

How much will Doug Ford's tax credit for child care cost? ^[1]

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EXCERPTS

Doug Ford's promised in the last election to deliver child care affordability for a small amount of money (\$389 million per year) for all children in Ontario 0-14 years of age. That's a total of 2.2 million children. In other words, Doug Ford thinks he can make child care affordable for a price of less than \$180.00 per child per year. On the face of it, this cannot possibly be true.

Child care in Ontario is expensive. So, a government program to make child care much more affordable will be expensive too. That's why I argued in my report last year (Affordable for All) that the next big priority in making child care affordable in Ontario should focus money on one age group – children of preschool age. I recommended that the Ministry of Education should make child care free of charge for all children in the year or so just before kindergarten (from 2½ years to kindergarten age). That would provide good quality child care for all Ontario families when their children were in this vital age range.

Two economists, writing for the C.D. Howe Institute, have tried to come to Doug Ford's rescue (Jacob Kim and Alexandre Laurin "Mothers at Work: The Fiscal Implications of the Proposed Ontario Childcare Rebate"). According to their models, Doug Ford's Child Care Tax Rebate would be much more expensive – \$1.27 Billion per year. They assume that the Conservative Government will cancel the existing Ontario Child Care Expense Deduction, saving \$325 million for the government (by taking it away from Ontario families). That means the net fiscal cost for the Ontario Government would be \$945 million per year.

Beyond that, Kim and Laurin calculate the increase in mothers' employment, tax revenue and fiscal savings that will occur in the short run and long run due to the tax credit, making the eventual fiscal cost lower.

There are many problems with this tax credit plan – not the least of which is that it encourages the growth of unmonitored, unregulated services that are not good for children. But, first let's look at Kim and Laurin's numbers. \$1.27 Billion is still not that much money. That's still only \$605.00 per child per year on average to cover children from 0-14 years. And, the amount of NEW money to improve affordability is only \$450.00 per child per year (because of cancelling the existing Ontario Child Care Expense Deduction). Could you really solve child care affordability that cheaply?

Based on the research for "Affordable for All", here's the way I see it:

- There are 165,000 children 0-6 using licensed child care without child care subsidy, and another 70,000 children 0-6 receiving subsidy. There are about 115,000 children in this age range using unlicensed paid child care (in the child's home or in the caregiver's home).
- There are about 110,000 children 6-12 years of age using licensed child care without child care subsidy, and another 43,000 children 6-12 receiving subsidy. It's unclear how many children of school age are using unlicensed child care.

The new tax credit promises to rebate at least 60% of child care expenses for each child in a family earning less than about \$150,000 (which is over 80% of all families). So, most families with a child younger than compulsory school age who use paid child care would get \$5,400 of compensation for each child and most families with a school age child who uses paid child care would get \$3,000 of compensation.

From the numbers above, there are 280,000 children 0-6 using unsubsidized paid child care (formal or informal). The large majority of these would be eligible for a full tax credit of \$5,400. That alone would cost just over \$1.5 Billion per year. In addition, the children of the newly employed mothers who entered the labour force as a result of the tax credit would use child care. Kim and Laurin estimate the extra tax credit costs for this group at \$337 million per year. Without trying very hard, then, I find the total cost of the tax credit is over \$1.8 Billion per year. That doesn't account for claims for children using licensed care who do already receive some child care subsidy. The majority get a partial subsidy, so they could claim some amount of tax credit.

And, of course, there are the children of school age. Even if I only account for tax credit claims by those who currently use licensed child care without a child care subsidy, the tax credit bill would rise by another \$330 million annually. There are probably an equal number of children using unlicensed child care who are of school age. That would add another \$330 million. And, in the long run, Kim and Laurin indicate that there would be additional mothers' employment, resulting in another \$160 million of tax credit claims for school aged children.

The total works out to over \$2.6 Billion per year as the gross or initial cost. That's over twice what Kim and Laurin estimated, and nearly seven times as much as was estimated by the Conservatives in the last election.

I like child care. I think it is, generally, a good social investment. But good planning requires good numbers. Kim and Laurin's contribution ignores the difficult choices by fudging the numbers. I believe that it is not sensible to spend this very large amount of money to get the poor quality child care that a tax credit will give you.

A tax credit will provide strong incentives for families to use unregulated, low-cost, low-quality child care (i.e. costing less than the cap of \$9,000 per year). It will raise the taxes for some mothers by eliminating the existing Ontario Child Care Expense Deduction. It will cost billions of dollars per year and will not build a reliable set of good quality affordable services for Ontario families. Promise made, promise kept? I don't think so.

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Region: Ontario ^[3]

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