

Child Benefits Levels in 2003 and Beyond: Australia, Canada, the UK and the US

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Michael Mendelson

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The Caledon Institute of Social Policy
1600 Scott Street, Suite 620
Ottawa, Ontario, Canada
K1Y 4N7
Phone: (613) 729-3340
Fax: (613) 729-3896
E-mail: caledon@caledoninst.org
Website: *www.caledoninst.org*

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Introduction

Australia, Canada, the UK and the US all have programs providing cash benefits specifically for families with children. Over the last several years, Australia, Canada and the US have administered these programs through the income tax system. In July 2003, the UK will implement a new system of child-related benefits, also administered through the tax system. The child benefit programs in these four countries are similar enough to permit detailed comparisons of their structures and their rates, which is the purpose of this paper.

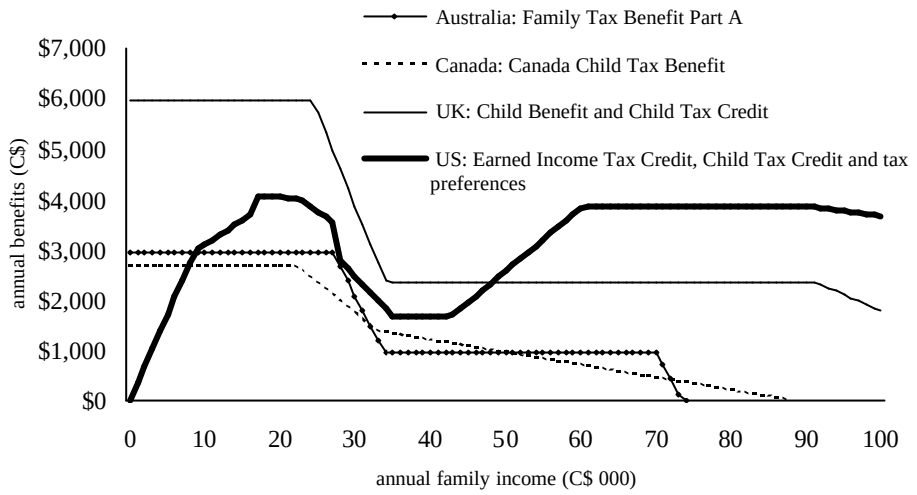
The programs analyzed in this paper are listed below and are described in detail in *Benefits for Children: A Four Country Study* [Mendelson and Battle 2001]:

- Australia – Family Tax Benefit Parts A and B (as of 2003)
- Canada – Canada Child Tax Benefit (as of July 2003 and as planned for July 2007)
- UK – Child Tax Credit and universal Child Benefit (as planned for July 2003 introduction)
- US – Earned Income Tax Credit, Child Tax Credit and federal tax preferences for families with children (as of 2003). By 'tax preferences for children,' we mean the reduction in income tax payable to a family as a consequence of having dependent children. There are no similar tax preferences remaining in the tax systems of the other three countries.

All cash benefits in the following analysis are presented in 2003 Canadian dollars, unless otherwise stated. The Organization for Economic Co-operation and Development's Purchasing Power Parity rates have been used to convert other currencies to Canadian dollars. Purchasing Power Parity rates are based on the cost in each country of an equivalent basket of goods and services, so these rates are superior to currency exchange rates in analyzing the relative support in each country for families with children. The Purchasing Power Parity rates used in this paper are: $1.83 Canadian is equal to £1 UK, $1.20 Canadian is equal to $1 US, and $0.88 Canadian is equal to $1 Australian [Organization for Economic Co-operation and Development 2003].

This paper analyzes only one component of the overall tax and income security system – child-related cash benefits – albeit what most observers would consider an exceedingly important component. So we cannot from the analysis presented here draw conclusions about each country's relative generosity in its overall treatment of families with children. Some examples of programs not included here are the Working Tax Credit in the UK, housing benefits in both Australia and the UK, in-kind benefits such as Food Stamps in the US, and early childhood education services in Canada. Further, for working families with low and modest incomes, differences in income taxes, payroll taxes and benefits such as health insurance (or their absence) also affect their living standards. In short, this paper is about the child benefits element of the tax and income security systems in the four countries, not the whole system.

