

idfa Institute for Divorce Financial Analysts

2016 Federal Budget Impact

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The Impact of the 2016 Federal Budget on Child and Spousal Support Calculations

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Introduction

- Why might calculated child support amounts have increased compared to 2015?
- Why might calculated child support amounts have increased compared to 2015?
- Why might spousal support ranges have decreased since July compared to 2015?

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Introduction

- Summary of federal budget changes:
 - Replacement of the CCTB and UCCB with CCB
 - Reduction of the rate for the 2nd federal income tax bracket
 - Addition of the 5th federal income tax bracket
 - Elimination of the federal family tax cut

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Introduction

- Summary of federal budget changes:
 - Reduction of the federal fitness and arts credits
 - Addition of special donation rate
 - Reduction of the "small business" dividends gross up rate
 - Increase to the Northern Residents Deduction

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Introduction

- Clarification of "child support"
 - "Child support" defined per the Child Support Guidelines:
 - 3(1)(a) – table amount, and
 - 3(1)(b) – section 7
 - very different tax treatment between "child support" and an "expense reimbursement" or a "sharing of expenses"
 - reimbursed amounts cannot be claimed for income tax purposes

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2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB:
 - Old system - CCTB and UCCB:
 - provided a non-taxed basic amount (CTB)
 - a non-taxed low income supplement (NCBS) and
 - a non-taxed disability benefit
 - also paid an additional amount in taxable income (UCCB)
 - amounts based on number of children

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2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Old system - CCTB and UCCB continued:
 - payouts were lower than new system
 - \$26,021 for the supplement and higher clawback %s than new system
 - \$44,701 for the basic and lower clawback %s than new system
 - program was indexed to inflation




2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - New system - CCB:
 - provides a single two tiered non-taxed benefit and
 - a non-taxed disability benefit
 - amounts based on age and number of children
 - \$6,400 annually for each child under 6
 - \$5,400 annually for each child 6 to 17



2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - New system - CCB continued:
 - income phase outs at two levels
 - level 1 - \$30,000 with lower clawback %s than old system
 - level 2 - \$65,000 with higher clawback %s than old system
 - program currently not index to inflation



2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Comparison of payouts – Scenario:
 - Single parent family with one child
 - Family net income of \$26,000

Under age 6				Age 6 to 17			
Old CCTB System	New CCB System	Old CCTB System	New CCB System	Old CCTB System	New CCB System	Old CCTB System	New CCB System
Basic	\$1,471	Basic	\$5,400	Basic	\$1,471	Basic	\$5,400
NCBS	2,279			NCBS	2,279		
UCCB	1,920			UCCB	720		
Total	\$5,670 or less			Total	\$4,470 or less		
Net increase of \$730 or more				Net increase of \$930 or more			

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2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Potential impact of new benefit system on child support:
 - impact through section 7 child support calculation
 - 7(1)(a) child care expense is only category where tax effect is a tax deduction

Total Income
 - Tax deductions (circled) → eg: child care expenses
 = Net Income (circled) → Most social programs have income limitations based on "family net income" (e.g. CCB, GST credit, etc)
 - Additional tax deductions
 = Public Income

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2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Potential impact of new benefit system on child support continued:
 - increase in benefits from the reduced net income will flow through to "net" child care expense
 - child care expenses will cause a net change in benefits for incomes over \$30,000
 - change will be less than old system at lower income levels since:
 - income phase outs are higher
 - claw back percentages at first level are lower

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2016 Federal Budget Changes


- Replacement of the CCTB and UCCB with CCB continued:
 - Potential impact of new benefit system on child support continued:
 - benefits pay outs are made to much higher income families
 - elimination around \$200,000 instead of \$100,000 with two children
 - net change in benefits with child care expense deduction at much higher income levels than old system
 - potential reduction of section 7 child support at higher income levels as net may be lower
 - increase to the payor's pro-rata sharing percentage with the end of the UCCB



2016 Federal Budget Changes


- Replacement of the CCTB and UCCB with CCB continued:
 - Impact of new benefit system on the pro-rata sharing percentage:

