

# Liberals vs. Conservatives on childcare: Which parents would benefit most under each plan? <sup>[1]</sup>

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## EXCERPTS

As Canadians evaluate child-care promises in the federal election, they may not realize they're looking at two policies that are already in place in one province: Quebec.

While the Liberal and NDP pledges to achieve \$10-a-day child care have explicitly referenced Quebec's universal child care system as their model, it's less well-known that the Conservatives are also taking a page from the policy book of la belle province.

Conservative Leader Erin O'Toole's promise for a refundable child-care tax credit that would cover up to 75 per cent of a family's annual fees is very similar to Quebec's own tax credit for households whose children aren't in subsidized childcare spaces. The credit would replace the current Child Care Expense Deduction.

If you have or expect to have kids in child care in the next few years, you may be wondering how the two proposals would affect your costs and which one would be more beneficial to your bottom line.

Here's a look at a few key aspects of the proposed policies.

### Who gets what under each plan?

The Liberals and NDP have both promised child care that would only cost \$10 per day. Assuming you're currently paying — or expect to soon pay — non-subsidized fees, \$10-a-day childcare could save you tens of thousands of dollars per year.

In Toronto, parents of infants would save nearly \$20,000 a year on average, according to an analysis by the Canadian Centre for Policy Alternatives (CCPA). In Iqaluit, families would see average savings of more than \$14,000 a year on infant daycare fees. In big cities in B.C. and Alberta, you're looking at an average of \$10,000 in cost reductions.

But one of the questions facing a Canada-wide universal childcare goal is just how universal the system would actually be, several experts have pointed out.

In Quebec, for example, there aren't enough subsidized spots for every child, notes Alex Laurin, director of research at the C.D. Howe Institute. So for parents paying market rates for child care, the province has an income-linked tax credit that covers up to 75 per cent of the costs, he adds.

The Conservatives are proposing to implement a similar tax credit without the universal child-care system. A refundable credit means you'd get money even if you're paying nothing or very little in taxes. And the party's platform says a Conservative government would pay out the credit throughout the year, so you wouldn't have to wait until tax season to receive it.

Laurin says the tax credit would be more akin to a cash transfer, similar to the monthly Canada Child Benefit introduced by the Liberals.

The Conservatives say parents would receive up to \$6,000 of their annual child-care expenses reimbursed. Families would be able to claim up to \$8,000 of eligible annual expenses per child under seven years old and up to \$5,000 per child between the ages of seven and 15. Canada's lowest-income families would have up to 75 per cent of those costs covered, and as incomes rise, the percentage would drop to a minimum of 26 per cent.

In an analysis of the Conservatives' proposal, economists Gillian Petit, Lindsay Tedds and Tammy Schirle find families with net income below \$36,570 would be eligible to receive 75 per cent of their eligible childcare expenses up to a yearly maximum of \$6,000.

At higher income levels, the amount you could receive shrinks. For example, with an after-tax income of between \$55,535 and \$100,225, you could get 60 per cent of expenses covered, up to \$4,800 per year, according to the paper. For net incomes between \$100,225 and \$143,884, families would receive 57 per cent of their childcare expenses with their benefit up to a ceiling of \$4,560.

"At the top threshold, families with net income over \$162,975 would receive 26 per cent of their childcare expenses, up to a maximum benefit of \$2,080. There does not appear to be an upper limit regarding income eligibility: all households who pay childcare expenses will

receive some amount of the proposed (tax credit)," the authors write.

The tax credit is "mostly targeted at lower-income families," Laurin says. "But obviously, higher-income families won't lose," he adds, as they would also see a cost reduction.

On the other hand, Petit, Tedds and Schirle find that while the tax credit would result in a bigger cost reduction for lower-income families, they would still pay a higher proportion of their income for child care compared to higher-earning parents.

For example, in Calgary, where the typical annual cost of childcare is \$15,600 for one child, the subsidy would reduce costs to \$9,600 a year for a family with a net income of \$20,000 that qualifies for the maximum credit of \$6,000 a year, the paper shows. The daycare fees would still eat up 48 per cent of the family's income, the authors note. By comparison, a family with a net income of \$60,000 would receive \$4,800 and be left to foot a childcare bill of \$10,800 a year, equal to about 18 per cent of their income.

The Conservative tax credit would only "nibble" at the affordability problem, writes Gordon Cleveland, a professor emeritus of economics at the University of Toronto Scarborough, who is a member of the expert panel of child care established by the Trudeau government.

"Many families would find that 20 per cent or more of their after-tax income is still too steep a price to pay. The \$10-a-day Trudeau plan supported by Singh would, on the other hand, make licensed child care much more affordable for all families using it," he adds.

On yet another hand, the \$10-a-day model would also subsidize childcare for higher-income families who can afford it, Laurin notes.

#### **Would the subsidy actually work as advertised and, if so, how quickly?**

Another thing to consider when weighing how the two plans would impact your bottom line is implementation. Would the policies actually lower costs as they promise and how long would it take to roll them out?

