

## Getting a tax assist for summer child care costs (June 2011)

As June arrives and the end of the school year is in sight, families that do not have a stay-at-home parent have to make plans for keeping the kids busy and supervised over their summer vacation. There is no shortage of options—at this time of year, advertisements for summer camps and summer activities abound—but nearly all the available options have one thing in common, and that's a price tag. Some choices, like day camps provided by the local recreation authority can be relatively inexpensive, while the cost of others, like summer-long residential camps or elite-level sports or arts camps, can run into the thousands of dollars.

Whatever the cost, all parents would welcome some assistance with meeting those costs. Until recently, the only tax “break” which could be claimed to help offset such costs was the general child care expense deduction. In 2007, however, the federal government introduced the Children's Fitness Tax Credit. While the child care deduction is available (within set parameters) for most child care arrangements, the Children's Fitness Tax Credit may be claimed only for activities or camps which involve a minimum degree of physical activity. Specifically, when claiming the Credit, 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 which 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.

Parents whose children's interests run to less active pursuits, like art, music, theatre, or writing may have felt, with some justification, that such activities were getting short shrift from our tax system. Perhaps in response to the perceived inequity, the federal government introduced, as part of the 2011 Budget, the Children's Arts Tax Credit. Very similar in structure to the Children's Fitness Tax Credit, the Arts Credit provides, beginning with the 2011 tax year, 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 will not 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 feasible.

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 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;
- the program or activity must be suitable for children; and
- more than 50% of activities offered must include a significant amount of eligible 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.

It's clear from the foregoing that the concept of "eligible activities" looms large in the determination of whether a particular cost may be claimed under either of the credits. For both credits, the rules provide a specific definition of eligible activities, as follows:

For purposes of the Children's Fitness Tax Credit, eligible activities are limited to those that require a significant amount of physical activity that contributes to cardiorespiratory endurance, plus one or more of: muscular strength, muscular endurance, flexibility, and balance.

Information provided on the Canada Revenue Agency (CRA) Web site indicates that "[p]hysical activity includes strenuous games like hockey or soccer, activities such as golf lessons, horse-back riding, sailing and bowling as well as others that require a similar level of physical activity."

Similar rules are provided for the purpose of defining eligibility for the Children's Arts Tax Credit. Those rules are quite broad and extend to activities like academic tutoring or the development of interpersonal skills. As outlined in the Federal Budget Papers, to be eligible for the credit, such activities must:

- contribute to the development of creative skills or expertise in an artistic or cultural activity (creative skills or expertise involve a child's ability to improve dexterity or co-ordination, or acquire and apply knowledge in the pursuit of artistic or cultural activities and artistic and cultural activities include the literary arts, visual arts, performing arts, music, media, languages, customs and heritage);
- provide a substantial focus on wilderness and the natural environment;
- help children develop and use particular intellectual skills;
- include structured interaction among children where supervisors teach or help children develop interpersonal skills; or
- provide enrichment or tutoring in academic subjects.

Often, particularly in the case of residential camps or sports or arts 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, like

food, travel, and accommodation do not qualify for either of the credits 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 credits.

Qualifying child care expenses are claimed as a deduction from income, rather than 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 which 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 or Arts Tax Credit. It is 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.\

It's possible that the same expenditure will qualify for both the child care expense deduction and the Children's Fitness or Arts Tax Credit. In such cases, 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 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.

While both the Children's Fitness Tax Credit and the Children's Art Tax Credit are relatively simple in concept, the criteria imposed for an activity 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 detailed information about the requirements of the Fitness Tax Credit on its Web site. That information can be found at <http://www.cra-arc.gc.ca/tx/ndvdlst/tpcs/ncm-tx/rtrn/cmpltng/ddctns/lns360-390/365/menu-eng.html>.

There is, as yet, no corresponding section on the CRA Web site dealing with the Children's Art Credit, since the legislation enacting that credit has not yet been passed by Parliament. The credit was announced as part of the Federal Budget brought down on March 22 by Minister of Finance Jim Flaherty but not passed prior to the general election. The Minister has announced, however, that the same budgetary provisions will be re-introduced on June 6 and it is expected that the budget will be passed and its provisions, including the Children's Art Tax Credit, implemented as planned.