Surprise Family Tax Cuts Take Effect Now

October 30, 2014
No. 2014-46

Today Prime Minister Stephen Harper announced tax changes that will provide tax savings to families starting in 2014. The introduction of a new Family Tax Cut credit will result in tax savings of up to $2,000 for families with children under 18. The proposals also include changes to the existing Child Care Expense Deduction, Universal Child Care Benefit and Child Tax Credit, starting in 2015.

**New Family Tax Cut credit**

The government introduced a new non-refundable tax credit resulting in tax savings of up to $2,000 for couples with children under 18, starting in 2014. This proposal addresses the government's intention stated in its 2011 election platform to allow income sharing of up to $50,000 for couples with children under 18 when the federal budget was balanced.

To calculate the credit, the spouses first calculate the combined tax they would normally pay after they claim any non-refundable credits. They then calculate the combined tax they would pay (after non-refundable tax credits) as if the higher-income spouse had notionally transferred one half of the difference in their taxable incomes (a maximum transfer of $50,000) to the lower-income spouse. The difference in taxes payable under these two calculations will equal the Family Tax Cut credit that one of the spouses can claim. If the difference in tax is more than $2,000, the tax credit is limited to $2,000.

Generally, to be eligible for the non-refundable credit, an individual must be a Canadian resident at the end of the year, have an eligible spouse (including a common-law partner) and a child under 18 at the end of the year who ordinarily lives throughout the year with the individual or his or her spouse. To claim the credit, both spouses must file an income tax return and also must not elect to split any pension income they might have.

If a child lives with both of his or her parents throughout the year, either parent may claim the credit but not both.

---

**KPMG observation — New tax credit is a notional income split**

The Family Tax Cut is "notional" income splitting in that income is not transferred from the higher-income spouse’s tax return to the lower-income spouse’s tax return (as it is for pension income splitting). Instead, one spouse will claim a new federal non-refundable tax credit of up to $2,000. Because the higher-income spouse’s net income is not reduced, provincial tax savings will not result (unless the provinces introduce a similar tax credit).
**Child Care Expense Deduction**

The Child Care Expense Deduction allows parents to deduct child care expenses incurred to earn employment or business income, pursue education or perform research. Generally, the lower-income spouse (or a single parent) can claim the deduction.

Currently, the maximum amount that individuals can claim under the Child Care Expense Deduction each year is limited to the least of:

- the total amount spent on child care expenses
- two-thirds of the lower-income spouse’s earned income, and
- the total of the maximum dollar limits for all children, which are $7,000 per child under age seven, $4,000 for each child age seven to 16 (and infirm dependent children over age 16), and $10,000 for children who are eligible for the Disability Tax Credit, regardless of their age.

These dollar limits will increase by $1,000 – i.e., to $8,000 from $7,000 per child under age seven, to $5,000 from $4,000 for each child aged seven to 16 (and infirm dependent children over age 16), and to $11,000 from $10,000 for children who are eligible for the Disability Tax Credit, starting in 2015.

**KPMG observation**

Because the Child Care Expense Deduction reduces taxable income, an individual paying tax at the top 29% federal rate will realize federal tax savings of $290 from the $1,000 increase to the expense limit (plus applicable provincial tax savings).

**Universal Child Care Benefit and Child Tax Credit**

The Universal Child Care Benefit will increase to $160 per month (from $100 per month) for each child under age six. The government is also introducing a new benefit of $60 per month for children aged six through 17. Both these changes will take effect starting in January 2015. These changes will be reflected in monthly payments received starting in July 2015.

At the same time as the increase to the Universal Child Care Benefit takes effect, the existing Child Tax Credit (available to individuals with children under 18) will be eliminated. The Child Tax Credit is a non-refundable tax credit based on a fixed amount per child under 18. This credit is $2,255 per child in 2014, resulting in tax savings of up to $338. The Family Caregiver Tax Credit will continue to be available for caregivers of infirm dependent family members when the Child Tax Credit is repealed.
KPMG’s free Tax Hub Canada App for iPads and Blackberrys provides timely, convenient tax news and tax rates to help you respond to changes in tax rules and regulations. 
Download the app today.

We can help

Your KPMG adviser can help you determine whether you can benefit from the new tax credit and other changes announced on October 30, 2014. For details, contact your KPMG adviser. For information on other family tax saving opportunities, see the 2015 edition of KPMG’s Tax Planning for You and Your Family, available soon in bookstores across Canada or directly from Carswell at 1-800-387-5351.

Information is current to October 30, 2014. The information contained in this TaxNewsFlash-Canada is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. For more information, contact KPMG’s National Tax Centre at 416.777.8500.

KPMG LLP, an Audit, Tax and Advisory firm (kpmg.ca) and a Canadian limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International Cooperative (“KPMG International”). KPMG member firms around the world have 152,000 professionals, in 156 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

KPMG’s Canadian Web site is located at http://www.kpmg.ca/

© 2014 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.