Federal Social Programs: Setting the Record Straight

by

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Introduction

With a federal election in the offing, a virtual army is on the offensive against social programs. The 'cut the deficit/slash social programs' battle cry has become standard fare in newspaper headlines, cabinet rooms and leadership conventions throughout the land.

It is curious how many voices can sing the same war chant without knowing any of the words to the song. How many of these self-proclaimed experts understand even the basic workings of social programs, let alone the numerous and often intricate changes made to them? How many of them are aware that the deficit-fighting federal government spends more than $17 billion a year on tax breaks that favor high-income Canadians and has enriched these subsidies substantially in recent years? How many have sought meaningful answers to – or asked intelligent questions about – the underlying factors that have driven up social spending? How many realize that the ramparts they want to storm have already been crumbling for some time?

Perhaps their thunderous silence on these issues arises from the fact that fundamental changes to a number of Canada's major social programs have slipped by virtually unnoticed. Most of these changes were effected through 'social policy by stealth' – the introduction of complex technical amendments to taxes and social programs that camouflage their intent, extent and impact. Because the changes typically are obscure and difficult to understand, they generally escape media scrutiny and public debate. In fact, the strategy appears to have fooled even the hawks who continue to call for a massive assault on social programs, despite the fact that these have been under siege for years. Social programs are being squeezed in an ever-tightening vice of rising demand and shrinking resources.

In recognition of the pressures on all public programs in times of tight budgets, we acknowledge the need to scrutinize social programs and to consider where and how reforms might be introduced. In fact, the Caledon Institute of Social Policy plans to carry out a thorough, independent review of social programs which will encourage informed public discussion and debate. We will undertake a careful assessment of the purposes, strengths and weaknesses of Canada's various social programs and the demographic, economic and social pressures they face. The review will be based on a rigorous analysis of the relevant facts and figures – tools that we hope will replace the knives and axes that are being so freely brandished in the current 'discussion' of social policy.

Before social programs are subject to any further cuts or modifications, it is essential to set the record straight on the many changes the federal government has already made. This report examines child benefits, child care, pensions, Unemployment Insurance, federal social transfers to the provinces and the tax system. The text summarizes the key reforms; the appendix provides a comprehensive and detailed list of individual changes in each area, year by year from 1985 to 1993.

Child Benefits

No social program has seen more tinkering in recent years than child benefits. The May 1985 federal budget launched a series of changes that purported to improve benefits for lower-income families and to simplify a complex system that had been long criticized for not gearing all its payments according to need.

Changes to the old system

Some of these changes made the child benefits system fairer. The children's tax exemption, which delivered its largest income tax savings to well-off families, was converted to a non-refundable credit which paid the same benefit to all families that owe income tax.

The refundable child tax credit, which provided its largest benefit to low- and modest-income families, was substantially increased. Its maximum 1985 payment of $384 per child was raised to $454 in 1986, $489 in 1987 and $559 in 1988. As of 1987, a pre-payment of the refundable child tax credit was

made to families with net incomes of $15,000 or less so that they received part of their credit in November and the rest early in the new year. The net family income level below which the maximum child tax credit is payable – known as the 'threshold' – was lowered from $26,330 to $23,500 in order to ensure that the substantial increase to the credit benefited families in need. As part of the National Child Care Strategy (discussed later), an additional $100 per child was paid in 1988 for each child age 6 and under; this supplement for young children was increased to $200 in 1989.

Unfortunately, other changes not only undercut these progressive reforms, but also introduced new complexities and inequities. The government boosted the refundable child tax credit for each child age 6 and under and doubled the non-refundable child tax credit for the third and each additional child in a family. These increases were welcome in themselves, but they effectively discriminated against school-age children and families with only one or two children (now the large majority of families). The imposition of the virtually incomprehensible clawback on family allowances discriminated against one-earner couples. For example, a couple with two children and one parent in the workforce earning $60,000 in 1991 had to pay back all of its family allowances through the clawback, while a two-earner couple with exactly the same income was untouched by the clawback and kept more than half of its family allowances after income taxes.

By far the most damaging change was the removal of full inflation protection from child benefits. Starting in 1986, family allowances were adjusted each year by the amount of inflation less three percentage points. The same 'partial indexation' formula was applied to the non-refundable child tax credit and to the refundable child tax credit (benefits and threshold) in 1989. If inflation is more than three percent, child benefits lose three percent of their value. If inflation is less than three percent, child benefits decline in value by the amount of inflation. Partial indexation has siphoned about $4 billion from the child benefits budget to date.

For years, Canadians have debated the pros and cons of universal social programs. While the Prime Minister began his mandate by professing his government's commitment to the 'sacred trust' of universality, early in the second term the Finance Minister got rid of universal child and elderly benefits. The imposition of the clawback on family allowances in 1989 abolished the universal foundation of child benefits, in place since 1945.

While Ottawa pretended that family allowances were still universal, on the grounds that monthly cheques continued to be mailed to all families with children, the reality is that many upper-income families had to pay back all of their family allowances through the clawback the following year at income tax time. For example, a family with two children in which the higher-income parent had net income of $57,194 or more repaid its entire family allowances when the clawback was fully implemented in 1991.

Families hit by the clawback and social policy advocates, at least, knew that family allowances no longer were universal. However, by 1992 even the federal government had to admit publicly that the child benefits system no longer had a universal base when it announced that family allowances and the refundable and non-refundable child tax credits would be replaced by a single child tax benefit paid only to low- and middle-income families.

Universal old age pensions also died with the clawback, which by 1991 removed all Old Age Security benefits from high-income seniors. Ironically, the demise of universal child and elderly benefits has not stopped the critics from calling for an end to universality.

A new child benefit

The 1992 federal budget and its accompanying White Paper announced a new child tax benefit to replace the three largest programs – family allowances and the refundable and non-refundable child tax credits – in 1993. The new scheme has some advantages.

