



OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER
BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

CANADA

**Financial Impacts of
Budget 2016
Measures on
Selected Families
with Children**

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The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

In response to a request by the Member of Parliament for Elgin-Middlesex-London, Mrs. Karen Vecchio, the PBO has prepared estimates of the financial impact of the Budget 2016 measures for the requested eight types of families with children.

This report was prepared by the staff of the Parliamentary Budget Officer. Helen Lao and Carleigh Malanik wrote the report. Mostafa Askari, Jason Jacques, Mark Mahabir and Chris Matier provided comments. Patricia Brown and Jocelyne Scrim assisted with the preparation of the report for publication. Please contact pbo-dpb@parl.gc.ca for further information.

Jean-Denis Fréchette
Parliamentary Budget Officer

Correction notice: this report published June 2, 2016 has been revised to correct an error in the calculation of the Canada Child Tax Benefit that increases pre-measures transfer income by \$61 per year for Families 1 through 4. Corrections to the Family Tax Cut Credit amount were also made, affecting the change in taxes payable for families 5 and 6. Clarification of the Budget 2016 tax measures for the Children's Arts and Fitness Tax Credits have also been added.

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Executive Summary

The Member of Parliament for Elgin-Middlesex-London, Mrs. Karen Vecchio, requested the PBO to provide an analysis of the impact of Budget 2016 measures for eight types of families with children:

- Family 1: Two-income family with two children aged five and under. One earns \$20,000 and the other earns \$54,000.
- Family 2: Two-income family with two children aged 10 and 12. One earns \$20,000 and the other earns \$54,000.
- Family 3: One-income family with two children aged five and under. Employment income: \$89,000.
- Family 4: One-income family with two children aged 10 and 12. Employment income: \$89,000.
- Family 5: Two-income family with two children aged five and under. One earns \$60,000 and the other earns \$120,000.
- Family 6: Two-income family with two children aged 10 and 12. One earns \$60,000 and the other earns \$120,000.
- Family 7: One-income family with two children aged five and under. Employment income: \$250,000.
- Family 8: One-income family with two children aged 10 and 12. Employment income: \$250,000.

These families are not necessarily representative of the population.

The Budget 2016 measures analyzed for the families in this report include the:

1. Change in personal income tax rates
2. Repeal of Family Tax Cut credit
3. Change in the Children's Fitness and Children's Arts tax credits
4. Replacement of the Universal Child Care Benefit and Canada Child Tax Benefit by the Canada Child Benefit
5. Adjustment of the Charitable Donation tax credit

PBO estimates the change in household disposable income as a measure of impact from the Budget 2016 measures for the families. In this report, PBO measures disposable income as the total income (employment income and transfer income) that remains after the deduction of federal taxes and tax credits.

PBO estimates that the Budget 2016 measures will increase disposable income for Families 1 to 4. This is largely due to the increase in the total income for these families from the introduction of the Canada Child Benefit. Specifically, families with younger children will have greater disposable income than families with older children as a result of the Budget 2016 measures (Summary Table 1).

The reverse is true for families 5 to 8, where families with older children will have a bigger loss in disposable income from Budget 2016 than families with younger children. These families are projected to have a decrease in household disposable income from the Budget 2016 since payments of the Canada Child Benefit decrease with income.

Making all children's benefits non-taxable and reducing of the second bracket tax rate to 20.5% will decrease total federal taxes for all eight families. However, this will be more than offset by the increase in federal taxes due to the repeal of the Family Tax Cut credit for all families except Families 1 and 5 (Summary Table 1).