Figure 1 Child benefits, one parent with one child under 5



Lone parent families with one child

Figure 1 shows the comparative level and structure of child benefits in the four countries, for a lone parent family with one child under age 5. For families with little or no earnings, the Canada Child Tax Benefit pays less than half of the UK's child benefits but only $240 less than Australia's. Overall, Canadian and Australian child benefits are quite similar. The US pays no child benefits at all to families without earnings.

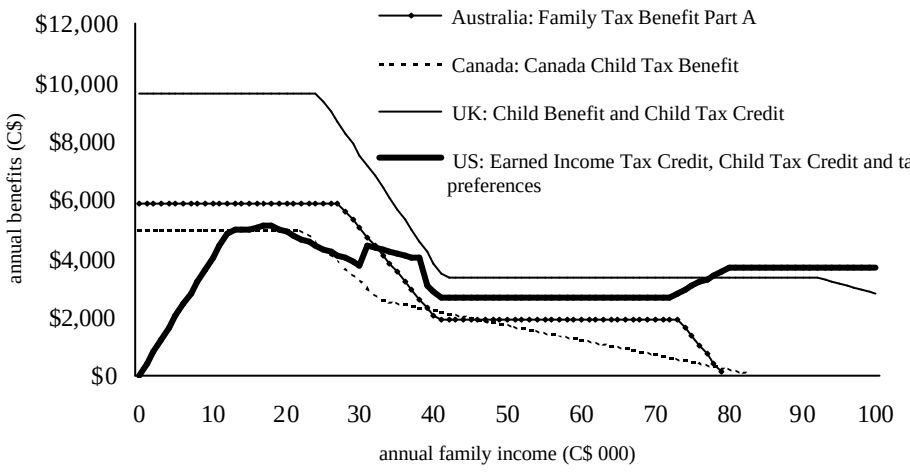
In 2000, the latest year for which data are available, median income for lone-parent families in Canada was $25,400 [Statistics Canada 2002]. Median income varies according to the number of children in a family, and median income also will have changed somewhat by 2003, but we can treat an income range of $24,000 to $26,000 as an approximation of middle income for one-parent families in Canada. Canada has the lowest child benefits at middle-income levels. Between $24,000 and $26,000 income, child benefits for one-parent families with one child were $2,915 in Australia, $2,476 to $2,232 in Canada, $5,965 to $5,327 in the UK, and $3,852 to $3,633 in the US.

Two-parent families with two children

Figure 2 shows the level and structure of benefits for a two-parent family with two children. For families with little or no earnings, Canada pays much lower benefits than the UK and a little lower than Australia. Canadian child benefits are about one-half of those in the UK and $910 less than Australian benefits for the same type of family.

In 2000, Canadian median income for husband-wife families was $56,700. At an income range of $56,000 to $58,000, child benefits for two-child families were $1,874 in Australia, $1,378 to $1,278 in Canada, $3,320 in the UK, and $2,637 in the US. Again, at middle-income levels, Canada's benefits are lowest among the four countries. At higher incomes – roughly 1.5 times median income – both Australia and Canada phase child benefits out entirely. In contrast, the UK and the US maintain significant benefits to upper-income families– the former through the universal Child Benefit and the latter through the Child Tax Credit and tax preferences for families with children embedded in the income tax system.

Figure 2 Child benefits, two parents with one child under 5 and one child 5-15



Canada's spousal equivalent tax credit and Australia's Family Tax Benefit Part B

To compare benefits *within* the child benefit system, various tax and income security programs must be counted as either part or not part of that system. In Canada, the spousal equivalent non-refundable tax credit allows taxpaying lone parent families to claim a tax break for their first child equal to that for a dependent spouse. In 2003 the spousal equivalent tax credit is worth a maximum of $1,054 in federal income tax savings. It might be argued that the spousal equivalent tax credit should be considered a child benefit because it is available to single adults only if they are caring for a child; however against this view is the fact that the same amount of tax savings is available to a taxpaying one-income couple without children.