The \$10-a-day childcare vision hinges on delicate negotiations with the provinces and territories. So far, eight of them have signed up: Saskatchewan, Manitoba, Quebec, British Columbia, Nova Scotia, Yukon, Prince Edward Island, and Newfoundland and Labrador.

The Liberals have promised to have the system up and running by 2026 or earlier and cut child-care fees in half by 2022. But, as Laurin puts it, building a national universal child care program from the ground up is "a huge endeavour."

The child care tax credit, on the other hand, could easily be rolled out starting in 2022 and would not require the involvement of provinces and territories, he notes.

"It can help low- to middle-income families next year. It doesn't have to wait for five, 10 years," he says.

But some question whether tax credits or other forms of cash transfers would actually lower child care costs in the long term.

"These sorts of 'cash for care' approaches often lead to higher fees, not lower ones, eroding affordability a year or two down the road," Macdonald writes.

Even assuming both plans lower childcare costs as advertised, another issue is whether parents would be able to find lower-cost childcare spots for their kids.

Before the pandemic, only around 28 per cent of working families had a child in licensed child care, Kerry McCuaig, a fellow at the Atkinson Centre for Society and Child Development at the University of Toronto, previously told Global News. These days, child-care capacity has been reduced by between 25 and 35 per cent in major cities like Vancouver, Calgary, Edmonton, Toronto and Montreal, she estimated. That's because some child-care centres have closed amid prolonged shutdowns, and the sector has also seen an exodus of staff.

The Conservatives' proposed tax credit would do nothing to beef up a woefully insufficient child-care infrastructure, McCuaig, a fellow at the Atkinson Centre for Society and Child Development at the University of Toronto, previously told Global News.

The Liberals have pledged to add 250,000 new high-quality child care spaces. But some experts say their plan isn't guaranteed to meaningfully improve the problem of childcare availability either.

Whether parents will actually gain access to affordable child care hinges on significant increases in the number of child-care spots to accommodate an expected increase in demand for cheaper daycare and preschool care. Without additional resources, a reduction in fees would likely lead to ballooning waitlists for families, David Macdonald, senior economist at the CCPA, previously told Global News.

#### **What would be the impact on women's participation in the workforce?**

Both the Liberals and the Conservatives tout their childcare plans as a way to enable more parents — and especially mothers — to keep working or join the labour force when their kids are very young.

Enabling more women to work through the early years of motherhood comes with significant financial dividends and helps create a stronger economy, many childcare experts say. But having more mothers in the labour force also generates extra tax revenue that can help offset some or all of the cost of childcare subsidies.

However, critics of the Conservatives' tax credit proposal say it wouldn't reduce costs enough to financially enable many lower-income mothers to work.

"For any caregiving parent with two children earning less than about \$32,000 annually, there is no financial gain to the family from her employment; child-care costs eat up more than 100 per cent of her net earnings," Cleveland writes.

"Even at higher income levels, most families would spend at least 50 per cent of their additional earnings to pay for child care if the second

earner were employed,” he adds.

On the other hand, a \$10-a-day system would drastically reduce daycare costs even for higher-earning couples where both parents would be able to work and foot the full cost of childcare, Laurin notes. At higher-income levels, a childcare subsidy would result in extra parents joining the labour force.

That said, an income-linked tax credit would deliver the biggest cost reductions for lower-income households, which have lower workforce participation rates, especially if they have children, he says. It’s a targeted, nimble solution that could deliver a lot of labour-force participation bang for every buck taxpayers spend on subsidizing childcare, he says.

By contrast, Canada’s current Child Care Expense Deduction doesn’t do much for low-income families, he adds. For couples, it’s the lower-earning parent who must claim the deduction, but the childcare expenses claimed cannot exceed two-thirds of their income. This automatically excludes lower-earning families in which one parent has no income or income too low to clear the two-thirds rule. Even for families who qualify, a tax deduction is often not worth much for those with low income, Laurin says.

#### **What about overall costs ?**

Yet another consideration is the overall price tag. The Liberals’ childcare plan is expected to cost around \$30 billion over five years. The cost of the Conservatives’ tax credit has been estimated at less than \$3 billion.

Which plan would leave which parents better off is a complex question because it involves those overall costs and any additional taxes needed to eventually cover them, Laurin says.

“The benefits to society of subsidizing child care, I believe, are pretty substantial,” he says. “But there’s also a cost. And that cost is much greater for the \$10-a-day daycare.”

On the other hand, the eventual additional tax bill for parents would also depend on the extent to which cheaper child care spurs economic growth and generates more tax revenue.

One 2017 study by International Monetary Fund researchers estimated the federal government could afford to spend \$8 billion annually to reduce the cost of child care spaces nationwide because the program would pay for itself.

The organization estimated there are about 150,000 highly educated women in Canada who are stay-at-home parents.

If they all entered the workforce and started paying taxes, the IMF says, they would boost economic growth by two percentage points, equal to about \$8 billion more in federal income tax revenue.

But the IMF added a caveat to the proposal: it should be conditional on employment so that highly educated mothers are prodded into the workforce.

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

**Tags:** federal election 2021 <sup>[4]</sup>

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