Summary Table 1

Impact on disposable income from Budget 2016 measures to selected families with children

<i>\$ dollars</i>	Change in disposable income	Change in employment income	Change in transfer income	Change in total net federal taxes
Family 1	\$1,932	\$0	\$1,918	-\$14
Family 2	\$1,972	\$0	\$2,318	\$346
Family 3	\$818	\$0	\$1,668	\$851
Family 4	\$858	\$0	\$2,068	\$1,211
Family 5	-\$1,505	\$0	-\$2,098	-\$593
Family 6	-\$1,471	\$0	-\$1,440	\$31
Family 7	-\$6,635	\$0	-\$3,840	\$2,795
Family 8	-\$4,595	\$0	-\$1,440	\$3,155

1. Introduction

The member for Elgin-Middlesex-London requested that the Parliamentary Budget Officer analyze the impact of Budget 2016 measures for the following eight types of families:

- Family 1: Two-income family with two children aged five and under. One earns \$20,000 and the other earns \$54,000.
- Family 2: Two-income family with two children aged 10 and 12. One earns \$20,000 and the other earns \$54,000.
- Family 3: One-income family with two children aged five and under. Employment income: \$89,000.
- Family 4: One-income family with two children aged 10 and 12. Employment income: \$89,000.
- Family 5: Two-income family with two children aged five and under. One earns \$60,000 and the other earns \$120,000.
- Family 6: Two-income family with two children aged 10 and 12. One earns \$60,000 and the other earns \$120,000.
- Family 7: One-income family with two children aged five and under. Employment income: \$250,000.
- Family 8: One-income family with two children aged 10 and 12. Employment income: \$250,000.

These families are not necessarily representative of the population.

PBO estimates the change in household disposable income as a measure of impact from the Budget 2016 measures for the selected families. In this report, PBO measures disposable income as the total income including transfer income that remains after the deduction of federal taxes and tax credits. PBO calculates federal taxes payable using the Canada Revenue Agency's tax package for individuals based on 2016 tax amounts. The Budget 2016 measures included in the analysis are the:

1. Change in personal income tax rates
2. Repeal of Family Tax Cut credit
3. Change in the Children's Fitness and Children's Arts tax credits
4. Replacement of the Universal Child Care Benefit and Canada Child Tax Benefit by the Canada Children Benefit
5. Adjustment of the Charitable Donation tax credit

PBO also assumes that the higher earning spouse:

- claims eligible Children's Arts and Children's Fitness expenses
- makes a Charitable Donation and claims the new charitable donation tax credit where income exceeds \$200,000

The amounts claimed are assumed to be the same for all families. PBO also assumes that the lower earning spouse:

- claims the Universal Child Care Benefit

The amount of children's benefits received will vary according to each family's characteristics as determined by the criteria for each child benefit.

Lastly, PBO assumes that all families claim the basic personal amount. All earners claim the Canada employment amount and the spouse or common-law partner amount if eligible. PBO also calculates the earners' Canada Pension Plan (CPP) contributions and Employment Insurance premiums based on the employment income of the earners. PBO assumes families are not eligible for other non-refundable tax credits.

An important caveat to the analysis is that it serves to provide a static comparison of the estimated household disposable income with and without the inclusion of Budget 2016 measures across different types of families.

That is, PBO assumes that individuals within the families will not change their behaviours or tax strategies to respond to changes in measures. The magnitude of impact on disposable income depends on who is the claimant, the exact amount claimed, and the use of other tax credits or credits carried forward from previous years.

Additionally, PBO assumes that all the tax and transfer measures are fully in effect in 2016.

Appendix A provides a detailed description of PBO's methodology and the assumptions of the amounts claimed for each tax credit for all eight families.

2. Budget 2016 Measures

The federal government is implementing new measures in Budget 2016 that will affect families' personal income tax owing and transfer income. Details on each of the new measures included in this report are in Appendix A. Specifically, the new measures will:

1. Change personal income tax rates

- Reduce the second tax bracket rate from 22.0% to 20.5%.
- Introduce a new tax rate of 33.0% on income over \$200,000.

2. Repeal the Family Tax Cut credit

- Repeal a non-refundable tax credit available to families with children under the age of 18.

3. Repeal the Children's Fitness and Children's Arts tax credits¹

- Repeal the refundable tax credit for eligible fitness expenses for children under 16 years of age (18 if eligible for the disability tax credit).
- Repeal the non-refundable tax credit for eligible fees for programs of artistic, cultural, recreational and developmental activity for children under 16 years of age (18 if eligible for the disability tax credit).

