

# Intelligence MEMOS



From: Alexandre Laurin

To: The Honourable Bill Morneau, Minister of Finance

Date: January 16, 2019

Re: OTTAWA WINS FROM ONTARIO'S PROPOSED CHILDCARE REBATE

---

The newly elected government in Ontario pledged in its electoral platform to implement a childcare rebate program, which would reimburse up to 75 percent of the childcare expenses of low-income families, with the childcare subsidy rate gradually declining as family income grows. In my new C.D. Howe Institute [report](#) with researcher Jacob Kim, we examine the fiscal implications of the proposed rebate.

We found that the proposed program would induce more Ontario mothers to take on employment and thus increase tax revenues for both the Ontario and federal governments. This would substantially reduce the net cost for Ontario, and create a large windfall fiscal gain for the federal government.

In the first year, the proposed rebate would cost Ontario, at most, \$945 million per year. Then, we expect the proposed rebate to induce some mothers of young children – whose decisions to take on paid work are sensitive to childcare costs – to enter the workforce. Over the first few years, we expect about 60,000 stay-at-home mothers to enter the workforce. Over the long run, as many as 113,000 additionally employed mothers could generate \$5.4 billion in additional employment income annually in Ontario. These employment gains would generate extra fiscal revenues, reducing Ontario's net fiscal cost by about 38 percent, to \$588 million annually.

Furthermore, these employment gains would create a fiscal windfall for the federal government – perhaps as much as \$1.1 billion per year over the long run. The windfall is large, because income tax and fiscal benefit reduction rates are much higher federally than they are provincially, and the program would be of no cost to Ottawa.

In a [prior C.D. Howe Institute's Commentary](#), Kevin Milligan and I modelled a similar rebate program but instituted by the federal government, instead of provincially. Our result was an even greater employment-induced cost reduction for the federal government – a 93 percent reduction over the 38 percent reduction for Ontario. This should make instituting this rebate program more fiscally attractive when viewed from the perspective of the federal government than that of the Ontario government. Since provinces need a fiscal windfall much more than Ottawa, taxpayers could benefit from better cooperation between both levels of government in implementing this tax scheme.

*Alexandre Laurin is Director of Research at the C.D. Howe Institute.*

*The views expressed in this post are the author's alone, and do not necessarily reflect those of the OECD Secretariat or the OECD's member countries.*

*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

*The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.*