

2022 BUDGET SUBMISSION

February 24, 2022

Introduction

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. As Canada's leading national champion of financial empowerment, we work with partners in all sectors to develop and promote policies, programs, and resources that measurably improve the financial health of people living in, or at high risk of, poverty.

For well over a year, we have been hearing from our community partners that their participants, who are largely low-income, have experienced high levels of financial stress because of the unintended consequences of the Canada Emergency Response Benefit (CERB) and Canada Recovery Benefit (CRB).

The federal government's recent announcement of a one-time payment for seniors whose GIS payments were clawed back because of CERB and/or CRB income is a welcome step, but more action is needed on two remaining problems affecting low- and moderate-income Canadians:

1. **CERB and CRB debt:** CERB debt is plunging lower-income households into financial crisis, as many cannot feasibly manage to repay these amounts. Urgent action is needed to provide debt forgiveness/relief to these households.
2. **Clawbacks of federal refundable tax credits:** Many low- and moderate-income Canadians who received pandemic benefits have had, and will continue to have, federal refundable tax credits clawed back in full or in part because of this temporary boost in income. Low- and moderate-income CERB recipients have already experienced clawbacks but, for recipients of the CRB and/or Canada Worker Lockdown Benefit (CWLB), clawbacks will begin in July 2022 and July 2023, respectively, when refundable tax credits are recalculated.

Recommendations

1. **The Government of Canada should urgently implement a graduated CERB/CRB debt relief program**, whereby CERB and CRB debt would be forgiven entirely for people living on low incomes, as defined by the Market Basket Measure, and repayment amounts would be graduated for individuals earning up to \$50,000, repayable over a 5-year period, interest- and penalty-free, and capped at \$5,000.
2. **To stem the real threat of more financial and mental health crises, the government should immediately announce that it will not be seeking CERB and CRB repayment**

from social assistance, disability support, and GIS recipients and that a more comprehensive forgiveness and relief policy will be announced shortly.

3. **No new letters should go out to CERB and CRB recipients determined to be ineligible until a graduated relief program has been put in place** to avoid unnecessarily adding to the financial and mental stress on these households.
4. **The Government of Canada should end the clawback of CRB and CWLB income from refundable tax credit payments in the 2021 and 2022 tax seasons.** This can be achieved by adding a line to the T1 form and other forms used to calculate eligibility for income-tested tax benefits and credits, to net out CRB and CWLB income from the calculation of refundable tax credits. (Pandemic relief benefits would still be considered income for the purposes of calculating income tax owed, just not for calculation of eligibility for refundable tax credits.)
5. **The Government of Canada should fully reimburse individuals who experienced clawbacks of refundable tax credits received in 2021 because of 2020 CERB and/or CRB income,** as it has announced it will do for GIS recipients who experienced clawbacks due to CERB and/or CRB income.

Background

CERB and CRB provided a firm financial floor for more than 8.9 million people that helped them pay for basic expenses, such as rent, food, and utilities.¹ The CWLB now provides a reduced level of financial support to people laid off due to lockdowns.

Given the speed with which these programs were introduced and the accompanying administrative trade-offs, it was always clear that there would be future complications that would require attention and resolution.

Low- and moderate-income Canadians are now bearing the brunt of these complications at a time of elevated financial vulnerability for 65% or more of this population.²

CERB/CRB debt

In December 2020, 441,000 Canadians received letters from CRA informing them they were likely ineligible for CERB payments they had received and urging them to repay these funds.³

Some repayment letter recipients were, in fact, eligible, but cannot provide substantiating documentation to show they earned \$5,000 of employment income because their earnings were not all captured in T4As (e.g., honoraria from nonprofits, wages for casual work, odd jobs).

Others were told to apply for CERB, regardless of their eligibility, by government social assistance caseworkers at the risk of losing their income assistance if they refused. Provincial social assistance rules generally require beneficiaries to apply for all available benefits.