4. Replace the UCCB and CCTB by the CCB

- Repeal the taxable monthly Universal Child Care Benefit (UCCB) paid to families with children.
- Repeal the non-taxable monthly Canada Child Tax benefit (CCTB) paid to families with children.
- Introduce the monthly Canada Child Benefit (CCB) for families with children.

5. Adjust the Charitable Donation tax credit

- Allow individuals with annual income above \$200,000 to claim a 33% tax credit rate on donations above \$200, to a limit of total federal income tax paid at the 33% rate.

3. Estimated Impact

PBO estimates that the Budget 2016 measures will increase disposable income for Families 1 to 4. This is largely due to the increase in the total income for these families from the introduction of the Canada Child Benefit. Specifically, families with younger children will have more disposable income than families with older children under the budget measures (Table 3-1).

The reverse is true for families 5 to 8, where families with older children will have a bigger loss in disposable income from Budget 2016 than families with younger children. Families 5 to 8 are estimated to have a decrease in household disposable income from the budget since payments of the Canada Child Benefit decrease with income.

Making all children's benefits non-taxable and the reduction of the second bracket tax rate to 20.5% will help reduce total federal taxes for all eight families. However, this reduction will be more than offset by the increase in federal taxes resulting from the repeal of the Family Tax Cut credit for all families, except Families 1 and 5 (Table 3-1).

Table 3-1 Impact on disposable income from Budget 2016 measures for families with children

<i>\$ dollars</i>	Change in disposable income	Change in employment income	Change in transfer income	Change in total net federal taxes
Family 1	\$1,932	\$0	\$1,918	-\$14
Family 2	\$1,972	\$0	\$2,318	\$346
Family 3	\$818	\$0	\$1,668	\$851
Family 4	\$858	\$0	\$2,068	\$1,211
Family 5	-\$1,505	\$0	-\$2,098	-\$593
Family 6	-\$1,471	\$0	-\$1,440	\$31
Family 7	-\$6,635	\$0	-\$3,840	\$2,795
Family 8	-\$4,595	\$0	-\$1,440	\$3,155

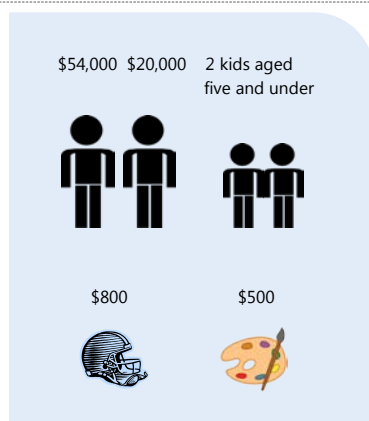
Family 1 is a two-income family with two children aged five and under. One spouse earns \$20,000 and the other \$54,000. Based on PBO's calculation, disposable income for Family 1 would increase by an estimated \$1,932 under the Budget 2016 measures.

Total income, that is, employment income plus transfer payments, would increase by \$1,918 as the net increase in child care benefits from introducing the Canada Child Benefit (CCB) would offset the removal of the Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB).

Under the budget measures, Family 1 will pay \$14 less in total federal taxes. Making all children's benefits non-taxable and reducing the second tax bracket rate would offset the increase in taxes from the repeal of the Family Tax Cut credit, the reduction of the Children's Arts amount, and the reduction in the Children's Fitness tax credit.

Table 3-2

Impact on disposable income from Budget 2016 measures for Family 1



	Pre-Measures	Post-Measures	Diff.
Total income	\$79,735	\$81,653	\$1,918
Employment Income	\$74,000	\$74,000	\$0
UCCB	\$3,840	\$0	-\$3,840
CCTB	\$1,895	\$0	-\$1,895
CCB	\$0	\$7,653	\$7,653
Federal taxes net of credits	\$6,993	\$6,979	-\$14
of which:			
Middle Class Tax Cut	\$0	-\$131	-\$131
UCCB taxes	\$576	\$0	-\$576
Family Tax Cut	-\$610	\$0	\$610
Children's Arts amount	-\$75	-\$38	\$37
Children's Fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$72,742	\$74,674	\$1,932

Note: A negative change in total taxes is a positive change in disposable income. Values may not add due to rounding.

