

# How to Tax Families with kids? Putting Children at the Centre of the Analysis

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September 2015

## **My comments organized around three questions.**

1. Why should children receive special treatment?
2. Should recognition of children be universal?
3. How should tax recognition of children be designed?

# 1. Why should children receive special treatment?

Traditional argument:

- Children affect the tax unit's ability to pay.
- Special recognition in the base.
- But are children a choice?
- Exemption or credit?

Carrter: (Volume 3, Ch. 7. My **bolding**)

“We believe that couples with dependent children have a smaller fraction of their total income available for **discretionary use** than childless couples . The more children the couple have, the smaller the fraction of income available for **discretionary use** . The first child is, however, more expensive than subsequent children because the living accommodation adequate for a childless couple is often unsuitable for children . However, the **same clothing and equipment can often be used for subsequent children .**”

## **Carter recommendations on children:**

- Children expenses don't add to 'economic power' of family; it's a 'non-discretionary' cost.
- Costs go down with subsequent kids—should same treatment be given to all kids?
- Thought benefit would be too big to have exemption, given steep progressivity of income tax. (True then; true now?)
- Argued for credit against tax; decreasing in number of kids.
- Looks to be recommending a non-refundable credit—perhaps assuming the welfare system will take care of those with low income.

# Developments in the 1990s

1993 reform:

- Combined non-refundable tax credit, refundable tax credit, and Family Allowance into new Canada Child Tax Benefit.
- Refundable tax credit; income-tested and not universal.\

Boessenkool and Davies (C.D. Howe 1998) / Kesselman (CPP 1993)

- “kids are not boats”.
- Emphasis on “moral and legal obligation” to care.
  - But: people choose to take on this obligation.
  - But: people have legal obligations to care for pets, too.

## 1. Why should children receive special treatment?

Milligan's idea: Put the child at the centre of the analysis.

### Fairness / distribution:

- Basic exemption for kids as humans.
- Allow parent to claim the kid's exemption, as steward of kid's wellbeing.

See Milligan 2013 *Inroads Journal*.

### Efficiency:

- Parents may lack financial resources to invest.
- Basic necessities, education, family functioning.
- Not clear how far up the income scale impact extends.

See Milligan and Stabile (2011); Jones Milligan and Stabile (2015)

## 2. Should recognition of children be universal?

Using the ‘basic exemption’ argument:

- In Canada we give every taxfiler a basic amount.
- Same for kids?

Tax preferences as redistribution argument:

- ‘Sending cheques to millionaires’
- But what is the metric for ability to pay? No exclusions at all?

- Example: US claws back personal exemptions (PEP) for high earners (Single: starts at \$258,250; all gone by \$380,750)
- Simpson and Stevens (Calgary SPP 2015) argument—move everything to refundable; like guaranteed annual income.

### **3. How should tax recognition of children be designed?**

Main questions:

