

## **The Choice in Child Care Allowance: What You See Is Not What You Get**

One of the most significant social policy proposals put forward during this federal election campaign is the Conservatives' plan for a Choice in Child Care Allowance. This short paper offers an analysis of the plan.

### *child care controversy*

Early learning and child care is an immensely important area of modern public policy. It is not only a core element of strong social policy but also a vital contributor to an efficient labour market and a nation's economic competitiveness.

The large majority of Canadian families, including those with preschool children, have both parents in the workforce. Most single parents work. Child care is necessary if parents are to work, train or re-educate. Child care is essential for poor families struggling to climb the welfare wall and find and keep jobs.

Yet child care is one of the most undeveloped parts of Canada's social and economic policy. Child care is deficient in supply,

affordability and quality control. Services are uneven between and, in most cases, within provinces and territories: There is nothing approaching a national system. Most families continue to rely on unregulated child care bought or traded on the market (typically from neighbourhood providers) or provided by relatives.

Child care has long been one of the most controversial issues of Canadian public policy, evoking strong views and competing prescriptions.

The Liberals and NDP advocate a 'supply-side' approach that focusses on creating a system of quality, affordable services financed largely by the taxpayer (though parental fees would continue to pay part of the cost) – much like earlier generations of Canadians constructed systems of public education and health care in every province and territory. The federal government has recently signed a series of bilateral agreements with the provincial governments to help pay for the construction of child care services, though the provinces retain considerable flexibility and choice in the design of their individual systems.

The Conservatives favour a ‘demand-side’ approach in which public funds would be paid directly to parents, allowing them to purchase child care on their own. The proposed Choice in Child Care Allowance embodies the demand-side philosophy. The Conservatives would abandon the bilateral agreements with the provinces for early learning and child care after one year.

However, neither side ignores the other’s main emphasis altogether. The income tax system provides an estimated \$809 million worth of combined federal and provincial/territorial tax savings for parents with receipted child care expenses; both Liberal and Conservative governments have maintained this demand-side tax benefit over the years. The Conservatives’ plan would include a Community Childcare Investment Program intended to create 125,000 new child care spaces over five years, through one-time capital assistance to employers and communities.

### ***reality check: summary critique of the proposed Child Care Allowance***

The *face value* of the Child Care Allowance is \$1,200 for each child under age 6. But the scheme’s *true value* would be less than \$1,200 because it would increase families’ taxable income and thus trigger both reductions in federal and provincial/territorial income-tested benefits and increases in taxes.

The overwhelming majority of Canadian families would end up with a Child Care Allowance worth considerably less than \$1,200 per child. The biggest losers would be modest-income families earning in the \$30,000-\$40,000 range.

Take the example of a two-earner couple in Ontario raising two children (one under 6) and

earning \$36,000 (only a few thousand dollars above Statistics Canada’s estimated after-tax low income cutoff of \$33,152 for cities of 500,000 or larger in 2006). That family would end up with a net Child Care Allowance worth just \$388 – only 32.3 percent of the \$1,200 face value payment.

The Child Care Allowance is unfair because it would pay working poor and modest-income families smaller benefits than middle- and upper-income families. It is doubly unfair because it would favour one-earner families over single-parent families and two-earner families.

Most Canadian families need and use child care outside the home so that parents can work in the paid labour force or study. The proposed Choice in Child Care Allowance would do little if anything to increase the supply of affordable, quality child care. Nor would the scheme do much to help families pay for child care, since it would offset only a fraction of the cost of child care.

The proposed Choice in Child Care Allowance is really a child benefit, not a child care program: It would go to all families with children, regardless of their child care needs. A much better alternative would be to use that money – about \$1.6 billion net of federal and provincial/territorial income taxes – to boost the Canada Child Tax Benefit to strengthen the child benefit system. The base Canada Child Tax Benefit could be raised by about \$800 per child under 6.

### ***what you see is not what you get***

The *face value* of the proposed Child Care Allowance is \$1,200 for each child under age 6. But this is an illusion: The scheme’s *true value* for the vast majority of Canadian families would be less than that – considerably less, in many cases.

Because the Child Care Allowance would be taxable in the hands of the lower-income spouse in two-parent families (the sole parent in the case of single-parent families), it would have a ripple effect throughout the federal and provincial/territorial income tax systems. By increasing families' taxable income, the Child Care Allowance would reduce their income-tested benefits such as the federal Canada Child Tax Benefit and Goods and Services Tax Credit, as well as provincial/territorial refundable tax credits and child benefits. At the same time, most families receiving the Allowance would pay more federal and provincial/territorial income taxes.

