

Real Progress for Canada's Middle Class

"Our government's plan – to invest in people, to strengthen and grow the middle class, and to build an economy that works for everyone – is working. While there is more work to be done, Canadians are better off today thanks to these investments."

— Bill Morneau, Minister of Finance

Introduction

Canada has always been a country of opportunity, a place where hard work pays off and where middle class Canadians have been able to build better lives for themselves and their families.

Though Canada has seen solid economic growth over the last 40 years, that growth has not always benefitted all Canadians. Too often, the benefits have been felt by the wealthiest, while others have been left behind. And in recent years, many middle class Canadians have expressed concern that their hard work may not be enough to ensure success for themselves, and for their children.

Canadians understand that a country can't cut its way to prosperity. A different approach – one that includes smart investments and fair choices – is needed.

While maintaining a strong fiscal position, the Government of Canada has made investments to build stronger communities and offer more people a real and fair chance at success, today and for years to come. The goal has been to strengthen the economy, encourage job creation, increase wages and grow the middle class.

That plan is working. Canada's economic growth is strong, and the benefits of this growth are widespread. Today, middle class Canadians have more money to save, invest, and in turn, to grow the economy. There have been over half a million full-time jobs created since late 2015, and the share of working-age Canadians who are employed is close to a record high. If sustained through the year, 2018 could mark the strongest wage growth for Canadians since the recession of 2008-2009.

Today, middle class families in Canada are finding it easier to make ends meet, thanks to more generous benefits and a middle class tax cut.

| | Fall 2015 | Summer 2018 | |
|----------------------------|--|--|---|
| Unemployment Rate | 7.1% | 6.0% | ✓ 540,000 full-time jobs created |
| Wage Growth | 1.4% | 2.9% | ✓ Higher wages for middle-class workers |
| Consumer Confidence | 91 | 118 (+29%) | ✓ Confidence in financial position |
| Business Investment |  6 consecutive quarters |  6 consecutive quarters | ✓ Rebound in business investment |

Note: Wage growth for Fall 2015 and Summer 2018 are six month moving average year-over-year growth rates of Survey of Employment, Payrolls and Hours average weekly earnings (all industries including overtime) as of November 2015 and June 2018, respectively.

More money to save, invest, and grow the economy

A strong economy starts with a strong middle class. When the middle class has more money to save, invest, and grow the economy, everyone benefits.

In December 2015 the Government introduced a tax cut for the middle class (see the section entitled “Lower taxes for the middle class”). In total, more than nine million Canadians are benefitting from this tax cut.

To help pay for the middle class tax cut, the Government asked the wealthiest Canadians to pay a little bit more. A new income tax rate of 33 per cent was introduced for individuals who earn more than \$200,000 a year in taxable income.

To further help low- and middle-income families make ends meet, in 2016, the Government introduced the Canada Child Benefit. A tax-free monthly benefit designed to help with the high cost of raising children, it’s simpler, more generous and better targeted to give more help to families that need help most. The Canada Child Benefit puts more money in the pockets of nine out of ten Canadian families with children.

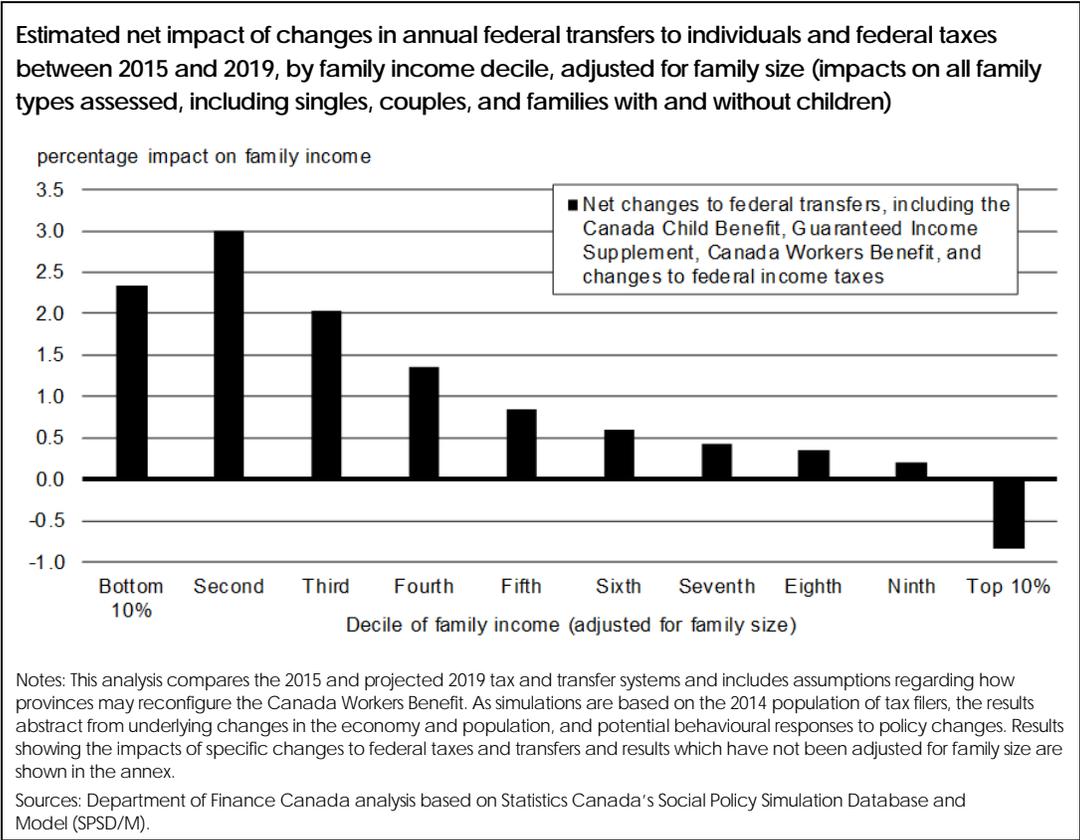
By this time next year, a typical middle class family of four will receive, on average, about \$2,000 more each year, as a result of the middle class tax cut and the Canada Child Benefit. Because of these changes, more families will be able to pay for things like healthy food, back-to-school clothes, and new winter boots for growing kids.

