

Income-splitting and other tax measures for families introduced

October 30, 2014

In brief

Today, the federal government introduced three income tax measures intended to relieve the tax burden for families:

- income-splitting – starting 2014, an annual tax credit equal to the federal tax reduction that would result on the transfer of up to \$50,000 of taxable income from one spouse to the other, to a maximum credit of \$2,000
- child care expenses – starting 2015, the maximum per child amounts that can be claimed will increase by \$1,000
- Universal Child Care Benefit – starting 2015, monthly benefits will increase and this program will replace the existing Child Tax Credit

The government also provided a reminder that, as previously announced, the Children's Fitness Tax Credit will be doubled to a maximum of \$1,000, starting 2014, and will be refundable, starting 2015.

In detail

Income-splitting

The government announced its long-awaited income-splitting measure. It effectively allows income of the high-earner spouse to be taxable in the hands of his or her low-earner spouse, so that their combined tax payable is reduced.

To benefit, you must have a child who:

- is under 18 at the end of the year, and
- ordinarily resides with you or your spouse or common-

law partner throughout the year

The combined federal tax reduction is equal to what you would save if you were to transfer to your lower-income spouse the lesser of:

- \$50,000, and
- $\frac{1}{2} \times (\text{your taxable income} - \text{your spouse's taxable income})$

The resulting saving can be claimed by either spouse in the form of a federal non-refundable tax credit, to a maximum of \$2,000. As a result, this measure can reduce your federal taxes

only – not your provincial or territorial income tax.

Example – 2014

John's taxable income is \$200,000, and his spouse Susan's is \$50,000.

John can transfer to Susan the lesser of:

- **\$50,000**
- $\frac{1}{2} \times (\$200,000 - \$50,000) = \$75,000$

The maximum tax credit is the lesser of:

- **\$2,000**
- the tax reduction if \$50,000 were taxable to Susan, rather than to John = \$3,016¹

caregivers of infirm dependent family members, will continue to be available for an infirm, minor child.

Child care expenses

The maximum annual amounts that can be claimed for child care expenses will increase by \$1,000. As a result, starting 2015, the following per child maximums will apply:

- under age seven – \$8,000
- age seven to 16 (and infirm dependent children over 16) – \$5,000
- children eligible for the Disability Tax Credit – \$11,000

Universal Child Care Benefit

Universal Child Care Benefit payments will increase for each child under six from \$100 per month to \$160. In addition, a new \$60 per month benefit will be introduced for children age six to 17.

These enhanced benefits will take effect as of January 2015, and will be reflected in monthly payments to recipients beginning July 2015.

Child Tax Credit

Due to the enhancements to the Universal Child Care Benefit, the Child Tax Credit will be repealed in 2015. In 2014, this credit provides tax relief of up to \$338 per child.

Family Caregiver Tax Credit

The government has confirmed that, despite the demise of the Child Tax Credit, the Family Caregiver Tax Credit, which provides tax relief for

1. Assumes only the basic personal tax credit is available to Susan.

Let's talk

For a deeper discussion of what these tax changes mean for you, please contact:

Bruce Harris
+1 (416) 218 1403
bruce.harris@ca.pwc.com

Ken Griffin
+1 (416) 815 5211
ken.griffin@ca.pwc.com

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