THE OECD TAX-BENEFIT MODEL FOR CANADA

Description of policy rules for 2018

OECD
BETTER POLICIES FOR BETTER LIVES

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Description of policy rules for 2018

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BETTER POLICIES FOR BETTER LIVES

Social Policy Division and Jobs and Income Division

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Directorate for Employment, Labour and Social Affairs

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Preface

The OECD Tax-Benefit model (**TaxBEN**) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families ("vignettes", e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN's policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided here.
- Further information on the model, model results, and references to reports and analytical uses is available on the project website. A methodology document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol ⓘ in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **`[variable name]`**, for instance: **`[AW]`** for the average wage.

The OECD tax-benefit model for Canada: Policy rules in 2018

1. Reference wages

The 2018 average wage **[AW]** is CAD 53 486.9.[1]

The minimum wage **[MIN]** in 2017 is CAN 23 566.4 per year.

2. Unemployment benefits

2.1. Unemployment insurance (Employment Insurance)

Code in the OECD tax-benefit model:[2] **[UI_p;UI_s]**

It is contributory, not means-tested and taxable.

Employment Insurance provides temporary income support to Canadians workers while they are temporarily unemployed and looking for work or upgrading 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, or for parents unable to work while providing care or support to a child whose life is at risk as a result of an illness or injury. Benefits are earnings-related and are subject to a maximum amount.

2.1.1. Eligibility conditions

All persons in paid employment and fishers who contribute to the Employment Insurance (EI) program by paying premiums are potentially eligible to receive EI regular and special benefits.

Self-employed Canadians (other than fishers) are able to opt in to the EI program on a voluntary basis to be eligible for EI special benefits (maternity, parental, sickness, compassionate care and parents of critically ill children benefits) only.

Age:

Contribution/employment history: entrance requirements for EI regular benefits vary with the local monthly EI unemployment rate. A minimum of 420 hours of work in their qualifying period (generally a 52-week period prior to the loss of employment) is required

[1] AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration. For more information on methodology see the latest Taxing Wages publication.

[2] The variable names ending with "_p" refer to the first adult (so-called "*p*rincipal" adult) whereas those ending with "_s" are related to the spouse.

in areas of relatively high unemployment (over 13%) and 700 hours in areas of relatively low unemployment (6% or lower).

EI Entrance Requirements

Regional rate of unemployment (%)	Required number of insured hours of employment in the qualification period
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

An exception are those that are considered new entrants or re-entrants to the labour market who are required to work a minimum of 910 hours in their qualifying period, regardless of regional EI unemployment rates, in order to access EI benefits. TaxBEN assumes a minimum number of 910 hours worked to qualify.

A claimant is considered a new entrant or re-entrant if they had fewer 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 in addition to actual hours of work in the labour force, with each week of labour force attachment counting for 35 hours. Claimants with at least one week of maternity or parental benefits in the four-year window preceding the pre-qualifying period are not considered new entrants or re-entrants to the labour market.

For paid employees in insurable employment, a flat entrance requirement of 600 hours of insurable employment in the 52-week period immediately preceding the claim or the period since the start of the previous claim applies for all EI special benefits. This requirement does not vary according to regional unemployment rates. Qualification for EI fishing benefits is based on earnings, as opposed to weeks or hours of work.

Behavioural requirements and related eligibility conditions: TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.[3] To be eligible to receive special benefits, self-employed Canadians must

[3] Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), Langenbucher (2015) and Venn (2011).

1. be registered with the Canada Employment Insurance Commission
2. have contributed to the EI program for a period of at least 12 months.

In order to qualify for special benefits, they must demonstrate that they have reduced the amount of time devoted to their business by more than 40% and have earned a minimum amount of self-employment earnings in the preceding calendar year ($6,515 in 2013).

2.1.2. Benefit amount

Calculation base: The calculation of benefit is based on average weekly insurable earnings. Since April 7, 2013, average weekly earnings are calculated from the best weeks of earnings in the qualifying period (usually 52 weeks). The number of best weeks ranges between 14 and 22 depending on the monthly regional EI unemployment rate.

