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## CANADA 2007

### 1. Overview of the system

The system of benefits and incentives in Canada comprises a number of programs, including benefit programs and tax assistance. Some are the responsibility of the federal (national) government, while others are administered by provincial and territorial governments. These programs include unemployment benefits, social assistance (or welfare), and a number of federal and provincial benefits and credits delivered through the personal income tax system (related to children, shelter, supplements for working income, etc). Due to the breadth and variety of programs at the provincial and territorial level, the Province of Ontario has been chosen where examples of provincial/territorial programs are required (Ontario has also been used as an example in previous editions of this report).

With respect to benefits, Employment Insurance (as it is called in Canada) provides temporary income support to Canadian workers while they are temporarily unemployed and looking for work while they look for work or upgrade their skills, while they are pregnant or caring for a newborn or adopted child, while they are sick, or for workers who need to take a short-term absence from work in order to provide care or support to a gravely ill family member facing a significant risk of death within six months. Benefits are earnings-related and are subject to a maximum amount (see section 2). Social assistance provides financial assistance to cover the cost of basic living requirements, and in-kind goods and services, for an individual or family when all other financial resources have been exhausted (see section 4 for more information). The Canada Child Tax Benefit, which includes the National Child Benefit Supplement, is a federal income-tested benefit for families with children (see section 6). Provinces and territories also provide a range of benefits and services for families with children. Both the federal government and the provinces and territories are involved in the provision of child care assistance through direct benefits, the personal income tax system and subsidies.

With respect to taxation, the federal personal income tax system in Canada is progressive, meaning that tax rates rise as taxable income rises. It also includes many deductions, exemptions, and tax credits (both refundable, i.e., non-wastable, and non-refundable i.e., wastable) which serve to reduce taxes payable. Provinces and territories also set their own tax on personal income. See section 10 for further details.

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**1.1. Average worker wage (AW)**

The 2007 AW earnings level is CAD 41 546 <sup>1</sup>.

**2. Unemployment insurance**

**2.1 Conditions for receipt**

All persons in paid employment contribute to the Employment Insurance program by paying premiums and are potentially eligible (self-employed workers, with the exception of self-employed fishers, are excluded from coverage) to receive benefits.

**2.1.1 Employment conditions**

As shown in the table below, entrance requirements vary with the local monthly unemployment rate. A minimum of 420 hours of work in the preceding 52-week period (qualifying period) is required in areas of high unemployment (over 13 per cent) and 700 hours in areas of low unemployment (6 per cent or lower).

**EI Entrance Requirements**

Regional rate of unemployment (%)	Required number of insured hours of employment
6 and under	700
Over 6 to 7	665
Over 7 to 8	630
Over 8 to 9	595
Over 9 to 10	560
Over 10 to 11	525
Over 11 to 12	490
Over 12 to 13	455
Over 13	420

New entrants or re-entrants to the labour market must have worked a minimum of 910 hours in the 52 weeks preceding the job loss.

New entrants and re-entrants to the labour market are those with less than 490 hours of labour force attachment in the 52 week period prior to the qualifying period (pre-qualifying period). Labour force attachment takes account of various forms of attachment to the labour force, such as insured hours of work, time spent on EI, worker's compensation benefits, disability benefits and sick leave benefits. Each week of labour force attachment counts for 35 hours, with the exception of insured hours of work which are considered at face value. Claimants with at least one week of maternity or parental benefits in the four-year

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<sup>1</sup> AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration ([www.oecd.org/ctp](http://www.oecd.org/ctp)). For more information, see *Taxing Wages 2006-2007*, OECD, 2008, part 5, sections 2 and 3.

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window preceding the pre-qualifying period are not considered new entrant or re-entrants to the labour market.

A flat entrance requirement of 600 hours of insurable employment in the 52-week period preceding the claim applies for all special benefits, which include maternity, parental, sickness and compassionate care benefits. This requirement does not vary according to local unemployment rates. Finally, qualification for EI fishing benefits is based on earnings, as opposed to weeks or hours of work.

### *2.1.2 Contribution conditions*

EI is financed by employer and employee premiums. Contributions to the program begin with the first CAD 1 earned up to a maximum insurable earnings level for 2007 of CAD 40 000 per year. The employee premium rate for 2007 is CAD 1.80 per CAD 100 of insurable earnings. Employers pay 1.4 times the employee rate (2.52 per CAD 100). Employees earning less than CAD 2 000 a year can receive a premium rebate.

## *2.2 Calculation of benefit amount*

### *2.2.1 Calculation of gross benefit*

The replacement rate is 55 per cent of average weekly earnings. A claimant's average weekly earnings are calculated by taking the total earnings within the 26-week period preceding the job separation and dividing this amount by the number of weeks worked or the minimum divisor, whichever is higher. The minimum divisor ranges between 14 and 22 weeks depending on the regional unemployment rate. The maximum weekly benefit rate is CAD 423 per week based on the maximum weekly insurable earnings of CAD 769 for 2007.

EI claimants from low-income families with children are eligible for the Family Supplement. In this context, low-income is defined as net family income under CAD 25 921. Recipients can receive up to an 80 per cent replacement rate depending on their net family income and the number and age(s) of the children (see table below). Claimants with family income below CAD 20 921 receive the full supplement available to them based on the number and age(s) of their children.

Note that the Family Supplement is an add-on to the basic weekly benefit rate. The normal replacement rate is 55 per cent of the average weekly earnings in the six months preceding the job separation. Although Family Supplement recipients can receive up to an 80 per cent replacement rate overall, the maximum weekly EI benefit rate, including the Family Supplement, is subject to the maximum of CAD 423 for 2007..

