


How does the childcare system work and how much does a childcare space cost in Quebec? ^[1]

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Source: University of Quebec at Montreal
Format: Report
Publication Date: 23 Oct 2015

Attachment	Size
 Fortin Quebec child care brief Oct. 2015.pdf ^[2]	99.92 KB

How does the childcare system work and how much does a childcare space cost in Quebec?

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October 2015

1. How does the system work?

There are three modes of childcare: 1) reduced-fee centres, 2) commercial full-fee centres, and 3) all other modes (parental or informal care). In turn, there are three types of reduced-fee centres: early childhood centres (centres de la petite enfance or CPE), family-based centres (home child care), and private centres. Most reduced-fee centres are non-profit, and all commercial full-fee centres are for-profit. All centres are subsidized, whether directly or indirectly. The three types of reduced-fee centres are subsidized directly by the provincial government, which indeed makes the lower fee possible. Access to the status of “reduced-fee centre” is subject to government approval based on a number of governance and quality related conditions. Commercial full-fee centres are not subsidized directly, but indirectly through the provincial refundable tax credit made available to users. Non-parental informal childcare can also get the tax credit if supported by receipts. Users of reduced-fee childcare are not eligible for the refundable tax credit.

Table 1 shows how the 492,000 Quebec children aged 0 to 66 months in 2014 were distributed among modes and types of childcare. There were 46 out of 100 children in non-profit centres, 10 in commercial for-profit centres, and 44 under parental or informal care. Among the 46 children who were in non-profit centres, 18 were in a CPE, 19 in family-based centres, and 9 in non-profit private centres.

See PDF attachment for Table 1.

There are relatively few infants in non-parental childcare due to availability of parental leaves, which are more generous in duration and benefits under the Quebec-specific Parental Insurance Plan than the general parental leave program financed by federal Employment Insurance used in other provinces.

In terms of educational childcare, the CPEs have by far the best performance of all modes and types of care. This has been shown by academic research on the behaviour of kindergarten children, which has found that the 5-year-olds from lower-income families that have attended a CPE are 2 to 3 times less vulnerable than others on every cognitive or non-cognitive indicator. See the [executive summary here](#). ^[3]

This good performance of CPEs is known to parents. The latest reading of the satisfaction index among CPE users was 92%. Furthermore, a majority of parents in other non-profit or in for-profit centres are simply there waiting for a space becoming available for them in a CPE. Supply of CPE spaces is still falling far short of demand. Parents are basically right: there is accumulating evidence that non-profit centres are doing a much better job than for-profit centres in developing the cognitive and non-cognitive skills of children (e.g., Cleveland and Krashinsky 2009; Bigras et al. 2014). There are more complaints and police investigations, less qualified personnel and higher personnel turnover is in private for-profit centres.

2. How does a childcare space cost?

Table 2 next summarizes how a childcare space costs in a Quebec centre. The first column describes the situation prevailing in reduced-fee centres before April 2015. All three types of reduced-fee centres were charging the daily fee of \$7.30 per child to all users independent of family income. This fee was eligible for the federal income tax deduction, but not for the provincial refundable tax credit for childcare expenses. In addition, since childcare expenses are deductible from the net family income concept used to calculate federal transfers such as the Canadian Child Tax Benefit and the GST Tax Credit, payment of the \$7.30 daily fee made the net income lower, hence the federal transfers larger. Subtracting the tax deduction and the increase in transfers from the \$7.30 fee yielded a final net daily

cost to most parents of around \$6 for the childcare space.

See PDF attachment for Table 2.

The next column of Table 2 indicates how the amendments to the Educational Childcare Act introduced in April 2015 have changed the situation in reduced-fee centres. The payment “at the gate” of centre is still \$7.30, but it is only part of the final gross payment to make. If their family income is high enough, users are charged an additional amount to be settled later, upon filing their provincial income tax return. (Reduced-fee centres have to register every user with the Quebec Revenue Agency.) However, families with total annual income of less than \$50,000 do not have to pay any additional amount. Above this income level, there is an additional payment to be made. It increases with family income up to a maximum of \$12.70 for incomes of \$155,000 or more. So, the total gross daily fee (initial payment at the gate, plus additional payment) will range from \$7.30 to \$20 (= \$7.30 + \$12.70) depending on family income. Payment of the additional amount can be made through advance deduction of provincial income tax on paychecks. Users of reduced-fee centres continue to be barred from the provincial refundable tax credit for childcare expenses. The plan from now on is to index all amounts to the cost of living. Source: Quebec Department of the Family.