In Australia, the Family Tax Benefit Part B is similar to the Canadian spousal equivalent tax credit. The Family Tax Benefit Part B is available to all families with a single earner. The

Family Tax Benefit Part B pays higher benefits for families with children than those without. As well, it is fully refundable. The difference between Part B benefits for a family with one child under age 5 and the same-income couple with no children is $1,294. This difference in Family Tax Benefit Part B for families with children might be seen as a child-related benefit because it is available only to families with children.

Figure 3 Child benefits, one parent and one child under 5, Canada and Australia, including Canada's spousal equivalent tax credit and Australia's Family Tax Benefit Part B

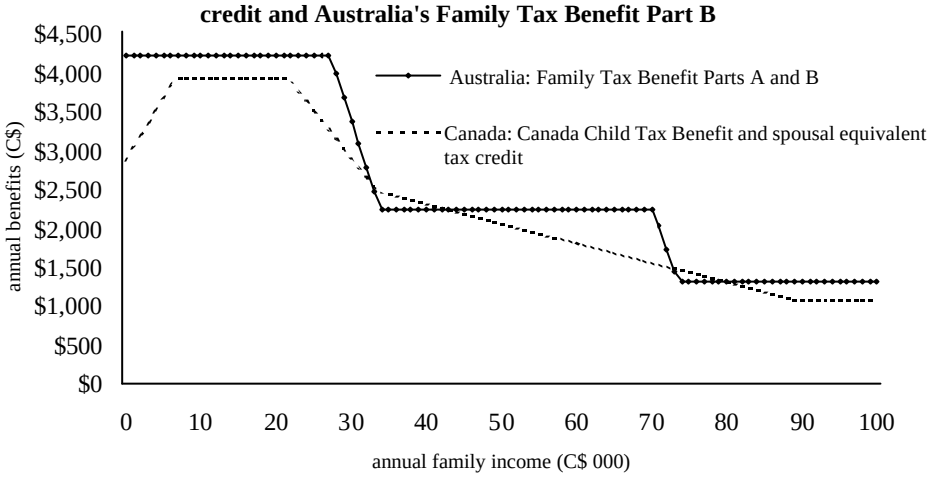


Figure 3 compares the value of Canadian child benefits to those in Australia with both the spousal equivalent and the 'children's portion' of Australia's Family Tax Benefit Part B *included*. In this case, the Canadian and Australian systems are similar, except at the very lowest income where Canadian lone parent families do not benefit from the spousal equivalent tax credit because, unlike its Australian counterpart, the Canadian tax credit is non-refundable and so excludes families whose income is too low to pay income tax.

In general, if we were to include both the spousal equivalent tax credit and the Family Tax Benefit Part B in the analysis presented here, Canada's and Australia's relative position would remain largely unaffected, except at very low incomes.

US tax preferences for families with children

If we look at the overall benefit *structure* in Figure 1, as opposed to levels of benefit, Australia, Canada and the UK all have structures that appear planned and sensible (i.e., higher

payments for families with lower incomes and relatively 'smooth' benefits as income rises or falls). The US, in contrast, has a decidedly odd-looking benefit structure that results from two factors. First, the Earned Income Tax Credit is consciously designed not to pay benefits to families with no earnings. It phases in as income is earned and then, after a short plateau, phases out again as income increases. However, soon after the Earned Income Tax Credit phases out to zero, the effect of income tax preferences for families with children kicks in. 'Tax preferences' are the income tax savings that many US families enjoy as a consequence of having children.