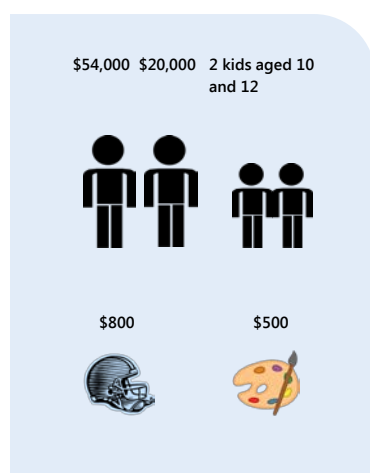
Family 2 has the same profile as Family 1 except for the age of the children. Family 2 has two children aged 10 and 12 with household employment income of \$74,000. Based on PBO's calculation, disposable income for Family 2 would increase by an estimated \$1,972 under the Budget 2016 measures.

Family 2 would have \$2,318 more in total income resulting from the increase from the Canada Child Benefit. This would more than offset the repeal of the UCCB and CCTB.

However, Family 2 would receive less in Universal Child Care Benefit payments than Family 1 because of the age of their children before Budget 2016. Therefore, Family 2 would pay an estimated \$346 more in federal taxes under the Budget 2016 measures.

Family 2 would incur a decrease in taxes from removing the UCCB and reducing the second tax bracket rate. But these measures would not be enough to offset the increase in taxes from the repeal of the Family Tax Cut credit, the reduction of the Children's Arts amount and the reduction in Children's Fitness tax credit.

Table 3-3 Impact on disposable income from Budget 2016 measures for Family 2



	Pre-Measures	Post-Measures	Diff.
Total income	\$77,335	\$79,653	\$2,318
Employment Income	\$74,000	\$74,000	\$0
UCCB	\$1,440	\$0	-\$1,440
CCTB	\$1,895	\$0	-\$1,895
CCB	\$0	\$5,653	\$5,653
Federal taxes net of credits	\$6,633	\$6,979	\$346
of which:			
Middle Class Tax Cut	\$0	-\$131	-\$131
UCCB taxes	\$216	\$0	-\$216
Family Tax Cut	-\$610	\$0	\$610
Children's Arts amount	-\$75	-\$38	\$37
Children's Fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$70,702	\$72,674	\$1,972

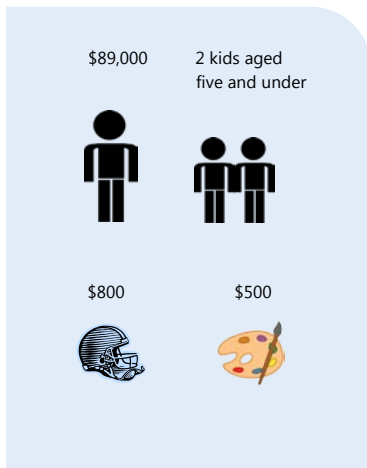
Note: A negative change in total taxes is a positive change in disposable income. Values may not add due to rounding.

Family 3 is a one-income family with two children aged five and under, with \$89,000 in employment income. Based on PBO’s calculation, Family 3 would have \$879 more in disposable income under the Budget 2016 measures.

The total income for Family 3 would be \$1,668 higher. The introduction of the CCB would increase total income for Family 3 by \$6,817, while removal of UCCB and CCTB would reduce total income by \$5,148.

Family 3 would pay \$851 more in federal taxes with the Budget 2016 measures. This is because the reduction of the second tax bracket rate and the removal of UCCB would not be enough to offset the increase in taxes from the repeal of the Family Tax Cut credit.

