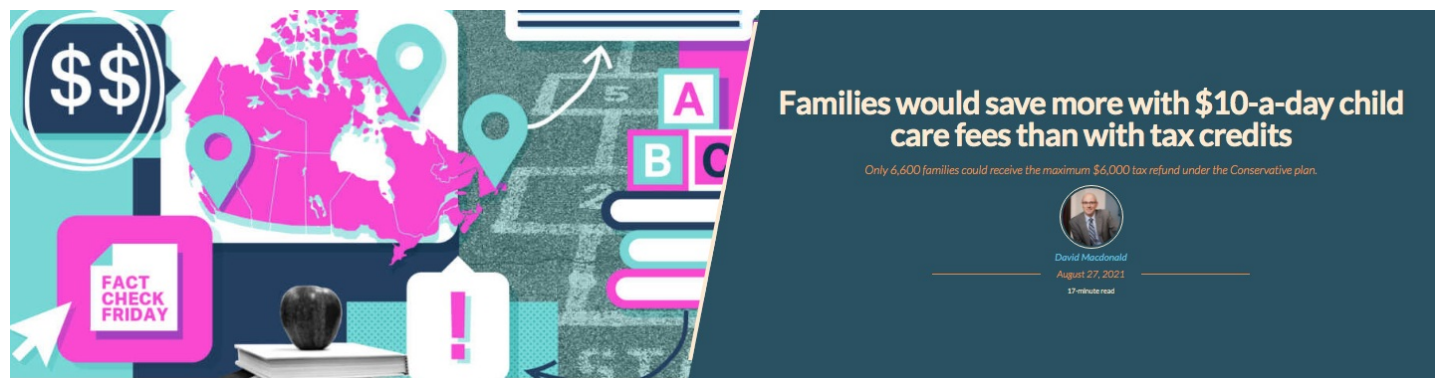


Families would save more with \$10-a-day child care fees than with tax credits ^[1]



Only 6,600 families could receive the maximum \$6,000 tax refund under the Conservative plan.

Author: Macdonald, David

Source: Canadian Centre for Policy Alternatives - The Monitor

Format: Article

Publication Date: 27 Aug 2021

AVAILABILITY

Access online ^[2]

Excerpts from article

Fast Facts:

- Unlike the Liberal and NDP \$10-a-day child care commitments, the Conservative Party would cancel the \$10-a-day program and offer child care tax credits instead.
- Only 6,600 families would likely receive the Conservatives' full \$6,000 refundable tax credit:
 - Under this plan families in the lowest-income decile could see an average income gain of \$1,540, middle-income decile families would gain an additional \$500-to-\$1,000, and top-income earners would see no income change, on average.
- Among the 37 cities examined, the average family in 32 cities would see lower fees, with fees cut in half in 2022, than they would under the Conservative tax credit plan:
 - Under the Liberal and NDP plan to cut child care fees in half by 2022, Toronto families would save more than \$10,000 a year for a regulated infant space compared to the Conservatives' refundable tax credit.
 - Families in many of the Greater Toronto Area (GTA) cities as well as cities in B.C. and Alberta would save \$5,000-to-\$8,000 more in 2022 under the Liberal and NDP plan.
 - Families in Quebec cities would save roughly \$1,000 more under the Conservative plan since no change in fees would occur in the Liberal and NDP plan, but the Conservative tax credit would newly extend to subsidized spaces.

Introduction

This analysis tests and compares the claims put forward by political parties in the 2021 federal election campaign that their child care platform proposals will improve family affordability.

The Liberals have not yet revealed their full platform, but before the election they had already begun moving on their detailed child care plan in the 2021 federal budget, which committed to cut child care fees in half in 2022 before moving to a \$10-a-day child care plan by 2026. Like the Liberals, the NDP is committing to \$10-a-day child care, although the NDP timetable has not yet been made clear.

The Conservative Party is promising to cancel that \$10-a-day child care plan and, in its place, offer a refundable child care tax credit as a means of reimbursing parents for a portion of their fee costs. In part to pay for the new refundable credit, the Conservatives would cancel the existing Child Care Expense Deduction (CCED).

