



## 2015 Tax Breaks for Canadian Families

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*Note: the information in this article is applicable for 2015 tax filings. The tax deductions and credits mentioned are subject to change in 2016 when the Federal Government tables their new budget on March 22, 2016.*

You don't need to be an economist, or even a parent, to know that it costs a lot of money to raise a child in Canada, with most parents juggling a number of competing financial demands on a finite family budget.

For some families that juggling act is particularly difficult. For those living in large urban centres, housing costs can eat up a big chunk of household income. Single-parent families face the



same expenses as two-parent families, but must meet those expenses from one, not two incomes.

The Canadian tax system does include a number of measures which provide assistance to families, through tax deductions and credits and through monthly benefit payments. However, in most cases, families have to either apply for such benefits or at least have to know that they are eligible to claim those deductions and credits on their annual return. It can be difficult for someone who deals with the tax system only once a year, at tax filing time, to sort through which benefits, deductions and credits are available to them. The fact that the rules governing those benefits, deductions and credits are subject to frequent revision doesn't help.

What follows is an outline of the 2015 tax and benefit measures which will be most frequently claimed or received by Canadian families, together with the rules which determine eligibility for (and sometimes the amount of) each.

### Deductions and credits claimed on the annual return

For many years, parents of a child or children under the age of 18 could claim a deduction or credit for each such child on the annual return, with no need to make any specific expenditure in relation to that child or children. However, as of 2015, the child tax credit has been eliminated. Consequently, the child-related claims which can be made by parents on the annual return are now limited (with the exception of single parent families) to claims which are based on a qualifying outlay or expenditure made by the parents for their children's benefit during the year.

### Amount for an eligible dependant or single parent claim

The one exception to the general rule outlined above is what is known technically as the amount for an eligible dependant or, more familiarly, as the single-parent exemption. Where a couple is married and one of them has income of less than about \$11,327 (for 2015), then the higher income spouse can claim a "spouse or common-law partner amount". That amount is calculated as the difference between \$11,327 and the lower-income spouse's income for the year.

Single parent families, by definition, will not be able to benefit from the spouse or common-law partner amount. Consequently, a taxpayer who does not have a spouse or common-law partner but does have a dependant relative who lives with them and whom they support can claim the amount for an eligible dependant. The calculation of that amount is exactly the same as the spouse amount – that is, the difference between \$11,327 and the dependant's income for the year. In most cases, that dependant will be the taxpayer's minor child, who will not typically have an income. In that case the full amount of \$11,327 can be claimed and, when that amount is converted to a tax credit, it will reduce the parent's federal tax for the year by \$1699.

### Claiming a deduction for child care expenses

In a majority of cases Canadian families, whether two-parent families or single parents, will need child care in order for the parent or parents to work at paid employment or self-employment. Particularly where child care is needed on a full-time basis or for more than one child, the costs incurred can easily run to several thousand dollars

a month. Fortunately, most families that incur such expenses can claim a deduction for at least part of those costs on their annual return.

The amount of child care expenses which may be deducted is limited by a formula which takes into account the age and health of the child for whom care is obtained as well as the income of the parent making the claim. While, unfortunately, in most cases the available deduction will be less than the actual cost of child care obtained, the deduction can still provide significant tax relief.

The general rule is that for children who are aged 6 or under, the maximum amount of child care expenses which may be claimed for the year is \$8,000. For children between the age of 7 and 16,

that amount is reduced to \$5,000 per year. Where the child for whom care is obtained is disabled, the maximum amount claimable is \$11,000 per year, regardless of the age of the child.

Those maximum child care expense amounts claimable are subject to an overriding limitation of two-thirds of the income of the

parent claiming the expenses and the rules require that, in a two-parent family, it is the lower-income parent who must make the claim. In other words, the maximum amount of child care expenses that can be claimed for the year by the lower income parent is the least of the following three numbers:

- 66.6% of the income of the parent making the claim;
- the total of the maximum amount claimable for each child (discussed above); and
- the actual amount of total child care expenses incurred.

### Children's fitness and arts tax credits

While most Canadian families incur child care expenses to ensure their children are looked after while the parents are at work, that's rarely the only such cost incurred. There are a virtually limitless number of after-school and summer activities

available to Canadian children and, where family finances allow, most children are enrolled in one or more of those activities. In most cases, the costs associated with enrolling children in fitness and arts programs are subsidized, to a degree, by our tax system.

Since 2007, parents have been able to claim the Children's Fitness Tax Credit for activities or camps which involve a minimum degree of physical activity. Parents are entitled to claim a refundable credit equal to 15% of the first \$1,000 in qualifying costs per child per year. So, in other words, a camp which would have cost parents \$600 per child will instead have a net cost of \$510 (\$600 minus 15%, or \$90.), after the credit is claimed on the parent's tax return for the year.

