

CANADA

1. Overview of the system

Unemployment insurance is earnings-related, subject to a maximum amount. Social assistance can be paid as an earnings top-up or as an income source of last resort; it includes a supplement to cover housing costs. There are no child benefits, but refundable child and child-care tax credits may be paid. A Working Income Supplement is paid to low income families with at least one dependent child. Individuals are in principal taxed separately; if one partner earns less than C\$5 918 per year, incomes can be reported on the return of the main earner. The latter then receives a tax credit in respect of the dependent spouse. The 1995 APW earnings level is C\$32 419.

2. Unemployment insurance

2.1 *Conditions for receipt*

All persons in “insurable employment” (employed 15 or more hours a week and earning more than 20 per cent of the maximum insurable earnings of C\$163 a week) are eligible.

2.1.1 *Employment conditions*

New entrants must have worked at least 20 weeks of at least 15 hours.

2.1.2 *Contribution conditions*

A full-time employee must have contributed for 12 to 20 weeks (depending on the unemployment rate in the region) within the last 52 weeks or since the start of the last claim, whichever is more recent.

Note that persons earning less than 20 per cent of maximum insurable earnings (MIE) (C\$163 per week or C\$8 476 per year) are excluded from unemployment contributions and are not eligible for the benefit.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

The gross replacement rate is 55 per cent of average gross earnings, with maximum insurable earnings (MIE) of CS 815 per week (or C\$42 380 per year). As a result, the maximum UI benefit in 1995 was C\$448 per week.

Low income claimants [people whose average gross earnings are 50 per cent of MIE (C\$326 per week or C\$16 952 per year or less) with at least one dependant will receive 60 per cent of their average gross earnings.

2.2.2 Income and earnings disregards

None.

2.3 Tax treatment of benefit

Taxable. UI claimants whose annual net income (including UI benefits) exceeds 1.5 times the maximum yearly insurable earnings must repay 30 per cent of those UI benefits that make up the excess. For the 1995 tax year the repayment formula applies above C\$63 570.

2.4 Benefit duration

The benefit is payable for a maximum period of 50 weeks, starting after a two-week waiting period. This actual number of weeks depends on the number of insurable weeks and the regional unemployment rate. (For the table and the calculations in this study, the unemployment is assumed to be between 8 per cent and 9 per cent).

<u>Weeks of work</u>	<u>Number of weeks of entitlement</u>
17	18
18-19	19
20-21	20
every two weeks...	...one week extra
40	30
41	31
each extra week...	...one week extra

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 *Older workers*

None.

3. **Unemployment assistance**

None.

4. **Social assistance**

Social assistance is administered by the provinces and territories, who set their own payment rates. Ontario rates are used in this study.

4.1 *Conditions for receipt*

Social assistance is a “needs tested” benefit.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

The total payment amount consists of a basic allowance and a shelter allowance to assist in the payment of (total actual) housing costs. Note that within this study, rent is 20 per cent of APW (C\$540.21 per month): a higher shelter allowance cannot be claimed.

**Monthly general welfare rates, in C\$
(effective Oct. 1995)
(basic allowance + maximum shelter allowance)**

Family structure	Single	Couple
No children	520 (195+325)	901 (390+511)
One child		
Aged under 13	957 (446+511)	1 030 (476+554)
Aged 13 or over	997 (486+511)	1 066 (512+554)
Two children		
Both under 13	1 086 (532+554)	1 178 (576+602)
One under 13, other 13 or over	1 126 (572+554)	1 214 (612+602)
Both 13 or over	1 162 (608+554)	1 250 (648+602)

4.2.2 *Income and earnings disregards*

The free area depends on the family size. The monthly amounts are shown below:

Number of children	Single (C\$)	Couple (C\$)
0	143	249
1	275	295
2	321	346
3	372	397
4	423	442
5	468	480
6+	+38	+38

The withdrawal rates (effective only as of the fourth month on assistance) applied to net earned income (net of tax and social security contributions) exceeding these amounts are 75 per cent. Note that households with children may also claim child-care expenses.

4.3 *Tax treatment of benefit*

The benefit is not taxable.

4.4 *Benefit duration*

As long as there is a need *i.e.* income is low enough.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

None.

4.5.2 *Older workers*

None.

5. **Housing benefits**

A separate housing benefit scheme does not exist in Canada. However all rent (up to a ceiling) and heating, electricity and water expenses (up to the same ceiling) are added to social assistance payment rates (see Section 4 above).

6. Family benefits

Family benefits do not exist, but a tax credit for dependent children exists (see Section 10.1.1).

7. Child-care benefits

There is a child-care refundable tax credit (see Section 10.1.1).

8. Employment-conditional benefits

Low income working families with at least one dependent child receive the Working Income Supplement (WIS). The supplement is paid at 8 per cent of net earned income (net of tax and social security contribution) in excess of C\$3 750 per year up to a maximum of C\$500 per year. The supplement is then reduced at 10 per cent of net earned income (net of tax and social security contribution) in excess of C\$20 921 per year. The supplement does not vary with family size.

9. Lone-parent benefits

None.

10. Tax system

Individuals are in principal taxed separately. If, however, one partner earns less than C\$5 918 per year, incomes can be reported on the return of the main earner. The latter then receives a tax credit in respect of the dependent spouse.

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

The following tax credits are available:

- Basic non-refundable tax credit: C\$1 098 per tax payer.
- Marital Status Credit: a (non-refundable) tax credit of C\$915 for a dependent spouse, reduced at 17 per cent of the spouse's gross earnings in excess of C\$538; of Canada Pension Plan/Quebec Pension Plan and Unemployment contributions (non-refundable).
- Child Tax Credit (refundable): C\$1 020 per child under 18, plus C\$213 per child under 7 (where no child expenses are deducted), plus C\$75 per child for the third child and each subsequent child in the family. The credit is reduced against 5 per cent of earnings

above C\$25 921 for families having two children or more and 2.5 per cent of earnings exceeding C\$25 921 for families with one child.

