

# An open letter to Ken Boessenkool about the Child Care Expense Deduction (and other things) <sup>[1]</sup>

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## AVAILABILITY

Access online <sup>[2]</sup>

## EXCERPTS

I participated recently in the webinar at which you spoke, sponsored by the Toronto Star, First Policy Response, the Lawson Foundation and others. The topic was “Delivering on the Commitment: A Canada-Wide Childcare Plan”.

I often disagree with your policy positions in relation to child care, but I think it is important in any debate that we can agree on facts before opinion takes over. So, if you will permit me, let me correct a couple of things that you said at that webinar.

First, the Government of Ontario did not get rid of the Child Care Expense Deduction in Ontario. It still exists. They layered the child care expenses tax credit (sometimes called CARE) on top of the Child Care Expense Deduction. These measures have the same base and the same limits, to make it easy for families, but they are distinct. I explain below that these measures actually have different purposes.

Second, the federal government’s new child care financing proposals announced in the 2021 Budget are not 50/50. The term 50/50 was used once in the budget documents to suggest that by 2025-26 the federal government’s financial contribution to early learning and child care would have risen to equal the current expenditures of provinces and territories (including kindergarten expenditures in the provincial-territorial total). However, there is no requirement for 50/50 cost-sharing of any of the \$30 Billion over 5 years or \$8.3 Billion going forward from 2025-26 onwards. The design is, of course, deliberate. The federal government wants to make it difficult for provinces to refuse to sign bilateral agreements and realizes that child care is in provincial jurisdiction. So, it is offering money if provinces are willing to agree to commit to the affordability goals it has stated. I will not be surprised if the federal government encourages provinces to also make investments when it is in bilateral discussions. That would make things easier. But there is no requirement for provincial/territorial contributions beyond maintaining their current levels of expenditure.

Third, you treat the Child Care Expense Deduction as if it were designed to help families with child care costs. If it was intended as financial support for child care costs, I would agree with you that it is very poorly designed – bigger tax breaks for the rich than the poor, based on the income of the lower earner, any type of paid child care is eligible, etc etc.

But the Child Care Expense Deduction is a measure to create horizontal equity in the tax system; it is a tax measure, not a measure to reduce child care costs. The Child Care Expense Deduction looks superficially similar to a refundable tax credit for child care expenses, but it is fundamentally different and should be treated differently. Ever since 1972, the Child Care Expense Deduction has been a way of defining what income should be taxable and what income should not. The Child Care Expense Deduction was a response to the analysis in the 1970 Royal Commission on the Status of Women which wrote: “... expenses for the care of children or other dependants are denied to a working mother as a legitimate deduction from her gross salary or wages. Under the present system, the wife who works outside and has one or more dependants who require care pays a tax on earnings out of which she has to pay for child-care. Since the couple must pay for child-care services out of net income, after payment of income tax, a working mother has to earn a substantial salary if her working outside is to be financially more profitable than the value of her services in the home.” (p. 292). Two years after this report the Government of Canada established the Child Care Expense Deduction. The Child Care Expense Deduction affects the after-tax income of the family – it is an element of fair taxation of working parents. And getting rid of it would mean potentially punitive taxation of mothers entering the work force.

Do this thought experiment. If child care for your young child costs \$8,000 a year and you (as the lower earner in your family) are in a tax bracket with a marginal tax rate of 25%, how much are your child care costs? You are going to say \$6,000 a year (\$8,000 – (.25 x \$8,000)). But the correct answer is \$8,000. All the Child Care Expense Deduction does is ensure that you pay your child care expenses (up to \$8,000 per young child) in pre-tax dollars rather than after-tax dollars. If you had to pay these child care expenses in after-tax dollars, you would have to earn about \$10,667 dollars, pay 25% of this in income taxes, in order to have \$8,000 to pay child care expenses. The CCED treats child care (any kind of paid child care) as a necessary work expense, which is therefore deductible from income before levying tax rates on the income.

Cheers,

Gordon

**Region:** Ontario <sup>[3]</sup>

**Tags:** policy <sup>[4]</sup>

social programs <sup>[5]</sup>

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**Source URL (modified on 22 Jun 2021):** <https://childcarecanada.org/documents/research-policy-practice/21/06/open-letter-ken-boessenkool-about-child-care-expense>

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