It simplifies child benefits to a certain extent by combining three separate programs into one. The new package uses one basis – net family income – for calculating the child tax benefit. Because the former programs had used different definitions (individual income for family allowances and the non-refundable child tax credit; family income for the refundable child tax credit), families with the same income received different total benefits depending on their income mix. The new child tax benefit gives a welcome increase – a maximum of $500 a year – to working poor families. The additional $500 is provided as an 'earned-income supplement' only to low-income families with employment earnings of $3,750 or more.

However, most poor families on Unemployment Insurance or welfare will get no more from the new child tax benefit than they did under the former programs because the basic child tax benefit ($1,233 for each child age 6 and under, $1,020 for children ages 7 to 17) pays the same amount as the programs it replaced. Only eligible larger families get an extra $75 for the third and each additional child.

While the scheme was introduced to help simplify the child benefits system, the design is so complex that the government will have to calculate the value of families' benefits for them. Most families will have no idea as to their entitlement. The new child tax benefit is based on net family income for the tax year prior to the payment year, which starts in July and ends in June of the following year. As a result, the new system will be unable to respond quickly to variations in families' income due to such commonplace occurrences as finding or losing a job or switching from full-time work to part-time work. If their income fluctuates significantly during the year, families will see a substantial increase or decrease in their child tax benefit on July 1 of the following year, when the program 'catches up' with their changed financial circumstances.

Despite the rhetoric about targeting benefits to the poor, the child tax benefit also goes to middle and some upper-middle-income families: a family with two children ages 4 and 8, for example, is eligible for some benefit if its income is less than $70,981. The program will have a negligible impact on child poverty because it does not provide substantial improvements in payments to low-income families and because its benefits will be steadily eroded by inflation in future. By the end of the decade, families at all income levels will end up with lower child benefits than they got under the old system or received in 1993.

Child poverty remained high throughout the 1980s and once again is on the increase in the 1990s because of the recession. At last count (1991), there were 1,210,000 children under 18 living in low-income families. One in five children in Canada (18.3 percent) is poor. Children in single-parent families led by women face an even higher risk of poverty. In 1991, 496,000 such children – 65.8 percent of all children being raised by single mothers – were poor.

Child Care

The child care expense deduction has been enriched twice. In 1988, the maximum deduction was raised from $2,000 to $4,000 for each child age 6 and under (it remained $2,000 for each child age 7 to 14) and the limit of $8,000 for each family was lifted. In 1993, the child care expense deduction was increased again, bringing the maximum amount to $5,000 for each child age 6 and under and to $3,000 for each child age 7 to 14. Taxpayers in the top tax bracket benefited most from these increases because tax deductions deliver federal and provincial income tax savings that rise with income.

As noted earlier, as part of the National Child Care Strategy, a $200 supplement was added to the refundable child tax credit for each child age 6 and under – even though it goes to all families eligible for the refundable child tax credit, whether or not they have children in care. A $100 million fund (over seven years) for research and development into child care initiatives also was established.

However, the planned Child Care Act, which would have increased the number of licensed child care spaces, was not legislated due to widespread criticism and fiscal restraint. The proposed act died in the Senate prior to the November 1988 election. Child care advocates argue that the lack of affordable, high-quality child care is the key issue facing parents, especially middle- and lower-income families.

While the child care expense deduction was raised, the government withdrew its long-standing commitment to increase the supply of child care spaces. Middle- and upper-income families now get larger tax breaks to help with their child care expenses, while poor and modest-income families continue to queue up for scarce licensed child care spaces, forcing most of them to rely on private unlicensed care of variable quality. So much for targeting scarce resources to those most in need.

At a time of fiscal restraint, putting scarce resources into bigger tax breaks which favor upper-income families and nothing more into the child care system itself makes no sense. Unfortunately, while boosting the child care expense deduction is bad social policy, it is good politics. Many upper-income voters feel burdened with tax increases. They doubtless welcome a more generous child care expense deduction, especially since tax reform (described later) changed personal exemptions and most deductions to non-refundable credits that provide smaller tax savings to affluent taxpayers.

Pensions

The most significant change in pension policy was the imposition of the clawback on Old Age Security in 1989. The clawback abolished the universal basis of the retirement income system that had been in place since the old age pension was established in 1952. At first, the clawback affected relatively few pensioners (4.3 percent of all recipients in 1989), since it applied only to those with net incomes over $50,000 and fully taxed back old age pensions only from those with net incomes over $76,333. Moreover, the clawback was phased in over three years, which means that only from 1991 on did pensioners hit by the full clawback have to repay all of their old age pension.

Over time, however, the clawback will apply to an increasing number of middle-income pensioners because the partially-indexed $50,000 threshold is falling steadily in real terms as a result of inflation. By the end of this decade, the clawback that initially affected only seniors with incomes over $50,000 will be hitting those with incomes over $40,070, by conservative estimate, and the income level above which the clawback takes back 100 percent of Old Age Security will have fallen from $76,333 to $66,403. By the year 2020, when the country will be awash with elderly baby-boomers, the clawback will hit seniors with incomes as low as $23,000 and will remove the entire old age pension from those with incomes of $49,000 or more. (These figures are in inflation-adjusted 1989 dollars.)

The federal government boosted tax breaks intended to encourage Canadians to save for their retirement. The tax deduction limit for contributions to Registered Retirement Savings Plans (RRSPs) has been substantially increased over the years (in 1985, the maximum deduction was the lesser of $5,500 or 20 percent of earnings; by 1993, it had risen to the lesser of $12,500 or 18 percent of earnings). The limit on the tax deduction for contributions to Registered Pension Plans (i.e., employer-sponsored pension plans) was removed.

Ottawa made a number of important improvements to both public and private pensions. In 1985, the Spouse's Allowance was extended to all low-income widowed persons ages 60 to 64, regardless of their spouse's age at death; prior to the change, the latter had to be 65 or older.