The Green Party has not yet released its platform and the Bloc Québécois platform does not mention child care. This analysis, therefore, analyzes the financial benefits of the Liberal and NDP child care plan versus the Conservative Party plan. However, it does not address other aspects of child care, such as rapidly increasing fees, the availability of spaces, the quality of care and the pay of workers. The Liberal and NDP approach to child care does attempt to address these issues, whereas the Conservative Party plan does not.

To conduct the analysis of the Conservative child care platform, I've built its proposed changes into Statistics Canada's tax modelling software, SPSPD/M. This allows for a representative record for every tax filer to be run through a new tax system under a Conservative child care system. Included are the new refundable tax credit, the cancellation of the federal portion of the Child Care Expense Deduction (CCED) and also the likely changes in relevant provincial refundable tax credits in Ontario, Quebec and Newfoundland and Labrador. This is the basis for the calculations below.

Child care tax credits across Canada

The idea of a refundable tax credit for child care expenses is not new—three provinces already have them. Quebec was the first to do so in 1994 and the Conservative version is almost identical to it, as you can see from Figure 1.

The Quebec tax credit is only available for those paying market rates outside of its set-fee, \$8.75-a-day system. Ontario introduced a similar tax credit in 2019. Newfoundland and Labrador also has a tax credit, although it is small and it refunds 8.7% of the first \$8,000 in child care expenses, regardless of family income. The Ontario, Quebec and proposed Conservative credits will refund up to 75% of the first \$8,000 in expenses, but that percentage declines with income.

Figure 1 compares all of these tax credit plans based on how much of the first \$8,000 in eligible child care expenses is refunded, depending on family income. If a family makes \$30,000 a year, for example, they could receive 75% of that \$8,000 child care expense (\$6,000 in actual refunds) in Quebec or under the Conservative plan, but they would only receive 67% in Ontario and 8.7% in Newfoundland and Labrador (\$5,360 and \$696 in actual refunds, respectively).

The Quebec credit is the most generous and the Conservative plan is very close behind. The Ontario credit is a distant third, with the Newfoundland and Labrador tax credit reimbursing the least, except for families making more than \$135,000, in which case the Newfoundland and Labrador tax credit would exceed the Ontario credit.

The Conservative platform implies its refund would be over and above these provincial refunds, but that is almost certainly impossible to achieve. If a family earning \$30,000 a year received 75% of their child care expenses back from, say, Quebec and 75% back from the new Conservative credit, they'd receive 150% (75 + 75) of what they paid. In other words, if they paid \$8,000 for child care, they'd get back \$12,000 in refunds (\$6,000 from Quebec and \$6,000 from the Conservative tax credit).

The provincial and federal credits would add up to more than what families paid in Ontario and Quebec for any families making under \$78,000 and \$152,000, respectively. This scenario wouldn't occur in Newfoundland and Labrador since the combined refund would be, at most, 75% (Conservative) + 8.7% (Newfoundland) = 83.7%, or a \$6,696 refund for \$8,000 spent on child care fees.

Since it is not accounted for in the Conservative platform and it would be up to the provinces, it is unclear how it would be done. Frankly, the provinces could just cancel their credits and let the Conservative one take their place. To err on the safe side, I've assumed a stacking approach, where the Conservative plan takes the first \$8,000 in child care expenses and provincial tax credits apply to any remaining amount (see the appendix for details).

Average savings from the Conservative plan by income

With the above considerations built into the tax modelling software and looking at all families with children under 17, Figure 2 shows the average impact of a child care tax credit by family income (deciles).

On average, parental benefit would be well below the maximum \$6,000 refund amount. The lowest income decile of families with children under 17 (family income under \$22,000) would save the most—on average, \$1,540 a family. After that, the average benefits by decile would vary between \$500 and \$1,000 a family.

Families in the top two deciles (family income above \$159,000) would see no significant savings or loss, since the Conservatives' 26% refund rate on the first \$8,000 in child care expenses and the provincial stacking roughly offset the cancellation of the CCED. Only 6,600 families could receive the maximum \$6,000 refund. The reason is fairly straightforward: if a family income is \$30,000 a year, they are extremely unlikely to spend \$8,000 (a quarter) of that income on child care fees, which they would need to do in order to receive the \$6,000 maximum tax credit. Rather than face high child care fees, low-income families are often forced into informal arrangements involving family and friends or they simply work less, reducing their families income due to high fees.