Net Benefit in 2019 After Federal and Provincial Income Taxes, for a Typical Couple with Two Children (Median total income of \$110,000 a year)

| Measure | Benefit in 2019 |
|---------------------------------|------------------------|
| Canada Child Benefit | \$2,085 |
| Middle Class Tax Cut | \$186 |
| Eliminating certain tax credits | -\$270 |
| Net Benefit | \$2,001 |

Note: This table assumes income and deductions are split 60%/40% between spouses, and that there is \$10,000 of total deductions (e.g. Registered Retirement Savings Plan contributions, child care expenses). The “Canada Child Benefit” line reflects the replacement of the old child benefit system with the Canada Child Benefit and the elimination of income splitting for families with children. The Canada Child Benefit estimate assumes one child aged 6-17 and another under 6, is for 2019-20 benefit year and includes provincial (Ontario) taxes on Universal Child Care Benefit. The “eliminating certain tax credits” line reflects the elimination of the Children’s Fitness and Arts Tax Credits, assuming spending of \$600 per child on eligible fitness expenses and \$300 per child on eligible arts expenses.

Thanks to the Canada Child Benefit, a single working mother or father who has two children and who earns \$30,000 a year now receives about \$3,000 more in benefits each year, compared to the previous system of child benefits.



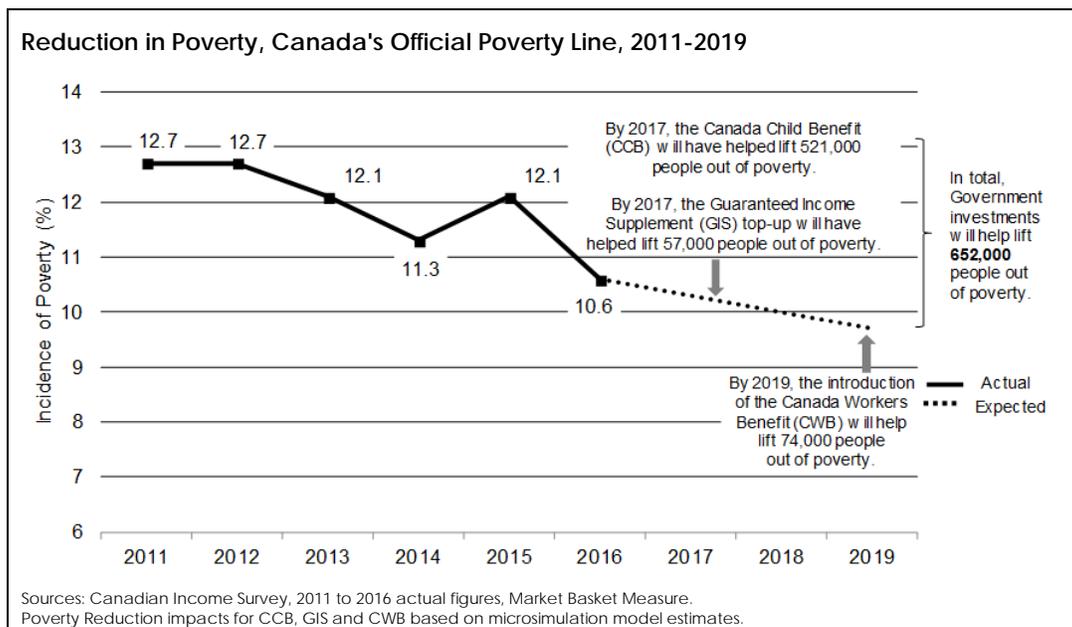
Real Help for People Working Hard to Join the Middle Class

Strengthening the economy and growing the middle class is important – but so too is making sure that people working hard to join the middle class have the help they need to succeed. The Government of Canada has taken steps to ensure that more and more people benefit from Canada’s economic growth.

New and enhanced measures include:

- **The Canada Child Benefit**, which helps families with the high cost of raising children, and has helped lift 521,000 individuals, including nearly 300,000 children, out of poverty. This year, benefits were increased to keep up with the cost of living.
- **The Guaranteed Income Supplement**, which provides greater income security for close to 900,000 seniors, 70 per cent of whom are women. The enhanced Guaranteed Income Supplement has helped lift 57,000 vulnerable seniors out of poverty.
- **Canada’s first-ever National Housing Strategy**, a 10-year, \$40-billion investment that will give more Canadians a place to call home – lifting 530,000 families out of housing need and reducing chronic homelessness by 50 per cent.
- **The Canada Workers Benefit**, a refundable tax credit intended to supplement the earnings of low-income workers, allowing them to take home more money while they work, and helping to lift an additional 74,000 Canadians out of poverty.