Table 3-4 Impact on disposable income from Budget 2016 measures for Family 3



	Pre-Measures	Post-Measures	Diff.
Total income	\$94,148	\$95,817	\$1,668
Employment Income	\$89,000	\$89,000	\$0
UCCB	\$3,840	\$0	-\$3,840
CCTB	\$1,308	\$0	-\$1,308
CCB	\$0	\$6,817	\$6,817
Federal taxes net of credits	\$10,650	\$11,501	\$851
of which:			
Middle Class Tax Cut	\$0	-\$656	-\$656
UCCB taxes	\$576	\$0	-\$576
Family Tax Cut	-\$2,000	\$0	\$2000
Children's Arts amount	-\$75	-\$38	\$37
Children's Fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$83,498	\$84,316	\$818

Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

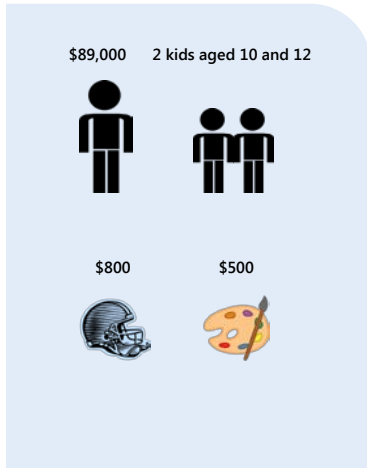
Family 4 has the same profile as Family 3 except for the age of the children. Family 4 has two children, one aged 10 and the other 12, and a household employment income of \$89,000.

Under the budget measures, total income for Family 4 would increase by \$2,068. That is because the introduction of CCB would increase total income by \$4,817. Removing UCCB and CCTB would reduce income by \$2,748.

On the other hand, Family 4 would pay \$1,211 more in total federal taxes. The increase in federal taxes from the repeal of the Family Tax Cut credit would outweigh the tax savings from the reduction of the second tax bracket rate and the repeal of UCCB.

As a result, disposable income for Family 4 would increase by an estimated \$858.

Table 3-5 Impact on disposable income from Budget 2016 measures for Family 4



	Pre-Measures	Post-Measures	Diff.
Total income	\$91,748	\$93,817	\$2,068
Employment Income	\$89,000	\$89,000	\$0
UCCB	\$1,440	\$0	-\$1,440
CCTB	\$1,308	\$0	-\$1,308
CCB	\$0	\$4,817	\$4,817
Federal taxes net of credits	\$10,290	\$11,501	\$1,211
of which:			
Middle Class Tax Cut	\$0	-\$656	-\$656
UCCB taxes	\$216	\$0	-\$216
Family Tax Cut	-\$2,000	\$0	\$2,000
Children's arts amount	-\$75	-\$38	\$37
Children's fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$81,458	\$82,316	\$858

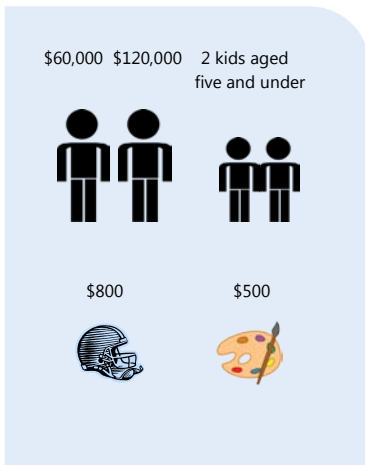
Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

Family 5 is a two-income family with two children aged five and under. One spouse earns \$60,000 and the other \$120,000, for an employment income of \$180,000. Based on PBO’s calculation, Family 5 would have \$1,505 less in disposable income under the budget.

Total income for Family 5 would decline by \$2,098. Introducing the CCB would increase total income by \$1,742, while removing the UCCB would reduce it by \$3,840.

Under the budget, federal taxes payable for Family 5 would be \$593 lower. This is because the decrease in taxes from reducing the second tax bracket rate and removing UCCB would more than offset the increase in taxes resulting from repealing the Family Tax Cut credit.