Of those 6,600 families that would receive the maximum amount from the Conservative credit, 3,100 of them already receive \$6,000 from the existing Quebec or Ontario tax refund. In the scenario described above, in which the provinces let the federal credit incur the first refund, only 3,500 **new** families would receive the maximum \$6,000 refund (6,600 - 3,100 = 3,500).

As our previous research on child care fees shows, in the absence of provincial/territorial control over child care fees, child care fees routinely increase faster than inflation. Tax credits cannot control rapid fee inflation—only setting fees and investing in operational funding to child care service providers have proven to be successful in regulating fee increases. That would be the case with the Liberal and NDP \$10-a-day plan.

The Conservative child care plan provides much less net investment than the Liberal and NDP plan in 2022 (using the federal budget 2021 estimate). Using tax modelling, the Conservative refundable tax credit would cost an estimated \$3.6 billion in 2022. This would be offset by an estimated \$1.3 billion from the CCED cancellation.

However, alterations to existing programs in Quebec, Ontario and Newfoundland and Labrador mean that these provinces would likely to

recoup an estimated \$1.5 billion in costs from their anticipated scaled-back tax credits under the Conservative plan, which we assume would take over most of the cost (even after the stacking assumptions outlined in the appendix).

As a result, more support may well go to the provinces than to parents under the Conservative plan. Parents would see an estimated aggregate amount of \$810 million in 2022 under the Conservative plan.

The Liberal and NDP \$10-a-day plan provides a much larger investment in 2022—more than \$3 billion. Not all of the Liberal and NDP plan would go to reduce parental fees; investments would also go into increasing the number of spaces, improving quality and increasing early childhood educator wages.

As fees decrease to an average of \$10-a-day by 2026 under the Liberal and NDP plan, federal government spending would increase to over \$8 billion in 2025-26.

Presumably, the Conservative costs would also increase over time, with parent fees growing faster than inflation. However, the federal government investments in child care under the Conservative plan would be less than the \$10-a-day plan.

How the plans compare in Canada's big cities

The highest child care fees that parents face are for full-time, non-school-age children. How do the platforms compare in reigning in those fees in 37 specific cities? Our most recent survey of child care fees in Canada's cities ^[3] provides a baseline for current fees, so it's possible to determine parents' savings based on all three child care platform promises.

Table 2 examines the impact of all three plans on infant fees, which are the highest of any age category due to the additional staff required to care for infants. It also means that the potential savings for parents are the highest. In our most recent fee survey, Toronto had the highest median infant fees in the country, costing more than \$22,000 per infant a year.

In Toronto, the average family would save \$1,000 a year with the Conservative refundable credit, the CCED cancellation and Ontario tax credit changes. On the other hand, if Toronto fees were cut in half under the Liberal and NDP plan, average parents would save more than \$11,000 a year. In Toronto, the city that consistently has the highest child care fees in Canada, families would see the largest difference between the Conservatives' refundable credit and the Liberal and NDP plan to cut fees in half—a savings difference of more than \$10,000 a year under the Liberal and NDP plan.

Although other cities aren't far behind, average families in most GTA cities would save \$7,000-to-\$8,000 more in 2022 under the Liberal and NDP approach. Families in several B.C. and Alberta cities would save more than \$5,000 in 2022 under the Liberal and NDP approach.

Those savings would rise as child care fees fall to \$10 a day. For instance, the savings in Toronto in 2026 would be over \$19,000 for a single infant compared to the estimated \$1,000 savings under the Conservative plan.

Of the cities with data, only the five Quebec cities would see larger savings under the Conservative plan. Currently, subsidized \$8.75-a-day child care spaces aren't eligible for Quebec's existing tax credit. However, the Conservative plan doesn't seem to make that distinction, resulting in a new credit for parents that would be more than savings lost in the cancellation of the CCED in that province.

The Liberal and NDP plan sets out no changes in fees in Quebec cities, since the province already has an \$8.75-a-day system.

Parents in Oakville and Vaughan would see net losses under the Conservative plan since high family income in those cities would restrict their use of the Conservative refundable credit and they'd lose access to the CCED. The Liberal and NDP plan would provide savings of almost \$9,000 a year for average parents in those two cities.