The Canada Pension Plan was strengthened to provide larger disability benefits, better benefits for children of CPP contributors who die or are disabled, mandatory credit-splitting upon marriage breakdown, flexible age for claiming benefits (as young as 60 and as old as 70 with corresponding actuarial adjustments) and continuation of survivor

benefits to widowed persons who remarry. Gradual increases to CPP contribution rates were introduced to keep the plan on a sound financial basis. Stronger standards were put in place for private pension plans falling under federal jurisdiction, including earlier vesting, better portability and (if a plan exists) extending the right of plan membership to all full-time workers after two years of service and to many part-time workers.

Unemployment Insurance

The federal government has brought in a series of changes to Unemployment Insurance. Ottawa no longer pays the cost of regionally extended benefits, fishermen's benefits and benefits for persons in approved training or job creation projects; employee and employer premiums were raised in 1990 to make up for this $2.9 billion loss and were increased again in 1991 and 1992. Entrance requirements were tightened up; the qualifying period (previously 10 to 14 weeks depending on the regional unemployment rate) was increased to 10 to 20 weeks. The maximum duration of benefits was reduced from the previous range of 46 to 50 weeks to 35 to 50 weeks. Heavier penalties were imposed on workers who quit their jobs without just cause; they have to wait from 7 to 12 weeks extra to qualify for UI and get benefits worth only 50 percent of their insurable earnings (as opposed to 60 percent for regular beneficiaries, subsequently reduced to 57 percent in 1993).

The government claimed that the money it saves from these changes helps pay for skills upgrading, improvements to benefits for maternity, sickness and parental leave and the inclusion of workers over 65 in order to bring the program in line with the Charter. These are laudable measures, but financing them through what amounts to benefit cuts for the unemployed is not.

The most recent changes announced in late 1992 deny benefits to workers who quit their jobs without just cause and reduce the program's earnings-replacement capacity from 60 to 57 percent of insurable earnings effective April 1, 1993. The 60 to 57 percent decrease initially was to have lasted for only two years; the 1993 budget extended the reduction beyond April 1995. The Finance Department estimates that this most recent round of changes will cut $7.2 billion out of UI between 1993-94 and 1997-98.

The changes to Unemployment Insurance hit lower-income Canadians hardest. Especially during periods of high unemployment, some workers no longer manage to qualify for Unemployment Insurance because they cannot work long enough and so have to turn to welfare if they lose their jobs. Shortening the duration of benefits for many UI recipients also swells the welfare rolls or forces unemployed workers into poorly-paid, often unstable jobs. Critics argue that denying benefits to workers who quit without just cause will lock many women and men into dead-end jobs. Cutting the UI replacement rate from 60 to 57 percent of insurable earnings will reduce further the already low level of benefits to the low-paid unemployed (while the maximum UI benefit was $426 a week in 1992, the average benefit was only $255 and many recipients get even less than this).

Federal Social Transfers to the Provinces

By far the deepest cut in social programs has been to federal transfer payments to the provinces and territories for health and post-secondary education through Established Programs Financing (EPF). In 1986, Ottawa limited the indexation of transfer payments to the increase in GNP less two percentage points; the 1989 budget took another step and restricted indexation to the rise in GNP less three percentage points. The Minister of Finance went further and froze federal transfer payments for 1990-91 and 1991-92, later extended through the end of 1994-95, after which the GNP-less-three percentage points formula will kick in.

Federal cash transfers to all the provinces and territories will disappear by around 2009-10, which will spell the end of Ottawa's capacity to enforce the terms of the Canada Health Act (upholding our universal, comprehensive and accessible health care

system) by imposing financial penalties. An enormous sum of federal money – in the order of $98 billion on a cumulative basis from 1986 through 2000, according to the National Council of Welfare – will be lost as a result of the various changes to EPF. These cuts already have put added financial pressure on the provinces and forced them to hike taxes and cut their own programs and services.

The federal government also placed a limit of five percent on annual increases in transfers to Ontario, Alberta and BC from 1990-91 through 1994-95 for cost-sharing provincial social assistance and social service programs under the Canada Assistance Plan. The Finance Department put this loss at $2.3 billion in total, doubtless a conservative estimate; Ontario claims it has lost more than $3 billion. These cuts mean that Ottawa has reneged on the principle of 50-50 cost-sharing that underlies the Canada Assistance Plan and has adversely affected Ontario in particular, which has had to deal with dramatic increases in its welfare rolls as a result of the recession. The Ontario government says that Ottawa now contributes only 28 percent to welfare costs in the province.

Taxes

The personal income tax system is included in this discussion of social programs because it is an important vehicle for delivering social benefits to Canadians. Tax deductions and non-refundable credits reduce the amount of federal and provincial income tax payable; however, they do not help people with incomes so low that they do not pay income tax. Refundable credits reduce federal income tax payable for eligible taxpayers who owe income tax; low-income families that pay little or no income tax also benefit because their refundable credits are paid directly in the form of a cheque rather than indirectly by reducing their tax bill.

In 1988, the federal government introduced fundamental changes to the personal income tax system. These include converting personal exemptions and most deductions to non-refundable credits, lowering the top tax rate from 34 to 29 percent and reducing the number of tax brackets from ten to three.

Tax reform shows the typical see-saw pattern that has characterized Ottawa's treatment of social programs generally – the cancelling of progressive changes through regressive measures. The conversion of deductions and exemptions to non-refundable credits on its own would have created a fairer income tax system, since credits provide equal amounts to all taxpayers whereas exemptions and deductions favor the well-off. Several other initiatives, such as expanding the range of disabilities eligible for the disability credit, increasing its value and extending the list of expenses eligible for the medical expenses deduction, are positive measures in that they provide additional tax relief to Canadians who incur significant costs associated with disabling or health-related conditions. The recent decision to treat common-law couples the same as married couples for taxation purposes is another important step towards a fair tax system.

Other changes to the personal income tax system work in precisely the opposite direction and so offset the progressive reforms. These measures include: lowering the top tax bracket and flattening out the tax rates so that upper-middle-income taxpayers are in the top tax bracket along with the wealthy; eliminating the federal income tax reduction, which had helped low- and middle-income taxpayers; creating a $100,000 lifetime capital gains exemption, which is the preserve of the well-off, while eliminating the $1,000 interest income deduction which was used by many modest and middle-income taxpayers; increasing the child care expense deduction; and substantially boosting RRSP tax deduction limits and removing the limit on the tax deduction for contributions to Registered Pension Plans.