	Guideline Income	+ UCCB	-/+ Spousal Support	= Income for Sharing	Sharing %
Calendar 2015					
Payor	\$90,000.00	0.00	(0.00)	\$90,000.00	70.49%
Recipient	30,000.00	7,680.00	0.00	37,680.00	29.51%
July 2016 forward					
Payor	\$90,000.00	0.00	(0.00)	\$90,000.00	75.00%
Recipient	30,000.00	0.00	0.00	30,000.00	25.00%




2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Potential impact of new benefit system on spousal support:
 - benefits clawed back at higher income levels so more may be retained at higher levels of spousal support
 - when using SSAG to determine a range of spousal support new benefits will impact the calculations using the:
 - "With Child Support" formula
 - "Custodial Parent / Adult Child" formula




2016 Federal Budget Changes

- Replacement of the CCTB and UCCB with CCB continued:
 - Potential impact of new benefit system on spousal support continued:
 - new benefits system will generally reduce support under the "With Child Support" formula
 - depending on the method used to gross up child support, support may be reduced under the "Custodial Parent / Adult Child" formula
 - effects on spousal support will be discussed further in conjunction with the other budget changes




2016 Federal Budget Changes

- Reduction of the rate for the 2nd federal income tax bracket:
 - reduced from 22% to 20.5%
 - applied to taxable incomes greater than \$45,282 up to an including \$90,563
 - may reduce the tax effect of child care expenses for parties in this bracket such as:
 - a) lower tax saving due to lower rate
 - b) combined with lower net change in benefits may result in higher net expense
 - c) higher net expense would result in higher section 7 child support




2016 Federal Budget Changes

- Reduction of the rate for the 2nd federal income tax bracket continued:
 - may also reduce need for non-refundable tax credits because of lower tax (ie: less tax to offset with credits)
 - might reduce net effect of tax credits in other section 7 categories and
 - increased net expense would result in increased section 7 child support




2016 Federal Budget Changes

- Addition of the 5th federal income tax bracket:
 - 5th bracket added for taxable income over \$200,000
 - tax rate on that income increased from 29% to 33%
 - increased savings for child care expenses at that level of income
 - would reduce net expense and decrease section 7 child support
 - could also be a net benefit effect from the CCB at the low end of this level



2016 Federal Budget Changes


- Benefits Analysis at Different Income Levels:
 - Basic scenario:
 - One child, age 4, with recipient in Alberta
 - Recipient is single (ie: not re-partnered)
 - Recipient's only source of income is employment income
 - Recipient's tax deductible child care expenses are \$8,000 annually
 - ** Total benefits in this example include Child Tax Benefit or Canada Child Benefit, GST Tax Credit, Alberta Family Employment Tax Credit, and Alberta Child Benefit.



2016 Federal Budget Changes


- Benefits Analysis at Different Income Levels continued:

	Income Levels		
	\$30,000.00	\$75,000.00	\$120,000.00
Total benefits**			
July 2016 forward	\$8,960.00	\$3,886.00	\$2,446.00
Calendar 2015	(5,032.00)	(891.50)	(5.50)
Change in total benefits	\$3,928.00	\$2,994.50	\$2,440.50
Total benefits plus net UCCB:			
July 2016 forward	\$8,960.00	\$3,886.00	\$2,446.00
Calendar 2015	(6,952.00)	(2,197.10)	(1,234.30)
Change in benefits plus net UCCB	\$2,008.00	\$1,688.90	\$1,211.70



2016 Federal Budget Changes


- Section 7 Child Support Analysis:
 - Basic scenario:
 - Two children, ages 4 and 5, with recipient in Alberta
 - Neither party is re-partnered
 - Recipient's child care expenses are \$20,400 annually - \$16,000 tax deductible
 - Recipient's employment income is \$48,000
 - Payor's employment income is \$150,000



2016 Federal Budget Changes


- Section 7 Child Support Analysis continued:

Section 7 Child Support	Calendar 2015	July 2016 forward
Gross child care expense	\$20,400.00	\$20,400.00
Income tax savings	(4,130.42)	(3,348.77)
Increase in benefits	(4,088.18)	(4,001.20)
Net child care expense	\$12,181.40	\$13,050.03
Payor's pro rata sharing %	74.32%	75.76%
Annual S7 child support	\$9,053.21	\$9,886.70
Monthly S7 child support	\$754.43	\$823.89




2016 Federal Budget Changes

- Elimination of the federal family tax cut
 - was introduced in 2014
 - impacted situations where party had re-partnered and had at least one child
 - allowed notional transfer up to \$50,000 of taxable income to lower income spouse
 - realized up to \$2,000 of federal tax savings that could be claimed by either
 - could reduce tax effects of section 7 expenses for spouse claiming tax cut resulting in increased child support through section 7




2016 Federal Budget Changes

- Reduction of the federal fitness and arts credits:
 - both maximum claims are cut in half for 2016 to:
 - \$500 per child for the refundable fitness credit
 - \$250 per child for the non-refundable arts credit
 - both credits are applied at 15% of the allowed expenses
 - federal claims have minor effect on net extracurricular activities in section 7
(maximum monthly net tax savings - \$6.25 for fitness, \$3.13 for arts)

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2016 Federal Budget Changes

- Reduction of the federal fitness and arts credits continued:
 - both credits are eliminated federally as of 2017
 - Yukon, BC, Manitoba and Ontario have similar provincial credits
 - Saskatchewan eliminated their "Active Families Benefit" as of this year
 - Yukon reinstated the federal credit as it was in 2015
 - Ontario will eliminate their "Children's Activity Tax Credit" as of 2017
 - BC and Manitoba appear to be continuing their fitness and arts credits

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2016 Federal Budget Changes

- Addition of special donation rate:
 - may claim 33% of the lesser of taxable income in excess of \$200,000 and donations made
 - tied to new federal 5th tax bracket so amount may be indexed in future
 - where primary / secondary school fees are paid to a religious school or school with religious studies, part of fee might qualify as a donation
 - possible reduction of net primary / secondary school fees in section 7 for high income earners effectively reducing section 7 child support

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2016 Federal Budget Changes

- Reduction of the "small business" dividends gross up rate:
 - Canadian dividends are grossed up for income tax reporting
 - Child Support Guidelines require Canadian dividends to be converted to the cash amount for Guideline income
 - gross up rate on "other than eligible dividends" (better known as "small business" dividends) was reduced from 18% to 17% as of 2016
 - reduction in rate will increase Guideline income when starting point is taxable dividends




2016 Federal Budget Changes

- Reduction of the "small business" dividends gross up rate continued:
 - change in Guideline income will flow through to :
 - a) an increase in the table amount of child support
 - b) section 7 child support through the change in the pro-rata sharing percentage
 - related reduction to the dividend tax credit from 11.017% to 10.5%



2016 Federal Budget Changes

- Increase to the Northern Residents Deduction:
 - deduction has been increased from \$8.25 per day to \$11 per day
 - maximum possible deduction for the most northern regions of Canada is \$8,030 for the residency portion
 - since taxes general cannot go below zero, deduction has:
 - a) potential to reduce the tax impact of child care expense tax deduction in section 7 calculations
 - b) potential to reduce tax impact of other credits in section 7 calculations



2016 Federal Budget Changes

- Increase to the Northern Residents Deduction continued:
 - is deducted after net income so will not affect benefits calculations

Total Income
 - Tax deductions
 = Net Income
 - Additional tax → eg: Northern Residents Deduction
 = Taxable income

2016 Federal Budget Changes


- Effects of budget changes on analysis and determination of spousal support:
 - affects are complicated and sometimes offset each other
 - both "With Child Support" formula and "Custodial Parent / Adult Child" formula contain circular calculations
 - "With Child Support" formula :
 - a) driven by concept of "individual net disposable income" – INDI
 - b) spousal support recipient to receive 40% to 46% of pooled INDI

