

With fewer tax breaks for child-care, what's left for Canadian parents?



To qualify for the Child Care Expenses Deduction, parents must have children under 16 years old. (Pexels)

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With the income-splitting Family Tax Cut, arts, fitness and textbook tax breaks now off the table, Canadian working parents are nearly out of opportunities to deduct child-care costs on their tax returns. But experts say parents may not be taking full advantage of the Child Care Expenses Deduction, which could be the most valuable option.

Just seven per cent of respondents to a survey by TurboTax conducted before Canadians filled out their 2016 tax returns last spring said they planned to claim the deduction for \$8,000 in child-care expenses for children six and under, and \$5,000 for children between seven and 16 years old.

For Jamie Golombek, CIBC's managing director of tax and estate planning, the figure is evidence of the small pool of Canadians eligible to claim child-care costs on their federal income tax return.

- To qualify for the Child Care Expenses Deduction, parents must have children under 16 years old. In a two-parent household, only the lower-earning parent qualifies, and only if they have an earned income of \$11,635 or more in the 2017 tax year.

“Most of the tax benefits that are accruing to parents in 2017-2018 are coming from outside the tax-return system. Really, the only thing that’s left for most people is the Child Care Expenses Deduction,” he told CTVNews.ca in an interview. “The government has eliminated most of the tax deductions and credits that are available on the return, and have replaced a lot of the benefits with this non-taxable Canada Child Benefit, which you receive tax free on a monthly basis.”

Still, Golombek insists the Child Care Expenses Deduction is the best remaining option for working parents, now that the income-splitting Family Tax Cut is gone, and arts, fitness and textbook tax breaks are off the table.

Each child’s age-based deduction limit is pretty straight-forward, \$8,000 for children six and under, and \$5,000 for children between seven and 16 years old. The exception is children eligible for the Disability Tax Credit, their deduction limit jumps to \$11,000 regardless of the child’s age.

The total Child Care Expenses Deduction is generally limited to two-thirds of the lower-income spouse or partner’s earned income.

It’s when you start looking at what qualifies as a child-care expense that parents can miss valuable opportunities to make claims.

“One thing that is often missed is summer camp,” Golombek said. “There are camps including summer sports camps for young kids that have a sufficient degree of child care that the cost qualifies for the child-care deduction.”

Maureen De Lisser, an associate partner with EY Tax Services, said many parents may not know that the Canada Revenue Agency has confirmed that paying grandparents for child care also qualifies under the Child Care Expenses Deduction.

“You have to make sure that the amount is reasonable. You can’t pay them an excessive amount. It has to make sense for the situation,” she said.

De Lisser advises that grandparents examine the potential tax impact that babysitting income could have on their own income-tested benefits, such as Old Age Security.

A parent of a child with a disability that pays related fees to a school can claim another little-known deduction, De Lisser added.

Fees for special equipment, facilities and personnel qualify. She said the list of eligible expenses will be expanded after the 2017 tax year to include a variety of costs relating to service animals for a patient with a severe mental impairment.

Lorn Kutner, a tax consultant with Northwood Family Office in Toronto, said he advises his clients to be proactive about taking advantage of the child care expense deduction by adjusting their lifestyle.

For example, a self-employed working parent could pay one who primarily stays at home a salary in order to meet the minimum earned income requirement.

“There is probably something that the stay-at-home spouse is able to do that could warrant and justify a reasonable salary, that would allow them to have access to the child care deduction,” he said.

What other tax breaks are left for parents?

Parents with children enrolled in post-secondary education can take advantage of transferred Tuition Tax Credits. They apply to any student over 16 years old who is enrolled in post-secondary level courses at an accredited institution in Canada. Schools outside Canada also qualify if the time abroad is a full-time study program lasting at least three weeks.

The credit is calculated by adding together all eligible tuition fees, then multiplying the amount by the lowest federal tax rate percentage.

While students can hang on to any unused tax credits until after they graduate, Golombek said parents should insist that their college or university-bound kids transfer their unused tuition credits to them so they can shrink their tax bill.

“The (maximum) amount that students can transfer (to a parent) is limited to \$5,000,” he said. “If you are helping your kids with tuition, you may want to tell them that unless you transfer the credit to me, I’m not going to help you anymore. That usually gets the child to sign it over.”

One last thing to remember is the 2017 tax year is the final one in which some transit passes can be deducted. Parents who buy certain transferable passes for their children will be able to claim them on their return.

“You can get credit for a weekly or monthly Toronto Transit Commission Metropass, for example,” Kutner said. “That was eliminated effective (at) the end of June 2017, so only the first six months of payments are eligible, nothing for the final six months of 2017.”

Make sure you’re taking advantage of these credits, benefits, and deductions come tax time:

- The Child Care Expenses Deduction is an annual deduction of \$8,000 for each child age six and under, and \$5,000 for each child between seven and 16
- If the child is eligible for the Disability Tax Credit, you can deduct \$11,000 regardless of the child’s age
- The total Child Care Expenses Deduction is generally limited to two-thirds of the lower-income spouse or partner’s earned income
- Camps with a sufficient degree of child care can qualify for the Child Care Expenses Deduction
- Paying grandparents for child care can also qualify under the Child Care Expenses Deduction
- A parent of a child with a disability that pays related fees to a school can claim a deduction

- A self-employed parent may want to consider paying a salary to a stay-at-home payment if they can work part-time
- Parents can claim transferrable transit passes purchased for children in the first six months of 2017
- Parents with children enrolled in post-secondary education can take advantage of transferred Tuition Tax Credits

Have the recent tax changes helped or hurt Canadian parents?

It may feel like Canadian working parents are being abandoned this year given the slimmer options for deductions on federal tax returns. But are they truly worse off? The answer depends on who you ask.

Kutner believes the tax climate was more favourable to those raising children before the changes were made. He said the loss of the arts, fitness, and textbook credits have also been confusing for parents.

“Parents are still sending this information in. They’re not aware they have been eliminated,” he said. “I think it would have been (more favourable) before.”

But Golombek believes parents are better off when you look at the bigger picture.

“Once you calculate what parents are getting in terms of a tax-free monthly amount, even though it doesn’t directly affect their tax return, parents should have more cash in terms of government benefits than they did on the old system.”

De Lisser said it comes down to income.

“It’s probably not as good for the higher-income families, the ones who could enroll their kids in expensive fitness programs and arts programs. They were getting used to those credits,” she said. “It’s consistent with the message of the Liberal government, making the tax system fairer. I think they have done that.”