The inflation-less-three percentage points partial indexation formula imposed on child benefits also was applied to tax brackets and credits. The result is the same, except that income taxes rise

while child benefits fall. Taxpayers are experiencing an automatic, hidden, inflation-driven income tax increase each year, and lower-income taxpayers are hit hardest. The federal taxpaying threshold is falling farther and farther below the poverty line, adding poorer and poorer Canadians to the ranks of taxpayers.

Despite the numerous significant changes to the income tax system, the most notorious of the tax reforms ushered in since 1984 was the Goods and Services Tax (GST) which came into effect in 1991.

The old federal manufacturers' sales tax which preceded the GST was subject to a series of increases over the years both in terms of the rates as well as the range of goods taxed. In addition, there were continual hikes to federal excise taxes on such items as gasoline and tobacco products.

The Finance Minister took care to create a partial shield against his sales tax increases for lower-income consumers. In 1986, he introduced a refundable sales tax credit, which offset the increases to the manufacturers' sales tax. To forestall criticism that the GST is unfair to the poor, he brought in a refundable GST credit delivered through the income tax system to partly offset the burden of the GST on low-income families and individuals.

While the introduction of the refundable GST credit was a positive move, it means that the heaviest GST burden is now borne by lower-middle-income Canadians who do not qualify for the GST credit; meanwhile, the wealthy shoulder the lightest burden. It is simply impossible to design a consumption tax like the GST which is not regressive across most of the income range. The 1993 federal budget announced that the GST credit now will be paid every six months rather than four times a year in order to save administrative costs.

But even the GST credit which was meant to provide some protection to the poor suffers from the fatal flaw of lack of adequate protection from inflation. Like child benefits and the personal income tax system, the GST credit and its net family income threshold are only partially indexed. Each year brings a gradual but steady decline in the value of the GST credit, and fewer and fewer lower-income families and individuals qualify for maximum benefits as the threshold sinks lower and lower.

The inevitable result is that lower-income households will experience a steady increase in their GST burden as the refundable credit dwindles in value and its tax relief diminishes. Canadians least able to pay the GST – the poor – are the one and only group which has to pay more and more GST each year.

Conclusion

Federal social programs have undergone a steady stream of changes – major, medium and minor – over the past decade. Along the way, two basic principles of Canadian social policy – protection of child benefits and the income tax system from inflation and the universal foundation of child and elderly benefits – have been thrown overboard by the captain and senior officers of the ship of state. But none of the passengers has had any say in the matter, and the changes have been introduced through arcane technical changes in the boiler room which few Canadians grasp.

The slash-social-spending crowd fails to recognize that the assault on social programs has been well under way for years. What is particularly disturbing about the calls for draconian cuts to social programs is the fact that few social spending slashers have bothered to ask why these programs for generations have been seen as necessary and why there has been such pressure on them in recent years.

Some of the changes, such as the increases to the refundable child tax credit, were progressive in that they provided more assistance to lower-income Canadians. The conversion of personal exemptions and most deductions to non-refundable credits made the tax system more fair. Both public and private pension plans have been strengthened,

as has tax assistance for some persons with disabilities.

Yet these progressive measures were offset by enriching benefits that favor higher-income Canadians – notably, creating a $100,000 lifetime capital gains exemption ($500,000 for farm property and small business shares), increasing the child care expense deduction, lowering the top marginal tax rate from 34 to 29 percent, boosting the RRSP tax deduction limit and removing the tax deduction limit for contributions to Registered Pension Plans. These are enormously costly tax expenditures: in 1989, the capital gains exemption, child care expense deduction and tax breaks for contributions to RRSPs and Registered Pension Plans (both the tax deductions and the non-taxation of investment income accrued within the plans) together cost the federal treasury $17.5 billion and the provincial treasuries more than $9 billion.

Meanwhile, middle- and lower-income Canadians were hurt by such measures as the elimination of the $1,000 interest income deduction and partial indexation of child benefits and the personal income tax system. Cuts to federal funding for welfare and social services in Ontario, Alberta and BC have hit the poor in those provinces. All poor Canadians face a creeping increase in their GST burden each year because of Ottawa's failure to fully protect the GST credit from inflation. In the future, the partially indexed threshold to the clawback on Old Age Security will take back all or part of the pensions of a growing proportion of elderly men and women who earned middle incomes during their working lives.

Strong economic, social and demographic forces are sustaining and in some respects increasing the demand for social programs. These include economic dislocation and hardship resulting from globalization, the free trade agreement and the federal government's reliance on economic policies which fuel mass unemployment. The persistence and growth of low-wage jobs keep workers far below the poverty line and will guarantee an increasing number of impoverished seniors as the baby boom generation passes 65. The aging of the population will continue to drive up the cost of pensions, health care and social services. The growing labour force participation of women has increased the demand for affordable, quality child care. High rates of marriage breakdown have resulted in poverty for many mothers and children. Families are struggling with problems of abuse and neglect. The deinstitutionalization of persons with disabilities has created a need for alternative forms of housing, income and social support.

Canada's social programs must change in response to such onerous social and economic pressures. Defenders of social programs have to recognize that times have changed and that Canadians and their governments increasingly demand value for money from public spending. Critics of social spending have to understand that the solution to the rising demand for social programs does not lie in simply cutting programs and benefits, but rather in comprehensive, long-term economic and social policies that work together to combat the roots of insecurity and poverty, which are deeply embedded in our changing society and labour market.

Surely there is time for honest assessment and informed public debate about social programs before the ax falls too quickly – yet again.

