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The Canada Workers Benefit

Individuals meeting certain conditions may claim a Canada Workers Benefit ("CWB") under section 122.7 of the Income Tax Act (the "Act"). They may claim a basic single CWB if they are single with no dependants and a basic family CWB if they have a family, even if they are single parents. They may also claim a CWB disability supplement if they are disabled and qualifying for the disability tax credit under section 118.3 of the Act. The objective of the CWB is to provide assistance to low-income individuals. The maximum benefit limits and net income thresholds are subject to an annual indexation and can be different for certain provinces and territories (currently Alberta, British Columbia, Quebec, and Nunavut). The CWB was called Working Income Tax Benefit ("WITB") before 2019 and was subject to less generous limits and income thresholds.

To receive the CWB, the individuals must file an income tax return (which was also the case for the WITB) but they do not have to apply for the CWB on their return (which was the method for claiming the WITB).

If both the taxpayer and his or her spouse or common-law partner qualify for the CWB, they must agree on who will claim it or the Canada Revenue Agency ("CRA") will decide for them.

If both the taxpayer and his or her spouse or common-law partner can designate a child as an eligible dependant to claim the CWB, they must agree on who will claim the child as an eligible dependant or the CRA will decide for them.

The Limits for 2021

The limits for 2021 are as follows:

- The basic single CWB for an individual with no dependants would be equal to 27% of the individual's working income over \$3,000 and may not exceed \$1,395.
- The benefit will be reduced by 15% of the individual's adjusted net income over \$22,944.
- The \$1,395 and \$22,944 limits are to be indexed annually for 2022 and following years.
- The basic family CWB for a family or single parent is to be equal to 27% of the working income of the individual (and his or her eligible spouse or common-law partner, if any) over \$3,000 and may not exceed \$2,403 for 2021.
- The benefit is to be reduced by 15% of the adjusted net income of the individual and his or her eligible spouse or common-law partner over \$26,177 for 2021.

- The \$2,403 and \$26,177 limits are to be indexed annually for 2022 and following years.
- The CWB disability supplement for a disabled individual who has no dependants is to be equal to 27% of his or her working income over \$1,750 and may not exceed \$720 for 2021.
- The benefit is to be reduced by 15% of adjusted net income over \$32,244 for 2021 for single individuals without children and \$42,197 for 2021 for families.
- The rate is to be reduced from 15% to 7.5% if both spouses or common-law partners in a family are eligible for the supplement.
- The \$720, \$32,244 and \$42,197 limits are to be indexed annually for 2022 and following years.

A "secondary earner exemption" will allow an exclusion of up to \$14,000 of the working income of the lower-income spouse or common-law partner to calculate the adjusted net income of a couple for the purpose of determining the phase-out of the CWB. The \$14,000 exemption is to be indexed annually for 2022 and following years.

Definitions

The definitions of "working income", "eligible individual", "eligible dependant", "eligible spouse or common-law partner", and "adjusted net income" are discussed in greater detail below.

Working Income

"Working income" is the sum of the following amounts:

- your employment income, including exempt amounts such as the non-taxable part of income earned on a reserve or of an allowance received as an emergency volunteer before employment income deductions;
- your net business income from each business carried on in the year, other than income earned as a specified member of a partnership (i.e., a passive member of the partnership); if a business carried on in the year has a net loss, the loss is not subtracted from the income of other businesses which have net income; and
- your income from scholarships, bursaries, prizes for achievement, and artistic grants to the extent the income is not exempt, from research grants net of deductible expenses; and

- financial assistance received under the *Wage Earner Protection Program Act*.

Both the taxpayer claiming the CWB and his or her spouse or common-law partner must use the same definition of "working income" and either include or exclude the income exempted from tax under another legislation (e.g., income earned by status Indians) or the first \$1,000 of an allowance received by an emergency volunteer.

Eligible individual

You are an eligible individual if you were resident in Canada throughout the year and were at the end of the year:

- 19 years of age or older,
- the cohabiting spouse or common-law partner of another individual, or
- the parent of a child who lives with you.

Even if you meet these tests, you will not be an eligible individual if you are exempt from tax because you:

- are a full-time student at a designated post-secondary educational institution for more than 13 weeks in the taxation year, unless you have an eligible dependant, in which case you are not disqualified;
- were confined to prison or a similar institution for a period of at least 90 days in the taxation year, or
- are a servant of a foreign country (e.g., diplomat) or a member of his or her family.

Eligible dependant

An eligible dependant is a child of yours who, at the end of the taxation year,

- resided with you,
- was under the age of 19, and
- was not an eligible individual (for example, because he or she has a child of his or her own).

For the purposes of the CWB, an individual is considered a parent of a child in their care, regardless of any financial assistance received from the federal or a provincial government under a kinship care program.

Eligible spouse or common-law partner

An eligible spouse is a spouse or common-law partner who was resident in Canada throughout the year and who was, at the end of the year, a cohabiting spouse or partner. A cohabiting spouse or partner is a spouse or common-law partner who, at year-end, was not living separate and apart from you by reason of a relationship breakdown that lasted for at least 90 days. A common-law partnership breaks down on the same basis of a 90-day separation, so you will not have a common-law partner at year end if the above 90-day test is met.

If you have an eligible spouse for the taxation year in question, only one of you may claim the ordinary CWB. If you both apply, the CWB is reduced to nil. The prepayment mechanism requires a joint application by you and your eligible spouse, agreeing as to whom the prepayment will be made. The spouse receiving the advance payment must be the one who trues it up on Schedule 6 of the T1 return.

Adjusted net income

The adjusted net income is the total net income before the taxable income adjustments including the following:

- non-taxable part of income earned on a reserve or of an allowance received as an emergency volunteer,
- amounts normally deducted as repayments of universal child care benefits overpaid to you,
- but excluding the following:
 - amounts received as universal child care benefits;
 - amounts received as disability payments under a registered disability savings plan;
 - amounts received as capital gains arising on repossessing property you obtained by foreclosing a mortgage;
 - amounts deductible for split income under section 20(1)(ww) of the Act from the income base on which the CWB is calculated.

This latter exclusion is consequential on the expansion of the tax on split income rules to individuals over the age of 17 years. This amendment ensures that the ordinary rule for computing income (i.e., income is computed without reference to the deduction on account of split income) is used for purposes of this provision.

Both the taxpayer claiming the CWB and his or her spouse or common-law partner must use the same definition of "adjusted net income" and either include or exclude the income exempted from tax under another legislation (e.g., income earned by status Indians) or the first \$1,000 of an allowance received by an emergency volunteer.

Prepayment of Benefit

A mechanism allows a prepayment of half of the CWB estimated to be payable for the current taxation year and must be applied for each year on Form RC201 and trued up on the return for that year. For example, if you made a timely application for prepayment of your 2021 CWB in 2020 and received prepayment in 2020 or early 2021, you will enter the total prepayment received, as shown in box 10 of your RC210 slip, on line 41500 on your 2021 T1 return, and you will calculate your actual 2021 CWB entitlement on Schedule 6, and enter the result on line 45300 of your 2021 return. Thus, you add the prepayment back to tax and deduct the actual credit entitlement.

The prepayment application should, in the case of a family, be made by the spouse or common-law partner with the higher anticipated working income, except that where one spouse or partner has a disability certificate, that person should make the application. Where both spouses or common-law partners have a disability certificate, it is again the one with the higher anticipated working income that should apply.