Figure 4 Child benefits in the US, one parent with one child under 5, with and without tax preferences

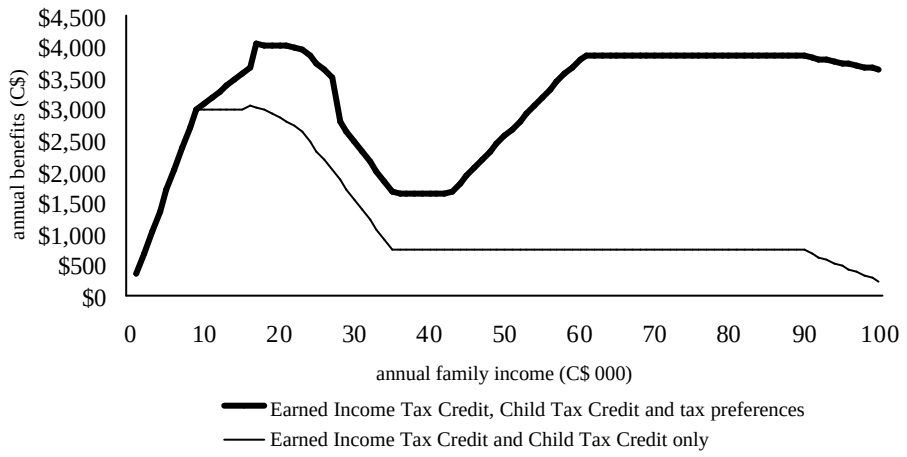


Figure 4 shows the value of the US tax preferences (federal income tax only) by displaying US child benefits with and without tax preferences.

Australia, Canada and the UK have all, in the past, had tax preferences within their tax systems that are similar to those currently available in the US, but these were converted to tax credits many years ago to provide what was seen as a more reasonable and progressive distribution of benefits. In Canada, the child tax exemption was converted to a non-refundable credit in 1988 and in 1993 replaced (along with family allowances and the refundable child tax credit) by the refundable, income-tested Child Tax Benefit.

In Australia, Canada and the UK the conversion of regressive tax preferences to progressive tax credits was accompanied by substantive policy debate and advocacy, finally resulting in improved benefits for those with lower incomes. This history is surprisingly different from the experience to date in the US: To the limited extent that there is any discussion at all of child benefits in US policy circles, tax preferences are rarely recognized as part of the total resources devoted to families with children, so the benefit structure as a whole remains irrational and largely unacknowledged. But recognized or not, the US pays the highest child

benefits to the working poor and to higher-income families, while those with moderate and average incomes and the very poor get much smaller payments.

Canadian child benefits in 2007

In its most recent budget, for 2003, Ottawa announced a schedule of increases, plus continued full indexing, for the Canada Child Tax Benefit up to 2007. For a low-income lone parent family with one child under 5, Canada's 2007 maximum benefit will be substantially higher in real terms than it is today: $3,249 (in 2003 dollars) compared to today's level of $2,672. For a two-parent family with two children, the Canada Child Tax Benefit will climb to $6,053 (in 2003 dollars) by July 2007 compared to today's level of $4,910.

Figures 5 and 6 show Canadian child benefits in 2007, converted back to 2003 prices, compared to 2003 benefit levels in the other three countries, for these two types of families. Despite the sizeable increase in the Canada Child Tax Benefit, at zero earnings benefits of $3,249 in 2007 for a lone parent family with one child still will remain substantially less than the UK's $5,965, though $300 more than Australia's current level of benefits for this family. Similarly, at zero earnings, Canadian child benefits of $6,053 in 2007 for the two-parent two-child family will remain less than the UK's $9,623, but will be $224 higher than benefits in Australia. US child benefits are zero at zero earnings.

At median income for lone-parent families of $24,000 to $26,000, Canadian child benefits for a single child in 2007 will be $2,758 to $2,536 (in 2003 dollars) compared to $2,915 in Australia, $5,965 to $5,327 in the UK, and $3,852 to $3,633 in the US. At median income for two-parent families of about $56,000 to $58,000, Canadian benefits for two children in 2007 will be $1,741 to $1,661(in 2003 dollars) compared to $1,874 in Australia, $3,320 in the UK, and $2,637 in the US. Thus at middle income levels, Canada's child benefits will remain substantially less than those in the UK and in the US (although that is to some extent an artefact of just where the middle income range happens to fall) and just a little less than those in Australia.

