

What you need to know about the Universal Child Care Benefit ^[1]

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EXCERPTS

Starting on July 20, parents across Canada with children under 18 can expect a nice, fat cheque in their mailboxes (or directly deposited into their bank accounts, if they've chosen that option). With the increase to the Universal Child Care Benefit (UCCB), families with kids aged five and under can expect \$160 per month per child (up from \$100) while those with children aged six to 17 will also now receive \$60 per month for each child.

But the reason this month's payments are such big news is because they will include the extra \$60 per child retroactively to Jan. 1, 2015. That means parents with a five-year-old can expect \$520, and if they have a seven-year-old, too, they'll get another \$420. That's a good chunk of change.

It can't be that easy, can it? How do parents qualify? And why is this windfall coming now? To help answer those and other questions, we turned to Jennifer Robson, assistant professor at Carleton University's Arthur Kroeger College.

So say I have two kids: Mikey, who is five, and Molly, who is seven. Why am I getting this money?

Robson: That depends on whom you ask. Let's go back.

Even a decade ago, you'd probably be getting something for Mikey and Molly. What you got depended on your total family income and how old Mikey and Molly were. Stephen Harper comes into government in 2006, leaves part of the old child-benefit system in place, but cancels the daycare agreements with the provinces and cancels what used to be the young child supplement, and creates the UCCB. You got a flat amount—100 bucks a month for every kid who is aged under six. Don't care how much you make, don't care whether you use daycare, just a flat amount per kid. So Molly is seven; you wouldn't have been getting anything from the UCCB for her.

But, back in October, the government announced it was going to change the UCCB, so you would get a monthly amount of \$60 for Molly. And for Mikey who's under six, it's going up to \$160 per month.

That means more money in my pocket, right?

More money—sort of. Depending on your family circumstances, depending on your income, it's possible this is not leaving you that much better off than you would have been, say, 10 years ago.

What? I could have been getting more money with the day-care and young-child supplement?

Possibly. That depends on your family circumstances. But why are you getting this? Because, back in October, the government announced it wanted to make some changes to its universal child-care benefit—not the entire child-care system and apparatus, but the one associated with their brand. (Whisper: And there's an election coming up.)

Do I have to register for the payments?

You have to tell the government Mike and Molly exist. You have to show you are eligible to receive this money. If you've previously been receiving child benefits, you should already be in the system. You can also contact CRA proactively, just to check.

So who gets the money?

Typically, the cheque goes to the person identified as the primary caregiver. So, in a lot of circumstances, that ends up being the default of the wife. However, it is also typically the person with the lower household income. You can work it out so it goes to the lower-income parent.

With the UCCB, in particular, that's a nice thing to do, so you don't have to pay as much tax on it later on—which people forget. This is a taxable benefit. You're going to get this money, but you're going to have to pay tax on it later.

Is it possible, if I make just under the maximum for one tax bracket, this money could push me over into the next tax bracket?

It is possible. I haven't seen any good estimates on the frequency with which that happens, but yeah, it's possible this tips you over the scales, not only in terms of your tax liability, but if you're really low-tax income and you've applied for subsidized housing or a child-care subsidy; all this money counts. In some cases, this could push people above the threshold for those benefits.

And if I'm octo-dad? Is there a limit to how much coin I can get?

I've never seen anything in the rules that [says there's a limit]. What were those shows Will & Kate plus Eight, or 19 Kids and Counting? They would get a flat amount per kid. But there aren't many families like that these days.

Every time I have a baby, do I have to go on the registration website and say "had another kid"?

Yep, you do. Service Canada, for a couple years, has tried to do its best to coordinate when you register your birth; you have to tell governments you had kids, and they issue you paperwork. You can also inform CRA: "Hey! Had a kid. Sign me up for the new benefits." This all works pretty well if you have a secure Internet connection.

And if my Internet is spotty?

Good luck. There are many forms and you have to go stand in lines. It's a pain. I don't know if you've had to visit a Service Canada office in the last little while. The lineups are long. If I'm a new parent and I don't have a secure Internet connection to sign up for these benefits . . . what a pain in the ass to drag my newborn down to Service Canada, take a ticket and wait in line for hours.

Okay, now some terrible news. My wife and I split up just, like, 45 seconds ago.

I'm sorry hear that.

We've decided to do shared custody. But for the UCCB, is my ex going to get my money?

That's a great question. Typically, CRA will ask you to provide some kind of documentation that will be in your separation agreement. You've got an agreement for how much time the kids are going to be where. Typically, lawyers will include a clause that deals with the splitting of credits and benefits. For example, for daycare benefits, there are ways to split them. Different families work out different kinds of arrangements.

[Note: After speaking with Robson, we received this from the CRA: Families with children in a shared-custody situation will receive 50 per cent of the benefit each month if the child is in shared custody, if both parents applied.]

Are there any rules governing how I spend the UCCB money? 'Cause there's this new big-screen TV I've been looking at.