APPENDIX
Changes to Federal Social Programs and Taxes 1985 to 1993

Child Benefits

1986

- Partial indexation of family allowances (benefits adjusted each year to the amount of inflation over three percent)

- Refundable child tax credit increased from $384 per child in 1985 to $454 per child in 1986

- Prepayment of refundable child tax credit introduced for families with net incomes of $15,000 or less ($300 per child in November 1986 and the remaining $154 after 1986 income taxes are filed early in 1987)

- Family income threshold for maximum refundable child tax credit lowered from $26,330 to $23,500 and partially indexed (to the amount of inflation over three percent)

- Children's tax exemption kept at $710 per child

1987

- Refundable child tax credit increased from $454 per child in 1986 to $489 per child in 1987

- Children's tax exemption reduced from $710 per child in 1986 to $560 per child in 1987

1988

- Refundable child tax credit increased from $489 in 1987 to $559 per child in 1988; increased by an additional $100 for each child age 6 and under (less 25 percent of any child care expense deduction claimed for the child), bringing the total maximum credit to $659 for each child age 6 and under and $559 for each child age 7 to 17

- Family income threshold for prepayment of the refundable child tax credit ($16,060) set at two-thirds of threshold for the refundable child tax credit ($24,090)

- Children's tax exemption converted to non-refundable child tax credit worth $66 in federal income tax savings for each of the first two children and $132 for each additional child in a family

1989

- Non-refundable child tax credit partially indexed from $66 in 1988 to $67 in 1989

- Refundable child tax credit adjusted by partial indexation from $559 in 1988 to $565 per child in 1989; increased by an additional $200 for each child age 6 and under (less 25 percent of any child care expense deduction claimed for the child), bringing the total maximum credit to $765 for each child age 6 and under and $565 for each child age 7 to 17

- Family income threshold for maximum refundable child tax credit adjusted by partial indexation from $24,090 in 1987 to $24,355 in 1989

- Clawback imposed on family allowances (benefits reduced by 15 cents for every dollar of the higher-income parent's net income over $50,000); phased in by one-third in 1989, two-thirds in 1990 and fully from 1991 on, so families affected by the clawback required to repay only one-third of amount for 1989

1991

- Canada ratified the UN Convention on the Rights of the Child

1992

- "Brighter Futures Initiative" announced: new child tax benefit proposed (see 1993); $500 million Child Development Initiative to promote the health and well-being of children at risk

1993

- Child tax benefit introduced: replaced family allowances, non-refundable child tax credit and refundable child tax credit with single refundable monthly credit worth maximum $1,233 a year for each child age 6 and under and $1,020 a year for each child age 7 to 17; larger families get an extra $75 a year for third and each additional child. Maximum credits paid to families with net family incomes under $25,921, above which the credits are reduced by 2.5 cents for every additional dollar of net family income for families with one child and five cents for every additional dollar for families with two or more children. Working poor families get up to $500 more per household per year from an 'earned-income supplement payable to those with employment earnings of $3,750 or more; the supplement phases in at a rate of eight percent, so the maximum $500 begins once employment earnings reach $10,000 and continues until net family income of $25,921, above which the earned-income supplement is reduced by 10 cents for every additional dollar of net family income. The new child tax benefit (including the earned-income supplement) and the income thresholds are partially indexed (to the amount of inflation over three percent).

Child Care

1987

- "National Strategy on Child Care" announced, but its centerpiece – a new Child Care Act to replace day care provisions of the Canada Assistance Plan (CAP) – failed to become law before the November 1988 election

1988

- Child care expense deduction raised from $2,000 to $4,000 for each child age 6 and under and for children with special needs; remained $2,000 for children ages 7 to 14

- Maximum family limit of $8,000 for child care expense deductions eliminated Child Care Special Initiatives Fund, part of the National Strategy on Child Care, began on April 1, 1988 ($100 million over seven years)

1993

- Child care expense deduction increased from $4,000 to $5,000 for each child age 6 and under and from $2,000 to $3,000 for each child age 7 to 14

Pensions

1985

- Spouse's Allowance extended to all widows and widowers 60 through 64 years of age who are in need, regardless of their spouse's age at death (before, the deceased spouse had to be 65 or older)

- Proposal in 1985 budget to partially index Old Age Security benefits (to the amount of inflation over three percent) abandoned in face of widespread criticism from seniors' organizations and other groups

1986

- Limit on income tax deduction for Registered Pension Plan contributions ($3,500) abolished

- Limit on income tax deduction for Registered Retirement Savings Plan contributions for taxpayers without Registered Pension Plans (lesser of $5,500 or 20 percent of earnings) raised to the lesser of $7,500 or 20 percent of earnings

1987

- Canada Pension Plan amendments include:

  - flexible retirement benefits payable as early as age 60 and up to age 70 (with actuarial adjustment downward of 0.5 percent for each month between 60 and 65 and upward of 0.5 percent for each month between 65 and 70)

  - increased disability benefits (monthly flat-rate portion went from $91.06 in 1986 to $242.95 in 1987) raising total maximum monthly benefit from $455.64 in 1986 to $634.09 in 1987

  - in the event of divorce after 1987, time limit of three years lifted for applying for credit-splitting (i.e., equal division of all Canada Pension Plan credits earned by both spouses during their life together); requirement of formal application replaced by Minister of Health and Welfare being informed of the divorce and

receiving information necessary to effect the division; and credit-splitting made mandatory except where a spousal agreement entered into after June 4, 1986 expressly mentions the spouses' intention not to divide CPP credits and where such a spousal agreement is permitted under provincial family law (only Quebec and Alberta currently permit this exception)

- extension of current credit-splitting provisions to cover marital separations and the breakdown of common-law relationships (formal application for credit-splitting is still required)

- married spouses permitted to share in retirement pensions earned by both partners during their marriage

- more equitable calculation of combined benefits (i.e., combined survivor and retirement, combined survivor and disability)

- survivor benefits to continue for survivors who remarry

- payment of two children's benefits if both partners die or become disabled

- Schedule of long-term increases in Canada Pension Plan contribution rates for employees and employers agreed to by Ottawa and the provinces: rates increase by 0.20 percentage points annually from 1987 through 1992 and 0.15 percentage points annually from 1993 through 2011; every five years, federal and provincial finance ministers to review contribution rates, making any required changes and extending schedule for five more years