Some applicants applied in good faith, but did not understand CERB eligibility requirements, while others had no other option when their costs increased and community support programs they relied on to help meet basic needs shut down.

Most CERB recipients were low-/moderate-income Canadians, many heavily reliant on social assistance, disability support, or seniors' benefits, and consequently now have little or no ability to repay⁴ the CERB payments they received – in some cases up to **\$19,000**.

In many cases, CERB payments low-income people received were partially or even fully clawed back by provincial programs – e.g., social assistance,⁵ disability support, rent-geared-to-income⁶ housing. These people are now being asked to pay back funds that, in large part, ultimately flowed to their provincial/territorial government – not to them.

CRA is expected to shortly issue repayment letters to CERB recipients who have similarly been determined to be ineligible for the benefits they received, further exacerbating the scale and severity of this issue.

Refundable tax credit clawbacks

The CERB, CRB, and CWLB are considered taxable income and, when recipients tax file, these benefits affect calculations of their eligibility for, and the amount they will receive in, refundable tax credits – even though most are no longer receiving this income. This means that the amounts and type of benefits people receive will not be reflective of their current circumstances. This impacts the income affected individuals receive from the Canada Child Benefit (CCB), the Canada Workers Benefit (CWB), and the GST/HST Tax Credit, as well as provincial refundable tax credits.

Clawbacks to the CWB will negatively affect low-income individuals, particularly single, working-age adults. For example, a single worker making **\$23,000** per year could lose the entire CWB value of **\$1,395**.⁷

While the CCB will not be clawed back from low-income parents with young and school-aged children, parents with moderate incomes will see significant clawbacks. A single mother with two children earning **\$32,000**, for example, will see her CCB and other refundable tax credit payments reduced by **\$3,522**.⁸

The federal government's persistence in clawing back pandemic relief from its refundable tax credits is a clear case of "do as I say, not what I do," as it directly contradicts its request that provincial governments treat pandemic benefits as refundable tax credits and refrain from clawing them back from social assistance and other provincial benefits.

As with the CERB debt problem, federal clawbacks of refundable tax credits have been compounded by provincial social assistance clawbacks and rent increases of up to 500% for people living in rent-geared-to-income housing.⁹ Some people who received the CERB/CRB and were ineligible have paid it back and still had their refundable tax credits clawed back.¹⁰

The recent decision to reimburse seniors whose GIS was clawed back is a welcome and positive step, but the same principle must be applied to CCB, CWB, and GST/HST Tax Credit recipients. More work is needed to ensure that no one whose income was temporarily bolstered by CERB/CRB/CWLB will see their refundable tax credits reduced on this basis.

Rationale

The purpose of CERB, CRB, and CWLB was to financially stabilize Canadians impacted by reduced earnings and job losses, prevent hardship, and enable people at risk to stay home safely. By these measures, these emergency programs were unqualified successes.

Requiring low- and moderate-income people to repay large CERB/CRB debts and/or clawing back the refundable tax credits on which they depend, when most of those concerned are no longer receiving pandemic benefits, is causing the most vulnerable individuals and households significant financial hardship.

The objectives of CERB/CRB/CWLB are still paramount and require that struggling low- and moderate-income individuals and households not be punished now for accessing pandemic relief they so urgently needed. We are still in a pandemic, arguably the worst wave yet, people with low/moderate incomes continue to bear the economic brunt of public health restrictions, and they remain the only economic group for whom rates of financial strain and hardship continue to grow.¹¹

65% of Canadian households with incomes under \$50,000 are experiencing financial hardship and over 40% are unable to meet their essential expenses.¹² If the government is sincere in wanting to effect an inclusive and equitable recovery, then there is nothing to be gained economically from adding financial stress to households most in need of our support.

The results of the last election showed that Canadians appreciate the government's efforts to have their backs and understand that extraordinary measures and expenditures are necessary to protect the most vulnerable in this pandemic and to enable everyone to participate in our eventual economic recovery.

