

Federal Election 2021: Understanding the parties' proposals on childcare—what could they mean for your finances? ^[1]

Each of the three major political parties has promised financial relief for parents with kids in daycare. Financial planners crunched the numbers to show what the platforms might look like for four different kinds of families across Canada.

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AVAILABILITY

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As affordability and the rising cost of living shape up to be significant themes in September's federal election, all three major political parties have come out with proposals to reduce the cost of childcare for Canadians. How do they differ and what could they mean for you? To help you make your decision at the polls Sept. 20, members of the Financial Planning Association of Canada have crunched the numbers from each of the party's platforms, and also offer some background.

Do any childcare affordability measures exist now?

Canadian parents can already deduct the costs of eligible childcare from their taxable income, in a measure designed by the federal government to make the choice between working and staying home to care for a child more neutral, from a financial perspective.

In families with two income-earning parents, eligible childcare expenses must be deducted by the person with lower income. Each year, that parent can deduct up to two-thirds of their earned income for the year, the actual childcare expenses they paid, or a maximum of \$8,000 per year for a child under age seven, or \$5,000 per year for a child between seven and 16—whichever is lowest. (There are higher deduction limits for parents of children with a disability or infirmity.)

This childcare deduction means the cost of childcare can result in a tax refund. For example, let's say a parent with a 30% marginal tax rate paid \$2,000 in childcare expenses. By deducting that \$2,000 expense from their taxable income, they'd pay \$600 less in tax that year (as $\$2,000 \times 30\% = \600). This deduction makes the after-tax cost of their childcare \$1,400, compared to the \$2,000 upfront or pre-tax cost.

Reducing taxable income by deducting childcare expenses can also lead to larger benefits delivered through the tax system—such as the Canada Child Benefit, or CCB. The CCB is a tax-free monthly benefit paid to Canadian households with children under 18 and based on the household's net income (or the total income minus deductions). Technically, the CCB is a refundable tax credit, like the GST or HST credit.

Despite the childcare expense deduction and the CCB, however, many working parents find that their childcare costs are a significant part of their monthly budget when their kids are young—which means it's no surprise that addressing the affordability of childcare has attracted the attention of the major political parties in their 2021 federal election campaigns.

What are the 2021 campaign promises around childcare?

Here's what the three main political parties have pledged on childcare affordability:

- The Liberal Party of Canada has promised to build "a Canada-wide, community-based system of affordable early learning and childcare, which aims to achieve, on average, \$10-a-day childcare spaces for Canadian families." This would not happen immediately. As stated in the 2021 Budget, their goal is to achieve a 50% reduction in average fees by the end of 2022, and their ultimate \$10-a-day goal by 2025-26. As of the publication date of this article, they've signed agreements with provincial and territorial governments in British Columbia, Nova Scotia, Yukon, Prince Edward Island, Newfoundland and Labrador, Manitoba, Quebec and Saskatchewan to help meet that goal.
- The New Democratic Party is also promising to build a universal \$10-a-day childcare system across the country.
- The Conservative Party of Canada, in contrast, has taken a different approach to the high cost of childcare. Instead of lowering costs, they are promising to "convert the childcare Expense Deduction (CCED) into a refundable tax credit covering up to 75% of the cost of childcare for lower-income families," which they say will "increase the support that lower-income families receive by thousands of dollars per year and provide more assistance to almost all families." Families with kids would get a refundable childcare tax credit as well as the Canada Child Benefit. While not explicitly confirmed yet, the eligible childcare expense limits for the credit calculation are assumed to match the current expense limits for the CCED, and the value of the refundable credit is assumed to range from 75%

to 26% based on family income. The refundable credit would be paid out throughout the year rather than as a lump sum, similar to the current CCB payment structure.

What could these campaign promises look like for Canadian families?

To explore what the parties' proposals might mean for Canadian families, Financial Planning Association of Canada members Jason Watt, Lead Instructor at Business Career College in Edmonton, a leader in training for the financial services and insurance industries, and Aaron Hector, Vice President and Financial Consultant at Doherty & Bryant Financial Strategists in Calgary, ran some numbers for four hypothetical Canadian families.

Our four families live in four different provinces, with varying household incomes, numbers of children and childcare costs:

Family 1

- Nick and Sara live in Ontario, where Nick earns \$120,000, and Sara earns \$70,000. They have two kids, ages 3 and 5.
- Childcare costs: They spend \$22,988 per year on childcare, which translates into a net cost of \$18,244 after tax deductions.
- Canada Child Benefit: They receive \$2,659 per year of CCB.
- Current costs: Their out-of-pocket childcare costs, after the CCB, are about \$15,585 per year.

