

Child Care Benefits Quiz



Child Care Benefits for Employers

Child care benefits can be a good way to recruit and retain working parents. But you also need to consider how tax and payroll rules will affect the value of the benefits employees receive from you. Here's a Model Questionnaire you can use to calculate the tax and payroll implications of child care benefits.

MODEL CHILD CARE BENEFITS TAX/PAYROLL QUESTIONNAIRE FOR EMPLOYERS

Step 1: Determine If Benefit Is Taxable

Does your child care on-site program meet the exception for tax exemption of child care benefits? In other words, does your company:

Operate an on-site centre? [yes] [no]

1. Manage the child care centre internally and not outsource centre administration to a third party provider? [yes][no]
2. Provide the child care to employees at minimal or no cost? [yes][no]
3. Not allow non-employees' children to use the centre? [yes][no]

Instructions: *If the answer to all 4 of these questions is YES, your on-site child care benefits are non-taxable to employees and there are no payroll implications. If not, benefits are taxable and you must proceed to Step 2.*

Step 2: Determine Amount of Taxable Benefit to Include in Income

A. Do you subsidize employees' children at an on-site or off-site centre? [yes][no]

Instructions: *If you answer YES, you must include in employees' income the value of the subsidy.*

B. Do you operate an on-site daycare centre which charges non-employees more for child care than it charges employees? [yes][no]

Instructions: *If you answer YES, employees' taxable income is equivalent to the difference between what non-employees pay and what employees pay.*

C. Do you operate an on-site daycare centre that is available to a limited number of employees? [yes][no]

Instructions: *If you answer YES, you must include the full value of the benefit in employees' income.*

D. Did you use a service provider to provide child care? [yes][no]

Instructions: *If you answer YES, employees' taxable income is the value of that child care.*

Step 3: Withhold & Deduct Taxes & Contributions

Explanation: *If the benefit is taxable income, taxes and CPP premiums must be withheld. Additional amounts may need to be withheld or paid as well.*

A. Is the employee paid directly in cash for the child care benefits paid? [yes][no]

Instructions: *If the answer is YES, then in addition to income taxes and CPP contributions, the benefit is insurable and EI premiums are due. If the answer is NO, the benefit is not insurable and EI premiums are not due.*

B. Are the child care benefits provided for the care of a child under the age of 14 for less than 24 hours a day? [yes][no]

Instructions: *If the answer is YES, GST/HST does not apply to the value of the benefit.*

Step 4: Report Taxable Child Care Benefits

Instructions: *Taxable child care expenses are reported in box 14 "Employment income" on employees' T4 slip, and in the "Other information" area under code 40 at the bottom of the slip.*