In August 2018, the Government set ambitious and **concrete poverty reduction targets**: a 20 per cent reduction in poverty by 2020 from 2015 levels and a 50 per cent reduction in poverty by 2030, which will lead to the lowest poverty rate in Canada’s history.



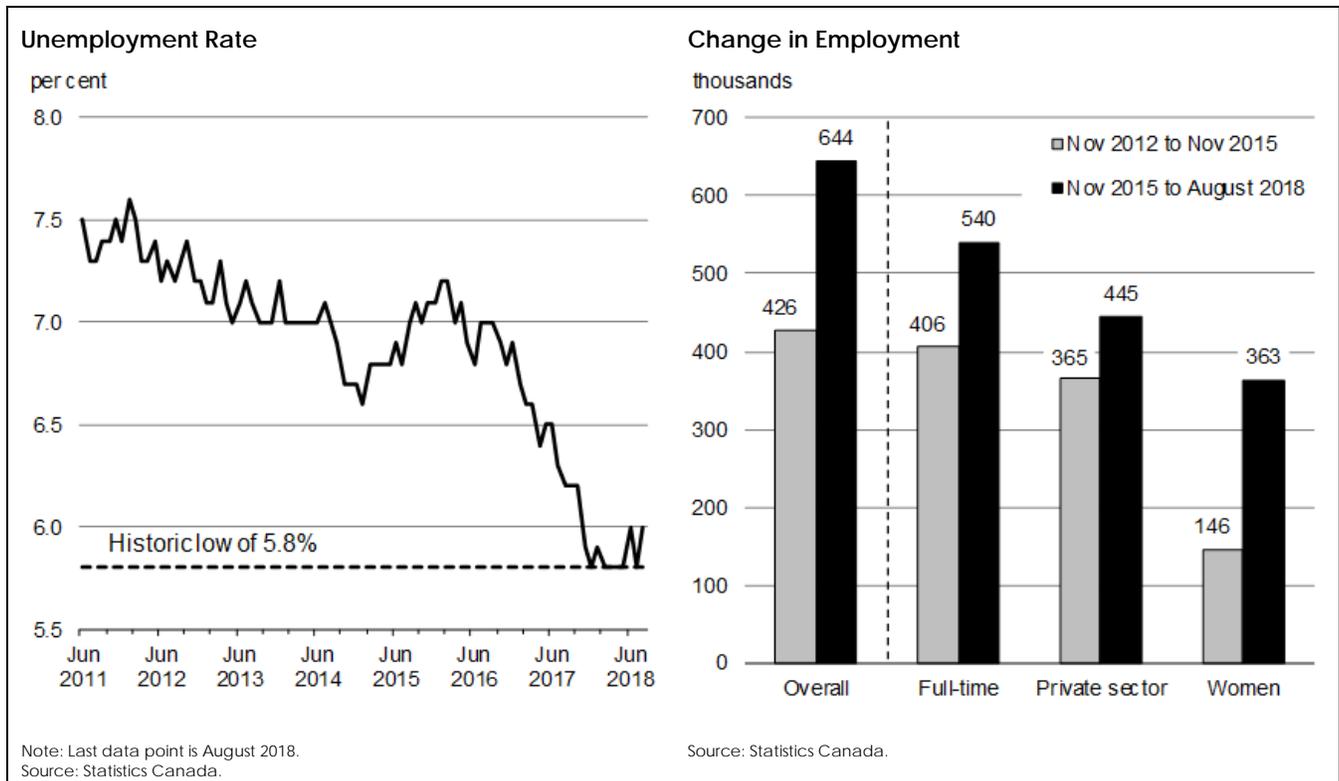
More good, well-paying jobs

Canada's middle class is also faring better because more Canadians are working than ever before.

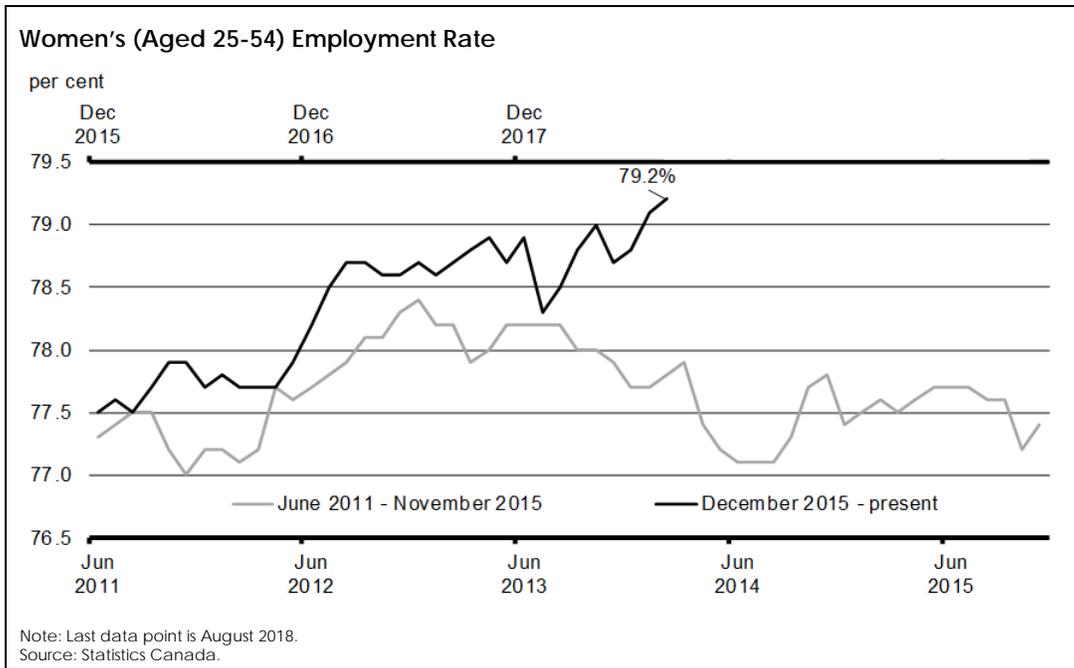
Investments in infrastructure – including public transit, roads, and bridges and ports that support trade, water and wastewater facilities, cultural and recreational infrastructure and affordable housing – are helping to improve the quality of life for people across the country, while setting the stage for sustained economic growth over the long term.