- Canada Pension Plan contribution rate increased from 3.6 percent (1.8 percent for employees, 1.8 percent for employers and 3.6 percent for self-employed) of contributory earnings (earnings between $2,500 and *$25,800)* in 1986 to 3.8 percent (1.9 percent for employees and employers, 3.8 percent for self-employed) of contributory earnings (earnings between $2,500 and *$25,900)* in 1987

- Improvements to Federal Pension Benefits Standards Act governing occupational pension plans for employees under federal jurisdiction (federal and territorial government and Crown Corporation workers, workers in federally-regulated industries such as banks, interprovincial transportation, radio and television broad-casting) include:

- all full-time employees in an occupational group covered by a pension plan must be eligible to join the plan after two continuous years on the job

- part-time employees earning at least 35 percent of the Year's Maximum Pensionable Earnings under the Canada or Quebec Pension Plan for two consecutive years have the right after two continuous years on the job to join pension plans available to full-time workers in the same occupational group

- pension contributions must be vested (i.e., employees are entitled to contributions made on their behalf by their employer) and locked-in (i.e., employee and employer contributions are not accessible to the employee until retirement) after a worker has belonged to a pension plan for two years (applies to pension benefits earned after January 1, 1987)

- better portability provisions (plan members who change jobs can transfer vested pension benefits to the plan of their new employer, if that plan so permits, or to an individual locked-in RRSP or to an annuity that pays pension benefits upon retirement)

- plans subject to the Pension Benefits Standards Act must provide the option of a lifetime survivor pension equal to 60 percent of the pension of a deceased plan member who was eligible for retirement at the time of death (the survivor pension can be waived if both spouses so declare in writing); survivors whose deceased spouses were not eligible to retire at the time of death must receive a benefit worth the value of the vested pension that has accrued after 1986; survivor benefits can no longer be terminated if the survivor remarries

1988

- Pensioners allowed to deduct Canada/Quebec Pension Plan contributions, Unemployment Insurance premiums and employment expense deduction when calculating their income for purposes of determining their eligibility for and benefits from the Guaranteed Income Supplement or Spouse's Allowance

- Canada Pension Plan contribution rate increased to 4.0 percent of contributory earnings (2.0 percent for employees and employers, 4.0 percent for self-employed) of contributory earnings (earnings between $2,600 and $26,500)

1989

- Clawback imposed on Old Age Security program: old age pension reduced by 15 cents for every dollar of the senior's net individual income over *$50,000;* partial clawback applies to pensioners with net incomes between $50,000 and $76,333 (i.e., they keep a portion of their old age pension after paying income taxes and clawback) and full clawback affects those with net incomes over $76,333 (i.e., they must repay all of their old age pension); clawback phased in over three years, so clawed-back pensioners had to repay one-third of clawback in 1989, two-thirds in 1990 and the full amount *from* 1991 on

- Canada Pension Plan contribution rate increased to 4.2 percent (2.1 percent for employees and employers, 4.2 percent for self-employed) of contributory earnings (earnings between $2,700 and $27,700)

1990

- Canada Pension Plan contribution rate increased to 4.4 percent (2.2 percent for employees and employers, 4.4 percent for self-employed) of contributory earnings (earnings between $2,900 and $29,000)

1991

- Canada Pension Plan contribution rate increased to 4.6 percent (2.3 percent for employees and employers, 4.6 percent for self-employed) of contributory earnings (earnings between $3,000 and $30,500)

- Limit on income tax deduction for RRSP contributions for taxpayers who belong to Registered Pension Plans set at the amount of any unused RRSP contribution room at the end of the preceding taxation year plus the lesser of $11,500 or 18 percent of the previous year's earnings minus the taxpayer's Pension Adjustment (a measure of the value of Registered Pension Plan benefits accrued the previous year)

- Limit on income tax deduction for RRSP contributions for taxpayers without Registered Pension Plans raised from the lesser of $7,500 or 20 percent of earnings to the lesser of $11,500 or 18 percent of earnings for the previous year

1992

- Increase in benefits for children of CPP contributors who die *or* are disabled (from $113.14 a month in 1991 to $154.70 a month in 1992)

- Revised schedule of long-term increases in Canada Pension Plan contribution rates for employees and employers agreed to by Ottawa and the provinces: 0.20 percentage points annually from 1987 through 1996, 0.25 percentage points annually from 1997 through 2006 and 0.20 percentage points annually from 2006 through 2016; as a result, combined employee-employer contribution rate for 2011 will be 9.10 percent under revised schedule as opposed to 7.60 percent under previous schedule

- Canada Pension Plan contribution rate increased to 4.8 percent (2.4 percent for employees and employers, 4.8 percent for self-employed) of contributory earnings (earnings between $3,200 and $32,200)

- Limit on income tax deduction for RRSP contributions for taxpayers without Registered Pension Plans raised from the lesser of $11,500 or 18 percent of earnings for the previous year to the lesser of $12,500 or 18 percent of earnings for the previous year

1993

- Canada Pension Plan contribution rate increased to 5.0 percent (2.5 percent for employees and employers, 5.0 percent for self-employed) of contributory earnings (earnings between $3,300 and $33,400)

- Planned increase in limit on income tax deduction for RRSP contributions for taxpayers without Registered Pension Plan (to the lesser of $13,500 or 18 percent of previous year's earnings) delayed until 1994, so 1993 limit remained at 1992 level (lesser of $12,500 or 18 percent of earnings)

Unemployment Insurance

1985

- Severance payments included as employment earnings for establishing Unemployment Insurance (UI) benefits

1986

- Pension income included as employment earnings for establishing UI benefits

- UI premiums for 1986 kept to 1985 rates – $2.35 per $100 of insurable earnings for employees and $3.29 per $100 of insurable earnings for employers – instead of increasing under existing rules to $2.60 per $100 of insurable earnings for employees and $3.64 per $100 of insurable earnings for employers