Benefit amount: The replacement rate is 55% of average weekly insurable earnings. The maximum weekly EI benefit rate is CAD 514 per week based on the maximum weekly insurable earnings of CAD 934 for 2014.

EI claimants from low-earning families with children are eligible for the EI Family Supplement, which increases the replacement rate of their earnings. In this context, low-earning is defined as net family income under CAD 25 921. Recipients can receive up to an 80% 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.

Although Family Supplement recipients can receive up to an 80% replacement rate overall, the maximum weekly EI benefit rate, including the Family Supplement, is subject to the maximum of CAD 514 for 2014.

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

2.1.3. Benefit duration

EI 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 regional monthly unemployment rate provides an additional entitlement of two weeks of benefits. 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).

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

Average Canada unemployment rate is 5.85% in December2017/January2018 (source : CANSIM - Tableau : 14-10-0287-01 (anciennement CANSIM 282-0087) available at Statistics Canada - http://www5.statcan.gc.ca/cansim/). We will thus use this average to determine maximum duration (36 weeks in 2018).

Each EI special benefit is payable for a specified maximum duration. Maternity and sickness benefits are payable for up to 15 weeks each, parental and parents of critically ill children benefits can be paid for up to 35 weeks each, while compassionate care benefits can be paid for up to 6 weeks.

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.

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

Recipients of EI benefits pay income taxes on benefits received, but they are not subject to SS contributions. EI Beneficiaries whose net income exceeded CAD 60 750 in 2014 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 special benefits claimants, are exempt from this repayment provision.

2.1.6. Interactions with other components of the tax-benefit system

2.1.7. Combining benefit receipt and employment/starting a new job

On August 5, 2012, a Working While on Claim (WWC) pilot project came into force that reduces EI benefits by 50 cents for every dollar earned, up to a threshold of 90% of the weekly insurable earnings used to calculate the EI benefit amount. Earnings above this threshold are deducted dollar for dollar from EI 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.

2.2. 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. Social assistance and housing benefits

3.1. Social Assistance (Ontario Works)

Variable name: **[SA]**

This is a non-contributory, means-tested and not taxable.

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.

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 announcement of the new Ontario Child Benefit in the 2007 Ontario Budget lead to a restructuring of social assistance rates in August 2008.

3.1.1. Eligibility conditions

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.

Eligible employable persons are actively encouraged to pursue, accept, and retain any reasonable offer of employment or retraining as an initial and continuing condition of eligibility for social assistance. Thus, many jurisdictions offer employment services and training opportunities in combination with financial assistance. Should a recipient choose not to pursue employment or retraining, he/she may be subject to penalties ranging from a

specified reduction in benefits over a prescribed period of time to the full cancellation of benefits.

To ensure that those who successfully leave social assistance for employment are better off working, a number of provinces and territories have introduced earned income or working income supplements.

As a condition of continuing eligibility for assistance, beneficiaries must report immediately any change in the circumstances of their household that would affect their entitlement to assistance. In addition, some jurisdictions require that long-term social assistance clients be reviewed every year, and more frequently for short-term clients.

3.1.2. Benefit amount

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 (not modelled). This section is based on the Ontario Works program.

Monthly Ontario Works rates, in CAD*

Effective October 2017
(basic allowance + maximum shelter allowance)

Family structure	Single	Couple
No children	721 (337+384)	1118 (486+632)
One child aged 0 - 17	986 (354+632)	1172 (486+686)
Two children aged 0 - 17	1040 (354+686)	1230 (486+744)

* Social Assistance was restructured beginning in August 2008 due to the phase-in (year 2) of the Ontario Child Benefit (OCB). OCB consolidated social assistance benefits for children and the OCCS into one benefit paid to all low-income families with children.

The maximum basic needs allowance rates are based on the presence of a spouse, the number of members in the household and the number of children in the household.

In Ontario, when childcare is used, a deduction can be made on the reference income for the calculation of Social Assistance. In 2018, this deduction is set at the actual cost of licensed childcare and a maximum of $600 per month, per child if unlicensed child care is used.