In addition, support for Canadian scientists, researchers and innovators, and new trade agreements – including the Comprehensive Economic and Trade Agreement with the European Union, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership – will mean even greater economic opportunities for Canadians in the years ahead.

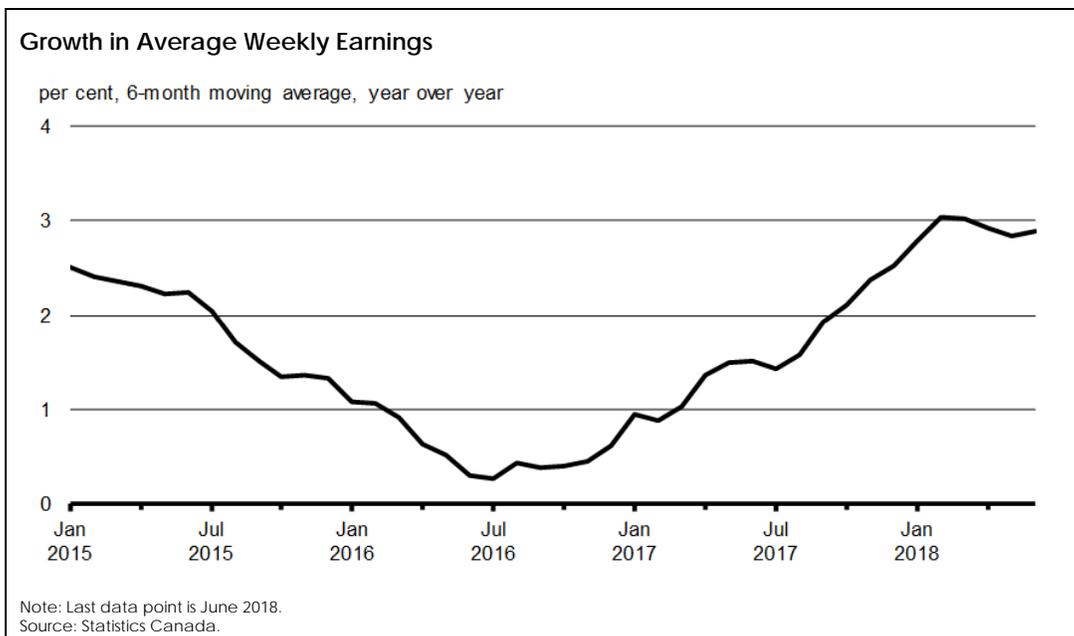
Thanks to these investments and the hard work of Canadians, more than half a million full-time jobs have been created in the last three years, and as a result, unemployment was reduced to a 40-year low. Canada's unemployment rate is now at 6.0 per cent, down from 7.1 per cent in the fall of 2015, close to the historic low.



Employment gains are especially notable among working-age Canadian women. This year, the employment rate for women aged 25-54 hit an historic high; more women are now employed and contributing to our shared economic success than at any point in Canada's history. This marks an important upward trend. After years of relatively flat growth, the percentage of Canadian women in the workforce has risen steadily since 2015.



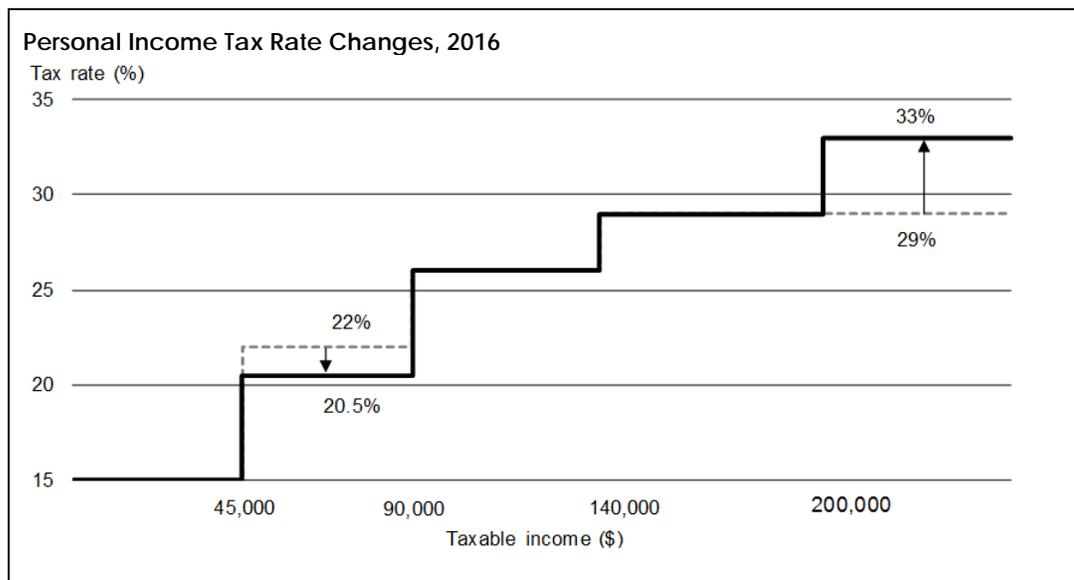
Canadians are also earning more in 2018 than they were in 2015. For the average Canadian worker, wages have increased by nearly 3 per cent on average so far this year, outpacing the rate of inflation (2.1 per cent) over the same period, and marking a significant improvement over the weak wage growth of 1.4 per cent seen in late 2015. A worker earning \$52,000 (the average for paid employment) is earning, on average, about \$800 more each year thanks to this stronger wage growth.



