

## Universal Child Care Benefits – is the increase actually a good thing?

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For those of us who have young children Monday was a great day – or so I thought. The Universal Child Care Benefit (UCCB) was increased from \$100 to \$160 for children under 6 years of age and a new benefit of \$60 was added for children between ages 6 and 17 effective January 1, 2015. Due to the time it takes to update their systems the government paid a lump sum on Monday. Depending on what someone is eligible for they received either \$420 or \$520 per child. On the surface this seems like a great thing, the economy could be stimulated because of this influx of \$3 billion.

This increase came at a cost, there are two important points you need to be aware of.

1. The existing child tax credit of \$2,255 which is worth \$337.50 per child annually was eliminated January 1, 2015.
2. The UCCB is taxable both provincially and federally. Depending on the tax bracket someone is in it could really decrease the benefit of the increased payment. If for example someone has a combined marginal tax rate of 31.15% the extra \$720 UCCB must be included as income and will incur additional taxes of \$224.28.

Those two factors alone causes the \$720 benefit to drop to \$158.22 – this is only \$13.18 per month net. Depending on the individual's tax bracket and the province they live in they could end up with even less than this.

On a positive side, the government increased the exemption for childcare expenses to \$8,000 from \$7,000 for children under 6 years of age and to \$5,000 from \$4,000 for children over 6 years of age. This exemption must be used by the lower income earning spouse.

The last point your clients need to consider is whether this \$3 billion payment will affect the projected surplus. Due to worse than expected economic growth that was posted by the Bank of Canada last week the government is expected to take in about \$4 billion less than expected when the budget was drawn up. When you take taxes into consideration the \$3 billion payout will actually cost Canadian \$1.5 billion with the reduced expected revenue this payout may affect the surplus. The government feels this payout is a form of stimulus and will increase spending. Whether that happens or not will depend on each family's situation. Generally, wealthier families use this money to pay down debt while lower income families will use it to meet their current needs which will stimulate the economy.