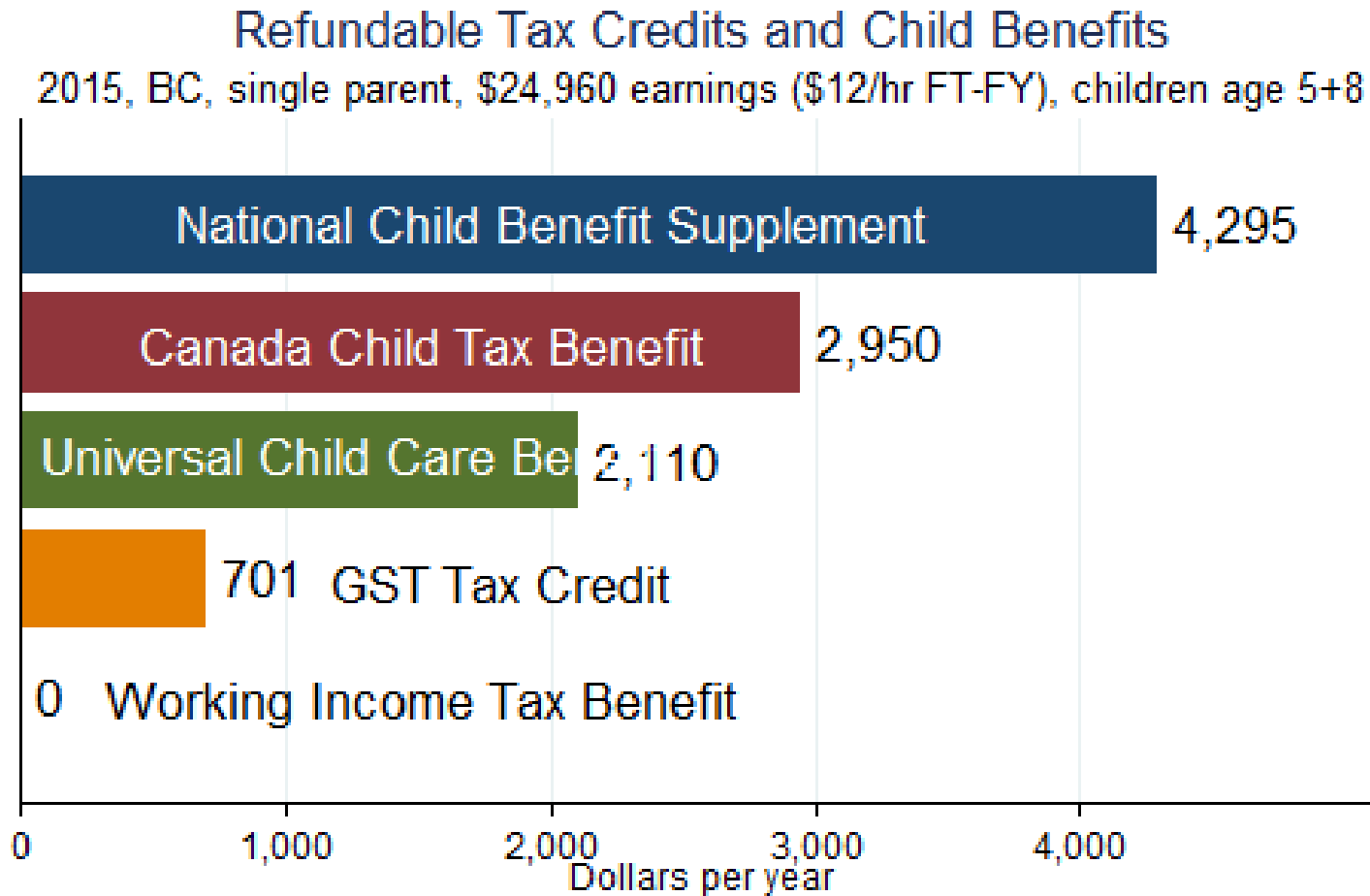
a) Flat or targeted? Efficiency / investing in kids

b) Pay attention to work incentives—phase-out rates.

c) Universal or not?