3.1.3. 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.

3.1.4. Means test

Effective September 1, 2013, the earnings exemption allows for up to $200 per month per family member of employment earnings before social assistance benefits are reduced. Employment earnings above $200 reduce social assistance benefits at a rate of 50 percent. This earnings disregard does not take effect until a client household has been in receipt of social assistance for three full months.

3.1.5. Tax treatment

Social assistance benefits are not taxable, but must be declared on a tax filer's income tax return

3.1.6. Interaction with other components of the tax-benefit system

Benefits are counted as income in calculating entitlement to federal and provincial child tax benefits and sales tax credits.

3.1.7. Combining benefit receipt and employment/starting a new job

Full-Time Employment Benefit (FTEB):

Up to $500 FTEB will be provided to help participants who obtain fulltime employment (i.e., 30+ hours per week) with the costs of going to work if they have been on assistance for 3 consecutive months or more.

Extended Employment Health Benefit:

Current Ontario Works health benefits may be provided to participants who exit Ontario Works to employment for a transitional period of up to 6 months or until the participant receives health benefit from his/her employer with the possibility of extension for an additional 6 months in exceptional circumstances. The health benefits include items such as prescribed drugs, cost for dental services and vision items etc.

Other Employment and Employment Assistance Activities Benefit

The Other Employment and Employment Assistance Activities Benefit 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. The benefit provides up to CAD 253 once in every 12-month period for actual reasonable expenses.

3.2. Housing benefit

No regular housing benefit exists but social assistance includes shelter allowance

4. Family benefits

Code in the OECD tax-benefit model: **[FB]**

The Canada Child Benefit is a federal income-tested benefit for families with children.

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.

4.1. Family benefit on the federal level (Canada Child Benefit (CCB))

Code in the OECD tax-benefit model: **[CCB]**

This is a non-contributory benefit, means-tested and not taxable.

In July 2016, the Government of Canada replaced the Canada Child Tax Benefit (CCTB), National Child Benefit Supplement (NCBS) and the Universal Child Care Benefit (UCCB) with a new Canada Child Benefit (CCB).

The Canada Child Benefit application is used to determine eligibility for a number of related provincial and territorial child benefit and credit programs. Provincial/territorial investments are made in a number of areas, including: childcare, earnings supplements and child benefits, early childhood services, and supplementary health benefits.

4.1.1. Eligibility conditions

All low- and middle-income families with children under the age of 18 are eligible for the CCB benefit.

To be eligible for the CCB, an individual must be a resident of Canada for tax purposes and must reside with the qualified dependant and be the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant or be a shared-custody parent.

4.1.2. Benefit amount

The Canada Child Benefit (CCB) is calculated as follows:

A maximum benefit of CAD 6 400 per year (CAD 533.33 per month) for each eligible child under the age of 6 and CAD 5 400 per year (CAD 450.00 per month) for each eligible child aged 6 to 17.

The maximum benefit amount is reduced when the adjusted family net income (AFNI) is over CAD 30 000 at the following rates:

- For families with one eligible child, the reduction is 7% of the amount of AFNI between CAD 30 000 and CAD 65 000, plus 3.2% of the amount of AFNI over CAD 65 000.
- For families with two eligible children, the reduction is 13.5% of the amount of AFNI between CAD 30 000 and CAD 65 000, plus 5.7% of the amount of AFNI over CAD 65 000.
- For families with three eligible children, the reduction is 19% of the amount of AFNI between CAD 30 000 and CAD 65 000, plus 8% of the amount of AFNI over CAD 65 000.
- For families with four or more eligible children, the reduction is 23% of the amount of AFNI between CAD 30 000 and CAD 65 000, plus 9.5% of the amount of AFNI over CAD 65 000.

4.1.3. Benefit duration

Benefits are paid monthly over a 12-month period from July 2017 to June 2018 based on:

- the adjusted family net income from 2016
- the number of eligible children living in the family, and
- the ages of those children.