At the federal level, the Canada Revenue Agency considers that the “additional payment” is simply delayed payment of part of the childcare fee. Therefore, parents are allowed to deduct the full amount of the gross fee (from \$7.30 to \$20) from their federally taxable income. Moreover, since the net family income used to calculate federal transfers is reduced by the full amount of the fee (initial payment at the gate, plus additional payment), federal transfers increase. In this new arrangement, parents can get more federal money from these two channels (more tax deduction and more transfers) than in the pre-April 2015 situation. This attenuates the financial impact of the additional payment they now have to make – and, of course, gives licence to the province to charge a higher fee.

The last column of Table 2 describes the situation for users of commercial (for-profit) childcare centres. They pay the full fee at the gate. On average, this is around \$35 (perhaps closer to \$40 in 2015). This financial burden is attenuated by a federal tax deduction and an increase in federal transfers. But, furthermore, parents can claim the provincial refundable tax credit for the full \$35 of childcare expenses. The credit begins at 75% of the fee (75% of \$35 is \$26) for family incomes of \$34,000 and lower, and goes down to a minimum of 26% (26% of \$35 is \$9) for family incomes of \$152,000 and higher. The rules applicable to users of these for-profit centres are the same now as before April 2015.

(An important question concerns the extent to which parents do their financial planning based on the initial payment at the gate, on the total fee (including the “additional payment”), or the net after-tax-and-transfer cost of childcare. The consequences for behaviour can be different depending on which price is more salient in their minds. I do not discuss this question here, since the evidence on this is not yet in. We will see in the spring of 2016 how parents react to the income tax increase they will have to pay due to the “additional payment.”)

Figure 1 below illustrates how the final net daily cost of a childcare space resulting from each of the three columns of Table 2 (reduced-fee before April 2015, reduced-fee after April 2015, and commercial full-fee) evolves as the total employment income of a two-parent, two-earner family increases from \$50,000 to \$170,000. (Note: the median income of these types of Quebec families is about \$86,000 in 2015; 75% of median is \$65,000, and 150% of median is \$130,000; hence, by the standard definition, the “middle class” income of these types of families spans the \$65,000 to \$130,000 interval.)

See PDF attachment for Figure 1.

The April 2015 amendments have shifted the old reduced-fee schedule of net daily cost (the blue line) from an approximately flat rate of \$6 to a new rising schedule (the red line) going from \$7.60 (a 27% increase) at the median income of \$86,000 to \$13 at \$130,000 (a 118% increase), and to \$16 at \$155,000 (a 174% increase). Meanwhile, the commercial full-fee schedule (the green line) has remained unchanged. Actually, it had already been lowered significantly when the provincial refundable tax credit was made significantly more generous in January 2009. For commercial users, the net daily cost is approximately flat around \$9.50 for family incomes in the middle-class range of \$65,000 to \$130,000. It then rises sharply to \$20 at \$160,000 and higher. The Quebec Department of Finance has made a calculator ([available here](#) ^[4]) which allows any holder of two Ph.D. degrees to understand the numbers.

Crucially, as the Figure shows, since April 2015 it is now cheaper on net than earlier to use a commercial full-fee relative to a reduced-fee centre. This is a consequence of the provincial refundable tax credit offered to commercial users combined with the upward shift in the fee schedule (from blue to red) for clients of reduced-fee centres. The amendments are cost-reducing in two ways for the government: 1) middle-class parents who use the reduced-fee centres now pay higher fees, and 2) there is an added financial incentive for them to use commercial centres instead of reduced-fee centres. (Note: there is a saving for the provincial government when a child is sent to a commercial centre instead of a reduced-fee centre. The direct provincial subsidy to a middle-class child attending a reduced-fee centre can range between \$40 and \$50 per day, while the cost of the provincial tax credit for a child in a for-profit centre might be slightly in excess of \$20.)

The government has not made public any study of the long-term impact on child development of turning parents away from non-profit centres and toward for-profit centres. It has not referred to the research papers by Cleveland, Bigras, Guay, Laurin, etc. that have found quality to be very significantly lower in for-profit centres. Existing cost-benefit analysis of the ECEC system have produced incomplete accounts of costs and no account of benefits.

Region: Quebec ^[5]

Tags: funding ^[6]
spaces ^[7]

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