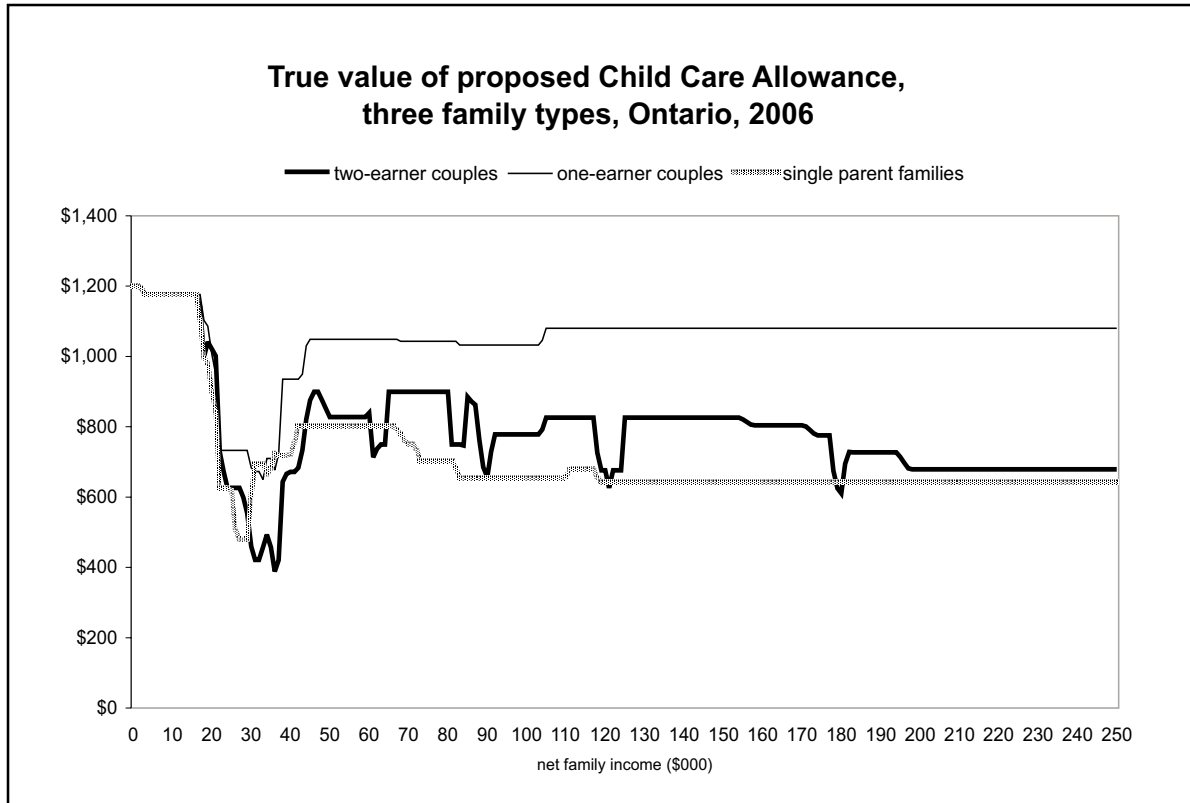
The true value of the proposed Choice in Child Care Allowance is its impact on families' disposable income – their bottom line income after paying income and payroll taxes (and, in the case of Alberta and Ontario, their health care premiums) and receiving tax-delivered benefits. This true value of the scheme is calculated by

subtracting, from the \$1,200 per child gross payment, attendant losses in income-tested benefits and increases in taxes.

***irrational and inequitable distribution of benefits***

The distribution of benefits makes no social or economic sense, as illustrated in the graph, which shows the true value of the proposed Child Care Allowance in the case of families living in Ontario. (The precise figures would differ for other provinces and territories because of differences in their income tax/benefit systems, but the overall picture of irrationally distributed benefits is the same throughout Canada.)

Unlike the income-related Canada Child Tax Benefit, the proposed Choice in Child Care Allowance would not distribute its benefits according to need as determined by income level.



To make matters worse, it would pay different amounts to different types of family with the same income.