1987

- Pension income not to affect UI entitlement if claim established on the basis of insurable employment accumulated after the pension commenced or if the UI claim started before January 5, 1986

1988

- Mothers who are not able to take their newborns home immediately after birth may defer their 15 weeks of maternity leave until baby is released from hospital (retroactive to March 23, 1987)

- Extended maternity benefits to father who, due to death or disability of mother, becomes primary caregiver

1989

- UI premiums ($2.35 for every $100 of insurable earnings for employees and $3.29 per $100 of insurable earnings for employers, in effect from 1985 through 1988) lowered to $1.96 per $100 of insurable earnings for employees and $2.73 per $100 of insurable earnings for employers

1990

- Full cost of UI shifted to employers and employees (Ottawa's share was $2.9 billion out of a total of $12.6 billion in 1989)

- UI premiums increased to $2.25 per $100 insurable earnings for employees and $3.15 per $100 of insurable earnings for employers for 1990 through 1992

- Qualifying period for UI increased from 10-14 weeks to 10-20 weeks depending on regional unemployment rate

- Maximum duration of UI benefits reduced from 46-50 weeks to 35-50 weeks

- In addition to 15 weeks of existing UI maternity benefits, ten weeks of parental benefits made available to mother or father (or shared between them) of newborn or adopted child; parental benefits may be extended to 15 weeks where the child is six months or older upon arrival at the claimant's home and suffers from a physical, psychological or emotional condition

- UI sickness benefits remain unchanged at 15 weeks but may be combined with maternity and parental benefits; maximum of 30 weeks in special benefit entitlements

- UI retirement benefits payable when insured person reached age 65 (three-week lump sum) eliminated; aged workers continue to contribute but eligible only for regular UI benefits

- UI penalties increased for quitting employment without just cause, refusing to accept suitable employment or being fired for misconduct: waiting period for benefits increased to between 7 and 12 weeks, and benefits for recipients in these categories reduced from 60 to 50 percent of average weekly insurable earnings

1991

- UI premiums increased to $2.80 per $100 of insurable earnings for employees and $3.92 per $100 of insurable earnings for employers, effective July 1, 1991

1992

- UI premiums increased to $3.00 per $100 of insurable earnings for employees and to $4.20 per $100 of insurable earnings for employers

1993

- UI premiums amended to encourage expansion of small business; federal government to pay any increase in UI employer premiums in 1993 to maximum of $30,000 per enterprise

- UI benefits reduced from 60 to 57 percent of insurable earnings for new beneficiaries effective April 4, 1993

- UI benefits denied to workers who quit jobs without just cause

Federal Social Transfers to the Provinces

1985

- Federal-Provincial Agreement on Enhancement of Employment Opportunities for Social Assistance Recipients ('four-corner' agreement) announced to encourage employability enhancement measures (e.g., training) for welfare recipients

1986

- Higher earnings exemptions permitted for welfare recipients (pursuant to the 'four-corner' agreement)

- Federal transfers to provinces and territories for health and post-secondary education under Established Programs Financing (EPF) Act partially indexed to increase in GNP less two percentage points (before, federal payments were adjusted by the full increase in GNP)

1990

- Federal transfer payments to the provinces and territories for health and post-secondary education under EPF frozen at their 1989-90 level for 1990-91 and 1991-92, after which partial indexation formula of GNP less three percentage points to apply

- "Cap on CAP" – federal transfer payments to Ontario, Alberta and BC for cost-sharing welfare and social services under the Canada Assistance Plan (CAP) limited to increase of five percent a year for 1990-91 and 1991-92

1991

- Freeze on federal transfer payments to the provinces and territories for health and post-secondary education under EPF for 1990-91 and 1991-92 extended through the end of 1994-95, after which partial indexation formula of GNP less three percentage points to apply

- "Cap on CAP" (i.e., five percent annual limit on increase in federal transfer payments to Ontario, Alberta and BC for cost-sharing welfare and social services) extended through 1994-95, so is in effect from 1990-91 through 1994-95

Taxes

1985

- Temporary high-income surtax imposed on upper-income taxpayers from July 1985 to December 1986 (five percent of basic federal tax between $6,000 and $15,000 and 10 percent of basic federal tax above $15,000)

- Capital gains exemption introduced (up to a lifetime limit of *$500,000,* later reduced to $100,000 for capital gains other than qualifying farm property and small business corporation shares, which remain $500,000); phased in between 1985 and 1990 .

- Registered Home Ownership Savings Plan (RHOSP) eliminated (introduced in 1974, the program had allowed taxpayers who are not home owners to deduct from taxable income contributions up to $1,000 a year, to a lifetime maximum $10,000, to save for a home)

1986

- Partial indexation introduced for income tax exemptions and tax brackets (to the amount of inflation over three percent); personal exemptions and brackets were fully indexed before

- Federal tax reduction eliminated (the program, in place from 1973 through 1985, had eased federal income tax for low- and middle-income taxpayers; in 1985, it cut federal income tax by up to $100 for taxpayers with basic federal tax of $6,000 or less, above which the credit was reduced by 10 percent to disappear at basic federal tax of $7,000)

- General surtax of three percent of basic federal tax imposed on all taxpayers effective July 1, 1986

- Disability tax deduction increased from $2,590 to $2,860 and extended from persons who are blind or confined to a bed or wheelchair to cover all persons who are severely disabled; Department of Health and Welfare must certify applicants to be markedly restricted in activities of daily living

- Refundable sales tax credit introduced for low-income families and individuals (maximum $50 per adult and $25 per child for households with net family income $15,000 or less, above which benefits are reduced by five percent of additional income)

1988

- Personal exemptions and most deductions in the personal income tax system converted to non-refundable credits: $1,020 for basic personal credit, $850 for married and equivalent-to-married credit, $550 for aged credit; $550 for disability credit; $66 for each of the first two dependent children 17 and under and $132 for the third and each subsequent child 17 and under, $250 for dependents over 18 who are physically or mentally infirm; 17 percent of Canada/Quebec Pension Plan contributions, Unemployment Insurance premiums, private pension income up to $1,000, disability amount for dependant other than a spouse, tuition fees and education amount transferred from child, amounts transferred from spouse; 17 percent of charitable donations up to $250 and 29 percent of charitable donations above $250