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**Family Supplement - rate increase**

(in CAD)

Family income range	Number of children			Top-up for each additional child	Age supplement for each child under 7
	1	2	3		
Below 20 921	31.30	58.70	86.10	27.45	4.15
20 921 - 21 250	31.25	58.60	86.00	27.40	4.10
21 251 - 21 500	28.50	53.60	78.80	25.60	3.85
21 501 - 21 750	26.45	49.90	73.45	24.25	3.65
21 751 - 22 000	24.45	46.25	68.20	22.85	3.45
22 001 - 22 250	22.55	42.70	63.15	21.50	3.25
22 251 - 22 500	20.70	39.30	58.15	20.15	3.05
22 501 - 22 750	18.90	35.95	53.30	18.75	2.80
22 751 - 23 000	17.15	32.70	48.60	17.40	2.60
23 001 - 23 250	15.45	29.55	44.00	16.00	2.40
23 251 - 23 500	13.80	26.50	39.55	14.65	2.20
23 501 - 23 750	12.25	23.55	35.25	13.30	2.00
23 751 - 24 000	10.70	20.70	31.05	11.90	1.80
24 001 - 24 250	9.25	17.95	26.95	10.55	1.60
24 251 - 24 500	7.85	15.30	23.05	9.15	1.40
24 501 - 24 750	6.55	12.75	19.20	7.80	1.20
24 751 - 25 000	5.25	10.25	15.55	6.45	1.00
25 001 - 25 250	4.00	7.90	12.00	5.05	0.75
25 251 - 25 500	2.85	5.65	8.55	3.70	0.55
25 501 - 25 750	1.75	3.45	5.25	2.30	0.35
25 751 - 25 921	0.70	1.40	2.10	0.95	0.15

### 2.2.2 *Income and earnings disregards*

Claimants receiving regular, parental, or compassionate care benefits can earn up to 25 per cent of their weekly benefits or CAD 50, whichever is higher. Earnings above 25 per cent or CAD 50 are deducted dollar for dollar from weekly benefits. If benefits are reduced to zero for a week, that week of entitlement is kept by the claimant for use in the benefit period.

### 2.3 *Tax treatment of benefit and interaction with other benefits*

Recipients of EI benefits pay income taxes, but they are not subject to SS contributions. EI Beneficiaries whose net income exceeded CAD 50 000 have to repay the lesser of 30% of the total regular or fishing benefits received in that taxation year or 30% of the income above that threshold. This provision does not apply to those who have not received EI regular or fishing benefits in the ten years prior to the taxation year in question. First time claimants, as well as claimants of maternity, parental, sickness or compassionate care benefits, are exempt from this repayment provision.

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#### **2.4**      *Benefit duration*

Regular benefits are payable for a maximum period of 45 weeks, starting after an unpaid two-week waiting period. The number of weeks of benefits to which a claimant is entitled is a function of the number of hours worked in the qualifying period and the local unemployment rate. Entitlement varies from 14 to 45 weeks.

As shown in the table below, in general, a one-percentage point increase in the local monthly unemployment rate provides an additional entitlement of two weeks. An additional 70 hours of work adds one week of entitlement for a claimant with short employment duration (less than 1 400 hours) in the qualifying period and two weeks of entitlement to claimants with long employment duration (over 1 400 hours). Weeks of Entitlement to Regular Benefits

OECD - Social Policy Division - Directorate of Employment, Labour and Social Affairs  
Country chapter - Benefits and Wages ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

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Insured Hours of Work	Regional Unemployment Rate (%)											
	6% and under	Over 6% to 7%	Over 7% to 8%	Over 8% to 9%	Over 9% to 10%	Over 10% to 11%	Over 11% to 12%	Over 12% to 13%	Over 13% to 14%	Over 14% to 15%	Over 15% to 16%	Over 16%
420-454	0	0	0	0	0	0	0	0	26	28	30	32
455-489	0	0	0	0	0	0	0	24	26	28	30	32
490-524	0	0	0	0	0	0	23	25	27	29	31	33
525-559	0	0	0	0	0	21	23	25	27	29	31	33
560-594	0	0	0	0	20	22	24	26	28	30	32	34
595-629	0	0	0	18	20	22	24	26	28	30	32	34
630-664	0	0	17	19	21	23	25	27	29	31	33	35
665-669	0	15	17	19	21	23	25	27	29	31	33	35
700-734	14	16	18	20	22	24	26	28	30	32	34	36
735-769	14	16	18	20	22	24	26	28	30	32	34	36
770-804	15	17	19	21	23	25	27	29	31	33	35	37
805-839	15	17	19	21	23	25	27	29	31	33	35	37
840-874	16	18	20	22	24	26	28	30	32	34	36	38
875-909	16	18	20	22	24	26	28	30	32	34	36	38
910-944	17	19	21	23	25	27	29	31	33	35	37	39
945-979	17	19	21	23	25	27	29	31	33	35	37	39
980-1014	18	20	22	24	26	28	30	32	34	36	38	40
1015-1049	18	20	22	24	26	28	30	32	34	36	38	40
1050-1084	19	21	23	25	27	29	31	33	35	37	39	41
1085-1119	19	21	23	25	27	29	31	33	35	37	39	41
1120-1154	20	22	24	26	28	30	32	34	36	38	40	42
1155-1189	20	22	24	26	28	30	32	34	36	38	40	42
1190-1224	21	23	25	27	29	31	33	35	37	39	41	43
1225-1259	21	23	25	27	29	31	33	35	37	39	41	43
1260-1294	22	24	26	28	30	32	34	36	38	40	42	44
1295-1329	22	24	26	28	30	32	34	36	38	40	42	44
1330-1364	23	25	27	29	31	33	35	37	39	41	43	45
1365-1399	23	25	27	29	31	33	35	37	39	41	43	45
1400-1434	24	26	28	30	32	34	36	38	40	42	44	45
1435-1469	25	27	29	31	33	35	37	39	41	43	45	45
1470-1504	26	28	30	32	34	36	38	40	42	44	45	45
1505-1539	27	29	31	33	35	37	39	41	43	45	45	45
1540-1574	28	30	32	34	36	38	40	42	44	45	45	45
1575-1609	29	31	33	35	37	39	41	43	45	45	45	45
1610-1644	30	32	34	36	38	40	42	44	45	45	45	45
1645-1679	31	33	35	37	39	41	43	45	45	45	45	45
1680-1714	32	34	36	38	40	42	44	45	45	45	45	45
1715-1749	33	35	37	39	41	43	45	45	45	45	45	45
1750-1784	34	36	38	40	42	44	45	45	45	45	45	45
1785-1819	35	37	39	41	43	45	45	45	45	45	45	45
1820 and over	36	38	40	42	44	45	45	45	45	45	45	45

Special benefits (maternity, parental, sickness or compassionate care) are payable for varying durations. Maternity and sickness benefits are payable for up to 15 weeks each, parental benefits can be paid for up to 35 weeks, while compassionate care benefits can be paid for up to 6 weeks.