Figure 5 Child benefits, one parent with one child under 5, planned benefits for Canada in 2007 (in constant $ 2003)

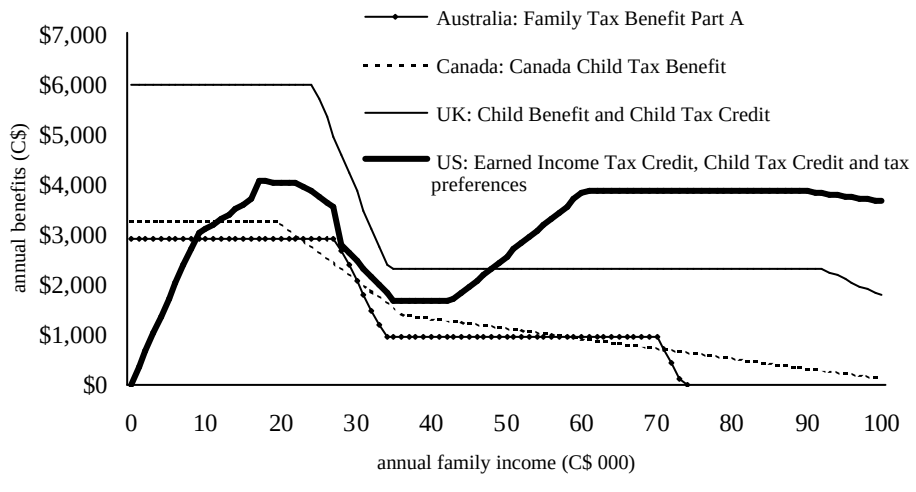
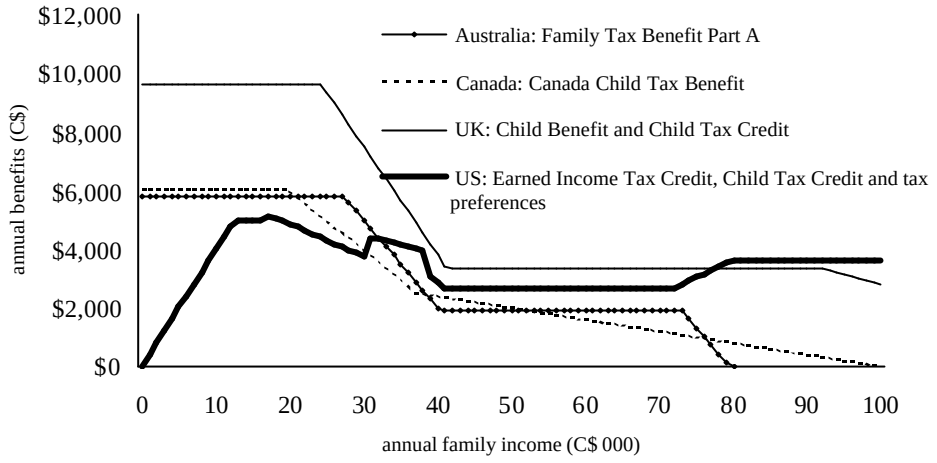


Figure 6 Child benefits, two parents with one child under 5 and one child 5-15, planned benefits for Canada in 2007 (in constant $ 2003)



Canadian child benefits at UK levels

Child benefits in the UK are substantially higher than those in Canada. Should Canada aspire to emulate the British child benefit system?

It is possible to adjust the parameters of the Canada Child Tax benefit so that its payments are nearly identical to the UK's child benefit system. The differences between the Canadian and British systems can then be quantified to assist us in understanding the implications for Canada should it adopt the UK design – and to ask whether this would be desirable. Table 1 sets out the parameters of the Canada Child Tax benefit as it will be in 2007 (expressed in constant 2003 dollars) and the parameters Canada would have to adopt to simulate the current UK system. Figures 7 and 8 show UK child benefits and Canada's simulated benefits within the parameters described in Table 1.

It may seem surprising that the Canada Child Tax Benefit can simulate so precisely the UK system, simply by adjusting the value of existing variables and without changing any of the basic structure (at least for these two representative kinds of families). The same type of simulation also could be done for the Australian system, which Canada's system already closely resembles in any case. This simulation capacity demonstrates the core similarity between the structures of the child benefit systems in Australia, Canada and the UK, despite the very different ways in which the systems are viewed internally. In contrast, it would not be possible to simulate the US system, with or without tax preferences, unless the structure of the Canadian system were to be radically altered.