Family 2

- Alice and Dave live in British Columbia, and both earn \$60,000 per year. They have one child, age 7.
- Childcare costs: They pay \$6,322 per year, which translates into a net cost of \$4,912 after tax deductions.
- Canada Child Benefit: They receive \$1,690 per year of CCB.
- Current costs: Their out-of-pocket childcare costs, after the CCB, are about \$3,222 per year.

Family 3

- Tricia and Vern live in Nova Scotia. Tricia earns \$70,000 and Vern earns \$25,000. They have three kids, ages 4, 6 and 8.
- Childcare costs: They spend \$22,189 per year, which translates into a net cost of \$17,082 after tax deductions.
- Canada Child Benefit: They receive \$10,895 of CCB.
- Current costs: Their out-of-pocket costs, after the CCB, are about \$6,187 per year.

Family 4

- Chris lives in Manitoba, where he earns \$40,000 per year. He has two kids, ages 7 and 9.
- Childcare costs: Chris spends \$9,425 per year on childcare, which translates into \$6,809 after tax deductions.
- Canada Child Benefit: He receives \$11,530 of CCB.
- Current costs: After deducting his childcare costs, Chris receives about \$4,721 in CCB per year, based on his net income.

How would these four families fare with \$10-a-day childcare or a refundable childcare tax credit?

Based on their current spending on childcare and estimates of how they'd fare with either \$10-a-day childcare (the Liberal and NDP platforms) or a refundable tax credit (the Conservative Party of Canada platform), here's an assessment of how the childcare costs for our four families might change:

	Current Costs	How much better/worse off are they compared to their current costs?	
	With childcare deduction + Canada Child Benefit	With \$10/day childcare	With a refundable childcare tax credit
		CHANGE	CHANGE
Family 1: Nick & Sara <ul style="list-style-type: none"> Two kids Household income of \$190,000 	\$15,585	+\$14,074	(\$1,496)
Family 2: Alice & Dave <ul style="list-style-type: none"> One child Household income of \$120,000 	\$3,222	+\$3,024	+\$1,280
Family 3: Tricia & Vern <ul style="list-style-type: none"> Three kids Household income of \$95,000 	\$6,187	+\$10,285	+\$5,813
Family 4: Chris* <ul style="list-style-type: none"> Two kids Household income of \$40,000 	(\$4,721)	+\$2,772	+2,906

Notes:

- Chris, in Family 4, is ahead by \$4,721 because his Canada Child Benefit entitlement exceeds his net childcare costs, leaving him with excess CCB benefits he could spend elsewhere.
- Here are the assumptions used in reaching the numbers in our table:
 - Current childcare costs are based on <http://www.godaycare.com/child-care-cost> ^[3]
 - All four families would have access to and use \$10/day spaces for 252 working days per year (likely not available until 2025-26).
 - The CCB amounts do not include the 2021 supplements of \$600 or \$1,200, depending on household income.
 - Tax rates are based on the combined 2021 federal and provincial rates available at taxtips.ca.
 - The Conservative Party of Canada platform uses a maximum childcare expense of \$8,000 per year for kids up to age 7 and \$5,000 per year for older kids, consistent with the existing maximum childcare expense deduction; and the refundable tax credit would be calculated in line with the assumptions in the March 2021 report from the C.D. Howe Institute modelling the implementation of a refundable tax credit for childcare expenses.

What's the upshot?

Looking at our table, all four families are better off with a \$10-a-day childcare cost, while the highest-income family—which also has the highest current childcare costs—stands to benefit the most. Three of four families are also better off financially with a refundable tax credit, but in that case, the family that stands to benefit most from \$10-a-day care is worse off with a refundable tax credit.

While the Liberal and NDP proposals promise to standardize childcare costs at a flat, lowered rate, the Conservative Party's proposal is more like a coupon that varies in value—which makes understanding the impact on households considerably more complicated.

On balance, both options leave families better off than under the current system, but which option puts more money in your pocket depends on various factors, including the number of kids in your household and their ages, how much you're currently spending on childcare, and your household income.

Region: Canada ^[4]

Tags: federal election ^[5]

affordability ^[6]

national child care system ^[7]

child care benefit ^[8]

Source URL (modified on 30 Aug 2021): <https://childcarecanada.org/documents/research-policy-practice/21/08/federal-election-2021-understanding-parties%E2%80%99-proposals>

Links

[1] <https://childcarecanada.org/documents/research-policy-practice/21/08/federal-election-2021-understanding-parties%E2%80%99-proposals> [2]

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