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Under the EI program, self-employed fishing is separated into two distinct qualifying periods: summer and winter fishing. Fishers who are active in both seasons can establish two claims for EI fishing benefits in a single year. All fishers who qualify for the program are entitled to up to 26 weeks of benefits per benefits period.

## **2.5 Treatment of particular groups**

### **2.5.1 Young persons**

None.

### **2.5.2 Older workers**

None.

### **2.5.3 Others if applicable**

None.

## **3. Unemployment assistance**

Employment Insurance provides a number of Employment Benefits and Support Measures (EBSMs), under Part II of the EI Act, which help unemployed workers get back to work as quickly as possible. These include:

- Long-term employment benefits available only to unemployed EI clients such as Skills Development benefits, Self-employment Assistance, Targeted Wage Subsidies and Job Creation Partnerships.
- Short-term interventions such as Employment Assistance Services which includes counselling and group services that are available to all unemployed Canadians.

### **3.1 Conditions for receipt**

#### **3.1.1 Employment conditions**

#### **3.1.2 Contribution conditions**

### **3.2 Calculation of benefit amount**

#### **3.2.1 Calculation of gross benefit**

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*3.2.2 Income and earnings disregards*

*3.3 Tax treatment of benefit and interaction with other benefits*

*3.4 Benefit duration*

*3.5 Treatment of particular groups*

*3.5.1 Young persons*

*3.5.2 Older workers*

*3.5.3 Others if applicable*

**4. Social Assistance**

Social assistance (or welfare) is administered by the provinces and territories, which set their own rules and payment rates. The Province of Ontario's system for providing social assistance is used in this report. The latest social assistance rate changes in Ontario took place in December 2006. The announcement of the new Ontario Child Benefit in the 2007 Ontario Budget will lead to a restructuring of social assistance rates (see Section 6).

The Canadian welfare system has undergone some fundamental changes over the last decade. In almost every province and territory, more stringent eligibility criteria and administrative controls have become the norm, and benefit reductions affecting part or all of the caseload have been common. There has also been a growing focus on employment and training activities for social assistance recipients in an effort to improve their skills and employment potential. Several provinces and territories offer ancillary supports, such as child care, community start-up, and transportation allowances, in combination with employment assistance, in order to facilitate social assistance recipients' participation in the labour market.

Further, with the introduction of the Federal/Provincial/Territorial National Child Benefit initiative in 1998, increased federal support for low-income families with children has enabled most provinces and territories to use these increased payments to replace part of their social assistance or child benefit payments to families with children, and reinvest the resulting savings in new or enhanced benefits and services for low-income families with children. In many cases, provinces and territories have invested additional funds beyond their social assistance and child benefit savings.

In an effort to further lessen the financial impact of the transition from social assistance to employment, several provinces and territories have extended coverage provided by drug cards and supplementary health benefits for a specified period of time after exiting social assistance. Some jurisdictions have also introduced earned income supplements. The purpose of these supplements is to increase the financial benefit associated with employment for persons with low wages. Similarly, recent reforms to asset and earnings exemption levels in some jurisdictions have allowed social assistance recipients to accumulate certain types of assets that have been linked to reduced intergenerational dependence on social assistance.

4.1 *Conditions for receipt*

Social assistance is a “needs-tested” benefit. If the assets of an applicant’s household are within allowable limits, non-exempted income is applied to the cost of basic needs. If there is a budgetary deficit, the household qualifies for social assistance. Where there is a budgetary surplus that is insufficient to cover the cost of a special need that is approved by welfare authorities, social assistance may be granted to cover the special need only. Each jurisdiction defines assets, income and needs in its social assistance legislation.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

The total payment amount consists of a basic personal allowance, a shelter allowance to assist in the payment of (total actual) housing costs and, in some jurisdictions, allowances for regularly-recurring approved special needs (e.g., diabetic food allowance). Shelter allowances are set by provincial governments to reflect actual costs within their jurisdictions. However, in New Brunswick and Quebec, social assistance benefits are paid as a “global” benefit, and clients are responsible for apportioning the allowance to shelter and other needs as they see fit. In Ontario, there are two major social assistance programs: Ontario Works, which provides income and employment assistance for people who are in temporary financial need; and the Ontario Disability Support program, designed to meet the unique needs of people with disabilities who are in financial need, or who want and are able to work and need support. This section is based on the Ontario Works program.

**Monthly Ontario Works rates, in CAD**

Effective December 2006  
(basic allowance + maximum shelter allowance)

<b>Family structure</b>	<b>Single</b>	<b>Couple</b>
No children	548 (206+342)	949 (411+538)
One child		
Aged under 13	1 008 (470+538)	1 084 (501+583)
Aged 13 or over	1 050 (512+538)	1 122 (539+583)
Two children		
Both under 13	1 142 (559+583)	1 240 (606+634)
One under 13, one 13 or over	1 185 (602+583)	1 278 (644+634)
Both 13 or over	1 223 (640+583)	1 316 (682+634)

4.2.2 *Income and earnings disregards*

Effective August 1, 2005, a flat exemption rate of 50% has been applied to earnings of social assistance recipients in Ontario. This earnings disregard does not take effect until a client household has been in receipt of social assistance for a three full months. In its 2004, 2005, 2006 and 2007 provincial Budgets, the Province of Ontario announced that, effective July of each of those years, Ontario Works benefits would not be reduced by the amount of the federal government's successive July 1<sup>st</sup> increases in the National Child Benefit Supplement.

