

Finding Common Ground on Child Care*

The new Conservative government's Choice in Child Care Allowance is a deeply flawed proposal. Supposedly, every family will get \$100 a month for each child under 6 years of age. But this is misleading.

The new scheme comes with a hidden price – higher income taxes and lower payments from geared-to-income programs – that will substantially diminish its true value. Because the Allowance will be taxed according to the income of the lower-income parent or single parent, affluent couples with a stay-at-home spouse will get a much bigger *net* benefit than single parents earning below average income.

Let's look at the example of a two-earner couple in Ontario raising two children, one under 6, and earning \$36,000. The \$1,200 Child Care Allowance will increase the family's taxable income, so it will pay \$422 more in federal and

Ontario taxes. The Allowance also will result in a \$390 reduction in the federal Canada Child Tax Benefit and GST credit and provincial tax credits, since these benefits fall as incomes rise. The family will end up with a net Child Care Allowance worth just \$388 – only 32.3 percent of the \$1,200 face value.

The table shows the true value of the Child Care Allowance for three types of families at different income levels in Ontario. Results will be similar for other provinces and territories.

The proposed Child Care Allowance favours one-earner couples over single parents and two-earner couples. One-earner couples do well at higher income levels, and better than modest- and middle-income single parents and two-earner couples. But families with modest incomes, in the \$30,000-\$40,000 range, are especially penalized by the taxback on other

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

earnings	one-earner couples	two-earner couples	one-parent families
\$0	\$0 to 1,200	\$0 to 1,200	\$0 to 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

benefits. Only at very low income levels do all types of families get close to the advertised \$1,200.

Families with no earnings may be on welfare, so we show a range of \$0 to \$1,200 since we do not know how provinces and territories will treat the Child Care Allowance when calculating welfare. Some jurisdictions might argue that welfare already fully or partly pays for child care, so there is no need for \$1,200 more for child care, and so may deduct the Allowance from welfare. The result is that welfare families could get no Allowance.

The Choice in Child Care Allowance will do little, if anything, to address the lack of affordable, quality child care. Nor will the added money do much to help families pay for child care, since it will offset only a small fraction of child care costs, especially for single parents and couples with modest incomes.

The proposed Child Care Allowance is really a deeply flawed child benefit, paying net payments that are unfair and irrational. Nonetheless, the new government seems determined to go ahead with the scheme. At least they should find a way to make it fair.

Luckily, there is a straightforward solution: Ottawa should deliver the Allowance through the tried and true Canada Child Tax Benefit (CCTB).

The maximum CCTB for a young child will reach \$3,426 this July. Adding \$1,200 to the CCTB would boost this amount to \$4,626 – close to the \$5,000 target for an adequate child benefit. The full amount of the Allowance would *really* go to *all* families – single parents, one-earner and two-earner couples – with incomes less than about \$100,000, with gradually diminishing payments above that level.

There is a precedent for piggy-backing new benefits onto the CCTB: In 2003 Ottawa added a Child Disability Benefit and many provinces deliver their child benefits through the CCTB. There are almost no additional administrative costs entailed.

Our proposal is smart politics as well as sound social policy. The Opposition parties doubtless will oppose the new government's child care plans, but they might look more favourably at boosting the Canada Child Tax Benefit – a program that the Liberals created and grew, and the NDP campaigned to increase by \$1,000.

The Child Care Allowance will never be a substitute for a solid, high-quality child care system, but it can at least be transformed into a sensible and equitable child benefit that will reduce child poverty and help families meet the costs of raising their children. Delivering the Allowance through the Canada Child Tax Benefit will be more faithful to the Conservatives' promise of \$1,200 per child under 6 than stealthily taxing much of it away for the families who need it most.

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