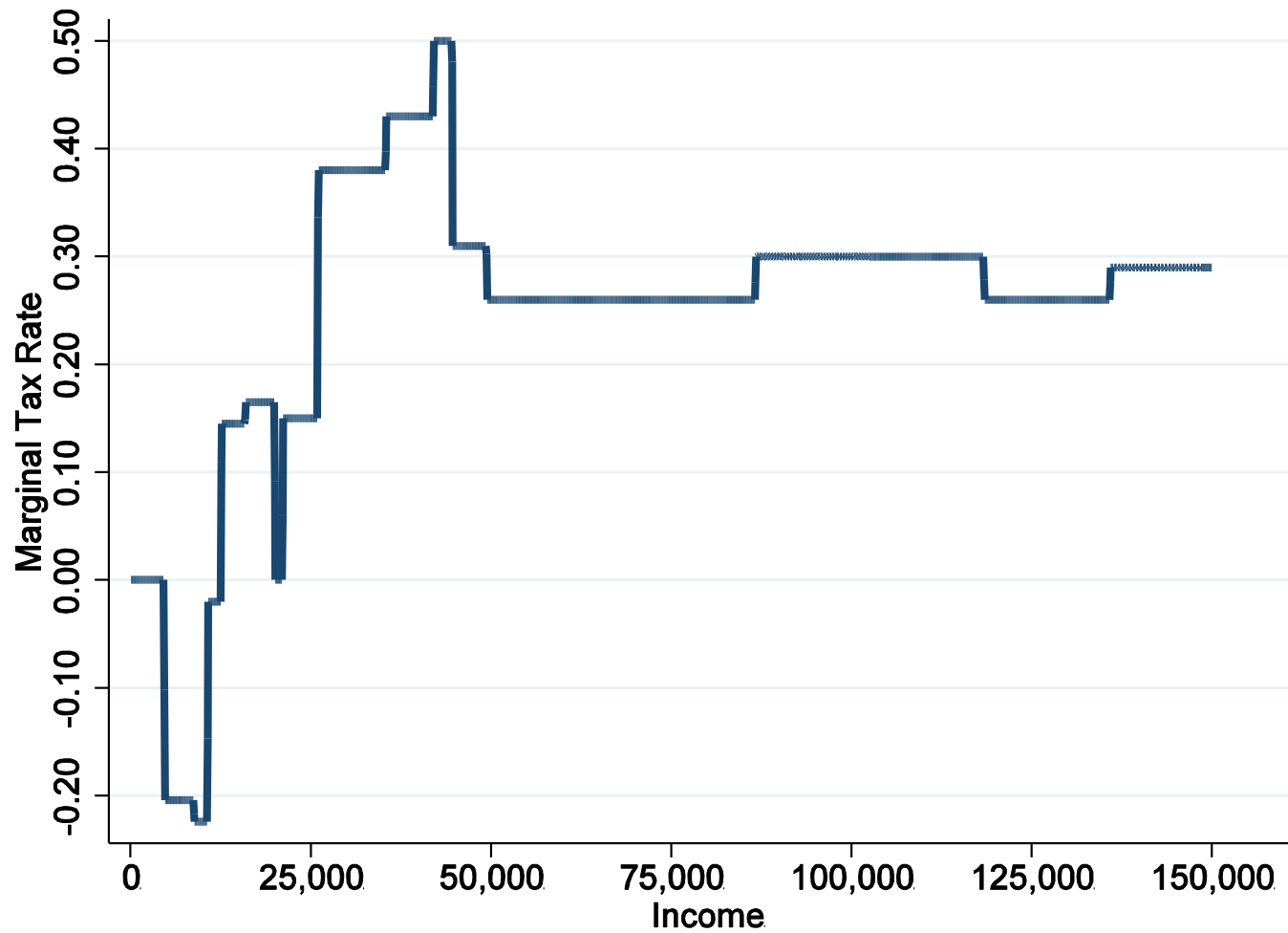
## Existing system: example



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Data: Canadian Tax and Credit Simulator, <http://faculty.arts.ubc.ca/kmilligan/ctacs/>

$\$10,056/\text{yr} = \$838/\text{month}$

## Existing system: marginal effective tax rates



## **Alternative: Liberal proposed ‘Canada Child Benefit’**

- Combines NCBS, UCCB, CCTB (and ‘income splitting’)
- Targeted at lower-income kids: phase out starts at 30K.
- Fully phased out around 200K (2 kids). Not universal.
- Phase-out rates are ‘smoothed’ relative to status quo.
- Meets recommended benefit level of ‘Campaign 2000’ for low-income kids.
- Total cost of \$22B; increment of \$2B over existing bundle.