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**4.3 Tax treatment of benefit and interaction with other benefits**

Social assistance benefits are not taxable, but must be declared on a tax filer's income tax return. Benefits are counted as income in calculating entitlement to federal and provincial child tax benefits and sales tax credits (see sections 6 and 10).

**4.4 Benefit duration**

Benefits are paid as long as there is a need, i.e., as long as household assets are within allowable limits and non-exempt income is insufficient to cover basic needs or approved special needs, and provided that all other administrative requirements are met (e.g., job search for employable clients). There are no time limits on benefit duration in Ontario. (However, the Province of British Columbia has established a limit on the length of time a client may receive benefits. Employable clients are limited to a cumulative 24 months of social assistance out of every 60 months. The time limit may be waived if the client falls within one of twenty-five exemption categories established by the Ministry of Employment and Income Assistance. Sanctions for exceeding the time limit vary from reductions in monthly benefits for families with children to ineligibility for benefits for singles and childless couples.)

**4.5 Treatment of particular groups**

**4.5.1 Young persons**

As a general rule, anyone who has not reached the age of majority may not receive social assistance in his or her own right except in cases of family breakdown, abuse or parenthood. Young persons receiving assistance in these circumstances are required, as a condition of ongoing eligibility, to participate fully in any academic or training program that could improve their employability.

**4.5.2 Older workers**

**4.5.3 Others if applicable**

**5. Housing benefits**

See section 4.2.1

**5.1 Conditions for receipt**

**5.2 Calculation of benefit amount**

**5.2.1 Calculation of gross benefit**

**5.2.2 Income and earnings disregards**

**5.3 Tax treatment of benefit and interaction with other benefits**

**5.4 Treatment of particular groups**

**5.4.1 Young persons**

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5.4.2 *Older workers*

5.4.3 *Others if applicable*

## 6. Family benefits

### *Federal level*

At the federal level, child-related family benefits are paid through the monthly Canada Child Tax Benefit (CCTB). In addition to the base benefit of the CCTB, which is targeted to both low- and middle-income families, the National Child Benefit<sup>2</sup> Supplement provides additional income support to low-income families with children. The NCB Supplement is one element of the broader NCB initiative, which is a partnership among federal, provincial, and territorial governments, with a First Nations component.

In 2003, the federal government announced a five-year investment plan that provides for a CAD 965 million-per-year increase in the NCB Supplement by 2007-2008. This means that total annual federal support delivered through the CCTB system is projected to reach CAD 9.5 billion by 2007-2008, including approximately CAD 3.7 billion through the NCB Supplement.

### *Provincial/territorial level*

The NCB initiative is intended to help facilitate the transition from welfare to work by ensuring that families leaving social assistance are financially better off as a result of working. The initiative is designed so that provinces and territories have the flexibility to adjust social assistance or child benefit payments by an amount equivalent to the NCB Supplement, and re-invest these funds into new or enhanced programs benefiting low-income families with children. Provincial/territorial NCB reinvestments and investments are made in a number of areas, including: childcare, earnings supplements and child benefits, early childhood services, and supplementary health benefits. Ontario has reinvested and invested in the Ontario Child Care Supplement for Working Families (see section 7) as well as in early childhood and children at risk services and municipal reinvestment strategies.

As the NCB initiative has matured, the majority of provinces and territories no longer recover federal increases to the NCB Supplement. This means that the vast majority of children living in low-income families, including those on social assistance, are currently receiving some or all of the NCB Supplement. In Ontario, NCB Supplement increases have not been recovered from social assistance payments, since July 2004.

In its 2007 Budget, the Government of Ontario announced the creation of the Ontario Child Benefit (OCB) for low-income families. In July 2007, the program delivered a non-taxable, one-time payment for 2007 of up to CAD 250 per dependent child under age 18. Monthly payments will begin to flow in July 2008. At that time, the payment will be up to CAD 600 per year per child. The payment will

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<sup>2</sup> The National Child Benefit (NCB) is a joint initiative of Canada's federal, provincial and territorial governments, which includes a First Nations component. The National Child Benefit aims to prevent and reduce the depth of child poverty in Canada, promote labour market attachment by ensuring that families will always be better off as a result of working, and reduce overlap and duplication by harmonizing program objectives and benefits across jurisdictions. The NCB Supplement (to the CCTB) is the federal government's contribution to the NCB initiative.

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increase to a maximum of CAD 805 a year per child in 2009, CAD 900 a year per child in 2010, and CAD 1 100 a year per child in 2011. The benefit reduction threshold will be the adjusted family net income of CAD 20 000 with an 8 percent reduction rate.

The OCB downpayment in July 2007 will not affect social assistance benefits or the Ontario Child Care Supplement for Working Families. When monthly OCB payments begin in July 2008, the Ontario Child Care Supplement for Working Families, basic social assistance benefits for children, and the Back-to-School and Winter Clothing Allowances will be consolidated within the OCB.

#### Ontario Child Benefit(OCB) July 2007

- Maximum amount: \$250 per child under 18
- Reduction rate: 3.4%
- Income threshold: \$20,000

Income definition: family net income used for the Canada Child Tax Benefit (CCTB), i.e. 2006 tax year

#### ***First Nations***

Through the NCB, the federal government works in partnership with First Nations to achieve the shared goal of improving the quality of life for Aboriginal peoples. First Nations' NCB reinvestments provide First Nations with the opportunity to develop projects that will address child poverty and ensure Aboriginal children receive the best possible opportunities to develop their potential as healthy, active and contributing members of their communities. First Nations' reinvestments tend to cover a wider range of program areas than those of the provinces and territories, allowing communities to decide which priority they would like to see addressed during the course of a given year. First Nations reinvestments are categorized in five key areas: child/day care; child nutrition; early child development; employment opportunities/training programs; and community enrichment.

#### **6.1 Conditions for receipt**

The federal government provides monthly payments to all low- and middle-income families with children under the age of 18 through the base benefit of the CCTB, and an additional amount to low-income families with children through the NCB Supplement. (See Section 6.2.1 for details on specific program parameters that determine eligibility and level of benefits.)