Table 1 Changes in Canadian child benefit system needed to simulate UK child benefits

	planned 2007 level (in $ 2003)	simulation of the UK system	change needed to simulate UK
National Child Benefit Supplement			
maximum benefit for 1st child	1,833	3,500	1,667
maximum benefit for 2nd child	1,622	2,300	678
net income where benefits start to be reduced	19,580	23,500	3,920
rate at which benefit is reduced for 1-child family	11.1%	33%	22%
rate at which benefit is reduced for 2-child family	19.9%	33%	13%
Base Canada Child Tax Benefit			
maximum benefit for 1st child	1,182	2,200	1,018
maximum benefit for 2nd child	1,182	1,200	18
net income where benefits start to be reduced	34,564	34,564	0
rate at which benefit is reduced for 1-child family	2%	1%	-1%
rate at which benefit is reduced for 2-child family	4%	2%	-2%
child under 7 with no child care expense deduction	234	234	0

This simulation also should be viewed as limited, however, in that it shows only the benefit structure and not the delivery mechanisms or other rules governing the design of the programs. For example, the UK pays its universal child benefits to children aged 16 and 17 only if they are in full-time attendance at an educational institute. Canada pays its child benefits on behalf of all eligible children until they turn 18 years of age. Delivery is also substantially different, with in-year benefit adjustments for income change and end-of-year reconciliation in both the UK and Australia (see Whiteford, Mendelson and Millar 2003). Nevertheless, at a basic level, the systems in the three countries are a variation on a single theme – a maximum benefit for those with little or no earnings, a gradual reduction of the benefit beginning between $20,000 and $30,000 income, followed by a diminishing benefit for families up to very high income levels. As explained above, the universal UK child benefit continues into the highest income ranges, while both Canada and Australia phase their benefits out at high income levels. But practically speaking, there are very few families at upper-income levels, so the 'universal' nature of the UK child benefit is largely symbolic – both for the government that pays it and for the families that receive it.

Turning to the specifics of the UK simulation, Table 1 shows that the Canada Child Tax Benefit for the first child in a family would have to virtually double if Canadian payments were to equal those of the UK, though the increase needed to achieve parity for the second child would be relatively modest. This benefit structure would be rationally defensible only if the incremental costs to a family of the first child are much higher than those of the second and subsequent children. Further theoretical and empirical work is required to test whether this is an accurate assumption about family costs; however, until then, it is useful to know that another country has reflected a different choice as to the distribution of benefits by order of children Provinces and territories in Canada have the right to request variation in the federal Canada Child Tax Credit by order of children in families but no province has made use of this provision (albeit Alberta varies the amount by children's age), presumably reflecting some degree of satisfaction among provinces with the current Canadian distribution of benefits by family size.

Figure 7 Child benefits, lone parent with one child under 5, simulation of UK child benefits in Canada's child benefit system