Lower taxes for the middle class

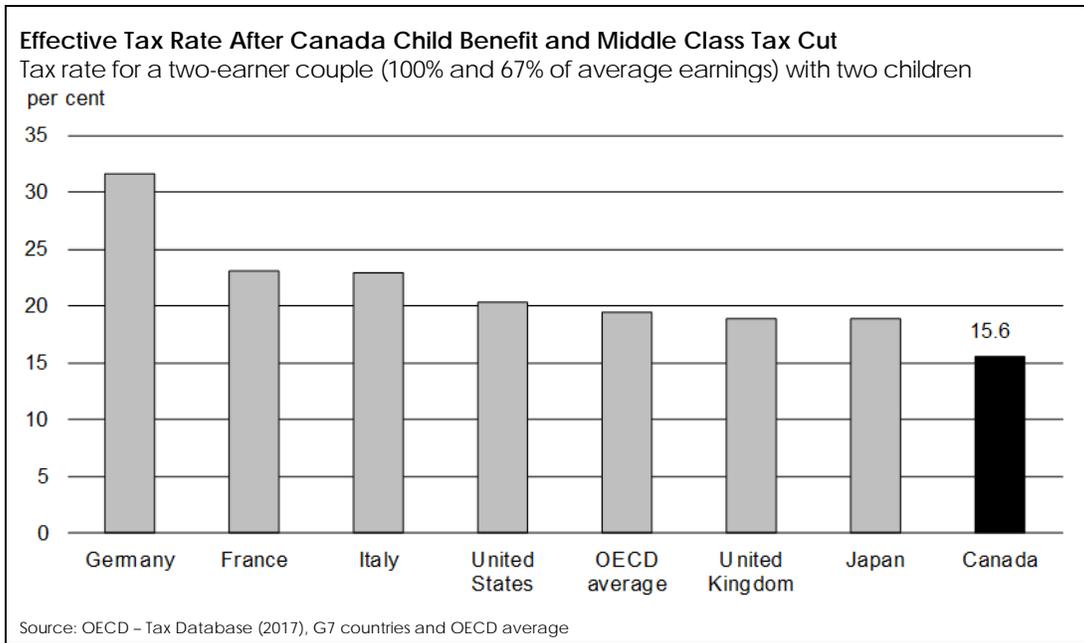
In 2016, the Government raised taxes on the wealthiest 1 per cent of Canadians – those earning more than \$200,000 a year – and cut taxes for the middle class.

As a result, the federal tax rate applying to taxable income between about \$45,000 and \$90,000 fell by 1.5 percentage points – saving single Canadians who benefit an average of \$330 a year, and saving couples who benefit an average of \$540 a year.