Table 3-6 Impact on disposable income from Budget 2016 measures for Family 5



	Pre-Measures	Post-Measures	Diff.
Total income	\$183,840	\$181,742	-\$2,098
Employment Income	\$180,000	\$180,000	\$0
UCCB	\$3,840	\$0	-\$3,840
CCTB	\$0	\$0	\$0
CCB	\$0	\$1,742	\$1,742
Federal taxes net of credits	\$29,179	\$28,585	-\$593
of which:			
Middle Class Tax Cut	\$0	-\$958	-\$958
UCCB taxes	\$787	\$0	-\$787
Family Tax Cut	-\$1,069	\$0	\$1,069
Children's arts amount	-\$75	-\$38	\$37
Children's fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$154,661	\$153,157	-\$1,505

Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

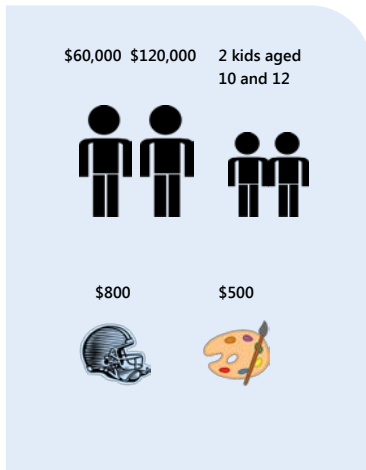
Family 6 has the same profile as Family 5 except for the age of the children. Family 6 has one child aged 10 and another 12, and employment income of \$180,000.

Under the budget, total income for Family 6 would decline by an estimated \$1,440, which is the loss from the UCCB. Family 6 would not receive any CCB payments.

On the other hand, Family 6 would pay \$31 more in federal taxes. Reducing the second tax bracket rate would offset the repeal of the Family Tax Cut credit and the reduction of the Children’s Arts amount and the Children’s Fitness tax credit.

As a result, disposable income for Family 6 would decrease by \$1,471.

Table 3-7 Impact on disposable income from Budget 2016 measures for Family 6



	Pre-Measures	Post-Measures	Diff.
Total income	\$181,440	\$180,000	-\$1,440
Employment Income	\$180,000	\$180,000	\$0
UCCB	\$1,440	\$0	-\$1,440
CCTB	\$0	\$0	\$0
CCB	\$0	\$0	\$0
Federal taxes net of credits	\$28,555	\$28,585	\$31
of which:			
Middle Class Tax Cut	\$0	-\$922	-\$922
UCCB taxes	\$295	\$0	-\$295
Family Tax Cut	-\$1,165	\$0	\$1,165
Children's Arts amount	-\$75	-\$38	\$37
Children's Fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$152,885	\$151,415	-\$1,471

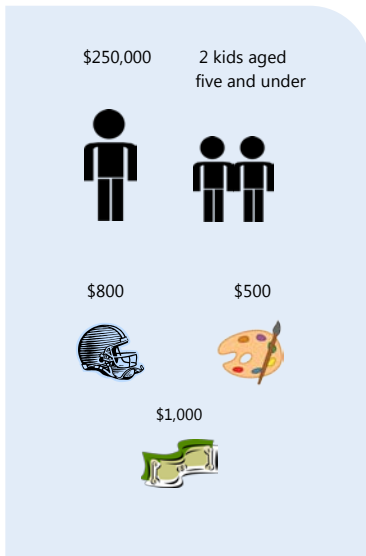
Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

Family 7 is a one-income family with two children aged five and under and an employment income of \$250,000. Based on PBO’s calculation, Family 7 would have \$6,635 less in disposable income under the budget.

The removal of the UCCB and CCTB would reduce total income by \$3,840. This family’s income is too high to make it eligible for CCB.

As a result, federal taxes would increase by \$2,795. Introducing the 33 per cent tax rate on taxable income above \$200,000 and repealing the Family Tax Cut credit would more than offset the tax savings from reducing the second tax bracket rate and removing UCCB.