***benefits not geared to income***

The proposed Child Care Allowance would pay its lowest amount to families with modest incomes close to the poverty line:

- A two-earner couple with two children (one child under 6 and thus eligible for the Child Care Allowance) and income of \$36,000 (only a few thousand dollars above Statistics Canada’s estimated after-tax low income cutoff of \$33,152 for cities of 500,000 or larger in 2006) would end up with an Allowance worth only \$388 – one-third (32.3 percent) of the \$1,200 face value payment.
- A one-earner couple with two children (one child under 6) and income of \$33,000 (just below Statistics Canada’s estimated after-tax low income cutoff of \$33,152 for cities of 500,000 or larger in 2006) would end up with \$650 – just over half (54.2 percent) of the \$1,200 face value payment.

- A single parent with one child under 6 and income in the \$27,000 to \$29,000 range (not that far above Statistics Canada’s estimated \$21,341 after-tax low income cutoff for a two-person family living in cities of 500,000 or larger in 2006) would end up with \$481 – only 40.1 percent of the \$1,200 face value payment.

The true value of the Child Care Allowance shows no rational relationship to families’ incomes. Only the poorest families on welfare, with no or only a few thousand dollars of earned income, would get the full \$1,200 – but only if the provinces and territories exempted the Child Care Allowance from the calculation of income for purposes of determining social assistance, which Ottawa would have to ensure through negotiations. There is no guarantee that provinces and territories would agree to this, since some might argue – correctly – that families on welfare already have fully or almost fully subsidized child care so do not need the additional \$1,200 to pay for child care. Instead, some provinces/territories might argue the added funds should reduce provincial/territorial costs of child care subsidies for families on welfare. In this case, families on welfare would not gain at all from the new federal program.

**True value of proposed Child Care Allowance, families in Ontario, 2006**

<b>income</b>	<b>one-earner couples</b>	<b>two-earner couples</b>	<b>one-parent families</b>
\$0	\$1,200	\$1,200	\$1,200
\$10,000	\$1,176	\$1,176	\$1,176
\$30,000	\$673	\$460	\$607
\$50,000	\$1,049	\$827	\$802
\$100,000	\$1,032	\$778	\$655

Regardless of what Ottawa manages to negotiate with the provinces and territories, the true value of benefits for families not on welfare would plummet once incomes reach around \$20,000 because families would lose income-related benefits and pay more income taxes. Two-earner couples with income of \$30,000 would receive a net Child Care Allowance of \$460 – less than the \$827 for a family at \$50,000 and the \$778 for a family at \$100,000. The numbers differ, but the irrational pattern of benefits to income applies to the other family types in all provinces and territories.

(By way of comparison, estimated 2006 average income for families with children is \$90,521 for two-earner couples, \$70,995 for one-earner couples and \$33,959 for single-parent families headed by a mother in the labour force.)

### ***favours one-earner couples over two-earner couples and single parents***

The proposed Child Care Allowance would be paid to all families with children, whether or not they use and need child care provided outside the home. Presumably the rationale is that families with one parent working in the home merit a new income benefit on behalf of their children in addition to what they currently receive in the form of the Canada Child Tax Benefit, the spouse or common-law partner credit and income-tested provincial/territorial child benefits and tax credits.

But most one-earner couples would receive larger benefits from the Child Care Allowance than two-earner couples and one-parent families. This makes no sense, as families that pay for out-of-the-home child care have higher expenses than do those with a work-in-the-home parent.

The table shows the true value of the Child Care Allowance for the three types of family at different income levels. Only at low income levels do the three family types get the same benefit. At \$30,000, one-earner couples end up with \$673, as opposed to \$460 for two-earner couples and \$607 for single-parent families. The one-earner couple advantage extends to higher income levels as well. At \$100,000, one-earner couples would receive \$1,032, versus \$778 for two-earner couples and \$655 for one-parent families.

### ***offsets only a fraction of child care costs***

The proposed Child Care Allowance would pay \$1,200 per child under 6. Its true value would be considerably less, once attendant benefit losses and tax hikes are factored into the picture.

Contrast these modest amounts to the cost of child care. Consistent and up-to-date data for all the provinces and territories are lacking, but what information that does exist shows that child care costs dwarf the proposed Child Care Allowance. The most recent figures (for 2003-04 in most cases) indicate that parent fees for full-time centre-based care range, for infants, between around \$6,000 and \$12,000, and for toddlers and preschoolers from about \$5,000 to \$8,000. (These figures exclude Quebec, which offers a relatively low \$7 per child per day fee.)