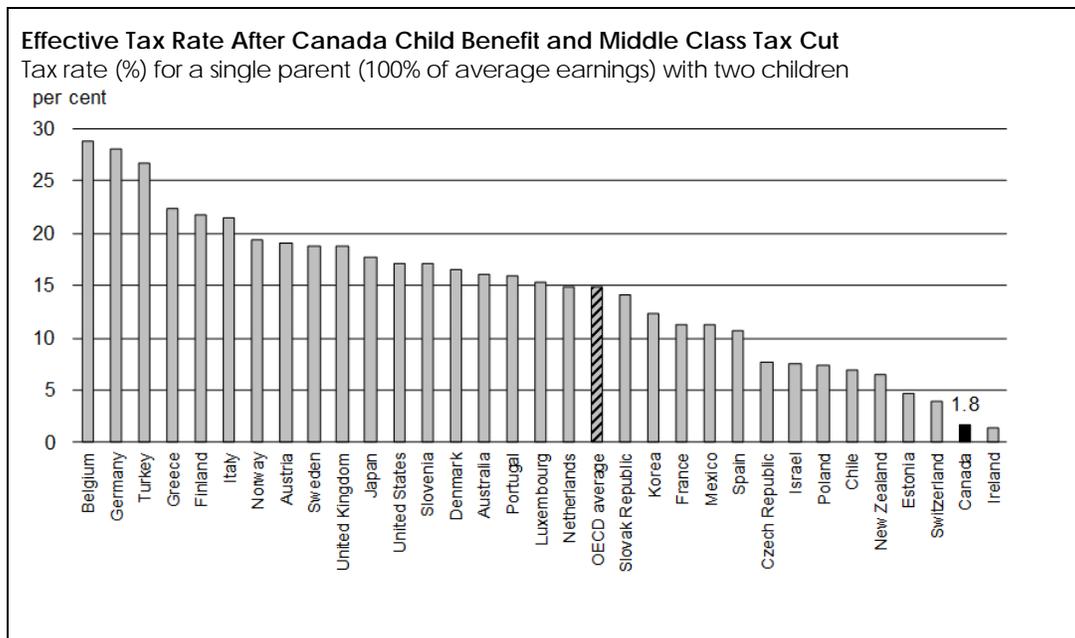


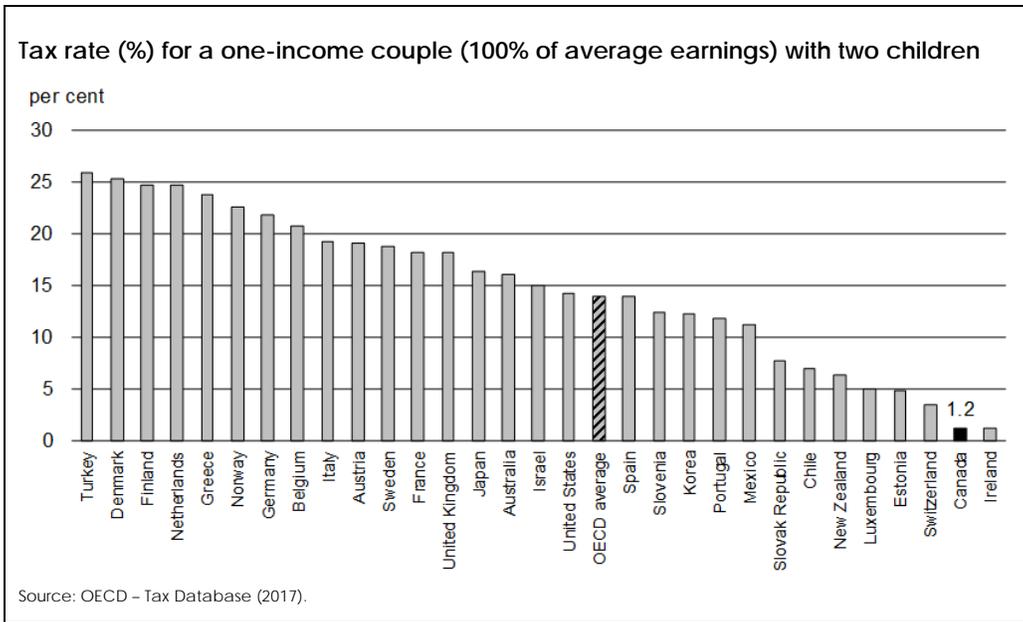
The benefits of this middle class tax cut are magnified for low- and middle-income families with children when the new tax-free Canada Child Benefit is taken into account. Thanks to the income-boosting Canada Child Benefit, according to the Organisation for Economic Co-operation and Development (OECD), the effective federal-provincial personal tax rate for a typical Canadian family of four with two working parents and two children was just 15.6 per cent in 2017, the lowest rate among G7 member countries.

In other words, an average two-income household with two children now keeps nearly 85 per cent of their gross income, once the Canada Child Benefit is factored in. This is an effective tax rate that was 20 per cent less than the OECD average, and 23 per cent less than what a comparable middle class family would have paid in the United States in 2017.



For single-parent households with two children, or for families with two children where only one parent is working, the benefits are even more significant. According to the OECD, when the tax-free Canada Child Benefit and other benefits are added to family income, those families pay effective personal tax rates of just 1.8 per cent and 1.2 per cent respectively – keeping more than 98 per cent of what they earn. In this respect, Canada is a true global “outlier.”