2016 Federal Budget Changes

- Effects of budget changes on analysis and determination of spousal support continued:
 - "With Child Support" formula continued:
 - o INDI defined by formula:
 - INDI = Guideline income – section 3 child support +/- section 7 child support – gross contribution to section 7 child support – notional child support – taxes – deductions + government benefits +/- spousal support
 - o benefits may increase recipient's share of pooled INDI thus reducing spousal support


2016 Federal Budget Changes

- Effects of budget changes on analysis and determination of spousal support continued:
 - "With Child Support" formula continued:
 - decreased tax through 2nd federal tax bracket may increase either or both parties share of pooled INDI
 - if payor's tax reduction is greater than recipient's, spousal support would increase
 - increased tax in 5th federal tax bracket would decrease either or both parties share of pooled INDI
 - if payor's tax increase is greater than recipient's, spousal support would drop




2016 Federal Budget Changes

- Effects of budget changes on analysis and determination of spousal support continued:
 - "Custodial Parent / Adult Child" formula:
 - spousal support is calculated as a percentage of the adjusted gross income difference
 - gross incomes are reduced by grossed up actual and notional child support
 - $\text{spousal support} = (\text{payor's gross income} - \text{grossed up child support} - \text{recipient's gross income} - \text{grossed up notional child support}) \times (1.5\% \text{ to } 2\% \times \text{the years of cohabitation})$




2016 Federal Budget Changes

- Effects of budget changes on analysis and determination of spousal support continued:
 - "Custodial Parent / Adult Child" formula continued:
 - budget changes affect the gross up of child support:
 - if the gross up method holds the party's cash position constant then the increased benefits will increase the gross up and reduce the spousal support
 - reduced taxes will reduce the gross up and increase the spousal support



2016 Federal Budget Changes


- Spousal Support Analysis using "With Child Support" formula:
 - Basic scenario:
 - One child, age 4, with recipient in Alberta
 - Neither party is re-partnered
 - Recipient's child care expenses are \$10,800 annually - \$8,000 tax deductible
 - Recipient's employment income is \$48,000
 - Payor's employment income is \$150,000



2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Comparison of SSAG ranges:

SSAG Range Differences:	Low	Middle	High
July 2016 forward	16,040.00	22,067.00	28,094.00
Calendar 2015	(17,794.00)	(23,663.00)	(29,532.00)
Annual decrease in range	(1,754.00)	(1,596.00)	(1,438.00)
Monthly decrease in range	(146.17)	(133.00)	(119.83)




2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Monthly cash analysis of SSAG range:


Monthly change in payor's cash	Low	Middle	High
July 2016 forward	\$6,112.08	\$5,800.47	\$5,498.47
Calendar 2015	(5,953.01)	(5,662.21)	(5,369.52)
Monthly increase in cash	\$159.07	\$138.26	\$128.95

Monthly change in recipient's cash	Low	Middle	High
July 2016 forward	\$5,763.50	\$6,063.36	\$6,372.50
Calendar 2015	(5,656.12)	(5,959.14)	(6,262.18)
Monthly increase in cash	\$107.38	\$104.22	\$110.32



2016 Federal Budget Changes


- Spousal Support Analysis using "With Child Support" formula continued:
 - Basic scenario:
 - Two children, ages 4 and 5, with recipient in Alberta
 - Neither party is re-partnered
 - Recipient's child care expenses are \$20,400 annually - \$16,000 tax deductible
 - Recipient's employment income is \$48,000
 - Payor's employment income is \$150,000



2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Comparison of SSAG ranges:

SSAG Range Differences:	Low	Middle	High
July 2016 forward	6,003.00	12,480.00	18,957.00
Calendar 2015	(11,402.00)	(17,007.00)	(22,612.00)
Annual decrease in range	(5,399.00)	(4,527.00)	(3,655.00)
Monthly decrease in range	(449.92)	(377.25)	(304.58)




2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Monthly cash analysis of SSAG range:


Monthly change in payor's cash	Low	Middle	High
July 2016 forward	\$5,505.74	\$5,215.33	\$4,890.52
Calendar 2015	(5,165.55)	(4,875.14)	(4,603.93)
Monthly increase in cash	\$340.19	\$340.19	\$286.59

