

Intelligence MEMOS



From: Alexandre Laurin
To: Ontarians concerned about childcare
Date: April 15, 2019
Re: THUMBS UP FOR ONTARIO'S NEW CHILDCARE PLAN

T rue to its focus on containing spending growth below projected revenues, the 2019 Ontario budget did not contain any new big-ticket items.

One targeted tax initiative, however, will likely produce a big bang for the buck. The new Ontario Childcare Access and Relief from Expenses (CARE) tax credit, initially estimated to cost around \$400 million, will incentivize thousands of stay-at-home parents (mostly mothers) to join the workforce, generating additional taxable employment income and boosting tax revenues in the long run.

The credit is targeted, mostly, at low- to modest-income families, where [gaps from the current childcare expense tax deduction are the greatest](#). The childcare expense deduction, capped at two-thirds of the income of the lower-earning spouse and limited to a maximum per child (\$8,000 for a preschooler and \$5,000 an older child), is of limited benefit for many modest-income families and mothers. The CARE refundable tax credit will fill this gap, refunding up to 75 percent of the cost.

Childcare subsidies can be a cost-effective means to encourage greater labour force participation by mothers and hence boost the economy. Academic analyses of Quebec's reduced-fee universal childcare program found clear and consistent evidence on the effect of subsidized prices on maternal work decisions. In response to the government-subsidized low price, more women are working than would otherwise be the case. This extra employment generates higher household incomes and, in turn, more tax revenue.

As in Quebec, the CARE tax credit in Ontario will lead to maternal employment gains offsetting some of the fiscal cost – [around 40 percent in the long run](#). Take, for example, a family of four with two young children and the father earning \$40,000. The mother is considering taking on work earning \$20,000, but would lose around half to taxes, other contributions, and income-tested child benefit reductions. If children need to be placed into daycare, she could easily lose another 30 to 50 percent of her pay to daycare costs, net of the benefit of the existing tax deduction, sucking up almost the entirety of her gains. The CARE tax credit will cover a substantial portion of the cost of childcare, making it much more financially advantageous to work.

In addition, by subsidizing childcare irrespective of the care settings, the new credit will be fairer for parents requiring flexible hours. Only a very small percentage of licenced centres offer evening and weekend care; a stark contrast from home providers, many of whom offer evening and weekend care.

With the CARE tax credit, provided in addition to the existing tax deduction, Ontario will have a very generous childcare tax subsidization system for low- to modest-income families. The system will also be fairer for everyone, and will lead to more working moms. Ensuing economic gains will lead to new tax revenues, working to help the deficit reduction efforts.

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