It may be universal, but the new child care benefit doesn't benefit everyone equally [1]

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EXCERPTS

If you've got kids under 18, you may still be deciding how to spend that extra cash you received on Monday in the form of the enhanced universal child care benefit. But before you blow it all on a family trip to Walley World, take a moment to look at the math behind the new amounts because, depending on your income, you may not actually get to keep very much of this newfound cash.

Canadians with children will be receiving hundreds of dollars in benefits over the next week and the question is how to spend it — or should you save it?

The UCCB actually dates back to 2006 and was introduced "as a taxable benefit designed to help Canadian families, as they try to balance work and family life, by supporting their child care choices through direct financial support." The original UCCB was $100 per month per child under age six.

Starting this year, the government increased the monthly amount for kids under six to $160 and expanded the program to include a new benefit of $60 per month for children aged six through 17.

The payments are normally made on the 20th of each month. The first enhanced payment was issued on Monday and included a retroactive payment for the period covering January to June 2015. That means parents with kids under 18 would have received an extra $420 per child this week, representing $60 per month for the past seven months.

While this may appear to be a significant amount of extra cash, you need to keep two things in mind: First of all, the enhanced UCCB is actually replacing the existing child tax credit. This non-refundable federal credit was available for the last time on the 2014 tax return and was based on $2,255 per child at a 15 per cent rate, and was therefore worth $338 per child. (Had it survived, it would have been worth slightly more this year as it was indexed to inflation).

Secondly, the full, enhanced UCCB is taxable at your marginal tax rate and no tax is withheld at source from those monthly deposits, meaning that, depending on your tax bracket, you may end up paying back up to half of this newfound money come next spring when you file your 2015 return.

Here are three examples that explore how much extra cash families can expect to keep.

1. Abbie lives in Nova Scotia, has one child and makes $45,000 annually. She will receive an extra $720 for her child as a result of the enhanced UCCB in 2015 but she will have to pay tax on this amount at her marginal tax rate of 37 per cent leaving her with $453 after-tax. She will also lose her child tax credit worth $338, so at the end of the day, she will only will be ahead by about $115.

2. Bethany lives in Alberta, has two children and earns $75,000 annually. She will get an extra $1,440 for her kids in 2015. At her marginal tax rate of 32 per cent, she will pay $461 in tax on the enhanced amount, leaving her with $979. Because she can no longer claim the child tax credit for two children, she will be out $676 when she files her 2015 return, leaving her with an extra $303, or roughly $152 extra per child.

3. Cathy lives in Ontario, makes $250,000 annually and is in the top tax-bracket of 50 per cent. She has three children and will receive an extra $2,160 annually. After-tax, she will be left with $1,080. But she will also lose her child tax credit,s worth a total of $1,014 (three credits at $338 each). So how much is left of the extra $2,160? About $66 – that's $22 per child.

So, while all parents of children under 18 will receive an enhanced UCCB, the benefit is not nearly as attractive as advertised when you factor in taxes and the loss of the child tax credit. High-income earners, who some have argued shouldn't be getting anything at all, will indeed end up with close to nothing on an after-tax basis.

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