

AN EXAMINATION OF THE CONSERVATIVE PARTY OF CANADA'S PROPOSED CHILDCARE REFUNDABLE TAX CREDIT

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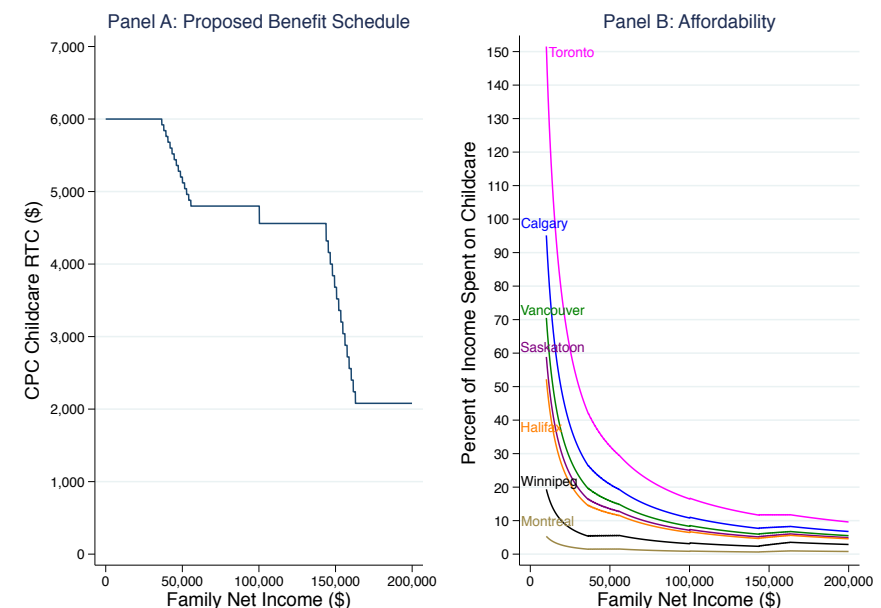
On Aug. 15, 2021, Liberal Leader Justin Trudeau had his request to dissolve Parliament approved, triggering Canada's 44th federal election. On Aug. 16, 2021, the Conservative Party of Canada (CPC) released their full platform. In that election platform, the CPC promise to convert the Childcare Expense Deduction (CCED) into a refundable tax credit (CPC 2021, 23). In releasing that platform, the CPC have also publicly stated that they would cancel the existing signed childcare agreements that expand childcare supply and limit childcare fees (Tasker 2021). This note examines the proposed benefit schedule of the refundable tax credit and what it would mean for childcare affordability.

The CCED is a tax deduction that lowers taxable income. For a couple, the CCED must be claimed by the lower earning spouse and the childcare expenses claimed cannot exceed two-thirds of their income. This raises two issues. First, the CCED is generally regarded as a regressive tax deduction (see Gagne 2001 for an alternative perspective). That is, the CCED grants higher tax savings per dollar spent on childcare to households with two high-income earners than for households where at least one earner has low or no taxable income. Second, the CCED reinforces patriarchal gender roles because it treats employment of the lower earning spouse as discretionary and worthwhile only if it exceeds the cost of childcare (Boessenkool and Robson 2021). Because of these shortcomings, the CCED has long been the subject of reformation proposals (e.g., Boessenkool and Robson 2021; Gordon 1999; Harder 2004; Laurin and Milligan 2017).

In comparison to a tax deduction, a refundable tax credit (RTC) is very similar to a negative income tax system where those eligible receive a cash transfer (instead of a reduction in tax payable). An RTC then provides a greater benefit to individuals or families with lower income, including those with zero income. The largest personal RTC is the Canada Child Benefit (CCB) (Department of Finance Canada 2021).

The RTC benefit proposed in the CPC platform has three important parameters: a maximum reimbursement amount, a tax credit rate and family income. Panel A in Figure 1 shows the benefit schedule.