An Indigenous Peoples' lens

Another consideration is the ability of election proposals to provide culturally appropriate, affordable and high quality child care to Indigenous parents, which is particularly important given that Indigenous peoples are the fastest growing population in Canada.

The NDP's commitments on child care include a pledge to "work with other levels of government, Indigenous communities, families and child care workers to ensure that care is inclusive and responsive."

Recent agreements signed between Ottawa and the provinces under the then-Liberal government's child care plan include commitments to work collaboratively with local First Nations, Métis, and Inuit communities to ensure access to affordable, culturally appropriate spaces.

The Conservative platform's child care plank makes no mention of Indigenous considerations, but the party has pledged to "make progress" on all the Truth and Reconciliation Commission's (TRC) calls to action. Number 12 of the TRC's 94 calls to action asks "federal, provincial, territorial, and Aboriginal governments to develop culturally appropriate early childhood education programs for Aboriginal families."

Conclusion

Broadly speaking, the Liberal and NDP plan to cut parent child care fees in half by 2022 would cost the federal government more but would deliver greater affordability to parents with young children in full-time licensed child care.

The Conservative Party plan's impact on parents would be heavily dependent on a family's circumstances and, in particular, on how three

provinces with existing tax credit schemes change those credits to stack onto the Conservative plan. The Conservative plan would be less expensive for the federal government, although a large portion of the new spending may end up as provincial government savings, not parental savings.

Appendix

This analysis was conducted with SPSPDM 28.0 glass box, implemented by the author for the 2022 tax year. The assumptions and calculations underlying the simulation were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the authors.

The simulation assumes that under the Conservative plan, child care expenses up to \$8,000 for any child under 16 are eligible for inclusion. This differs from the CCED, which has an \$8,000 ceiling on expenses for children aged 0-6 years, but a lower \$5,000 ceiling on eligible expenses for children aged 7 to 16.

The Conservatives' proposed refund proportions are included as outlined in the first graph and calculated against a census family's parental net income (line 236 of the tax form). Only the impact on federal taxation of the elimination of the CCED is included and provincial tax implications are not. Since the definition of taxable income between the federal government and the provinces is shared (excluding Quebec), this would now mean a new provincial taxable income definition (including a CCED) would be needed, in addition to a federal taxable income (without the CCED). This is technically feasible but would complicate tax filing.

For this analysis, I've assumed that in Ontario and Newfoundland and Labrador, the province would let parents claim the first \$8,000 in child care expenses against the Conservative refund and the next \$8,000 against the provincial refund to disaggregate the stacking of expenses. Therefore, if a family incurred \$10,000 in child care expenses, \$8,000 would count towards the Conservative credit and the remaining \$2,000 would be counted in provincial credits. In Quebec, that approach would reduce parental savings since the Conservative refund is less than the pre-existing Quebec one on the first \$8,000 in expenses. So in Quebec, I've assumed that the province would merely top up the Conservative refund to the level that Quebecers would have otherwise made from the provincial credit alone. Therefore, no one would see a lower net federal/Quebec child care refund under this stacking arrangement.

In the city-by-city analysis, the income used to evaluate the credits is the average total income for families with children under 18. These figures are obtained from the 2016 census community profiles and are inflation-adjusted to 2022. The child care fees are the median fee in each city for infants (children aged 0 to 12-18 month).

Region: Canada ^[4]

Tags: federal election 2021 ^[5]

affordability ^[6]

universal system ^[7]

tax credits ^[8]

Source URL (modified on 11 Nov 2021): <https://childcarecanada.org/documents/research-policy-practice/21/08/families-would-save-more-10-day-child-care-fees-tax-credits>

Links

[1] <https://childcarecanada.org/documents/research-policy-practice/21/08/families-would-save-more-10-day-child-care-fees-tax-credits> [2]

<https://monitormag.ca/articles/families-would-save-more-with-10-a-day-child-care-fees-than-with-tax-credits> [3]

<https://www.policyalternatives.ca/TheAlarm> [4] <https://childcarecanada.org/taxonomy/term/7864> [5] <https://childcarecanada.org/taxonomy/term/9159> [6]

<https://childcarecanada.org/category/tags/affordability> [7] <https://childcarecanada.org/taxonomy/term/9083> [8]

<https://childcarecanada.org/taxonomy/term/9157>