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**6.2 Calculation of benefit amount**

**6.2.1 Calculation of gross benefit**

***Federal level***

Benefit entitlements are calculated for the period July to June on the basis of the combined net income amounts reported by both spouses on the previous year's tax return (i.e., family net income).<sup>3</sup> January to June 2007 benefits were calculated on incomes reported for the 2005 tax year; July to December 2007 benefits were calculated on incomes reported for the 2006 tax year.

The Canada Child Tax Benefit provides a standard base benefit of CAD 1 255 (1 283)<sup>4</sup> per child under 18 plus a CAD 88 (90) supplement for the 3rd and each additional child<sup>5</sup>. The base benefit is reduced by 4 (4) per cent of family net income in excess of CAD 36 378 (37 178) for families with two or more children and 2 (2) per cent for families with one child. In addition, a National Child Benefit (NCB) Supplement is provided to low-income families with children. The maximum NCB Supplement is CAD 1 945 (1 988) for one child, plus CAD 1 720 (1 758) for a second child, plus CAD 1 637 (1 673) for the third and each additional child. The NCB Supplement begins to be phased out based on family net income in excess of CAD 20 435 (20 883). The reduction rates are 12.2 (12.2) per cent for families with one child, 22.9 (23.0) per cent for families with two children and 33.2 (33.3) per cent for larger families.

**6.2.2 Income and earnings disregards**

**6.3 Tax treatment of benefit and interaction with other benefits**

See above.

**6.4 Treatment of particular groups**

**6.4.1 Young persons**

**6.4.2 Older workers**

**6.4.3 Others if applicable**

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<sup>3</sup>. Due to modelling constraints, benefit entitlement within the Benefits and Wages model is calculated from current, rather than previous year's income.

<sup>4</sup> The first numbers show the rates in effect during the period January to June 2007 (also in effect from July to December 2006). Amounts in parentheses are those in effect during the period July to December 2007.

<sup>5</sup> With the introduction of the Universal Child Care Benefit in July 2006, the CCTB Supplement for children under 7 was eliminated for children under the age of 6. The Supplement remains in place until June 30, 2007 for children who turn 6 before that date. The CCTB Supplement for children under 7 provided CAD 249 per child from January to June 2007.

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## 7. Child care for pre-school children

In 2002-2003, 54 per cent of children aged six months to five years were in some form of non-parental child care, broken down by age and setting as follows<sup>6</sup>:

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<sup>6</sup> Source: Data on child care participation is taken from the National Longitudinal Survey of Children and Youth, 2002-03. The NLSCY is a long-term study of children in Canada that collects information on a wide range of factors influencing the social, emotional and behavioural development of children from birth to early adulthood. The survey, which began in 1994, is jointly conducted by Statistics Canada and Human Resources and Social Development Canada.

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**Proportion of children by age in non-parental child care**

<b>Age of Child</b>	<b>2002-2003</b>
6 months to under 1 year	28.6%
1 year	56.1%
2 years	58.1%
3 years	57.7%
4 years	55.7%
5 years	53.1%

**Distribution of children by type of main non-parental child care arrangement**

<b>Type of Setting</b>	<b>2002-2003</b>
Cared for by non-relative in someone else's home	30.3%
Cared for by relative in someone else's home	15.7%
Cared for by non-relative at home	7.7%
Cared for by relative at home	13.7%
Cared for in child care centre	27.9%
Other	4.8%

In 2006, there were regulated child care spaces for about 26 per cent of children aged 0-6 (this includes child care centres, preschools and licensed family care). While compulsory schooling begins at age six, the majority of five-year-old children attend kindergarten as part of the formal education system.

**7.1 Out-of-pocket childcare fees paid by parents**

Parent fees for regulated care vary within and across provinces and depend on the age of the child in care, the type of care arrangement (centre-based, family care, preschool) and the hours of care (full/part time).

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### Monthly Parent Fees (in CAD) by Province/Territory and Age of Child<sup>7</sup>

Province/Territory	Centre-Based <sup>8</sup> (F/T)		
	Infant (1-17 mos)	Toddler (18 mos-2 yrs and 11 mos)	Preschool (3-5 yrs and 11 mos)
Newfoundland and Labrador* (2003/2004)	975	455	455
Prince Edward Island*	642	470	428
Nova Scotia*	584	526	516
New Brunswick**	547	540	467
Quebec (CAD 7/day)	151	151	151
Ontario*(1998)	783	603	541
Manitoba***	560	376	376
Saskatchewan**	497	455	420
Alberta** (2004)	600	532	532
British Columbia*	750	680	550
Yukon*	620	550	520
Northwest Territories* (2001)	600	600	600
Nunavut*	580	566	566

\* Median fees

\*\* Mean fees

\*\*\* Maximum fees

Parent fees are not legislated; care providers have the flexibility to individually determine parent fees. Individual jurisdictions legislate maximum subsidy amounts, based on age of child, type of care setting, and duration of care (full/part time). For some parents, their annual income will impact the subsidy amount for which they are eligible, which could reduce their monthly fees.

Individual provincial/territorial policies on fees for parents who are on social assistance vary considerably across the country. In Ontario, the provincial government provides funding for child care services for persons receiving Ontario Works benefits (social assistance). This funding supports fee subsidies which provide financial assistance towards the cost of licensed child care for parents who are "persons in need" (as determined by a needs test).

## 7.2 Child care benefits

### Federal Level

In July 2006, the federal government introduced the Universal Child Care Benefit, a direct payment of CAD 100 per month to all Canadian families regardless of income for each child under the age of six, to help offset the cost of whatever child care arrangement they choose. The benefit is payable to the child's primary caregiver and is taxable in the hands of the spouse with the lower income. It is not considered

<sup>7</sup> Source: Jane Beach and Martha Friendly, *Early Childhood Education and Care in Canada 2006*, Childcare Resource and Research Unit, University of Toronto.

<sup>8</sup> Data represent 2005/2006, except where noted.

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income for the purposes of calculating federal income-tested benefits such as the Canada Child Tax Benefit and the Goods and Services Tax Credit.