- Number of tax brackets reduced from ten to three (17 percent on taxable income up to $27,500, 26 percent on taxable income between $27,501 and $54,999, and 29 percent on taxable income of $55,000 and above); top marginal tax rate lowered from 34 to 29 percent

- Refundable sales tax credit increased from $50 to $70 per adult and from $25 to $35 per child for households with net family income $16,000 or less

1989

- Refundable sales tax credit increased from $70 to $100 per adult and from $35 to $50 per child for households with net family income $16,000 or less

- General surtax on all taxpayers increased from three to five percent, effective July 1, 1989

- High-income surtax re-imposed on upper-income taxpayers (three percent of basic federal tax exceeding $15,000) effective July 1, 1989

- Medical expenses credit expanded to include part-time attendant care expenses required to enable severely disabled persons to work (taxpayer can deduct the costs of care provided by a part-time attendant; deduction is limited to two-thirds of eligible income – i.e., income from employment, training allowance under the National Training Act or a grant for research or similar work – up to a maximum of $5,000)

1990

- Refundable sales tax credit increased from $100 to $140 per adult and from $50 to $70 per child for households with net family income $18,000 or less

1991

- Goods and Services Tax (GST) introduced: seven percent on broad range of goods and services, with the exception of certain items such as basic groceries, prescription drugs, medical devices, health care services, educational services, child and personal care, and legal aid services

- Refundable GST credit introduced to partially offset burden of GST on lower-income Canadians: maximum benefits for 1991 were $190 per adult, $100 per child and a “living alone” supplement of up to $100 for single adults and single parents with net incomes between $6,175 and $25,215; maximum credits paid to households

with net family income $25,215 or less, and benefits are reduced by five cents for every dollar above the threshold; both credits and threshold partially indexed to the amount of inflation over three percent

- Disability tax credit increased from $575 to $700; administrative guidelines defining eligibility for the credit (regarding the terms "activities of daily living" and "markedly restricted") incorporated in the Income Tax Act to ensure uniformity in their interpretation

- Medical expenses tax credit expanded to include: up to $5,000 of part-time attendant care expenses (provided by non-relatives) which are not otherwise deductible (formerly restricted to severely disabled Canadians who work); specially trained service animals that assist individuals with severe and prolonged impairments; home modifications to reduce mobility restrictions for persons with severe and permanent disabilities; and incontinence products

- Tax provisions amended to allow businesses to deduct fully the expense of modifications to accommodate persons with disabilities (e.g., interior and exterior ramps, alterations to bathrooms, widening of doorways) in the year these costs are incurred

- Allowances paid to disabled employees for taxi, para-transport and parking no longer considered taxable for those eligible for the disability credit by reason of severe mobility or sight impairment; employer allowances paid to employees for attendant care required to perform employment duties (e.g., readers for blind persons, coaches for persons with mental handicaps) no longer considered a taxable benefit

- Tax liability of lump-sum payments of Canada Pension Plan/Quebec Pension Plan disability pensions to be reduced by spreading the amount over the years in respect of which they were paid

- Limit on tax deduction for RRSP and Registered Pension Plans contributions modified (see 'Pensions') 1992

- Education tax credit increased from 17 percent of $60 for each whole or part month taxfiler was enrolled as full-time student to 17 percent of $80 for each whole or part month taxfiler was enrolled as full-time student

- Total amount of tuition fee and education credits that a student can transfer to a supporting taxpayer increased from $600 to $680

- General surtax on all taxpayers lowered from five percent of basic federal tax to four percent, effective July 1, 1992

- Medical expenses tax credit expanded to include visual or vibratory signalling devices for persons with hearing impair-ments; payment for rehabilitative therapies to adjust for hearing or speech loss

- List of devices eligible for immediate tax write-off for businesses expanded to include: elevator car position indicators for persons with visual impairments; visual fire alarm indicators, telephone devices and listening devices for persons with hearing impairments; and disability-specific computer attachments

- Education tax credit made available to persons with disabilities who attend a qualifying post-secondary educational institution on a part-time basis

- Definition of "earned income" for purposes of RRSP contributions expanded to include disability pensions paid under the Canada/Quebec Pension Plans

- In addition to tax measures to assist persons with disabilities, "National Strategy for the Integration of Persons with Disabilities" ($158 million over five years) announced to promote their economic integration

1993

- Couples living in common-law relationships to be treated as married spouses for tax purposes: one-earner common-law couples now will be able to claim the married credit and will be allowed to contribute to a spousal RRSP; they will no longer be able to claim the equivalent-to-married credit (i.e., to pretend they are single parents) and must (as in the case of married couples) combine their incomes for determining eligibility for the GST credit and the new child tax benefit

- General surtax on all taxpayers lowered from four percent of basic federal tax to three percent, effective January 1, 1993

- Home Buyers' Plan introduced: home buyers can withdraw up to $20,000 from their RRSPs for down payment on a new or existing home without having to pay income tax on the withdrawal; the RRSP withdrawal must be repaid to the RRSP in equal instalments over a 15-year period (amounts not repaid to be treated as a permanent withdrawal from the RRSP and subject to income tax)

- GST credit, formerly paid every three months (January, April, July and October), to be paid once every six months (April and October), though the total annual benefit will not change

Social Housing

1990

- Social housing budget ($1.695 billion in 1989-90) limited to $1.785 billion in 1990-91 (15 percent less than planned, for a $16 million cut) and $1.871 million in 1991-92 (15 percent less than planned, for a cut of $35 million)

1991

- Fifteen percent reduction in planned funds for new social housing, announced in 1990 budget, extended through 1995-96

1992

- Social housing budget restricted to an average three percent annual increase from 1992-93 through 1996-97 Cooperative Housing Program terminated

1993

- Social housing budget frozen at $2 billion ($600 million cut for 1993-94 through 1997-98)