

# JE'S TAX BULLETIN

JACK EIGENMACHT CHARTERED ACCOUNTANT PROFESSIONAL CORPORATION

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## Getting Some Tax Relief for Summer Child Care Costs

IN FAMILIES WHERE BOTH PARENTS WORK OUTSIDE of the home, obtaining and paying for reliable child care is a year-round concern, and it only increases as the school year draws to a close. At that time, the thoughts of parents turn to the question of how to keep the kids busy and supervised over the summer months. In many cases, the answer to that question is a summer camp – either a day camp near the family home or a residential camp further away. The number and variety of such camps is nearly limitless, but the one thing that they all have in common is a price tag attached. Some, especially day camps provided by the local recreation authority, can be relatively inexpensive, while the cost of others, such as summer-long residential camps or elite-level sports camps, can run to the thousands of dollars.

In all cases, parents would welcome some assistance with the cost of enrolling the kids in summer activities, and in some cases, the federal government is prepared to provide that assistance, in the form of both the regular deduction for child care expenses and the Children's Fitness Tax Credit. While the former is available for most child care arrangements, the latter may be claimed only for day or residential camps that involve a minimum degree of physical activity. Specifically, parents are entitled to claim a non-refundable credit equal to 15% of the first \$500 in qualifying costs per child per year. So, in other words, a camp that would have cost parents \$500 per child will instead have a net cost of \$425 (\$500 minus 15%, or \$75) after the credit is claimed on the parent's tax return for the 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 credit. 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 that seemed financially out of reach more feasible.

In assessing whether a particular camp or program might qualify for the credit, the first thing to note is that the credit is 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 eight weeks with at least one session per week or, in the case of children's camps, must run for five consecutive days;
- the program or activity must be supervised;
- the program or activity must be suitable for children; and
- the program activities must include a significant amount of physical activity that contributes to cardiorespiratory endurance, plus one or more of muscular strength, muscular endurance, flexibility, or balance. 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 physical activity, or more than 50% of the available program time must be devoted to activities that include a significant amount of physical activity.

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Programs or camps that meet neither of the 50% tests are not entirely disqualified from qualifying for the credit. In such cases, the sponsoring organization may issue a receipt for a prorated amount, which represents the percentage of activities offered to children that include a significant amount of physical activity or the percentage of program time that is allocated to such activities.

Often, particularly in the case of residential camps or sports camps, charges are levied for such costs as accommodation, travel, or food, or parents must incur costs to outfit the child with required equipment to use at camps. Costs paid by parents for non-activity related charges, such as food, travel, and accommodation, do not qualify for the credit and must be subtracted from the total fee paid. As well, the cost of equipment purchased by parents from third-party suppliers is not a qualifying cost for purposes of the credit.

Parents whose children's interests run more to less active pursuits, such as art or music or writing, may wonder whether they will, as a consequence, have to bear the entire cost of such summer activities, without the benefit of assistance from our tax system. While the cost of such activities isn't likely to be eligible for the Children's Fitness Tax Credit, it may well qualify for the regular child care deduction, assuming that all necessary criteria are satisfied. Qualifying child care expenses are claimed as a deduction from income, rather than as a credit, meaning that the entire amount of qualifying expenses is effectively not taxed as income in the hands of the parents. There are limits imposed on the maximum weekly cost of a residential camp (ranging from \$100 to \$250), as well as restrictions on the total amount of child care expenses that may be deducted in a year. However, the overall annual limits, which range from \$4,000 to \$10,000, depending on the age and health of the child, with an overall cap of two-thirds of the parent's income for the year, are much higher than the allowable amount for the Children's Fitness Tax Credit.

It's possible that the same expenditure will qualify for both the child care expense deduction and the Children's Fitness Tax Credit. In such cases, the parent must first claim that amount as a child care expense. Any part of the expenditure that is not claimed as a child care expense (perhaps because the maximum limit for such expense claim has been reached) can be claimed for the Children's Fitness Tax Credit as long as the usual requirements for that Credit are met.

Finally, although the focus at this time of year is on summer activities, parents incur costs throughout the year to enable their children to take advantage of after-school or recreational activities, particularly sports activities. Those costs can similarly qualify for the credit (subject, as always, to the \$500 per year per child limit) as long as the physical activity requirements are met. In the case of activities undertaken during the school year, qualifying programs must run for a minimum of eight weeks and take place at least once a week. It's common for parents, once the school year begins in September, to enroll their children in activities that will run for several months, or even throughout the school year. The CRA has indicated that, where parents incur qualifying costs in, for instance, September 2009 for activities that will run until the end of the 2009-10 school year, all those qualifying costs may be claimed for the credit on the parent's tax return for the 2009 tax year.

While the Children's Fitness Tax Credit is relatively simple in concept, the criteria imposed to qualify and the number and variety of possible qualifying programs and activities can be confusing. To alleviate some of that confusion, for both parents and sponsoring organizations, the CRA has provided a number of fact sheets and background information about the credit on its Web site. That information can be found at <http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns360-390/365-eng.html>, <http://www.cra-arc.gc.ca/whtsnw/fitness-eng.html>, and <http://www.cra-arc.gc.ca/whtsnw/chcklst-eng.html>.