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IN THIS ISSUE

New and Revised Federal Incentives

Children's Arts Tax Credit

Volunteer Firefighter Tax Credit

Amount for Children Under 18

Tuition Amount

Education Abroad

Medical Expenses for Dependents



New and Revised Federal Incentives

Many Canadians will be able to personally benefit from tax incentives introduced in the most recent federal budget. Since most incentives will be available for the 2011 tax year, an understanding of the parameters for each of these particular incentives will provide an opportunity for proper tax planning in order to take advantage of these credits before year's end. Even though these incentives have not yet been enacted into law, it is anticipated that the new majority government will proceed to implement these measures in time for 2011 tax return preparation.

Children's Arts Tax Credit (CATC)

Parents were thrilled a few years ago when the government introduced the Children's Fitness Tax Credit, which somewhat subsidized the costs of engaging their children in extracurricular activities. The government has now complemented this credit by introducing a non-refundable tax credit for eligible expenses of up to \$500, paid for the cost of registration or membership in a prescribed program of artistic, cultural, recreational, or developmental activity. The credit is available for an individual's child (or a child of that individual's spouse or common-law partner) under 16 years of age at any time in the year.

For a dependent child who is eligible for the disability tax credit, the age limit raises to 17 years old at any time in the year. Also, if a minimum of \$100

in eligible expenses has been paid for the child eligible for the disability tax credit, an additional amount of \$500 can be claimed for that child.

An eligible program includes a weekly supervised children's program of a minimum of eight consecutive weeks where a minimum of 90% of activities are eligible activities. If the minimum eight-week program is offered by a club, association, or similar organization offering a variety of different activities, the program cost qualifies as an eligible expense if more than 50% of the activities offered in the program are eligible activities or more than 50% of the time scheduled for activities is spent on eligible activities. When the 50% test is met, the full program cost qualifies for the credit. If both 50% tests are not met, only a prorated portion of the fees will be allowed. The credit will also apply if the eight-week program is provided through a membership meeting the 50% criterion or else the proration rule will apply.

An eligible program can also be a minimum of five consecutive days in which more than 50% of the daily activities are eligible activities. Unfortunately, a program part of a school curriculum is ineligible for the CATC.

There are a number of eligible activities which qualify for the credit. They include the development of creative skills or expertise in artistic or

cultural activities such as in dexterity, coordination, literary arts, visual arts, performing arts, music, media, languages, customs, and heritage. The activities can focus on wilderness and the natural environment, the development of intellectual skills, or provide structured interaction among children where supervisors teach or aid in the development of interpersonal skills. Tutoring or providing enrichment in academic subjects also qualifies.

Eligible expenses include the cost of registration or membership. Equipment and uniform expense are also eligible if these costs are built into the registration/membership fee and they are not purchased from a third-party supplier. Expenses are not eligible for the CATC if they relate to travel, meals, and accommodation, or if they are used for the childcare expense deduction, the Children's Fitness Tax Credit or any other credit.

Volunteer Firefighter Tax Credit (VFTC)

A non-refundable tax credit of \$450 is eligible in 2011 and subsequent years for volunteer firefighters with a minimum of 200 hours of eligible volunteer firefighter services with one or more fire departments in the year. A certification from a fire chief or delegated official may be required to verify the number of hours performed for the department.

Eligible services include responding to and being on call for firefighting and related emergency calls as a firefighter, attending meetings held by the fire department, and participating in required training related to the prevention or suppression of fire.

When a government, municipality, or other public authority pays an individual for volunteer firefighter duties, up to \$1,000 of income may be exempt from tax. If this exemption is claimed, which is identified on a T4 information slip, the new VFTC credit is not available.

Amount for Children Under 18 (Child Amount)

With the high cost of real estate today, it is becoming more common for more than one family to live in the same household. Prior to the 2011 Budget, if two or more families lived in the same household, only one individual in one of the families could claim the child

amount for his/her child. In addition, if one of the individuals in one of the families claimed the child amount for an eligible dependant, no other single parent in the household would be able to claim the child amount in respect of any child. For 2011 and subsequent years, these restrictions are eliminated so that this credit is claimable for each eligible child in each family living in the same household.

Tuition Amount

The Budget expanded the definition of eligible expenses which qualify for the tuition, education, and textbook credit. For 2011 and subsequent years, examination fees paid to a university, college, or other educational institution providing courses at a post-secondary level in Canada, an education institution in Canada certified by HRSDC for courses to develop or improve occupational skills, a professional association, a provincial ministry, or a similar institution, will qualify as an eligible tuition expense for the purposes of the non-refundable tax credit.

Eligible fees do not include travel, parking, equipment, or other costs currently ineligible for the tuition amount. Total eligible fees paid to an institution, inclusive of examination fees, must be more than \$100 in order to qualify for this credit.

Education Abroad

More and more students are seeking educational experiences away from home. The government recognizes this trend and proposes to reduce the minimum duration of a course taken by a student in full-time attendance at a foreign university from 13 weeks to 3 weeks so that the non-refundable tuition, education, and textbook credit can apply to a broader range of post-secondary foreign programs.

The same change applies to Education Assistance Payments from an RESP made after 2010. The 13-consecutive-week requirement, however, remains unchanged for part-time study abroad or students enrolled in a course at other foreign educational institutions.

In order to qualify for the credit, the foreign university must complete Form TL11A, *Tuition, Education, and Textbook Amounts Certificate—University Outside Canada*. The Canada Revenue Agency defines a "university outside Canada" as an educational institution which has the authority to confer academic degrees

of at least the baccalaureate level according to the education standards of the country it resides in, has an academic entrance requirement of at least secondary school matriculations standing, and is organized for teaching, study, and research in the higher branches of learning. Guide RC192, *Information for Students—Educational Institutions Outside Canada*, provides additional information on these qualifications.

Medical Expenses for Dependants

Many Canadian families are without company benefits as more and more companies move to hire contract workers instead of offering permanent positions. Another trend is that more families are supporting aging or sick relatives. This can result in substantial out-of-pocket medical costs for the supporting individual. The government recognizes these facts and proposes to remove the \$10,000 limit for claiming a non-refundable tax credit on eligible medical expenses for an eligible child aged 18 or older, a grandchild, an individual's parent (or the parent of an individual's spouse or common-law partner), grandparent,

brother, sister, uncle, aunt, niece, or nephew who is resident in Canada at any time in the year. There is already no threshold amount for claiming medical expenses for the individual, his or her spouse or common-law partner, and a child under 18.

The maximum allowable claim for 2011 is total eligible medical expenses less the lesser of \$2,052 or 3% of the dependant's net income.

Since an individual can claim eligible medical expenses paid in any 12-month period ending in 2011, it is possible to maximize any expenses not previously claimed in 2010.

With the rise in the cost of living and personal debt accumulation here in Canada, many Canadians are finding it difficult to maintain their current standards of living. Hopefully, these new and revised federal incentives will somewhat help alleviate the financial pressure for Canadians with children and aging and sick relatives. The Volunteer Firefighter's Credit will also help promote some Canadians to invest their time into their community.