4.1.4. Changes in the family situation (e.g. a child turning 18 years of age) can affect the calculation of the monthly benefit.Means test

The combined adjusted net income reported by both spouses (that is, adjusted family net income) is used to calculate benefit entitlements.

4.1.5. Tax treatment

Canada Child Benefit payments are not taxable.

4.1.6. Interaction with other components of the tax-benefit system

Amounts received under the new CCB will not be taxable and will not reduce benefits paid under the goods and services tax credit. They will also not be included in income for the purposes of federal income-tested programs delivered outside of the income tax system.

4.1.7. Combining benefit receipt and employment/starting a new job

4.2. Family benefit on the regional level (Ontario Child Benefit (OCB))

Code in the OECD tax-benefit model: **[OCB]**

This is a non-contributory benefit, means-tested and not taxable.

In its 2007 Budget, the Government of Ontario announced the creation of the Ontario Child Benefit (OCB) for low-income families.

4.2.1. Eligibility conditions

A person may qualify for the Ontario Child Benefit (OCB), if they:

- are the primary caregiver of a child under 18;
- are a resident of Ontario;
- have filed and had assessed a previous year's income tax return, and so have their spouse or common-law partner; and
- registered their child for the federal Canada Child Benefit.

The Canada Revenue Agency will automatically review eligibility the applicant's spouse/common law partner's income tax returns from the previous year are assessed and they have registered their child for the Canada Child Benefit.

If eligible, the Ontario Child Benefit is included with Canada Child Benefit monthly payments.

4.2.2. Benefit amount

From July, 2016, to June, 2017, the OCB program provided a maximum annual benefit of CAD 1 356 for each child under age 18. Beginning July 2017 the maximum payment increased to CAD 1 378 per year for each child under age 18.

Ontario Child Benefit (OCB)

	2018 (annual basis)
Maximum per child <18	CAD 1 378
Level of adjusted family net income for tax purposes where benefit starts to be reduced	CAD 21 037
Reduction rate	8%

4.2.3. Benefit duration

Benefits are paid monthly over a 12-month period from July 2017 to June 2018. OCB payments are delivered with the Canada child benefit in a single monthly payment.

4.2.4. Means test

For the purposes of determining how much will be received for the Ontario Child Benefit, adjusted family net income is defined as the net income amount on line 236 of the Canada Revenue Agency personal income tax form for both the applicant and spouse/common-law partner if applicable minus any federal Universal Child Care Benefit payments.

4.2.5. Tax treatment

The benefit is not taxable.

4.2.6. Interaction with other components of the tax-benefit system

Combining benefit receipt and employment/starting a new job

5. Childcare for pre-school children

The **reference date** for the policy rules described in this section is **January 1, 2018.**

Compulsory schooling begins at age six.

5.1. Gross childcare fees

Code in the OECD tax-benefit model: **`[CAcc_cost]`**

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). For children age 4 and under, the median cost of full-

time child care differed by province ranging from $152 a month in Quebec to $677 per child in Ontario. [4]

In the model the rules for Ontario are simulated.

5.1.1. Discounts for part-time usage (not modelled)

5.2. Fee discounts and free provision

5.2.1. Eligibility

Families can benefit from Ontario child care subsidy for children **under 12 years old (**or up to 18 years old if the child has special needs) attending a licensed child care program or a school-aged child enrolled in an approved recreation program or a before- and after-school program operated directly by a school board.

Financial eligibility based on income test and social assistance status; parents must be working, in training, or participating in employment assistance activities, unless the child has special needs.

5.2.2. Amount of discount or free provision

The amount parents pay for child care depends on family's adjusted net income and is determined by municipalities. Full subsidy eligibility is up to family net income of up to $20,000.

5.2.3. Variation by income

Families earning less than $20,000 may be able to get a full subsidy, and families earning between $20,000 and $40,000 will pay 10% of income above $20,000. Families earning over $40,000 will pay $2,000 plus 30% of their income that is over $40,000.