Figure 1: CPC's Proposed Childcare Refundable Tax Credit



Panel A illustrates the maximum benefit a family can receive under the proposed tax credit. Families with net income below \$36,570 can receive 75% of their eligible childcare expenses up to a maximum annual benefit of \$6,000. In this case, childcare expenses above \$8,000 are not eligible for the tax credit. The maximum benefit and tax credit rate then fall in a stepwise fashion as family income rises. For example, households with family net income between \$55,535 and \$100,225 would receive 60% of their eligible childcare expenses, with a maximum benefit of \$4,800. Families with net income between \$100,225 and \$143,884 would receive 57% of their childcare expenses with their benefit capped at \$4,560. At the top threshold, families with net income over \$162,975 would receive 26% of their childcare expenses, up to a maximum benefit of \$2,080. There does not appear to be an upper limit regarding income eligibility: all households who pay childcare expenses will receive some amount of the proposed RTC.

In Panel B, we illustrate how the RTC affects the affordability of childcare for different families, relying on childcare fee information from Macdonald and Friendly (2020). The affordability measure is based on median childcare fees in each city represented, as a proportion of the family's income. This shows that a family in Calgary with net income of \$20,000 per year and one child, paying the median childcare fee of \$15,600/year, would receive the maximum RTC benefit of \$6,000/year. Their net childcare expenses are then \$9,600/year, or about 48% of their income. For comparison, a similar family with net income of \$60,000/year receives the maximum RTC of \$4,800/year, leaving \$10,800/year in childcare fees for them to cover, or about 18% of their income. Although the latter family's income is three times more than the former, their childcare expenses as a percentage of their family income are 2.6 times less.

Observations

1. **From an overall distributional perspective, the RTC is superior to the CCED** in that it is more progressive: households with higher income receive less of the credit. Moreover, the policy change would improve affordability of childcare more for lower than higher income families. This is not to imply that the RTC as designed is superior to other design options (see Robson 2021; Schirle 2021 for alternatives).
2. **The RTC does not solve regressive childcare costs.** Though the RTC improves affordability, childcare fees are still regressive, with lower income families paying

a higher proportion of their income in childcare expenses as compared to higher income families.

3. **The RTC will make childcare even more affordable in provinces that have already rolled out universal childcare, assuming that expenses from provincially subsidized childcare are eligible expenses, similar to the CCED.** In Montreal, parents now pay \$8.50/day in subsidized childcare (Government of Quebec 2020) and the median cost of childcare is \$179/month. A Montreal family with one child and net income of \$100,000 will receive \$1,289 from the CPC RTC (which is less than the maximum benefit). The RTC reduces their childcare costs to \$72/month (about \$3.60/day). Similarly, as Manitoba also subsidizes childcare, the median childcare fee for an infant in Winnipeg is \$651/month. A Winnipeg family with net income of \$100,000 would receive the CPC RTC of \$4,687 (less than the maximum) reducing their childcare costs to \$260/month. In contrast, the Toronto median childcare cost is \$1,774/month. After applying the RTC, a family in Toronto would still be paying \$1,374/month in net childcare fees.

The proposed RTC is being presented as a better way to address affordable childcare. However, it is clear those jurisdictions with universal childcare offer families more affordable care. A universal childcare system paired with an RTC would be a more comprehensive approach to affordable childcare across Canada.

Notes on Figure

The proposed RTC parameters were provided to a journalist by the CPC campaign and made publicly available.

Family net income is line 23600 from a Canadian T1 for a taxpayer plus their partner's line 236000, if applicable. It includes all sources of income such as employment and investment earnings less deductions. We have assumed the CPC's RTC would be based on line 236000, as many RTCs currently in place use line 236000 to determine benefit eligibility (including the Canada Child Benefit and the GST/HST credit).

To calculate the per cent of income spent on childcare in panel B, it was assumed that families have one child in childcare and pay the median cost of childcare as of 2019 for an infant in their respective city. This information was collected from Macdonald and Friendly (2020). After applying the proposed RTC based on the median cost of childcare and family net income, the remaining amount of childcare to be paid out of pocket was divided by family net income (and multiplied by 100). These costs are exclusive of any provincial or municipal childcare subsidies, whether that be through the tax system or directly to parents or childcare providers, as the purpose of this exercise is to isolate the effects of the CPC proposal on childcare affordability. Further, access to and eligibility for provincial childcare subsidies is often not just based on income, but also on behavioural aspects, including tax filing.

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