Most families continue to use private child care, whose cost is unknown but doubtless ranges from modest for some family-based care to expensive for nannies and designer child care centres. The proposed Child Care Allowance would provide an unnecessary subsidy to upper-income families, on top of their existing child care expense deduction, while doing little to ease

the often heavy burden of child care expenses for the large majority of families with low or middle incomes that do not have access to subsidized child care and often cannot find affordable, good quality care.

### ***a child benefit, not a child care program***

The proposed Child Care Allowance would be paid on behalf of all children under 6, regardless of their families' child care needs. Not only would families with work-at-home parents receive the Child Care Allowance, but most also would get larger benefits than two-earner families and one-parent families.

The Child Care Allowance is not a child care program because it is not designated for child care uses – unlike the child care expense deduction in the income tax system, which reduces federal and provincial/territorial income taxes for families in which the claiming parent incurs child care expenses to work or study, and unlike child care subsidies for low-income parents, which are built into provincial/territorial child care systems. The Child Care Allowance will do little or nothing to ensure that good quality child care is available to low- and modest-income families.

The Child Care Allowance is really a child benefit because – like the federal Canada Child Tax Benefit and the income-tested child benefits offered by all provinces and territories (except PEI) – families use the money as they decide, though most doubtless spend it on their children. While a child benefit can be used for child care, it is not tied to that use.

### ***windfall gains to the federal and provincial/territorial treasuries***

Because the proposed Child Care Allowance would be taxable (in the hands of the lower-

income parent or the single parent), the provinces and territories would enjoy some revenue gains for two reasons. First, their expenditures on income-tested refundable credits and child benefits would decline. Second, they would collect more income tax and, in the case of Ontario and Alberta, more health premiums. In effect, the proposed Child Care Allowance would amount to a no-strings-attached transfer to the provinces and territories, which is not bad *per se*, but it reduces the amount of money going to families.

The federal government also would see some savings for the same reasons. Its expenditures on the Canada Child Tax Benefit and GST credits would diminish, while it would collect more income tax.

### ***breaking the early learning and child care agreements with the provinces***

The Conservatives have said that they would not honour the recently-signed bilateral child care agreements with the provinces beyond one year.

This move would break the agreements with the provinces, which have signed in good faith. The provinces have gone ahead and encouraged social agencies and others to set up child care centres. The Conservative promise means that the provinces would once again get the rug pulled out from under their feet, leaving them to pay the full cost all alone.

Maybe this does not matter in revenue-rich Alberta, but in provinces such as Manitoba and the Atlantic provinces, it would be a big cost that they can ill afford. It would really mean that poorer provinces would now have no fiscal room for any other social initiatives. The provinces cannot just start and stop programs on a whim. Why should the provinces believe that any future

federal-provincial deals will be honoured? We cannot run a federalist country in this manner: Close and ongoing cooperation between the two orders of government is essential to a strong federation.

***a better idea: boost the Canada Child Tax Benefit***

Instead of spending money on the flawed Child Care Allowance – about \$1.6 billion net of federal and provincial/territorial income taxes – the next federal government should boost the Canada Child Tax Benefit to strengthen the national child benefit system. 2006 rates mark the end of Ottawa’s multi-year increases to the Canada Child Tax Benefit: Additional investments over the next several years are needed to reach the \$4,800 target for a mature, adequate child benefit program

For the cost of the Child Care Allowance, the base Canada Child Tax Benefit could be raised by about \$800 per child under 6. For example, a family with two children (one under 6) and net family income of \$20,000 would see its Canada Child Tax Benefit rise by \$800 from \$6,382 to \$7,182 – an increase amounting to 8 percent of their income.

The Canada Child Benefit avoids all of the Child Care Allowance’s pitfalls: The Canada Child Tax Benefit is a modern program that treats all families (two-earner couples, one-earner couples, single parents) at the same income level equally; it is a nontaxable benefit, so what you see is what you get; it has no impact on provincial/territorial tax/transfer systems or on

their revenues; it is a progressive program that gears its benefits to family income; and it is a proven and powerful poverty reduction instrument. Furthermore, provinces have already agreed that additions to the base Canada Child Tax Benefit would not be counted as income for welfare recipients, so they too would get an increase in income.

All the political parties supported the federal-provincial/territorial National Child Benefit, of which the Canada Child Tax Benefit constitutes Ottawa’s part. All the parties should support further investments to build a child benefit system that reduces poverty and better helps families pay for the cost of raising their – and Canada’s – children.

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