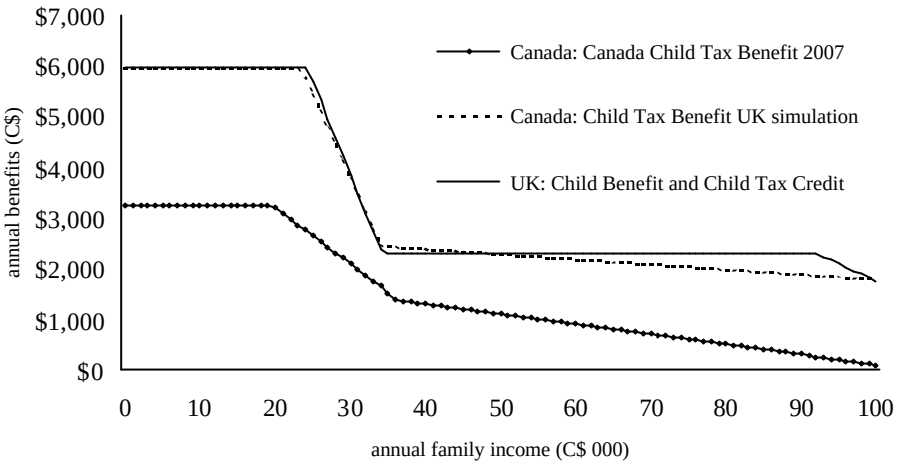
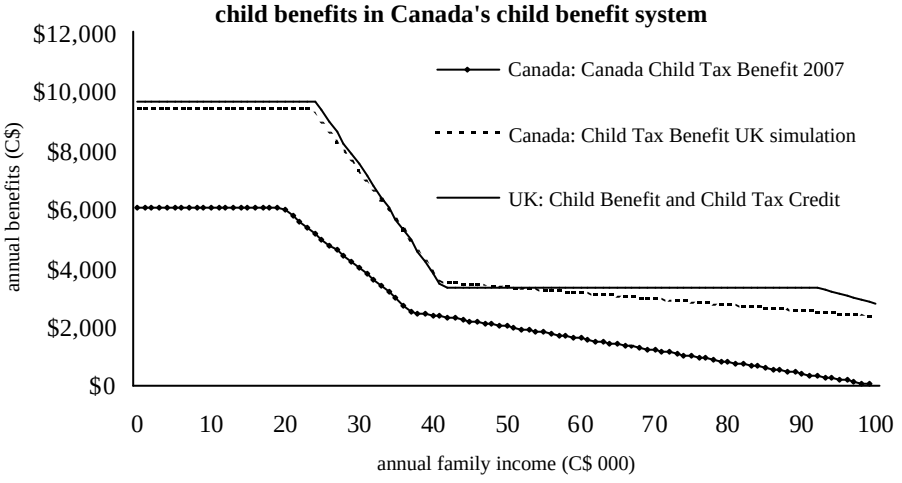


Figure 8 Child benefits, two parents with one child under 5 and one child 5-15, simulation of UK child benefits in Canada's child benefit system



The level of income at which the 'first tier' supplement would begin to be reduced would have to be raised slightly to simulate the UK system but, more substantively, Table 1 shows that much higher reduction rates are applied to the first tier in the UK than in Canada. Simulating the UK system would require tripling Canada's reduction rate for single-child families from 11.1 percent to 33 percent, and raising the reduction rate for two-child families by 13.1 percentage points from 19.9 percent to 33 percent.

The UK has used relatively high reduction rates as a way of minimizing the overall cost to government of its more generous child benefit levels. Canada has been going in the opposite direction – attempting to lower its reduction rates. Canada's assumption has been that high

reduction rates have a negative effect on work incentives and may also be unfair in entailing large differences in benefits for small differences in income. These contradictory directions in Canada and the UK may reflect differing social values, but to the extent that they are viewed as rational social policy designed to optimize results while minimizing costs, they cannot both be correct. This difference between the two countries could provide a rich source of information for both countries in testing their implicit assumptions and improving their programs.

Conclusion

This paper has presented the most up-to-date comparisons of child benefits in Australia, Canada, the UK and the US. These countries' programs are similar enough to permit reasonable comparisons of one to the other. Indeed, for Canada, the UK and Australia, the basic designs are so similar that the programs can be made more or less identical just by adjusting benefit levels, reduction rates and income levels at which reduction rates begin.

We have found that Canada currently has the least generous benefits among the four countries at almost all income levels, except for families with little or no earnings. In this latter instance, the US is lower than Canada, as the US has consciously set up its system so as to pay nothing to those with no earnings. Even after the implementation of planned increases up to 2007, Canada's child benefits will remain substantially below those in the UK, but will be a little higher than Australia's current benefits.

These findings must be qualified by the recognition that the total tax and social security systems of the four countries have not been reviewed here. In other words, this paper examines only one part of a larger system. Nevertheless, in designing Canada's child benefit system in the future, it is useful to understand the directions and decisions taken by other countries and to use their experience to challenge and test our own assumptions.

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