Table 3-8 Impact on disposable income from Budget 2016 measures for Family 7



	Pre-Measures	Post-Measures	Diff.
Total income	\$253,840	\$250,000	-\$3,840
Employment Income	\$250,000	\$250,000	\$0
UCCB	\$3,840	\$0	-\$3,840
CCTB	\$0	\$0	\$0
CCB	\$0	\$0	\$0
Federal taxes net of credits	\$55,474	\$58,269	\$2,795
of which:			
Middle Class Tax Cut	\$0	-\$679	-\$679
UCCB taxes	\$576	\$0	-\$576
Family Tax Cut	-\$2,000	\$0	\$2,000
Children's Arts amount	-\$75	-\$38	\$37
Introduction of the new 33% tax rate	\$0	\$2,000	\$2,000
Federal Charitable Donation credit	-\$262	-\$294	-\$32
Children's Fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$198,366	\$191,731	-\$6,635

Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

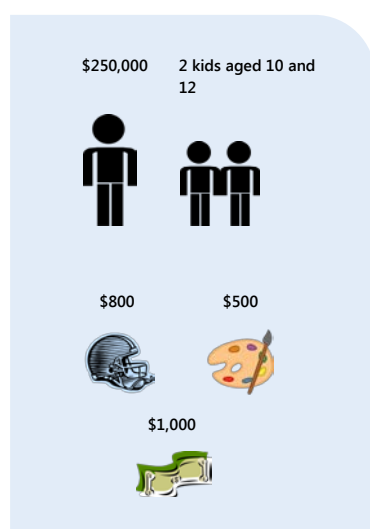
Family 8 has the same profile as Family 7 except for the age of the children. Family 8 has two children, one 10 and another 12 and an employment income of \$250,000.

Under Budget 2016, its total income would drop by \$1,440. This family would not be eligible for CCB payments, and it would no longer receive the \$1,440 in UCCB payments.

At the same time, Family 8 would pay \$3,155 more in total federal taxes. This is due to introduction of the 33 per cent tax rate, the repeal of Family Tax Cut credit and the reduction of other tax credits. These would offset tax savings from reducing the second tax bracket rate and making children's benefits non-taxable.

Therefore, disposable income for Family 8 would decrease by \$4,595.

Table 3-9 Impact on disposable income from Budget 2016 measures for Family 8



	Pre-Measures	Post-Measures	Diff.
Total income	\$251,440	\$250,000	-\$1,440
Employment Income	\$250,000	\$250,000	\$0
UCCB	\$1,440	\$0	-\$1,440
CCTB	\$0	\$0	\$0
CCB	\$0	\$0	\$0
Federal taxes net of credits	\$55,114	\$58,269	\$3,155
of which:			
Middle Class Tax Cut	\$0	-\$679	-\$679
UCCB taxes	\$216	\$0	-\$216
Family Tax Cut	-\$2,000	\$0	\$2,000
Children's arts amount	-\$75	-\$38	\$37
Introduction of the new 33% tax rate	\$0	\$2,000	\$2,000
Federal charitable donation credit	-\$262	-\$294	-\$32
Children's fitness tax credit	-\$120	-\$75	\$45
Disposable income	\$196,326	\$191,731	-\$4,595

Note: A negative change in total taxes is a positive change in disposable income. Values in table may not add due to rounding.

Appendix A: Detailed Budget 2016 Measures

Personal income tax rates

- Reduce the second tax bracket rate from 22.0 per cent to 20.5 per cent.
- Introduce a new tax rate of 33.0 per cent on income over \$200,000.

Family Tax Cut

- Repeal a non-refundable tax credit available to families with children under the age of 18. The maximum value of the credit is \$2,000. It is calculated on the basis of a notional income transfer from the higher to lower income partner, capped at \$50,000.

Children's Fitness and Children's Arts tax credits²

- Repeal the tax credit that provides a 15.0 per cent refundable tax credit of eligible fitness expenses for children under 16 years of age (18, if eligible for the disability tax credit).
- Repeal the tax credit that provides a 15 per cent non-refundable tax credit in eligible fees for programs of artistic, cultural, recreational and developmental activity for children under 16 years of age (18, if eligible for the disability tax credit).

Universal Child Care Benefit and Canada Child Tax Benefit

- Repeal the Universal Child Care Benefit, which provides a taxable benefit of \$160 per month for each child under the age of six and \$60 per month for each child aged 6 through 17.
- Repeal the non-taxable Canada Child Tax Benefit that is paid monthly, based on adjusted family net income and the number of children in the family (Table A-1).