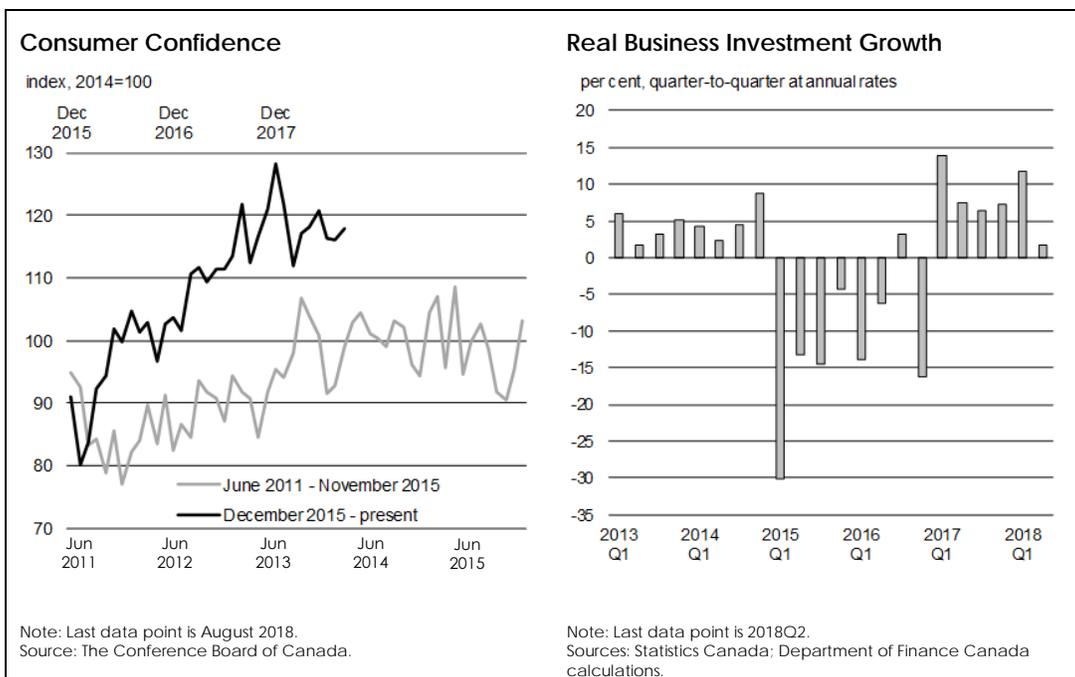




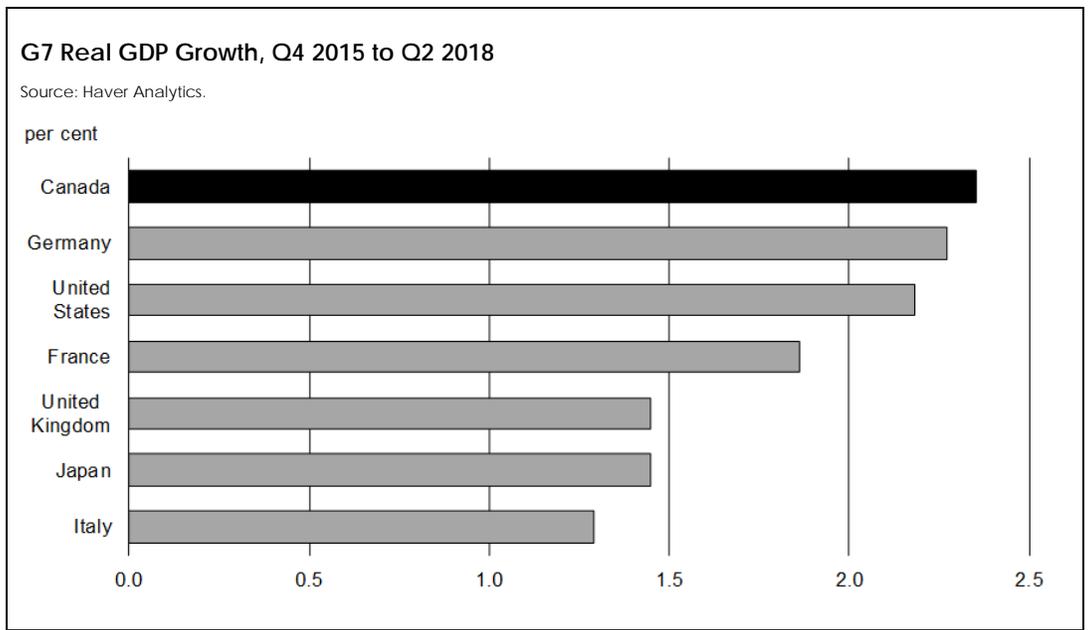
Conclusion

With more money, more jobs, rising wages, and lower taxes, Canadians are more confident about their own financial positions. According to the Conference Board of Canada, consumer confidence has risen 29 per cent since the fall of 2015.

Recognizing this rise in consumer confidence, business investment is also on the rise. Business investment weakened in 2014-2015, with six consecutive quarters of declines – due largely to a decline in global oil prices – but has been on the rebound since that time. Business investment growth has averaged about 8 per cent since the end of 2016 – the fastest rate of growth in six years, and marking six consecutive quarters of growth.



- When Canadians and Canadian businesses are confident, they invest in the things that help to grow our economy now, and over the long run. This is seen in strong real gross domestic product (GDP) growth. In the fall of 2015, with annual real GDP growth at just 1 per cent, Canadians had reason to worry that we might be headed into a recession. Since then, real GDP growth has rebounded, and in that time Canada has had one of the strongest records of growth in the G7.

