.
 - 35 See Battle and Mendelson (1997) for discussion of this issue.
 - 36 Milligan and Stabile (2007) found that replacing child benefits in provincial income assistance with federal benefits paid irrespective of welfare status significantly reduced welfare take-up.
 - 37 I thank Anne Tweddle for providing information about the provincial IA programs. Milligan and Stabile (2011, 199–201) provide a detailed chronology of policy changes through 2005.
 - 38 This proposal was first advanced in Kesselman (1994, 87). Since 2001, this approach has been embodied in the Manitoba Prenatal Benefit, which pays a maximum of \$81.41 per month for expectant mothers from their second trimester of pregnancy and which is phased out for those with incomes between \$21,744 and \$32,000. The scheme facilitates connections to early prenatal care and a Healthy Baby Com-

munity Support Program. See Brownell et al. (2007).

- 39 These figures for tax savings are the product of the credit amount and the bottom-bracket tax rate (both vary by province). See <https://www.taxtips.ca/nrcredits/tax-credits-2019-tax.htm>.
- 40 Note that the credit can only offset tax liability, and both the CCB and IA receipts are not included in the measure of taxable income.
- 41 The first option would not be cost neutral, but it would preserve the value of the credit for higher-income sole-parent families; it would increase the incomes of lower-income families by up to the figures cited in the text. If pursued on a cost-neutral basis, the second option could increase the incomes of lower-income families by significantly more than the cited figures, but it would reduce the benefits for upper income sole-parent families (via the CCB phase-out). See Law Commission of Canada (2001, 77) and Kershaw (2002) for discussion of the issue and proposals.

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