In addition, the federal personal income tax system provides a child-care expense deduction for families with children. The child-care expense deduction is calculated on the basis of earned income. Child-care expenses claimed as a deduction cannot exceed two thirds (2/3) of the earnings of the spouse with the lower earned income (see section 10.1.1 for more information). The deduction reduces taxes paid to both levels of government (federal and provincial/territorial).

### ***Provincial Level***

At the provincial level, Ontario provides the Ontario Child Care Supplement for Working Families (OCCS)<sup>9</sup>, which is based on earnings in excess of CAD 5 000. The program benefits low-to-middle income single- or two-parent families, families with one stay-at-home parent, or families with one or both parents studying or in training.

#### *7.2.1 Conditions for receipt*

To be eligible to receive the Ontario Child Care Supplement for Working Families, a parent in Ontario has to:

- be a resident of Ontario;
- receive the (federal) Canada Child Tax Benefit;
- have a child under age seven; and
- have the appropriate income level, or qualifying child care expenses.

Families are eligible for the Supplement if they had work earnings exceeding CAD 5 000. For families with incomes above CAD 20 000, the supplement is reduced. OCCS benefits are calculated on the same income basis as the CCTB described above.

#### *7.2.2 Calculation of benefit amount*

In 2007, the OCCS program provided a maximum annual benefit of CAD 1 100 for each child under age 7 in a two-parent family, and a maximum annual benefit of CAD 1 310 per child under age 7 in a lone-parent family.

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<sup>9</sup> The OCCS will be integrated into the OCB starting July 2008.

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### Ontario Child Care Supplement for Working Families (OCCS)

	2007 (annual basis)
The benefit is calculated as the greater of:	
a) Per cent of earnings <sup>10</sup> in excess of CAD 5 000	
- when 1 child <7 is present	21%
- when 2 children <7 are present	42%
- when 3 or more children <7 are present	63%
and	
b) 50 per cent of the qualifying child-care expenses*	
Maximum per child <7 in a two-parent family	CAD 1 100
Maximum per child <7 in a lone-parent family	CAD 1 310
Level of family net income <sup>11</sup> for tax purposes where benefit starts to be reduced	CAD 20 000
Reduction rate	8%

\* For families with earnings up to CAD 5 000, the annual supplement is equal to 50 per cent of qualifying child-care expenses claimed on the previous year's income tax return.

#### 7.2.2.1 Calculation of gross benefit

See table above.

#### 7.2.2.2 Income and earnings disregards

See table above.

#### 7.2.3 Tax treatment of benefit and interaction with other benefits

#### 7.2.4 Treatment of particular groups

N/A

## 8. Employment-conditional benefits

A number of provinces and territories have programs which provide earned-income supplements. These include: The New Brunswick Working Income Supplement, the Quebec Work Premium, the

<sup>10</sup> Family earned income includes income from employment, self-employment, training allowances, the taxable portion of scholarships, net research grants and disability payments received under the Canada and Quebec Pension Plans. Family earned income is used to calculate the amount of the Supplement.

<sup>11</sup> Family net income is used to ensure that benefits go to low- and middle-income families by reducing the amount of the Supplement for families with incomes above CAD 20 000. Family net income is usually the total net income of a single-parent family or of each spouse or common-law partner in a two-parent family.

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Manitoba Child Related Income Support Program, the Saskatchewan Employment Supplement, the Alberta Family Employment Tax Credit, the British Columbia Earned Income Benefit, the Northwest Territorial Workers' Supplement and the Nunavut Territorial Workers' Supplement. In addition, all Canadian provinces offer special work-related supports to social assistance clients who are joining or rejoining the labour force. These range from coverage for special work-related expenses such as clothing, transportation and, in some jurisdictions, day care, to an actual bonus for participation in work activities. In Ontario, for example, an Employment/Participation Start-up Benefit of up to CAD 253 once in every 12-month period for actual reasonable expenses is available for a social assistance beneficiary (and a spouse or same-sex partner) who begins employment or a training program, changes employment or begins an employment assistance activity.

**8.1**      *Conditions for receipt*

**8.2**      *Calculation of benefit amount*

8.2.1      Calculation of gross benefit

**8.3**      *Tax treatment of benefit and interaction with other benefits*

**8.4**      *Benefit duration*

**8.5**      *Treatment of particular group*

8.5.1      *Young persons*

8.5.2      *Older workers*

8.5.3      *Others if applicable*

**9.**      **Lone-parent benefits**

The personal income tax system provides an eligible dependant amount for single, divorced, separated, or widowed taxfilers who support a dependant. Lone parents, therefore, can reduce their tax liabilities when claiming this amount for a dependent child (see section 10).

The refundable Goods and Services Tax (GST) Credit (see section 10 for details) also contains specific provisions for lone parents. In addition to an adult credit of up to CAD 232 (237)<sup>12</sup> that lone parents can claim for themselves, they can also claim this amount for the dependent child claimed as an eligible dependant. There is also a GST credit supplement of up to CAD 122 (125) for low-income single parents (as well as single individuals).

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<sup>12</sup> The first numbers show the rates in effect during the period January to June 2007 (also in effect from July to December 2006). Amounts in parentheses are those in effect during the period July to December 2007.

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**9.1**      *Conditions for receipt*

**9.2**      *Calculation of benefit amount*

9.2.1    *Calculation of gross benefit*

9.2.2    *Income and earnings disregards*

**9.3**      *Tax treatment of benefit and interaction with other benefits*

**9.4**      *Benefit duration*

**9.5**      *Treatment of particular group*

9.5.1    *Young persons*

9.5.2    *Older workers*

9.5.3    *Others if applicable*

**10.**     **Tax system**

The federal personal income tax system considers personal income in two ways: it taxes personal income on an individual basis (i.e. individuals pay income tax on their own income); whereas it pays benefits to people based on family income (i.e. family benefits are calculated based on the income of both spouses).

**10.1**    *Income tax rate schedule*

The following sections follow the 2007 federal income tax form logic and refer to families reporting earnings and claiming basic deductions and regular refundable and non-refundable credits.

