Does tax credit funding work for child care?: Lessons from Australia [1]

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Excerpts

Many Canadians do not seem to realize that funding child care with tax credits would mean having no control over child care fees. Plus, there would be no financial accountability by operators for the public money they receive. Right now, child care fees are controlled in Canada – in eight of Canada's thirteen jurisdictions, the fee is $10 a day. By April 2026, parent fees will be limited to $10 a day across the country. If we switched to tax credits (as the Conservative Party recommended in the last election), there would be no limitation on parent fees and no financial accountability for billions of dollars of public money. Child care operators could charge whatever the market would bear. And so, for many families, child care would be unaffordable once again.

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The large majority of providers in Australia are for-profit enterprises. And for-profit providers have been found, in Australia as elsewhere around the world, to provide lower quality child care on average. Australia has put a lot of resources into measuring quality of services. Their quality rating system has five result categories: Significant Improvement Required, Working Towards National Quality Standard (NQS), Meeting NQS, Exceeding NQS, and Excellent. 35.4% of not-for-profit providers are rated as Exceeding NQS or Excellent. Only 12% of for-profit providers reach the same levels. Further, for-profit providers have been found to be half as likely to increase their quality ratings over time as the not-for-providers are.

Viewing the Australian experience with a Canadian lens, the tax credit approach has many weaknesses. In a tax credit system, the only way to make child care affordable for parents is through substantial infusions of government funding. However, if substantial government funding is combined with providers having the freedom to set and change their own fee levels, then the result will be rapidly rising fee levels and reduced affordability. On top of that, there is no requirement for child care operators to account for how public money is spent.

In theory, competition among providers is supposed to bring fees down and force providers to offer better quality of care. In practice, competition is very imperfect, partly because child care markets are very localized, so few providers compete directly with each other. Competition is also imperfect because parents can only perceive and evaluate child care quality imperfectly.

So a tax credit or voucher system pushes up child care costs, profits and fees but delivers child care that is expensive for governments, unaffordable for many families and very uneven in quality. Governments get into a cycle of additional spending to bring out of pocket costs down, then watching as provider fees rise to make child care unaffordable once again. Whatever its growing pains, $10 a day child care is a much better bet than tax credits to provide affordable, accessible, quality child care.

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