

Intelligence MEMOS



From: Ken Boessenkool

To: Bill Morneau, Minister of Finance

Date: May 7, 2020

Re: **CHANGE THE CHILD TAX DEDUCTION TO ADDRESS THE COMING CHILDCARE SHORTAGE**

Three related [facts](#) about the COVID-19 economic recession are becoming clearer. The most affected sectors are public facing sectors – largely the service sector; the most affected income group is the poor; and the most affected demographic is [women](#).

This makes the current recession quite unlike the last three recessions, which mostly affected [men](#) in construction and manufacturing and jobs.

The public policy response will therefore need to be very different than the response to recent recessions. The financial crisis recession, for example, prompted a large corporate bailout for the [auto sector](#), large [infrastructure investments](#) and [tax cuts](#).

The forces underlying the harm to the service sector, women and people with lower incomes seem unlikely to fade soon or quickly. Although it is early days, Canadians [strongly support](#) their government's physical distancing requirements and fears about getting the disease is [increasing](#) despite small moves from governments to open up the economy.

Canadians, whether or not governments require it, are likely to continue to physically distance for a while yet. And that suggests the service sector recovery is likely to be uneven and slow.

The federal government's childcare expense deduction (CCED) allows families to reduce annual taxable income by up to \$8,000 for children under six and \$5,000 for children 7-16. The CCED must be deducted from the income of the lower income spouse and the amount deducted cannot exceed two-thirds of the income of the lower earning spouse.

There are three reasons the current CCED is not up to the task of supporting families during this recovery.

First, the CCED is calculated at tax time and refunded against tax owing. As the economy recovers, this separation between need and support will hamper the recovery effort.

Second, the CCED is too restrictive on the type of care allowable to claim the credit. With physical distancing restrictions likely to persist for existing childcare spaces, flexibility in childcare delivery will also be critical to meeting expanding demand with shrinking supply.

And one of the key challenges in the recovery is that the number of spaces available, whenever re-opening occurs, will be far smaller than in February 2020, due to physical distancing rules. As well, there is the unfortunate likelihood that some childcare providers will simply have failed to survive the downturn.

Third, the CCED is payable to the lower income spouse whose benefits cannot exceed two-thirds of the income of that lower income spouse – the so-called “two-thirds limit.” Fully [40 percent of CCED](#) recipients are affected by this rule.

In an uneven recovery where primary caregivers face an uneven return of service sector jobs – most often held by women – these rules will unhelpfully reduce childcare assistance at the worst possible time.

There is a better way.

The federal government should heed the advice of Alexandre Laurin and Kevin Milligan and replace the current CCED with a [generous refundable tax credit](#). They propose a rebate of 75 percent of childcare expenses for families with incomes that fall below about \$35,000. The rebate falls to 26 percent for families with incomes above about \$155,000. Eligible expenses match that of the CCED: up to \$8,000 for children aged 0-6 and up to \$5,000 for children aged 7-17.

The government should pay this benefit monthly or quarterly (a similar benefit can be paid quarterly in Quebec). This is important as a family with two young children would qualify for a monthly cash benefit of up to \$1,000 and it would better match benefits with needs during an uneven recovery.

Those claiming the credit should be granted the maximum flexibility in the type of care that would qualify for the credit. The credit is a flexible way to encourage more childcare spaces in homes outside of groups or other more heavily regulated settings.

Families should be given the maximum flexibility to find childcare for more children than usual as schools and summer camps take time to get back up and running. Caregivers who cannot find work might consider providing care for another family's children as a source of temporary income. In short, greater flexibility in the types of care that qualify is one way to overcome the reduced supply due to continued physical distancing.

A refundable tax credit for childcare expenses that pays benefits monthly and is more flexible and fairer to lower income spouses would be a critical part of getting women back to work during our economic recovery from the COVID-19 crisis.

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