
Can Family Tax Benefits Improve Children's Outcomes?



By [Kourtney Koebel and Mark Stabile](#) , INSEAD

Robust financial support policies for families can help reduce poverty and positively impact children's mental health - though their effect on educational outcomes is less clear.

Financial concerns are often cited as a [major factor](#) why people choose not to have kids. Between the high costs of childcare, uptick in general household spending and impact on maternal wages, the costs of raising children can leave a considerable dent in a family's finances. Insufficient financial resources may also negatively impact family well-being and child development, especially for those at the lower end of the income spectrum.

To help parents cope with these costs, many high-income nations including [Canada](#), the [United States](#), [Japan](#) and [Sweden](#) have introduced family-based financial support programmes, which vary in terms of generosity and design but often take the form of a refundable tax credit. Although [prior research](#) has found that family benefit policies alleviate poverty, suggesting an improvement of general well-being within the household, the specific impact on children is an ongoing research question.

Together with our co-author [Michael Baker](#) (University of Toronto and NBER), [our study](#) investigates the impact of child benefits in Canada on children’s mental health and educational outcomes. Reducing child poverty does not guarantee increased child welfare – an uncertainty that lies at the heart of the debate between providing assistance as specific goods and services (in-kind transfers) or as direct cash payments (unconditional cash transfers). To ensure that social programmes named for children actually benefit children, it is important to track the impact of these policies on child outcomes.

Child benefit reforms in Canada

Our research focused on the impact of two expansions to child benefits in Canada. In 2015, the federal government expanded the [Universal Child Care Benefit](#) (UCCB) from CA\$100 to CA\$160 a month per child aged 0 to 5, and introduced a new monthly benefit of CA\$60 for each child aged 6 to 17. This was then replaced by the [Canada Child Benefit](#) (CCB) in 2016, which provides a non-taxable, monthly amount to families with children aged 0 to 17.

The CCB is income-adjusted so that the lowest-income households receive higher benefits than middle- and high-income households. The current maximum annual payout under the CCB is CA\$7,787 per child under the age of 6. [Prior research](#) shows that the introduction of the CCB reduced poverty by 11 percent in single-mother households and 17 percent in two-parent households.

To determine whether the reduction in poverty following the UCCB and CCB reforms directly benefitted children, our paper used administrative school records from the British Columbia Ministry of Education to investigate the impact on children’s health and educational outcomes. This data includes information on students’ special education need (SEN) designations, which form the basis of the health outcomes analysed in our study.

More specifically, we examined the impact of child benefits on moderate or severe mental health disorders; a severe mental health disorder; autism spectrum disorder; and physical health conditions. To assess whether Canada’s child benefit reforms had an impact on educational outcomes, we also looked at test scores from standardised provincial exams administered

in grades 4 and 7 (generally ages 9 to 13) that monitor students' academic progress in reading, numeracy and writing.

Our analytical approach used a simulated benefits strategy that isolated changes in child benefit amounts due to the family benefit expansions, as opposed to other factors (such as household income). To obtain children's household income for the simulations, we linked the British Columbia Ministry of Education administrative data to parental tax records from Statistics Canada's T1 Family File for each student and education year between 1994 and 2017.

Overall, our findings suggest that more generous child benefits improve child mental health. The positive mental health effects we observed were of roughly the same absolute magnitude across the income spectrum and mainly concentrated among girls. Given that the underlying levels of mental health disorders are higher among children in lower-income households, this suggests that the reforms had a relatively larger impact on improving the mental health of children in middle- and higher-income families.

For children's educational outcomes, we found little evidence of an improvement in test scores. The exception was among those in households with an annual income between CA\$56,401 and CA\$118,500, where we found that increasing child benefits by CA\$1,000 improved reading scores by around 2.1 percent. Consistent with our findings on mental health improvements, we found that the positive effect on test scores was also concentrated among girls. However, as the positive effect on test scores is limited to this one group, we hesitate to place much confidence in the result.

Overall, our findings suggest that increasing the generosity of child benefits can not only reduce poverty but also improve key domains of children's lives, particularly mental health outcomes among girls. This finding is consistent with [existing research](#) on the impact of previous child benefit expansions in Canada.

Evidence from other countries

Beyond Canada, child benefit programmes are one of the main policy tools used by governments to support low-income families. In [another paper](#), we reviewed child benefit programmes in high-income countries, particularly in comparison to the 2021 expansion of the US [Child Tax Credit](#) (CTC). Under the temporary pandemic-era CTC reform, qualifying households could obtain up to US\$3,600 per child under 6, and up to US\$3,000 per child between the ages of 6 and 17 (representing an increase from the previous amount of up to US\$2,000 per child).

Using OECD (Organisation for Economic Co-Operation and Development) data, we found that over the period coinciding with the expanded 2021 CTC, there was a notable decline in the relative child poverty rate in the US, which decreased from 21 percent to 13.7 percent.

In this paper, we also conducted a comprehensive review of the effects of child benefit policies in Canada, Germany and Poland. The evidence suggests that such programmes play a crucial role in not only mitigating child poverty, but also improving children's well-being, educational outcomes and mental health, as well as having a positive impact on child development.

Wider policy implications

A notable finding from our research on Canada's child benefit reforms is that despite fairly significant differences in the amount received across the income distribution, there is evidence that child benefits improve mental health in roughly similar magnitudes across the income spectrum.

The 2016 reforms to the CCB are still in effect today, with the Canadian government recently announcing a [4.7 percent budget increase](#) for 2024 to help families cope with higher living costs. In the US, however, the CTC reverted to US\$2,000 per child in 2022. This amount is set to decrease even further to US\$1,000 in 2025 unless fresh reforms are implemented (in the recent US presidential election, both the Democratic and Republican candidates' campaigns [proposed substantial increases](#) to the CTC).

Well-designed and well-targeted family benefit programmes are a key tool that governments can use to address child poverty and improve children's

well-being. Our research adds more evidence to the rich, existing literature demonstrating the positive effects of family benefits on children, highlighting the importance of continued efforts to implement and enhance effective child benefit policies globally.

Find article at

<https://knowledge.insead.edu/economics-finance/can-family-tax-benefits-improve-childrens-outcomes>

About the author(s)

Kourtney Koebel is a postdoctoral fellow at the Stone Centre for the Study of Wealth Inequality at INSEAD.

Mark Stabile is an INSEAD Professor of Economics, the Stone Chaired Professor in Wealth Inequality and the Academic Director of the **James M. and Cathleen D. Stone Centre for the Study of Wealth Inequality**. He is also is the Deputy Academic Director of the **Hoffmann Global Institute for Business and Society**.

About the research

"**The Impact of Family Tax Benefits on Children's Health and Educational Outcomes**" is published in *AEA Papers and Proceedings*. "**Evaluating the Effects of the 2021 Expansion of the Child Tax Credit: The International Comparative Context**" is published in *The ANNALS of the American Academy of Political and Social Science*.