

ENDING FEDERAL CLAWBACKS OF REFUNDABLE TAX CREDITS FOR PANDEMIC RELIEF RECIPIENTS

Issue

Low- and moderate-income Canadians whose incomes were temporarily bolstered by pandemic benefits have had, and will continue to have, federal refundable tax credits clawed back in full or in part. For those who received the Canada Emergency Response Benefit (CERB), this has already occurred, but for those who received the Canada Recovery Benefit (CRB) or are receiving the Canada Worker Lockdown Benefit (CWLB), this will happen in July 2022 and July 2023, respectively, when refundable tax credits are recalculated.

Recommendations

1. **The Government of Canada should end the claw back 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 personal income tax form 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.)
2. **The Government of Canada should fully reimburse individuals whose refundable tax credits received in 2021 were clawed back 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.

Because the CERB and CRB are considered taxable income, people who receive federal and provincial refundable tax credits have seen these benefits clawed back or lost their eligibility entirely – despite no longer receiving pandemic benefits. 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 \$1,395.²

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 \$3,522.³

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.

In some cases, federal clawbacks of refundable tax credits have been compounded by provincial social assistance clawbacks⁴ and rent increases of up to 500% for people living in rent-geared-to-income housing.⁵ Some people who received the CERB/CRB and were ineligible have paid it back and still had their refundable tax credits clawed back.⁶

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.

Refundable tax credits are among the top tools in the federal government's poverty reduction toolbox and are a vital lifeline for low-income Canadians. Clawing them back, when most of those concerned are no longer receiving pandemic benefits, has caused the most vulnerable individuals and households significant financial hardship and will similarly impact many modest-income households in 2022 if urgent action is not taken.

The objectives of CERB/CRB/CWLB are still paramount and require that struggling low- and moderate-income individuals and households are not 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, and they remain the only economic group for whom rates of financial strain and hardship continue to grow.⁷

65% of Canadian households with incomes under \$50,000 are experiencing financial hardship and over 40% are unable to meet their essential expenses.⁸ 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 repaid the income they 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 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

³ Ibid.

⁴ 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.

⁵ 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>

⁶ 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>

⁷ 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

⁸ 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