



APPENDIX 1  
TAX CONSEQUENCES OF USING \$7-A-DAY CHILDCARE

The \$7 parental contribution is not eligible for the refundable tax credit for daycare, whereas fees at private unregulated daycares do remain eligible. It is obvious that not all families benefit financially from using \$7-a-day childcare services. Some taxpayers may actually come out worse off, given that daycare fees are deductible from taxable income at the federal level and lower daycare fees mean higher taxable income.

Let us take the example of a household with one child in daycare and family income of \$28,000. We can measure the financial gain or loss if the family is paying \$7 a day as compared to \$26 a day for an unsubsidized space. At the provincial level, daycare fees of \$26 a day are eligible for a 75% refundable tax credit, or \$19.50. This results in a net cost of \$6.50, which works out to less than the current \$7 subsidized rate.<sup>1</sup>

Tax consequences at the federal level result in the household losing even more. The amount paid for daycare affects net family income and thus also affect the Canada Child Tax Benefit, the GST credit and income tax. According to calculations by a tax specialist,<sup>2</sup> a household with \$25,000 in income, consisting of a single parent with two children (one of whom is in daycare), would lose the equivalent of \$1,350 a year by using \$7-a-day childcare services as opposed to \$26-a-day childcare. For a household formed by a couple, the loss would be \$1,264. In contrast, a couple with family income of \$60,000 would come out \$935 ahead by using \$7-a-day childcare rather than \$26-a-day childcare, and a couple with \$90,000 in income would come out \$2,330 ahead. The policy thus provides the greatest benefit to upper-income families, who as it turns out make greater use of subsidized daycare services.

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<sup>1</sup> Claude Laferrière, *Les garderies à 7\$ sont-elles une aubaine? Édition 2005*, p. 3, available at [http://www.er.uqam.ca/nobel/r14154/Doc\\_PDF/FGE2005/05-FGE\\_txt.pdf](http://www.er.uqam.ca/nobel/r14154/Doc_PDF/FGE2005/05-FGE_txt.pdf)

<sup>2</sup> *Ibid.*, p. 5.

APPENDIX 2  
EFFECTS OF WIDESPREAD USE OF SUBSIDIZED DAYCARE  
ON THE WELL-BEING OF CHILDREN AND PARENTS

Women's employment

One direct effect of current family policy that has been studied in detail is the rise in employment of women. Economists Pierre Lefebvre and Philip Merrigan have estimated that the family policy introduced in 1997 has raised the workforce participation rate of women with children of pre-school age by about 12.5%, with hours worked up by 13% and income by 17%. It should be noted that the use of daycare services rose by 54%. The government obviously reaps direct financial benefit from this in the form of tax receipts, but the value of the additional taxes this generates has been estimated at about 40% of the amount of subsidies.<sup>3</sup> There is thus no financial gain for the government.

If families had the choice between daycare subsidies and payments in the same amount issued directly to themselves, some would choose the direct payment and would keep their children at home, especially children under age 3. This is what a Norwegian study shows. In Norway, since 1999, parents with children 1 to 3 years old who do not use subsidized daycare and who care for their children themselves are eligible for a subsidy of nearly the same amount as daycare services receive. The introduction of this allowance has led to a relative decline in hours worked by mother (down 3%).<sup>4</sup>

Psychological effects on children's development

More extensive use of formal childcare services in Quebec seems to have raised anxiety and aggressiveness among children of pre-school age. These negative effects are greater when children are in daycare for more than 30 hours a week. Some 76% of children in daycare are there full time (30 hours or more).<sup>5</sup>

With respect to effects on children's cognitive development, there may be some advantages, in particular when children begin to attend daycare at ages 2 or 3. The advantages are greater for children from underprivileged backgrounds. However, such children account for no more than 5% of the total number in subsidized daycare in

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<sup>3</sup> Michael Baker, Jonathan Gruber and Kevin Milligan, *Universal childcare, maternal labour supply, and family well-being*, University of British Columbia, October 2005, p. 31, available at <http://www.econ.ubc.ca/kevinmil/research/childcare.oct2005.final.pdf>.

<sup>4</sup> Pål Schøne, "Labor supply effects of a cash-for-care subsidy," *Journal of Population Economics*, Vol. 17, No. 4 (December 2004), pp. 703-727.

<sup>5</sup> For recent studies, see in particular, in Canada, Jean-François Chicoine and Nathalie Collard, *Le Bébé et l'eau du bain*, Montreal, Québec/Amérique, 2006; Michael Baker *et al.*, *op.cit.*; John Richards and Matthew Brzozowski, "Let's Walk before We Run: Cautionary Advice on Childcare," *Commentary*, C.D. Howe Institute, August 2006; and in the United States, Susan Loeb *et al.*, "How much is too much?," presentation to the Association for Policy Analysis and Management, November 4, 2005, available at [http://susanohanian.org/show\\_research.html?id=100](http://susanohanian.org/show_research.html?id=100).

Quebec.<sup>6</sup> Moreover, there is no consensus as to how long-lasting these advantages may be. Some authors suggest that the effects dissipate after some years in school.<sup>7</sup>

### Calculating the cost per voucher

Operating subsidies in 2004-2005 (the latest year available for Quebec public accounts):  
\$1.353 billion

Number of licensed spaces in 2005: 191,837

Voucher = \$1,353,000,000/191,837 spaces = \$7,052

### Childcare places

Date	Places at the reduced contribution				Places in day care centres not under agreement	Total of places under permit
	Childcare centre	Home childcare	Subsidized day care centre	Total		
March 31, 2003	63,339	75,355	24,740	163,434	1620	165,054
March 31, 2004	68,274	82,044	27,530	177,848	1907	179,755
March 31, 2005	72,057	87,192	30,131	189,380	2457	191,837
March 31, 2006	74,573	89,011	33,034	196,618	3487	200,105
September 30, 2006	75,509	88,534	33,651	197,694	4097	200,791

**Source:** Family services agency, Department of the Family, Elderly and Status of Women  
<http://www.mfacf.gouv.qc.ca/statistiques/services-de-garde/index.asp>

<sup>6</sup> Department of the Family, Elderly and Status of Women, *Rapport annuel de gestion 2003-2004*, October 2004, available (in French only) at [http://www.mfacf.gouv.qc.ca/ministere/rapports\\_annuels.asp](http://www.mfacf.gouv.qc.ca/ministere/rapports_annuels.asp).

<sup>7</sup> Ruth McKey *et al.*, "The impact of head start on children families and communities," U.S. Department of Health and Human Resources, HHS85-31193, June 1985.