5.3. Child-care benefits for formal centre-based care

Code in the OECD tax-benefit model: **`[cc_benefit]`**

In July 2016, the federal government introduced the Canada Child Benefit (CCB). The CCB replaced the Canada Child Tax Benefit (CCTB), the National Child Benefit Supplement, and the Universal Child Care Benefit with one tax-free and targeted benefit (see Section 4.1).

In Ontario, when childcare is used, a deduction can be made on the reference income for the calculation of Social Assistance. In 2016, this deduction is set at the actual cost of licensed childcare and a maximum of $600 per month, per child if unlicensed child care is used (see Section 3.1.2).

[4] Maire Sinha, Child Care in Canada, Social and Aboriginal Statistics Division at pg. 9. These costs are based on the amount of money spent by parents, but do not consider income tax credits or other financial supports that can reduce out of pocket expenses.

5.3.1. Eligibility

5.3.2. Benefit amount

5.3.3. Benefit duration

5.3.4. Means test

5.3.5. Tax treatment

5.3.6. Interaction with other benefits

5.3.7. Combining benefit receipt and employment/starting a new job

5.4. Child care allowance for children not using child care centers

5.5. Tax concessions for childcare expenditures

The Child Care Expense Deduction is a deduction in the federal tax system that could be claimed by the person supporting the eligible child under 16 years of age (**or** the person with the lower net income if more than one person is supporting the eligible child)

5.5.1. Eligibility

Child care expenses are amounts paid to have someone look after an eligible child so that person or people supporting the eligible child could:

- earn income from employment;
- carry on a business either alone or as an active partner;
- attend school under the conditions identified under Educational program; or
- carry on research or similar work, for which you or the other person received a grant.

Child care expenses could be claimed for services paid to:

- caregivers providing child care services;
- day nursery schools and daycare centres;
- educational institutions, for the part of the fees that relate to child care services;
- day camps and day sports schools where the primary goal of the camp is to care for children (an institution offering a sports study program is not a sports school); or

boarding schools, overnight sports schools, or camps where lodging is involved

5.5.2. Maximum amount

Annual child care expense amount that could be claimed is

- $8,000 for each child under seven years of age at the end of the year;
- $5,000 for each child over six years of age at the end of the year and under 16 years of age at any time during the year; or

$5,000 for each child over 15 years of age throughout the year who has a physical or mental infirmity and is dependent on the taxpayer, or the taxpayer's spouse or common-law partner

5.5.3. Variation by income

The annual child care expense amount for each child is determined with reference to the child's age, physical and mental condition.

A taxpayer's claim for child care expenses for a year cannot exceed two-thirds of the taxpayer's earned income for that year.

5.5.4. Impact on overall income tax calculation

The annual child care expense amounts are deducted as indicated in the maximum eligible amounts at 5.5.2.

6. In-work benefits

Code in the OECD tax-benefit model: **[IW]**

In 2007 the Government of Canada introduced an earned-income supplement, the Working Income Tax Benefit (WITB), to help make work pay for low- and modest-income Canadians.

A number of provinces and territories also implemented programs which provide earned-income supplements. 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.

6.1. Working Income Tax Benefit (WITB)

This is a non-contributory benefit, not means-tested and not taxable.

6.1.1. Eligibility conditions

6.1.2. Benefit amount

The Working Income Tax Benefit (WITB) is a refundable tax credit, which provides up to CAD 1 059 for single individuals and CAD 1 922 for couples and families with children in 2018. The benefit is phased in at a rate of 25% on working income greater than CAD 3 000.

For single individuals without children, the maximum benefit is paid if working income is between CAD 7 236 and CAD 12 016 in 2018. For single individuals, the WITB is

reduced at 15% on net income greater than CAD 12 016. No WITB is paid when net income exceeds CAD 19 076.

For families, the maximum benefit is paid if working income is between CAD 10 688 and CAD 16 593 in 2018. For families, the WITB is reduced at 15% on net income greater than CAD 16 593. No WITB is paid when family net income exceeds CAD 29 407.