Table A-1

Family Adjusted Net Income	Phase-out rate
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National Child Benefit Supplement	
--	--

\$26,359 +	
Families with one child	12.2%
Families with two children	23.0%
Families with three or more children	33.3%
Child Tax Basic Benefit	
\$0 - \$45,282	0.0%
\$45,283 +	
Families with one child	2.0%
Families with two or more children	4.0%

Source: Canada Revenue Agency, "Canada Child Benefits", T4144(E) indexed to inflation

Canada Child Benefit

- Provide a maximum annual benefit of up to \$6,400 per child under the age of 6 and up to \$5,400 per child for those aged 6 through 17. This is phased out based on adjusted family net income and the number of children in the family (Table A-2).

Table A-2

Family Adjusted Net Income	Phase-out rate
----------------------------	----------------

\$0 - \$30,000	0.0%
\$30,001 – \$65,000	
Families with one child	7.0%
Families with two children	13.5%
Families with three children	19.0%
Families with four or more children	23.0%
\$65,001 +	
Families with one child	3.2%
Families with two children	5.7%
Families with three children	8.0%
Families with four or more children	9.5%

Source: Finance Canada, *Budget 2016*.

Charitable Donation tax credit

- Allow individuals to claim a 33 per cent tax credit rate on donations above \$200, to a limit of total federal income tax paid at that rate.

Appendix B: Assumptions and Methodology

PBO uses Canada Revenue Agency's (CRA) tax package for individuals to calculate the total taxes and credits for each taxfiler of the families, based on the individual's specified income and family profile. The calculation of the taxes and credits are based on the 2016 income tax amounts published by CRA.³

In this report, PBO does not account for any behavioural response of the taxfiler induced by the changes in their tax rates and/or credits. Behavioural responses include real economic behaviour, such as an increase or decrease in working hours, and efforts to reduce taxable income by the affected individuals.⁴

PBO assumes that the lower earning spouse in the families claims the Universal Child Care Benefit in his/her tax returns. PBO also assumes that the higher earning spouse claims the Children's Arts credit and Children's Fitness credit.

PBO assumes that each family claims and receives in both the pre-Budget 2016 and post-Budget 2016 scenarios:

- B.1.1 \$500 in Children's Arts expenses
- B.1.2 \$800 in Children's Fitness expenses
- B.1.3 \$1,000 in Charitable Donation for individuals with income above \$200,000

In the pre-Budget 2016 scenario, PBO calculates federal taxes using the Schedule 1 tax form based on the 2015 federal tax rates but 2016 tax year amounts. PBO assumes each family applies for the Family Tax Cut, receives the Universal Child Care Benefit (UCCB) and claims the Canada Child Tax Benefit (CCTB).

PBO calculates the amount of Family Tax Cut for each family using the Schedule 1-A tax form. The amounts of UCCB and CCTB for each family are calculated based on the rates and thresholds published by CRA.

In the Budget 2016 scenario, PBO calculates federal taxes using the Schedule 1 tax form based on the 2016 federal tax rates. PBO assumes the Family Tax Cut Credit, UCCB and the CCTB are repealed.

Instead, each family is claiming for the Canada Child Benefit (CCB). The amount of CCB for each family is calculated based on information from Budget 2016.

To calculate the CCB and CCTB, PBO estimated the adjusted family net income. Actual children's benefits payable will differ, depending on the actual adjusted family net income.⁵

Notes

1. Budget 2016 proposes halving the maximum eligible expenses in 2016, with a full repeal by 2017. PBO's calculations reflect the 2016 values (that is, half of the values used on the 2015 tax forms).
2. Ibid
3. <http://www.cra-arc.gc.ca/tx/ndvdl/fq/txrts-eng.html>
4. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/PIT/PIT_EN.pdf
5. An adjustment factor of 0.97838 was applied to employment income to estimate the adjusted family net income. Source: Statistics Canada, SPSPDM, version 22.1, 2016.