Monthly change in recipient's cash	Low	Middle	High
July 2016 forward	\$6,443.30	\$6,690.87	\$6,938.40
Calendar 2015	(6,223.14)	(6,459.37)	(6,703.23)
Monthly increase in cash	\$220.16	\$231.50	\$235.17




2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Monthly cash analysis of SSAG range continued:
 - in both examples, the Payor's increased cash position results from:
 - decrease in spousal support
 - decrease in section 7 child support
 - slight decrease in taxes through decrease in 2nd federal bracket




2016 Federal Budget Changes

- Spousal Support Analysis using "With Child Support" formula continued:
 - Monthly cash analysis of SSAG range continued:
 - in both examples, the Recipient's increased cash position despite a decrease in both child and spousal support results from:
 - significant increase in benefits
 - decrease in taxes through elimination of UCCB, decrease in 2nd federal bracket and decrease in taxable spousal support




2017 Federal Budget Changes

- Summary of federal budget changes:
 - Elimination of federal fitness and arts tax credits
 - completely eliminates tax effects of section 7 extra curricular expenses for provinces with no similar tax credits
 - will result in minor increases in child support in some cases
 - circular effect in SSAG but increased taxes and increased child support may offset




2017 Federal Budget Changes

- Summary of federal budget changes continued:
 - Elimination of education and textbook tax credits
 - tuition tax credit to remain federally
 - 2016 transfer credit maximums are \$6,922 for Ontario and \$5,000 for the rest of Canada
 - where maximum transfer is not available for tuition only, potential increase to net post secondary cost and therefore section 7 child support

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2017 Federal Budget Changes

- Summary of federal budget changes continued:
 - Currently no indexation of CCB
 - gradual erosion of benefit
 - September analysis of system by Office of the Parliamentary Budget Officer in Ottawa concluded that value of CCB would be slightly less than projected value of old system within 8 years

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2016 Provincial and Territorial Changes

- Summary of changes
 - Alberta
 - addition of new Alberta Child Benefit effective July 1, 2016
 - enhancement of existing Alberta Family Employment Tax Credit effective July 1, 2016
 - increase in tax rates of all but lowest of income tax brackets

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2016 Provincial and Territorial Changes

- Summary of changes
 - British Columbia
 - elimination of 6th income tax bracket effectively reducing tax rate for incomes over \$151,050
 - increase in BC Tax Reduction
 - increase in income threshold for BC Low Income Climate Action tax credit




2016 Provincial and Territorial Changes

- Summary of changes
 - New Brunswick
 - elimination of 6th income tax bracket effectively reducing tax rate for incomes over \$150,000
 - rate reduction for 5th tax bracket (incomes over \$150,000) from 21% to 20.3%
 - introduction of the New Brunswick HST credit effective July 1, 2016 to offset effect of increase in HST rate




2016 Provincial and Territorial Changes

- Summary of changes
 - Newfoundland and Labrador
 - implementation of a "Temporary Deficit Reduction Levy" for incomes over \$50,000
 - rate increase for all personal income tax brackets
 - introduction of the Newfoundland and Labrador Income Supplement and
 - increase to the Seniors' Benefit and
 - elimination of the HST tax credit – all effective July 1, 2016




2016 Provincial and Territorial Changes

- Summary of changes
 - Ontario
 - elimination of refundable Ontario Children's Activity Tax Credit effective next January
 - elimination of the Ontario tuition and education tax credit effective for the fall of 2017




2016 Provincial and Territorial Changes

- Summary of changes
 - Prince Edward Island
 - increase of non-refundable tax credits
 - Basic personal exemption increased from \$7,708 to \$8,000
 - Spousal credit from \$6,546 to \$6,795
 - AED credit from \$6,294 to \$6,795





2016 Provincial and Territorial Changes

- Summary of changes
 - Saskatchewan
 - elimination of Saskatchewan Active Families refundable tax credit



2016 Provincial and Territorial Changes

- Summary of changes
 - Yukon
 - Reinstatement of the children's refundable fitness tax credit and the non-refundable children's arts tax credit to 2015 federal levels



Thank you and have a great weekend 😊