6.1.3. Benefit duration

Eligible individuals and families have the option to apply for WITB advance payments. The WITB advance payments correspond to a maximum of 50% of the WITB refundable tax credit (including the disability supplement, if applicable) the individual or family expect to claim on their income tax return. Any WITB that they are entitled to and did not receive as advance payments are paid when the income tax return is assessed. The Working Income Tax Benefit advanced payments are generally issued on the 5th day of each quarter from April of one year to January of the next year.

6.1.4. Means test

Not means-tested

6.1.5. Tax treatment

The benefit is not taxable

6.1.6. Interaction with other components of the tax-benefit system

7. Social security contributions and payroll taxes (2017)-

*7.1. **Social security contributions***

7.1.1. Contributions payable by employees and benefit recipients

Pensions

Generally, all employees are eligible for coverage under the Canada Pension Plan (Québec Pension Plan in the province of Québec). For 2017, all employees are required to contribute to the Canada Pension Plan at a rate of 4.95% of income up to a maximum contribution of CAD 2 564.10 (the contribution rate is 5.40% of income for the Québec Pension Plan up to a maximum contribution of CAD 2 797.20). Income subject to contributions is earnings (wages and salaries) less a CAD 3 500 basic exemption. The maximum contribution of CAD 2 564.10 is reached at an earnings level of CAD 55 300 i.e. (CAD 55 300-CAD 3 500) x 0.0495 = CAD 2 564.10. For employees, each contribution to the CPP or QPP gives rise to a tax credit equal to 15% of the contributed amount. Employers are also required to contribute to the Canada Pension Plan on behalf of their employees at the same rate and can deduct their contributions from taxable income (refer § 2.21).

Not modelled : 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 9.90% of earnings up to a maximum of CAD 5 128.20 (10.80% of earnings up to a maximum of

CAD 5 594.40 in Quebec). The self-employed can deduct the employer portion of their contribution from income, equal to 50% of the total contribution or CAD 2 264.10 (2 797.20 in Quebec). The remaining 50%, representing the employee portion, is then claimed as a tax credit at 15%.

Sickness

There is no national sickness benefit plan administered by the federal government. However, all provinces have provincially-administered health care insurance plans. Three provinces, Quebec, Ontario, and British Columbia, levy health insurance premiums on individuals 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 2017.

The Ontario Health Premium

Taxable Income	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 200 000
Over CAD 200 600	900	

Unemployment

In general, all employees are eligible for Employment Insurance. Eligibility to receive benefits is determined by insurable hours worked (with a minimum entry threshold of 420 to 700 hours, depending on region and the unemployment rate at the time the claim for benefits starts). For 2017, employees outside Quebec are required to contribute at the rate of 1.63% of insurable earnings. Insurable earnings are earnings (wages and salaries) up to a maximum of CAD 51 300 per year. The maximum employee contribution is therefore

CAD 836.19 per year. Employment insurance contributions give rise to a tax credit equal to 15% of the amount contributed. Employers are also required to contribute to the plan.

Quebec residents contribute to Employment Insurance at a rate of 1.27%; the same earnings ceiling applies. They also contribute to the Quebec Parental Insurance Plan at a rate of 0.548% of insurable earnings; maximum insurance earnings for 2017 are CAD 72 500. For a Quebec resident, the maximum employee contribution (Employment Insurance plus Quebec Parental Insurance Plan) is CAD 1 177.06.

7.1.2. Contributions payable by employers

Pensions

Employers are required to contribute to the Canada Pension Plan on behalf of their employees an amount equal to their employees' contributions. Thus, employers also contribute at the rate of 4.95% of earnings (less the CAD 3 500 earnings exemption) to a maximum of CAD 2 564.10. For the Quebec Pension Plan, the contribution rate is 5.40% of earnings, to a maximum of CAD 2 797.20.

Sickness

There is no national sickness benefit plan administered by the federal government. However, all provinces have provincially-administered health care insurance plans. Three provinces levy a special tax on employer payrolls to finance health services (Québec and Ontario) or health services and education (Manitoba). These payroll taxes are deductible from the employer’s income subject to tax. In the case of the province of Ontario, employers pay a Employer Health Tax on the value of their payrol, tax rates varying from 0.98% on Ontario payroll less than CAD 200 000, up to 1.95% for payroll that exceeds CAD 400 000. Certain employers are eligible for a higher exemption of CAD 450 000.