10.1.1   *Definition of income and allowances*

**Total income** includes earnings, pensions, the Universal Child Care Benefit (UCCB), investment income, rental income, self-employment income, Employment Insurance benefits, social assistance, as well as other types of income. Social assistance payments must be reported for the calculation of net income but are deducted afterwards to obtain taxable income (i.e. social assistance payments are not taxed).

**Deductions** consist mainly of work-related amounts that are subtracted from total income to arrive at **net income**.

**Taxable income** is calculated by excluding social assistance, worker's compensation and supplements (federal and provincial) for senior citizens from **net income**. **Tax on taxable income** is calculated by applying the basic federal tax schedule on taxable income (see section 10.1.3).

**Basic federal tax** is equal to tax (calculated according to the table in section 10.1.3.1 below) on taxable income, less the non-refundable credits (section 10.1.2), or zero if this result is negative.

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10.1.2 *Non-refundable tax credits*

- *Basic credit:* As of January 1, 2007 all taxpayers qualify for a basic personal tax credit of CAD 1 440.
- *Canada Employment Tax Credit* A tax credit on employment income of CAD 150 is provided, effective January 1, 2007.
- *Credit for Spouse or Eligible Dependant:* A taxpayer supporting a spouse or other eligible dependant receives a tax credit of CAD 1 440 which is reduced by 15 cents for each dollar of the dependant's income .
- *Child Tax Credit:* A tax credit that provides up to CAD 300 of tax relief for each dependent child under the age of 18. The credit can be claimed by either parent.
- *Social security contributions:* taxpayers are entitled to claim 15 per cent of their contributions to the Canada or Quebec Pension Plans (to a maximum of CAD 1 989.90) and their Employment Insurance premiums (to a maximum of CAD 720).
- *Child care expenses:* A portion of child care expenses is deductible if incurred for the purpose of earning business or employment income, studying or taking an occupational training course or carrying on research for which a grant is received. The lower-income spouse must generally claim the deduction. The amount of the deduction is limited to the lesser of:
  - 1) the expenses incurred for the care of a child;
  - 2) two-thirds of the taxpayer's earned income; and
  - 3) CAD 7 000 for each child who is under age seven, and CAD 4 000 per child between seven and sixteen years of age. The amount for a disabled child under seventeen is CAD 10 000.

10.1.3 *Refundable credits*

Refundable credits available to families were calculated on family net income for tax purposes (head and spouse) (see section 10.1.1):

- The Canada Child Tax Benefit (CCTB, see section 6); paid out on a monthly basis.
- The Goods and Services Tax Credit provides a refundable tax credit of CAD 232 (237)<sup>13</sup> for each individual plus CAD 232 (237) for a spouse, plus CAD 122 (125) for each dependent child under the age of 19 not claimed as an equivalent to spouse. The total of these credits is reduced at a rate of 5 per cent of net family income over CAD 30 270 (30936). Similar to CCTB, January to June 2007 credits were calculated on incomes reported for the 2005 tax year, while July to December 2007 credits were calculated on incomes reported for the 2006 tax year<sup>14</sup>. There are special provisions which provide a supplement of up to CAD 122 (125) for single individuals, which is paid at a rate of 2% of income over CAD 7 539 (7 705), up to the CAD 122(125) maximum. Single parents receive the full value of the supplement. The credit is paid out in instalments every three months. *Working Income Tax Benefit (WITB)* The WITB provides a refundable tax credit equal to 20 percent of each dollar of earned income in

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<sup>13</sup> The first numbers show the rates in effect during the period January to June 2007 (also in effect from July to December 2006). Amounts in parentheses are those in effect during the period July to December 2007 (and also January to June 2008).

<sup>14</sup> Due to modelling constraints, GSTC is calculated from current rather than previous income.

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excess of CAD 3 000 to a maximum credit of CAD 500 for single individuals without dependents and CAD 1 000 for families (couples and single parents). The credit will be reduced by 15 percent of net family income in excess of CAD 9 500 for single individuals and CAD 14 500 for families. This amount is considered as a cash transfer for the purposes of this report.

#### 10.1.4 Tax schedule and surtax

##### 10.1.4.1 Federal income tax rates

Federal income tax payable is equal to Basic Federal Tax.

#### Basic Federal Income Tax Rates

Taxable Income (CAD)	Rate (%)
0 – 37 178	15
37 178 – 74 357	22
74 357 – 120 887	26
120 887 and over	29

##### 10.1.4.2 Provincial income tax rates

With the exception of Quebec, the Federal Government has an agreement in place to administer the provincial income tax systems. Prior to the 2000 tax year, provincial tax in all jurisdictions other than Quebec, was calculated as a percentage of the Basic Federal Tax (tax-on-tax). In 2000 and 2001, these provinces adopted tax-on-income systems under which tax is levied as a percentage of Taxable Income using tax brackets, rates and credits as defined by the province. Many provinces still levy high-income surtaxes but all flat taxes were eliminated following the move to tax-on-income systems.

The calculation of provincial tax for the average worker study assumes the worker lives in Ontario, the most populous of the 10 provinces and 3 territories. The main features of the Ontario tax system relevant to this report are summarised below:

#### Tax Schedule

#### Basic Ontario Income Tax Rates

Income Bracket	Rate (%)
CAD 0 to CAD 35 488	6.05
CAD 35 488 to CAD 70 976	9.15
Over CAD 70 976	11.16

#### Non-refundable tax credits

- *Basic credit:* As of January 1, 2007 all Ontario taxpayers qualify for a basic personal tax credit of CAD 517.45.
- A maximum credit of CAD 439.35 for a dependent spouse or eligible dependant that is withdrawn as the income of the dependant exceeds CAD 726 and is completely withdrawn when the income of the spouse is at least CAD 7 988.6.05 per cent of the contributions made to the Canada Pension Plan and of the Employment Insurance premiums.