A plan is needed to ensure that vulnerable people are not made to repay unmanageable CERB/CRB debts, to pay back the income people lost when their refundable tax benefits were clawed back because of CERB, and to guarantee that CRB and CWLB are not clawed back from refundable tax credit payments in the 2021 and 2022 tax years.

This would protect financially struggling Canadians from deeper poverty and hardship and demonstrate, once again, the government's commitment to ensuring *all* Canadians are supported to make it through this pandemic safely.

NOTES

¹ There were 8.9 million unique applicants for the CERB and 2.2 million unique applicants for the CRB, though there is likely significant overlap.

² Prosper Canada. New study shows low-income Canadians fighting for financial survival. 2021 Nov 1. Available from <https://www.newswire.ca/news-releases/new-study-shows-low-income-canadians-fighting-for-financial-survival-811495851.html?67636>

³ Cullen, C. CRA sent 441,000 'education letters' to Canadians who may have to repay CERB benefits. CBC News; 2020 Dec 14. Available from <https://www.cbc.ca/news/politics/cerb-covid-coronavirus-pandemic-1.5840550>

⁴ Total welfare incomes for single adults are as little as \$7,643 per year. See: Laidley, J and Tabbara, M. Welfare in Canada, 2020. Toronto: Maytree; 2021. Available from <https://maytree.com/welfare-in-canada/>

⁵ CERB payments were fully clawed back from social assistance payments in Saskatchewan, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland & Labrador, and Nunavut and partially clawed back in Alberta, Manitoba, Ontario and Quebec. CRB payments were fully clawed back in every province and territory except British Columbia.

⁶ Desmarais, A. How CERB is affecting rent payments for N.W.T. clients in social housing. CBC News; 2021 Aug 20. Available from <https://www.cbc.ca/news/canada/north/cerb-rent-payments-social-housing-nwt-1.6146476>

⁷ Stapleton, J, Ritchie, L, David, R, Yuan Y, and Jagoe, R. The End of Large-scale Pandemic Benefits: What it means for low-income residents of Ontario in 2022. Open Policy Ontario; 2022 Feb. Available from https://openpolicyontario.s3.amazonaws.com/uploads/2022/02/The-end-of-large_v.13_Feb.-9-2022.pdf

⁸ Ibid.

⁹ Desmarais, 2021.

¹⁰ Ayers, T. CERB cutting into child care benefits unexpected, mom says. CBC News; 2021 Nov 9. Available from <https://www.cbc.ca/news/canada/nova-scotia/cerb-payments-cutting-into-child-care-benefits-mom-says-1.6241640>

¹¹ A recent [study on the financial impact of the pandemic on low-income households](#) (defined as households with incomes below \$25,000, or \$50,000 for multi-person households) shows a 47% increase in the number of low income households. As of June 2021, 26.1% of Canadians households were low income, representing 6.75 million households, versus 4.6 million households in 2018. The study also documented rising numbers of low-income households reporting financial strain and hardship. In June 2021:

- 90% have seen an increase in their cost of living
- 68% reported that the pandemic had reduced their financial security
- 65% reported experiencing financial hardship (up from 55% in June 2020)
- 51.5% reported having to draw down on savings
- 40% reported being unable to meet their essential expenses (up from 30% in June 2020)
- 29% saw their income decrease by more than 25% during the pandemic, and 16% reported a decrease in income of over 50%.
- 18.4% reported that their household has been unable to afford enough food.
- 12% have been threatened with eviction

¹² Duncan, E, Koci, K. The financial resilience and financial well-being of Canadians with low incomes: insights and analysis to support the financial empowerment sector. Toronto: Seymour Management Consulting Inc.; 2021 Nov. Available from https://financialhealthindex.org/wp-content/uploads/2021/10/Final-Detailed-Seymour-Low-Income-Report_Nov2021.pdf