Unemployment

Employers are required to contribute to the employment insurance scheme. The general employer contribution is 1.4 times the employee contribution, that is, 2.63% of insurable earnings (outside Quebec). Premiums are adjusted for employers who provide sick pay superior to payments provided under the employment insurance regime. All employment insurance contributions are deductible from the employer’s income subject to tax.

Work injury

There is no national work injury benefit plan administered by the federal government. However, employers are required to contribute to a provincial workers’ compensation plan which pays benefits to workers (or their families in case of death) for work-related illness or injury. The employer contribution rates, which vary by industry and province, are related to industry experience of work-related illness and injury. Premiums are deductible from the employer’s income subject to tax. In the case of Ontario, employers broadly corresponding to industry Sectors B-N inclusive pay, on average, 2.79% of the wages paid to each employee to a maximum of CAD 88 500.

7.2. Payroll taxes

8. Taxes (2017)

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.

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).

8.1. Federal personal income tax

8.1.1. Tax allowances

8.1.2. Tax base

8.1.3. Income tax schedule (central government income tax)

Code in the OECD tax-benefit model: **`[F_INCTAX_s; F_INCTAX_p]`**

2015 Federal Income Tax Rates

Taxable Income (CAD)	Rate (%)
0 – 45 916	15
45 916 – 91 831	20.5
91 831 – 142 353	26
142 353- 202 800	29
202 800 and over	33

8.1.4. Tax credits

- *Basic personal amount:* All taxpayers qualify for a basic personal tax credit of CAD 1 745.25 in 2017.
- *Credit for Spouse or Eligible Dependant*: A taxpayer supporting a spouse or other eligible dependant receives a tax credit of CAD 1 745.25 which is reduced by 15 cents for each dollar of the dependant's income.
- The Goods and Services Tax Credit provides a relief of CAD 284 for each adult 19 years of age or older and CAD 147 for each dependent child under the age of 19. Single tax filers without children and with an employment income higher than CAD 9 205 receive an additional CAD 149 that is phased in at a rate of 2%. Single tax filers with children receive an additional CAD 147 that is not subject to phase-in. The credit received for the first dependent child of a single parent is also increased from CAD 149 to CAD 284. The total amount is reduced at a rate

of five percent of net family income over CAD 36 959. The amount is paid directly to families.[5]

- *Social security contributions:* Taxpayers are entitled to claim 15% of their contributions to the Canada or Quebec Pension Plans (to a maximum credit of CAD 2 564.10 for the Canada Pension Plan and to a maximum credit of CAD 2 797.20 for the Quebec Pension Plan) and their Employment Insurance premiums (to a maximum credit of CAD 836.19 outside Quebec; the Employment Insurance premium rate is lower for Quebec residents, who also pay into the Quebec Parental Insurance Plan; the maximum combined credit for a Quebec resident is CAD 1 177.06).
- *Working Income Tax Benefit (WITB*) The WITB provides a non-wastable tax credit equal to 25% of each dollar of earned income in excess of CAD 3 000 to a maximum credit of CAD 1 043 for single individuals without dependents and CAD 1 894 for families (couples and single parents). The credit is reduced by 15% of net family income in excess of CAD 11 838 for single individuals and CAD 16 348 for families. This is the default national design; provinces may choose to propose jurisdiction-specific changes to this design, subject to certain principles.
- *Canada Employment Tax Credit:* A tax credit of up to CAD 176. on employment income.
- *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 least of:
    1. the expenses incurred for the care of a child;
    2. two-thirds of the taxpayer's earned income; and
    3. CAD 8 000 for each child who is under age seven, and CAD 5 000 per child between seven and sixteen years of age. The amount for a disabled child under seventeen is CAD 11 000.