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Refundable tax credits

- A Sales tax credit equal to CAD 100 for the principal wage earner, CAD 100 for the spouse and CAD 50 for each dependent child under the age of 19 and property tax credit based on the shelter costs, to a maximum credit entitlement of CAD 1 000 and CAD 1 125 for seniors. The credit is reduced by 2 per cent of the total net income of the family exceeding CAD 4 000 and for age 65 and older, by 4 per cent of the total family net income exceeding CAD 22 000 for single seniors and CAD 23 820 for senior couples.
- The province of Ontario administers a program to benefit working families providing tax-free monthly payments. For each child under seven, qualifying two-parent families can receive up to CAD 1 100 annually while qualifying single parent families can receive up to CAD 1 310. The actual benefit is calculated as being either the greater of qualifying child care expenses or a percentage of the earnings of a family over CAD 5 000. The percentage used depends upon the number of children. For a one child family, the rate is 21 per cent. For a two children family, the rate is 42 per cent. For families with more than two children, the rate is 63 per cent. The benefit is withdrawn at a rate of 8 per cent of family income that exceeds CAD 20 000.
- The Ontario Child Benefit (OCB, see section 6).

Surtax

Provincial tax after accounting for wastable credits	Surtax Rate
Amounts Exceeding CAD 4 100	20% of the excess amount
Amounts Exceeding CAD 5 172	36% of the excess amount

Tax Reduction

The earner with the highest income is entitled to claim a tax reduction where the initial entitlement is equal to CAD 198 plus CAD 365 for each dependant child under the age of 19. If this amount is greater or equal to the liable provincial tax, then no tax is due. If the amount is less than the liable tax, then the actual tax reduction is equal to twice the initial entitlement amount less the liable tax (if this calculation is zero, the reduction is equal to zero).

**10.2 Treatment of family income**

All family members are taxed on an individual basis. Refundable credits are calculated on combined net income for head (of the household) and spouse.

**10.3 Social security contributions schedule**

**10.3.1 Pensions**

Generally, all employees are eligible for coverage under the Canada Pension Plan (Québec Pension Plan in the province of Québec). For 2007, all employees are required to contribute to the Canada Pension Plan at a rate of 4.95 per cent of income up to a maximum contribution of 1 989.90. Income subject to contributions is earnings (wages and salaries) less a CAD 3 500 basic exemption. The maximum contribution of CAD 1 989.90 is reached at an earnings level of CAD 43 700 i.e. CAD 43

700 - CAD 3 500) x 0.0495 = CAD 1 989.90. For employees, each contribution to the CPP or QPP gives rise to a tax credit equal to 15 per cent of the contributed amount. Employers are also required to contribute to the Canada Pension Plan on behalf of their employees at the same rate.

Self-employed persons must also contribute to the Canada Pension Plan (Québec Pension Plan in the province of Québec) on their own behalf. However, the self-employed are required to contribute at the combined employer/employee rate of 9.9 per cent of earnings up to a maximum of CAD 3 979.8. For the 2001 tax year onwards, the self-employed can deduct the employer portion of their contribution from income, equal to 50 per cent of the total contribution or CAD 1 989.90. The remaining 50 per cent, representing the employee portion, is then claimed as a tax credit at 15 per cent.

### 10.3.2 *Sickness*

There is no national sickness benefit plan administered by the federal government. However, all provinces have provincially-administered health care insurance plans. Four provinces, Quebec, Ontario, Alberta and British Columbia, levy health insurance premiums separately from the personal income tax to help finance their health programmes.

In the case of Ontario, the premium is determined based on taxable income. Individuals who earn up to CAD 20 000 are exempt. The premium is phased in with a number of different rates to a maximum of CAD 900 for taxable income levels greater than CAD 200 600. The following Table provides further details on the structure that is applicable in 2007.

Taxable Income	The Ontario Health Premium	
	Fixed Component (CAD)	Variable Component
0 to CAD 20 000	0	
CAD 20 000 to CAD 25 000	0	6% of the taxable income in excess of CAD 20 000
CAD 25 000 to CAD 36 000	300	
CAD 36 000 to CAD 38 500	300	6% of the taxable income in excess of CAD 36 000
CAD 38 500 to CAD 48 000	450	
CAD 48 000 to CAD 48 600	450	25% of the taxable income in excess of CAD 48 000
CAD 48 600 to CAD 72 000	600	
CAD 72 000 to CAD 72 600	600	25% of the amount of taxable income in excess of CAD 72 600
CAD 72 600 to CAD 200 000	750	
CAD 200 000 to CAD 200 600	750	25% of the amount of taxable income in excess of CAD 200 600
Over CAD 200 600	900	

### 10.3.3 *Unemployment*

In general, all employees are eligible for employment insurance. For 2007, employees are required to contribute at the rate of 1.8 per cent of insurable earnings. Insurable earnings are earnings (wages and salaries) up to a maximum of CAD 40 000 per year. The maximum employee contribution is therefore CAD 720 per year. Employment insurance contributions give rise to a tax credit equal to 15 per cent of the amount contributed. Employers are also required to contribute to the plan.

## 11. **Part-time work**

No special provisions.

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**12. Policy developments**

**12.1 Policy changes introduced in the last year**

*12.1.1 Federal Level*

*12.1.2 Provincial level*

In its 2007 Budget, the Government of Ontario announced the creation of the Ontario Child Benefit for low-income families. The program delivered a non-taxable, one-time payment in July 2007 of up to CAD 250 per dependent child under age 18. Monthly payments will begin to flow in July 2008. (See Section 6)

**12.2 Policy changes announced**

*12.2.1 Federal Level*

In the March 2007 Federal Budget, the Government of Canada announced a Working Income Tax Benefit (WITB) to help make work pay for low- and modest-income Canadians. The WITB will be provided as a refundable tax credit, effective for the 2007 tax year, with payments beginning in 2008. This tax credit will provide up to CAD 500 for single individuals and CAD 1 000 for families, and will include a supplement of up to CAD 250 for persons with disabilities.

The 2007 Federal Budget also introduced a new non-refundable CAD 2 000 tax credit amount for each child under 18 years of age, and increased the credits for low-income spouses and others to the same level as the basic personal amount.

*12.2.2 Provincial level*