## Canada Child Benefit proposal:

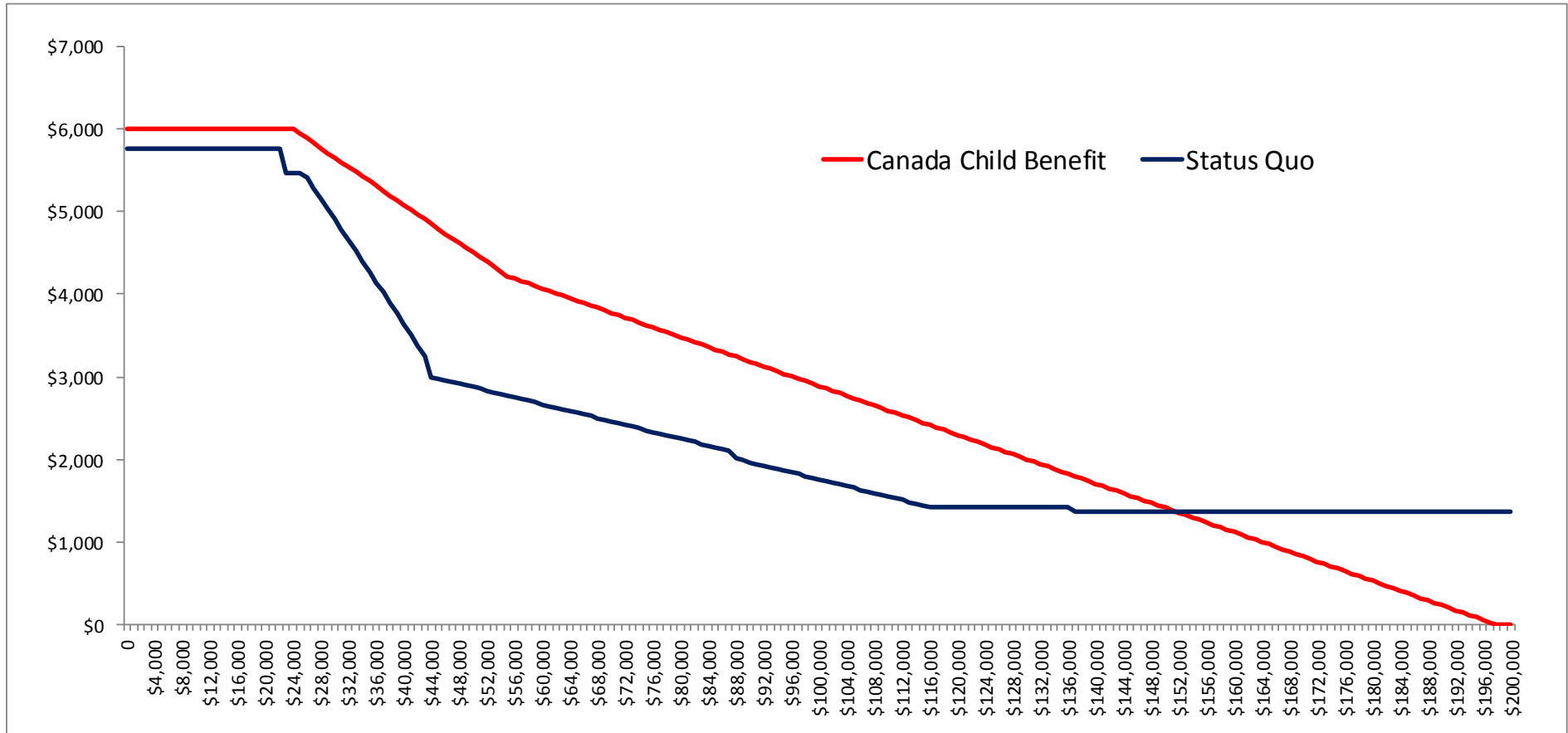
One Child under 6:

Income	CCB	Status Quo
\$ 15,000	\$ 6,000	\$ 5,756
\$ 40,000	\$ 5,080	\$ 3,638
\$ 80,000	\$ 3,480	\$ 2,252
\$ 125,000	\$ 2,153	\$ 1,421
\$ 200,000	\$ -	\$ 1,363

Two Children:

Income	CCB	Status Quo
\$ 15,000	\$ 10,600	\$ 10,042
\$ 40,000	\$ 8,760	\$ 6,047
\$ 80,000	\$ 5,560	\$ 3,568
\$ 125,000	\$ 2,905	\$ 1,954
\$ 200,000	\$ -	\$ 1,874

# CCB Family Monthly Benefit Levels – 1 Child Under 6



## Two-child family phase out rates: CCB vs status quo