8.2. State and local income taxes

Code in the OECD tax-benefit model: **`[LOCTAX_s; LOCTAX_p]`**

All provinces and territories levy their own personal income taxes. All, with the exception of Quebec, have a tax collection agreement with the federal government, and thus use the federal definition of taxable income. They are free to determine their own tax brackets, rates and credits. Quebec collects its own personal income tax and is free to determine all of the tax parameters, including taxable income. In practice, its definition of taxable income is similar to the federal definition.

Tax regime selected for this study

[5] The payments that relate to the 2015 tax year are payable between July 2016 and June 2017.

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.

8.2.1. Tax allowances

8.2.2. Tax base

8.2.3. Tax Schedule

Income Bracket	Rate (%)
CAD 0 to CAD 42 201	5.05
CAD 42 201 to CAD 84 404	9.15
CAD 84 404 to CAD 150 000	11.16
CAD 150 000 to CAD 220 000	12.16
Over CAD 220 000	13.16

Surtax

Provincial tax after accounting for wastable credits	Surtax Rate
Amounts Exceeding CAD 4 556	20% of the excess amount
Amounts Exceeding CAD 5 831	36% of the excess amount

8.2.4. Tax credits

Wastable tax credits

- A basic tax credit of CAD 513.64
- A maximum credit of CAD 436.12 for a dependant spouse or eligible dependant that is withdrawn as the income of the spouse or eligible dependant exceeds CAD 864 and is completely withdrawn when the income of the spouse is at least CAD 9 500.
- 5.05% of contributions made to the Canada Pension Plan and of Employment Insurance premiums.

Non-wastable tax credits

- Ontario has a Sales Tax Credit that provides a relief of up to CAD 296 for each adult and each child. It is reduced by 4% of adjusted family net income over CAD 22 746 for single people and over CAD 28 944 for families. The amount is paid directly to families.

Tax Reduction

- An earner is entitled to claim a tax reduction where the initial entitlement is equal to CAD 235 plus CAD 434 for each dependent child under the age of 19. Where someone has a spouse, only the spouse with the higher net income can claim the dependent child tax reduction. 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 or negative, the reduction is equal to zero).

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Canada that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Ontario Disability Support Program (ODSP)

The Ontario Disability Support Program (ODSP) is 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.

Family structure	Single	Couple (1 spouse disabled)	Couple (Both spouses disabled)
No children	1151 (662+489)	1723 (954+769)	2090 (1321+769)
One child aged 0 - 12	1574 (805+769)	1787 (954+833)	2154 (1321+833)
Two children aged 0 - 12	1638 (805+833)	1858 (954+904)	2225 (1321+904)

ODSP provides a disability related employment expense deduction up to a maximum of $300 per month in addition to the earnings exemptions amounts provided under Ontario Works.

Federal Income Support for Parents of Murdered or Missing Children (PMMC)

On January 1, 2013, the Federal Income Support for Parents of Murdered or Missing Children (PMMC) grant became operational. This new initiative provides a taxable payment of $350 per week to parents of children under the age of 18 who are missing or are deceased as a result of a probable Criminal Code offence, for a period of up to 35 weeks.

Child Disability Benefit (CDB)

The child disability benefit (CDB) is a monthly benefit included in the CCB to provide financial assistance to qualified families caring for children who have a severe and prolonged impairment in physical or mental functions. Families with children under 18 years of age who qualify for the disability tax credit (DTC) are eligible to receive a CDB.

For the 2017-2018 payment year, the CDB provides up to CAD 2 730 per year (227.50 per month) for each child eligible for the DTC. The CDB is reduced when adjusted family net income (AFNI) is more than CAD 65 000. The reduction is calculated as follows:

- For families with one child eligible for the DTC, the reduction is 3.2% of the amount of AFNI over CAD 65 000.
- For families with two or more children eligible for the DTC, the reduction is 5.7% of the amount of AFNI over CAD 65 000.

Working Income Tax Benefit disability supplement

The WITB includes a supplement of up to CAD 529 for persons with disabilities in 2018. For single individuals, the WITB disability supplement is reduced at 15% on net income greater than CAD 19 073. For families, the WITB disability supplement is reduced at 15% on net income greater than CAD 29 410.