Parents whose children's interests run to less athletic pursuits, like art or music or theatre or writing can claim the Children's Arts Tax Credit. The Arts Credit is very similar in structure to the Children's Fitness Tax Credit, but less generous. It provides a non-refundable 15% tax credit on up to \$500 in eligible expenses per child per year.

Given the enormous range of activities available for children, it's not surprising that the federal government has found it necessary to provide detailed rules on what types of activities will and won't qualify for the two credits. And, while the possibility of a tax benefit should never drive the decision on which program or activity a child should be enrolled in, the availability of the credit might tip the balance between similar programs, or might make a program, camp or activity which seemed financially out of reach more affordable.

In assessing whether a particular camp or program might qualify for either of the two credits, the first thing to note is that both credits are available only in respect of fees paid for children who are under the age of 16 at the beginning of the year. In other words, the last year for which the credit can be claimed is the year in which the child turns 16, assuming that all other criteria are met. Those criteria are as follows:

- the program must last for a minimum of 8 consecutive weeks, with at least one session per week or, in the case of children's camps, must run for 5 consecutive days;
- the program or activity must be supervised; and
- the program or activity must be suitable for children.





Where the credit claimed is for the Children's Fitness amount, more than 50% of activities offered must include a significant amount of qualifying physical activities or, in the case of a program, camp or membership in which participants can choose from a variety of activities, more than 50% of those activities must include a significant amount of eligible activities or more than 50% of the available program time must be devoted to eligible activities.

Where the credit claimed is for the Children's Arts amount the program requirements are of course different. To be eligible for the Arts credit, a program must:

- contribute to the development of creative skills or expertise in an artistic or cultural activity;
- provide a substantial focus on wilderness and the natural environment;
- help children develop and use particular intellectual skills;
- include structured interaction between children where supervisors teach or help children develop interpersonal skills; or
- provide enrichment or tutoring in academic subjects.

There are, as well, activity-related costs which will not qualify for either credit. Where charges are levied for such costs as accommodation, travel or food, or special equipment, none of those costs qualify for either credit and must be subtracted from the total fee paid.

It's easy to see that expenditures made for summer or after-school activities could qualify for both the child care expense deduction and for one or the other of the Children's Fitness or Arts Tax Credit. It's not, however, possible to double or triple dip when it comes to expenses related to children's activities. Expenses which are claimed under any of the three possible categories (child care expenses, Children's Fitness Tax Credit and Children's Arts Tax Credit) can be claimed only once, even if they might, by definition, qualify under more than one provision.

Where the same expenditure will qualify for both the child care expense deduction and the Children's Fitness or Arts Tax Credit, the CRA requires that the parent first claim that amount as a child care expense. Any part of the expenditure which is not claimed as a child care expense (perhaps because the

maximum per child limit for such expense claim has been reached) can be claimed for the Children's Fitness or Arts Tax Credit, as long as the usual requirements for the particular credit are met.

## Credits claimable for post-secondary education costs

While the cost of child care or of enrolling a child in organized sports or arts activities for a number of years can seem high, those costs pale in comparison to the cost of financing a child's post-secondary education. While post-secondary education costs vary from province to province and by area of study, it's fair to say that the cost of each year of post-secondary study for a child living away from home will be at least \$15,000 to \$20,000.

The good news is that there are tax credits claimable for many of the costs involved in post-secondary education and, equally important from a parent's perspective, those credits can be claimed, within limits, by family members other than the student.

The bad news is that no credit or deduction is claimable for ordinary living costs incurred by the student to live away from home while at school, so the cost of residence or apartment rent doesn't qualify for any special tax treatment. A credit is, however, available for tuition fees paid and for what are known as education and textbook amounts. The education amount is based on the number of months that a student is in school during the year. For each month of full-time attendance a credit amount of \$400 can be claimed: the equivalent amount for each month of part-time attendance is \$120. The so-called "textbook" amount is something of a misnomer, as it's not necessary to actually purchase textbooks in order to claim the credit, nor is the amount of the credit tied in any way to the cost of any textbooks purchased. Instead, each student who is eligible to claim the education amount can also claim \$65 per month (for full-time students) or \$20 per month (for part-time students) as the textbook amount.

All such amounts – tuition, education and textbooks amounts – are combined to determine the total credit amount claimable for the year. 15% of that total amount becomes a non-refundable tax credit, which is used to reduce federal tax payable for the year. The provinces and territories also provide for similar credits, at varying amounts.

