

POLICY BRIEF: ENHANCING ONTARIO'S CHILD CARE TAX CREDIT

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April 2022

ISSUE

With the Canada-Wide Early Learning Child Care Agreement (CWELCCA) now in place in Ontario, the provincial Childcare Access and Relief from Expenses (CARE) tax credit becomes even more important to Ontario families. The new federal/provincial child care agreement only reduces child care fees for about 3 out of 10 families with children under age 6. The \$13.2 billion agreement creates a new inequality between the minority of families who will benefit and everyone else.

RECOMMENDATION

In this new environment, an enhanced version of the CARE credit could provide important financial relief to the many families who do not benefit from the federal agreement. The Government of Ontario should increase the credit's clawback threshold, index it to inflation, and remove the two-thirds of lower-income limit.

BACKGROUND

The CARE credit was introduced in 2019 to assist low- and middle-income families with child care costs and to encourage parents to re-enter the labour force. One advantage of the credit is that it accommodates a broad range of paid care options.

Unlike the federal agreement, the CARE credit applies to child care fees for children aged 0 to 17. The credit allows claims of up to 75 percent of certain child care expenses with a maximum amount of \$6,000 for children under 7 years old and \$3,750 for children between ages 7 and 17. The credit also provides a severe disability maximum credit of \$8,250 per child. CARE is geared to income and begins to be reduced at about \$20,000 annual household income. The credit phases out at \$150,000 annual household income.

Following the announcement of the policy, the Ontario Financial Accountability Office (FAO) assessed the potential impact of the new credit on Ontario families. The FAO reported that among all families with children under age 17, about 63 percent did not claim any child care expenses. The FAO estimated that 21 percent of families would receive some benefit, while others who used paid care would not see any benefit primarily because they exceeded the upper annual household income limit of \$150,000.

Prior to the introduction of the CWELCCA, the FAO estimated the credit would cost the province \$470 million in 2022–2023. The cost of the credit decreased during the pandemic years 2020–2021 to about \$303 million as families used less care, in part because of temporary child care closures. The province budgeted a temporary top-up of \$20 million in 2021–2022, and \$55 million for 2022–2023.

Before the CWELCCA, the FAO estimated a future decline in the number of families utilizing the credit, from 310,000 families in 2019–2020 to 280,000 families by 2029–2030. The estimated decline in the use of the credit is due to inflation and rising household incomes as the CARE credit is not indexed to inflation.

POLICY DETAILS

Despite the fact that Ontario has signed on to the CWELCCA, the CARE credit remains an important support for Ontario families. In fact, an enhanced CARE credit would provide relief to families who use other forms of care or who are unable to access the limited amount of highly subsidized care. Cardus recommends the following enhancements to the CARE credit to better serve Ontario families.

1. Increase the Clawed Back Threshold

The amount a family can earn before the benefit begins to be clawed back is about \$20,000 annually. This threshold should be increased as the FAO estimates only about 0.1% of families receive the maximum benefit.

2. Index to Inflation

In addition to increasing the threshold, CARE should be indexed to inflation. As noted above, the efficacy of the credit will likely decline without this measure.

3. Remove the 2/3 Limit

The credit limits the amount that can be claimed to two-thirds of the income of the lower-earning parent. This measure reflects the approach of the federal Child Care Expense Deduction, which has been shown to reduce the benefit for 40 percent of recipients, and disproportionately so among lower-income families. To better support the families that most need it, the two-thirds limit should be removed.

Ontario's Canada-Wide agreement will assist a small proportion of families with children. Many families use forms of care outside the federal government's preferred option under the CWELCCA, or will not be able to access highly subsidized spaces. Enhancing the CARE tax credit is one step towards addressing the unequal treatment of families under the CWELCCA. It would also provide greater relief to low- and middle-income families who are the intended recipients of the benefit.

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