[Kids, Physical Fitness & Money]

written by vickyp | February 3, 2016

Chances are, at least some of your employees have young kids that play organized hockey, soccer or take part in some other sport or fitness activity. Why not provide those employees a new benefit, one that your organization doesn't have to pay for? Tell them about the Children's Fitness Tax Credit and what they have to do to claim it.

What's in it for HR/Payroll Managers?

Strictly speaking, the Children's Fitness Tax Credit isn't a payroll issue. Nor is it an employment benefit, since it's provided by the Canadian government. So why bother with it?

<u>Answer</u>: Helping your employees take advantage of the Credit is an excellent way to score points and demonstrate your company's support for employees with young children. You may have employees who are eligible for the Credit but don't know about it; or, they might have heard of the Credit but aren't sure how it works. "Nowadays, HR and Payroll isn't simply about getting forms filed on time," explains an Ontario consultant. "It also calls for the ability and desire to answer questions and provide guidance to employees about tax and related matters."

The 4 Things You Need to Know about the Credit

There are 4 key things about the Children's Fitness Tax Credit that you need to understand:

1. **Who Can Claim the Credit**

Parents can claim a credit of up to $1,000 per child under age 16 per year for eligible fees relating to the enrollment of the child in an "eligible program of prescribed physical activity." Either parent can claim the Credit but both can't. Parents can also get a tax refund of up to 15% of their children's registration or membership fees, i.e., a maximum of $150.

<u>Disabled Children</u>: The age limit for a child who's disabled, that is, eligible for the Disability Tax Credit (DTC), is 18.

2. **Which Sports/Fitness Programs Are Eligible**

This is where things get a bit tricky. The Credit only covers an "eligible program of prescribed physical activity," defined as:

"An ongoing supervised program, suitable for children, in which substantially all of the activities undertaken include a significant amount of physical activity [that provides one more specifically enumerated health benefit]."

Let's break this down one element at a time:

Ongoing: The Credit is meant to encourage sustained physical activity over time. Programs must last at least 8 weeks (which need not be consecutive) and involve a minimum of one session per week. Membership in a club, association or other organization also counts if: i. more than 50% of the activities to which membership gets the child access would be considered "eligible programs"; or, ii. more than 50% of the time of the program activities the child actually participates in would count as an "eligible program." Children's camps must last at least 5 consecutive days, more than 50% of the time of which must be devoted to "physical activity."

Supervised, Suitable for Children: The supervision requirement refers to the presence of somebody to oversee safety. This can include a coach, a parent or any other adult. The safety of children is "paramount" and eligible programs must "comply with federal and provincial safety regulations," according to the Department of Finance (DOF) guidelines.

Substantially All or Significant Amount of Time: The DOF guidelines suggest minimum activity levels programs "should encourage" per session based on a child's age:

- <u>Children under age 10</u>: At least 30 minutes of sustained moderate to vigorous physical activity; and
- <u>Children age 10 or older</u>: At least 60 minutes of sustained moderate to vigorous physical activity.

Physical Activity: The Credit is designed not to support children's recreation but to promote their long-term health. It's about fitness, not finger painting. To be considered a "physical activity" eligible for the Credit, the program activity must promote:

- Cardio-respiratory endurance; <u>and</u>
- At least one of the following:
- Muscular strength;
- Muscular endurance;
- Flexibility; and
- Balance.

This definition covers not just sports but "other children's recreational programs that involve significant physical activity, such as dance lessons" and organized games. It does <u>not</u> cover activities in which the use of a motorized vehicle such as an automobile, motorcycle, power boat, airplane or snowmobile is "an essential component." It also excludes equestrian events like horseback riding.

3. **Which Fees Are Covered**

The Credit applies to "membership and registration" fees parents pay to enroll their children in an eligible program of physical activity. It's up to the organization that provides the program to determine which part of the fee qualifies for the Credit and notify parents. Still, you need to understand how the fee eligibility rules work.

Costs that Are Covered: "Membership and registration" includes not just fees but the costs of administration, instruction and rental of facilities. Fees for extracurricular fitness programs that take place at school qualify for the Credit, as long as those activities aren't part of the school's core curriculum, such as regular physical education classes.

Costs that Are Not Covered: The Credit doesn't apply to parts of the fee that cover accommodation, travel, food, beverages or the costs of acquiring personal equipment for less than fair market value. Nor can parents apply the Credit to amounts they spend on ice skates, hockey sticks and other equipment their kids need to participate in a program. In addition, parents can't double dip and claim any fees as a Credit if they've also claimed those same dollars as a deduction for child care expenses.

Disabled Children: There's an additional credit of up to $500 for DTC-eligible children. To get the additional credit, parents must spend at least $100 in registration fees on the eligible fitness program.

4. **How to Claim the Credit**

Let employees know that they need to claim the Credit on their personal income tax return.

When to Claim the Credit: According to the CRA, the Credit should be claimed for the tax year the fee is paid, not the year the activity occurs.

For Whom to Claim the Credit: The employee can claim up to $1,000 for each eligible child who's enrolled in an eligible fitness program—$1,500 if the child is DTC-eligible.

How to Calculate the Credit: The organization providing the eligible program will tell the employee what part of the fee is eligible for the Credit. The employee must then multiply the eligible amount up to $1,000 by the lowest marginal tax rate (currently 15%). This is the amount the employee may deduct from taxes owing on his income tax return for the year.

Example: On January 20, 2016, one of your employees pays $750 to enroll her 10-year-old daughter in dance school and another $750 to enroll her 15-year-old son in a hockey program. Both programs run from February to April 2016 and qualify for the Credit. Assume that the employee hasn't already listed the fees as a child care expense deduction. Here's how she should calculate the Credit on her 2016 return (assume the employee owes $2,500 in taxes for the year without accounting for the Credit):

Step 1

$1,000 (maximum allowable amount per child)

x 2 (number of children enrolled in eligible programs)

$2,000 (total allowable amount eligible for Credit)

Step 2

$2,000 (allowable amount)

x 15% (lowest marginal tax rate for 2016)

$300 (total Credit amount)

Step 3

$2,500 (taxes owing)

– $300 (Credit amount)

$2,200 (total taxes owing)