If you wanted to. Somebody once cracked a terrible joke about beer and popcorn, but there's nothing that prevents you from using your universal-child-care-benefit money to buy a TV or beer or popcorn. The assumption is that, whatever you're spending it on, you are the parent who gets to decide what is best for your kids. If you use it to subsidize the cost of whatever child care arrangements you are using—home care or licensed care—there are good questions about how much daycare this actually buys a person. But you don't have to spend it on daycare. You can spend it on whatever you want.

So is everyone getting the big cheque on Monday? Or is my cousin Gus and his family in Flin Flon, Man., going to have to wait?

As far as I understand, as long as they've got up-to-date information on you, they should be able to issue you a paper cheque or a direct deposit that goes directly into your bank account. I can't see a reason why a cousin in Flin Flon should see a delay in benefit compared to you in Toronto. Is it possible a paper cheque might take a little longer to get somewhere? Maybe. The CRA has been working really hard to get people signed up on direct deposit so they can issue it electronically.

[Note: As of July 2015, CRA says approximately 70 per cent of applicants have registered for direct deposit. The majority of families, approximately 3.8 million, were identified and will automatically receive the increased UCCB on Monday. However, there are still an estimated 200,000 families with children who may be missing out if they don't apply.]

In the mail, will it be just a cheque? Or will there be a friendly letter from Pierre Poilievre with it?

He's done so many photo ops in front of the cheques, I would surprised if there were not some kind of insert with some nice blue-colour branding.

So, from an economist's perspective, is the UCCB good?

Is this good? Well, child benefits have a lot of merit, be it economically, for social-policy reasons or—let's be honest—for political reasons, too. The issue is always about how you design them so they're the most efficient and the most effective. From one perspective, with the UCCB, we just count Mike and Molly. Boom, boom, cheque. I don't need to know anything else about you. I don't need to know how much money you make or what you spent the money on. I don't ask you to keep receipts. I don't care.

Nice and simple.

It's simple. However, really high-income families with two kids are also getting two cheques. And, later on, they're going to be paying some tax on that, but not the whole amount. So you end up with a system where you're paying money to people who don't need it. And you could be using those taxpayer dollars in a more efficient and effective way. So, child benefits—yes, good. Is this the best way to design child benefits? No.

I was kidding about the TV earlier. I really want this money to go toward the little ones. What's the best way to save for Mikey and Molly?

In a sense, there's no end of options. I'm well aware that the banks have been saying, "Hey! Come bring us your UCCB lump sum and open up an Registered Education Savings Plan!"

Right—an RESP.

These are tax-preferred savings accounts. They're not quite tax prepaid. If you put that money into your RESP, you're not going to have to pay any money on the investment earnings that build up in there. But neither are you going to get a deduction, the way you do with an RRSP.

The thing that's attractive about the RESP is that, every dollar you put in, when it's for Mike and Molly, triggers a matching government savings grant called the Canada Education Savings Grant. Depending on your family income, it could be 20 cents on the dollar. It could be up to 40 cents on the dollar. When Mike or Molly take the money out and they happen to be in post-secondary education, they only pay tax on that money at their very modest student taxable income rates. This is sort of like: Take the government money, get the match on the government money, get the publicly subsidized tax saving on the investment income now and, then, later on, there's a nice little nest egg for Mike and Molly, as long as they're in school. It doesn't matter what happens to that money.

As a matter of fact, some RESPs are set up so that the contributions are refunded to the parent. In other words, the parents get this lump-sum refund back. They can use it for a nice cruise or to pay off their mortgage. There's no enforcement. It's just assumed that, if your kids are in school, you'll probably be using this money to help them with those costs.

What are my other options?

There's another way to do this that does not trigger the matching grants, but gives you more flexibility. Mike and Molly are five and seven. You'd have to wait a long time before you can access that [RESP] money again, because it'll be a while before they finish high school. Another option is the Tax Free Savings Account, where you don't get a deduction if you put that money into the TFSA, and you don't have to pay any tax on the investment that builds up, but you also don't have to pay any tax when you take the money out. If you're thinking odds are good that Mikey will need braces and you're not so sure about you're orthodontic plan . . .

Yeah, Mikey's teeth are not looking good these days.

You can put that [UCCB] money into a TFSA, then pull that money out later on. You don't get the 20 per cent grant, but you still get this very generous tax treatment, for sure.

People keep saying the lump-sum payments this month, totalling close to \$3 billion, will help stimulate the economy. Given that we may be in a recession, would I better serve my country by buying stuff with this money instead of saving it?

What would you do with the money?

There's that big-screen TV.

What's the economic stimulus in doing that? We don't make TVs in Canada. By buying that big-screen TV, it's not as though you're supporting Canadian manufacturing jobs. A lot of the durable goods or services families might use this money for may not have an impact on the economy.

Also, if you were paying attention—it would have been hard to miss the announcement in October and through this pre-election period—you'd know this money is coming. A lot of the research we've got tells us that, when people know to expect future income, they treat it a lot like current income, so a lot of this money has already been spent. People have bought that big-screen TV, but they just put in on their credit cards. And when they get this lump-sum payment, they'll pay down the credit card.

Thanks Jennifer. It all makes sense now.

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