All tuition, education and textbook credits must first be used to reduce tax payable by the student for that year to zero. Of course, many post-secondary students don't have any tax payable for the year, as even those fortunate enough to secure a good summer job are unlikely to earn sufficient income during the summer to have to pay tax for the year. Where the credit amounts exceed the student's tax payable for the year, two choices are available. The student can carry the credit amounts forward and claim them in a future year in which he or she does have tax payable, or they can transfer a portion of the credit amount earned during the year to another family member. Most often, the student does both.

Tuition, education and textbook tax credits can be transferred in the year they are earned to a student's spouse, parents or grandparents, and it's not necessary, for purposes of the transfer, that any of those individuals have actually contributed to the cost of the student's education. There is however, a limit on the amount which can be transferred. For federal tax purposes, that limit is \$5,000 per year, and each province and territory will have its own limit. The spouse, parent or grandparent then claims the credit on his or her return for year, reducing that person's tax payable.

It is important to remember that only credit amounts earned in the current year can be transferred to another person. Once amounts are carried forward to a future year, they can only be claimed by the student (or former student). Consequently, it's important for families to take full advantage of any opportunity to transfer tax credits related to post-secondary education in the year or years that they are earned.

### Child benefit payments

Since the mid-1940s, the federal government has provided Canadian families that have young children with a monthly benefit payment to assist with the costs of raising those children. The first such benefit program, started in 1945, was known as the Family Allowance, often referred to as the "baby bonus". While the Family Allowance program ended many years ago, the practice of providing families with a monthly benefit continues. That benefit is currently provided through the Canada Child Tax Benefit (CTB) and the Universal Child Care Benefit (UCCB) programs. While many families receive both the CTB and the UCCB, the rules governing eligibility for each benefit and the tax status of the payments received are different.

### Canada Child Tax Benefit

The CTB is a tax-free benefit provided to eligible Canadian families that have children under the age of 18. As of July 2015, the basic benefit is \$1,471 annually for each child under age 18, with a supplement of \$103 annually for the third and each additional child in a family.

Generally speaking, the full CTB is provided to families whose family income is less than \$44,701. Once family income exceeds that threshold, the amount of benefit payable is reduced according to a formula. For a one-child family, that reduction is 2% of the family net income over the income threshold. For families with two or more children, the reduction is 4%.

Lower-income families which are eligible to receive the CTB may have that benefit augmented by the Canada Child Tax Benefit Supplement. The Supplement is an additional payment for such families which have income of less than \$26,021 per year. The CCTB Supplement amounts beginning in July 2015 are as follows:

- One-child family: \$2,279 a year for one child.
- Two-child family: \$2,279 for the first child plus \$2,016 a year for the second child.
- Three-child (or more) family: \$2,279 for the first child plus \$2,016 for the second child plus \$1,918 a year for the third and each additional child.

As with the basic CTB, Supplement amounts are reduced where family income is greater than the prescribed income threshold, which is \$26,020. For a one-child family, the reduction is 12.2% of the amount of family net income over the income threshold. For a two-child family, that reduction percentage is 23.0%, and for a family having three or more children, the reduction percentage is 33.3%.

### Universal Child Care Benefit

As the name implies, the Universal Child Care Benefit (UCCB) is paid to every Canadian family which has a child or children under the age of 18, regardless of family income. In 2015, the UCCB is \$1,920 per year for each child under the age of 6 and \$720 per year for each child over 5 but under 18. However, all such benefit amounts received are taxable.

## Goods and services tax/harmonized sales tax (GST/HST) credit

Although the refundable GST/HST credit, which is paid four times a year, is not specifically targeted at families, the amount of credit receivable is greater for Canadians who have at least one child and rises as family size increases. As with the CTB, eligibility for the GST/HST credit is tied to income, and the amount of credit receivable decreases as income rises. For either single parent or two parent families with a single child, credit erosion begins when family income exceeds \$35,926 per year, and no credit is available once annual family income is over \$49,866. The same credit reduction mechanism is applied to larger families, but the applicable income threshold rises as the number of children in a family increases.

Keeping track of the various deduction, credit and benefit options and programs for which your family might be eligible can seem an impossible task for parents busy with so many other responsibilities. However, there are resources available to parents to help them find that information. The Canada Revenue Agency devotes a section of its website to child and family benefits like the Canada Child Tax Benefit and the Universal Child Care Benefit, and that information can be found at [www.cra-arc.gc.ca/bnfts/menu-eng.html](http://www.cra-arc.gc.ca/bnfts/menu-eng.html). Elsewhere on the CRA website, information is available on the other deductions (like the child care expense deduction) and credits (like the fitness or arts tax credit) which are often claimed by parents, and that information is available at [www.cra-arc.gc.ca/azindex/menu-eng.html#azind](http://www.cra-arc.gc.ca/azindex/menu-eng.html#azind).