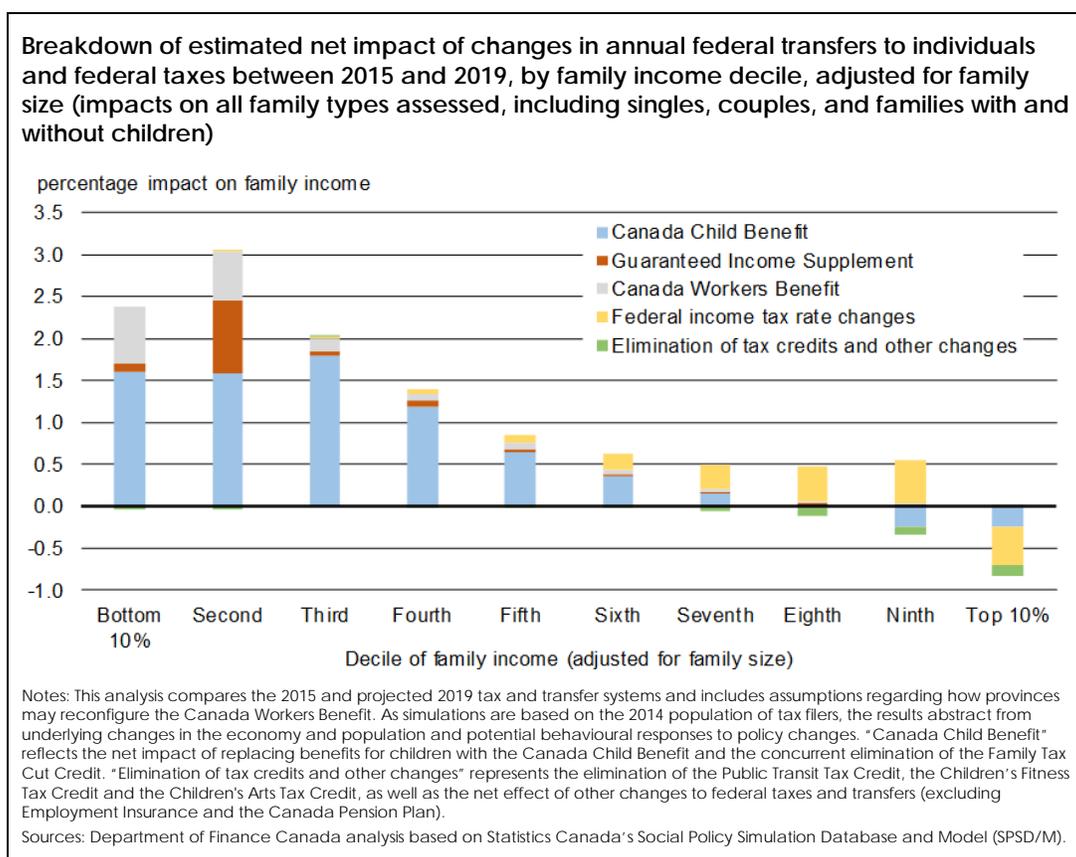


While there is more work to be done to ensure that every Canadian has a real and fair chance at success, real progress has been made. Canada's economy is strong and growing, and the middle class is better off. Across the country, a strong and growing middle class is driving economic growth – creating new jobs and more opportunities for everyone to succeed.

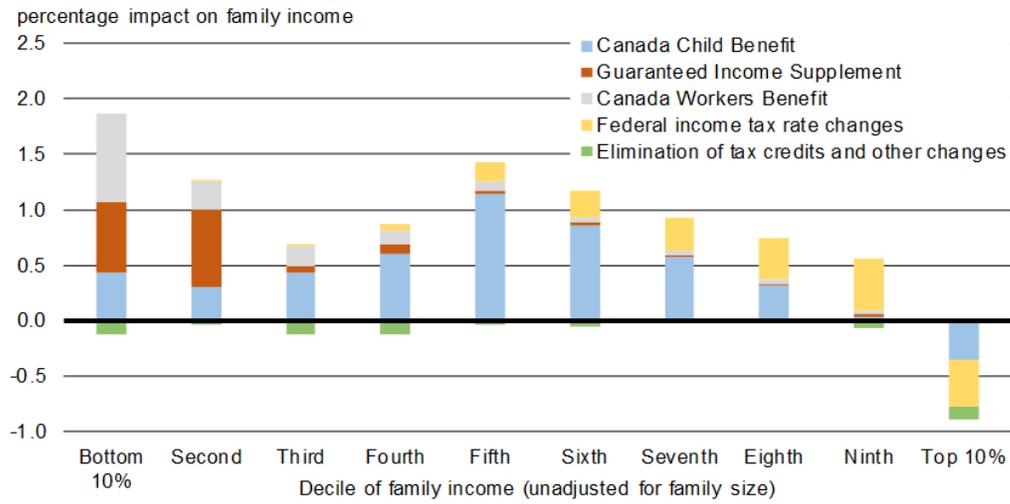
Annex: Estimated impact of changes in annual net federal transfers and taxes between 2015 and 2019

The following charts provide a breakdown of the estimated net changes in annual federal transfers and federal taxes between 2015 and 2019 that are shown in this report (see the section entitled “More money to save, invest, and grow the economy”). The first chart shows results with income deciles adjusted to account for family size, while the second shows results without adjusting incomes for family size.

These charts estimate average impacts of federal policy changes on incomes across all families within a given income decile (expressed as a percentage of income), including families who do not receive certain benefits. Consequently, the charts do not provide the average impact of a particular benefit change for the recipients of that benefit (e.g. the Canada Child Benefit does not go to all households within a given income decile, as some families do not have children).



Breakdown of estimated net impact of changes in annual federal transfers to individuals and federal taxes between 2015 and 2019, by family income decile, unadjusted for family size (impacts on all family types assessed, including singles, couples, and families with and without children)



Notes: This analysis compares the 2015 and projected 2019 tax and transfer systems and includes assumptions regarding how provinces may reconfigure the Canada Workers Benefit. As simulations are based on the 2014 population of tax filers, the results abstract from underlying changes in the economy and population and potential behavioural responses to policy changes. "Canada Child Benefit" reflects the net impact of replacing benefits for children with the Canada Child Benefit and the concurrent elimination of the Family Tax Cut Credit. "Elimination of tax credits and other changes" represents the elimination of the Public Transit Tax Credit, the Children's Fitness Tax Credit and the Children's Arts Tax Credit, as well as the net effect of other changes to federal taxes and transfers (excluding Employment Insurance and the Canada Pension Plan).

Sources: Department of Finance Canada analysis based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M).