Canadians need child-care benefits to withstand a COVID-19 recession [1]

Opinion
Author: Boessenkool, Ken
Source: The Globe and Mail
Format: Article
Publication Date: 11 May 2020

AVAILABILITY
Access online [2]

EXCERPTS

Some of the facts marking the COVID-19 economic recession as unique are becoming clearer. Unlike past recessions, where job losses were concentrated in manufacturing and construction and most of the unemployed were men, this recession is concentrated in the service sector, and most of the unemployed are women. The only way in which this recession mirrors others is in the concentration of deleterious effects on low-income Canadians.

What does this mean for governments? In discussions about Canada's economic recovery, we can expect the issue of adequate and responsive child care to push ahead of infrastructure spending.

There are two important pieces of context to note here.

First, although it's early days, an Abacus Data survey notes that Canadians strongly support their government's physical-distancing requirements. Fear of contracting the virus is increasing despite (or because of) the first steps governments are taking to open up the economy. This means the forces undermining the service sector, women and those with lower incomes seem unlikely to fade away quickly. To put it another way, Canadians, whether or not governments require it, seem likely to continue physically distancing for a while yet. And that suggests a service-sector recovery is likely to be uneven and slow.

Exacerbating all of this will be the pace at which most provinces start opening schools before the summer break. Quebec has been a first mover with an early planned return of elementary-school students, accompanied by a plethora of rules and restricted class sizes. Many parents and teachers are casting a wary eye. In addition, most summer activities have been cancelled and it seems uncertain that most summer-camp activities for kids will proceed.

The implication? If schools are slow to reopen entirely and summer camps are cancelled, primary caregivers – most often women – will find it difficult to return to work even if such work exists.

And all of these challenges will be exacerbated for primary caregivers – particularly women – with lower incomes.

In the face of these challenges, it turns out that the design of our national child-care support program – the Child Care Expense Deduction (CCED) – has two flaws that will make it unsuitable for an uneven economic recovery, as predicted for Canada, as well as for primary caregivers with school-aged kids at home.

The CCED allows families to reduce annual taxable income by up to $8,000 for children under age 6, and $5,000 for children aged 7 to 16. The CCED must be claimed by the lower-income spouse and the amount deducted cannot exceed two-thirds of their income.

The "lower-income spouse" and "two-thirds" rules reduce benefits for lower-income primary caregivers – mostly women – in good times. That's because the lower-income spouse needs to earn enough money to have taxable income in order to start getting a benefit from CCED. When lower-income spouses do earn enough, they face the "two-thirds" rule.

A report from the C.D. Howe Institute notes that one-quarter of all families, and 60 per cent of families with income less than $25,000, are affected by the two-thirds rule, reducing the benefit they can claim. As a result, the CCED is stingy for low-income families and significantly more generous for higher-income families – particularly families with two high-earning spouses.

In the coming months, both of these rules will bite even harder and affect mostly those who are disproportionately hit by the COVID-19 recession. A poorly designed CCED, paired with a sluggish service-sector recovery and the increased need for at-home child care, will exacerbate the issues that women, and particularly lower-income women, already face.

As we recover from the COVID-19 shutdown and as the service sector slowly gets back to its former self, even more families will get caught up in these rules and see reduced CCED benefits.

There is a better way.

C.D. Howe Institute researchers Alexandre Laurin and Kevin Milligan have proposed replacing the CCED with a generous refundable tax credit. Based on a supplementary tax credit available in Quebec, they propose a rebate of 75 per cent of child-care expenses for families with incomes less than approximately $35,000. The rebate falls to 26 per cent for families with incomes more than around $155,000. Eligible expenses match that of the CCED: up to $8,000 for children aged 0 to 6 and up to $5,000 for children aged 7 to 17.

This would provide larger and consistent child-care benefits – as much as $500 a month for each child – that would be larger for lower-income Canadians and stable even when income fluctuates. Instead of delivering larger benefits to higher-income Canadians and clawing back benefits from lower-income Canadians, it would do the opposite..

That is the fair and right approach in good times, and it is precisely what Canadians – particularly women most affected by the downturn – need as the economy recovers from the COVID-19 crisis.

Related link:
Region: Canada [3]
Tags: availability [4]
economics [5]

Source URL (modified on 4 Jun 2020): https://childcarecanada.org/documents/child-care-news/20/06/canadians-need-child-care-benefits-withstand-covid-19-recession

Links
[1] https://childcarecanada.org/documents/child-care-news/20/06/canadians-need-child-care-benefits-withstand-covid-19-recession [2] https://www.theglobeandmail.com/opinion/article-canadians-need-child-care-benefits-to-withstand-a-covid-19-recession/ [3] https://childcarecanada.org/taxonomy/term/7864 [4] https://childcarecanada.org/category/tags/availability [5] https://childcarecanada.org/category/tags/economics