- Work Income Supplement: see Section 8.
- Child-care Expenses which enable the caring parent to work: this deduction must be claimed by the lower-earnings spouse. The deduction is limited to the least of child-care expenses, two-thirds of the tax payer’s earned income, or C\$5 000 per child under 7 years of age and C\$3 000 for other eligible children. Attendant child-care expenses up to C\$5 000 can be claimed for a dependent handicapped person over 18 years of age.
- Goods and Services tax credit: a refundable tax credit of C\$199 per claimant, C\$199 for the spouse, and C\$105 for each child under 19 years of age is granted to low income families. It is reduced at the rate of 5 per cent above an earnings level of C\$26 000.

10.1.2 The definition of taxable income

Taxable income equals gross income less child-care expenses if claimed; the credits are not included in taxable income but in tax liability.

10.1.3 The tax schedule

10.1.3.1 Federal income tax rates

Taxable income (C\$)	Rate (%)
0 - 29 590	17
29 590 - 59 180	26
59 180 and more	29

A 3 per cent surtax is applicable on basic federal tax, that is on tax after non-refundable credits. A 5 per cent high income surtax also applies to basic federal tax in excess of C\$12 500.

10.1.3.2 State and local income taxes

It is calculated as percentage of the basic federal tax (tax after non-refundable credit) except in Quebec, which has its own system. The average tax rate is 58 per cent for Ontario.

10.2 Treatment of family income

All family members are taxed on an individual basis.

10.3 Social security contribution schedule

A taxpayer has to contribute 2.7 per cent of earnings in excess of C\$3 400 but to a limit of C\$32 900 for the Canada Pension Plan (CPP), and 3 per cent of earnings in excess of C\$8 476 but to a limit of C\$42 380 for the unemployment insurance.

Contributions	Rate (%)	Earnings ceiling (C\$ per year)	Threshold (C\$ per year)
Canada Pension Plan	2.70	34 900	3 400
Unemployment*	3.00	42 380	8 476

*) 17% of the unemployment contributions can be credited against income tax (non-refundable).

11. Part-time work

11.1 Special benefit rules for part-time work

None.

11.2 Special tax and social security contribution rules for part-time work

None.

12. Policy developments

12.1 Policy changes introduced in the last year

The rates in Section 4 are for October, 1995.

12.2 Policy changes announced

From June 30 1996, the Employment Insurance Act came into effect. It is a fundamental restructuring of the old unemployment insurance system:

- The new system will maintain the present character of the Canadian unemployment insurance system in that eligibility and benefits will be related to the unemployment rate of the region *i.e.* high unemployment rate regions have less restrictive eligibility criteria.
- As January 1 1997, the insurance aspect will move from a weeks-based requirement to an hours-based requirement, allowing part-time workers who work the qualifying amount of hours to be covered.

- The new system is designed to provide better assistance and incentives to work for claimants: it will allow claimants receiving benefits of less than C\$200 per week to earn C\$50 per week or 25 per cent of their benefit (whichever is higher) without any reduction in benefit payments.

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The annual tax/benefit position of an unemployed single person, 1995 (Canadian dollars)

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment insurance	17 830	
Total taxable benefits	17 830	0
B. Income tax and social security contributions		
Income tax allowances	0	
Taxable income	17 830	
Income tax	3 031	
Tax credits (wastable)	1 212	
Surtax	55	
Local tax	1 055	
Social security contributions	670	
Total income tax and social security contributions	3 599	0
C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	6 240
Children refundable tax credit		
Regressive sales tax credit	199	199
Non-means tested benefits		
Total non-taxable benefits	199	6 439
D. Net income out of work (A-B+C)	14 430	6 439
E. Net income in work	23 318	23 813
F. Net replacement rate (D/E) (per cent)	61	27

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The annual tax/benefit position of an unemployed married couple with two children, 1995 (Canadian dollars)

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment insurance	17 830	
Total taxable benefits	17 830	0
B. Income tax and social security contributions		
Income tax allowances	0	
Taxable income	17 830	
Income tax	3 031	
Tax credits (wastable)	2 127	
Surtax	27	
Local tax	524	
Social security contributions	670	
Total income tax and social security contributions	2 125	0
C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	13 395
Children refundable tax credit	2 466	2 466
Regressive sales tax credit	608	608
Non-means tested benefits		
Total non-taxable benefits	3 074	16 469
D. Net income out of work (A-B+C)	18 778	16 469
E. Net income in work	27 714	27 714
F. Net replacement rate (D/E) (per cent)	68	59

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The annual tax/benefit position of an unemployed lone parent with two children, 1995 (Canadian dollars)

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment insurance	17 830	
Total taxable benefits	17 830	0
 B. Income tax and social security contributions		
Income tax allowances	0	
Taxable income	17 830	
Income tax	3 031	
Tax credits (wastable)	1 212	
Surtax	55	
Local tax	1 055	
Social security contributions	670	
Total income tax and social security contributions	3 599	0
 C. Non-taxable benefits		
Means-tested benefits		
Social assistance	0	12 867
Children refundable tax credit	2 466	2 466
Regressive sales tax	409	409
Non-means tested benefits		
Total non-taxable benefits	2 875	15 743
 D. Net income out of work (A-B+C)	17 106	15 743
 E. Net income in work	26 042	26 042
 F. Net replacement rate (D/E) (per cent)	66	60