CRA Tax Savings: Your Children Can Save You $3,200 in Taxes

Description

The Canada Revenue Agency (CRA) offers many benefits to working parents caring for their children under 16 years of age. It also gave a one-time tax-free bonus of $300 in Canada Child Benefit (CCB) for each child as part of the COVID-19 benefits. Investing in your child will not only enhance his/her future, but also reduce your current tax bill.

Don't worry if you have missed the June 1 tax-filing deadline. You can still file your income tax returns and pay your 2019 tax bill before September 31. September is not far away. You should start calculating all the possible tax deductions that could lower your taxable income. One such deduction is child care expenses.

Child Care Expenses

The CRA allows you to deduct up to $8,000 per child in child care expenses for children under the age of seven and $5,000 for children in the seven to 16 age group. To make things easier, I will take the example of John and Paige, a married couple living in Ontario. They have two kids age three and five. The CRA allows the parent with lower income to claim this expense as a tax deduction. However, there are a few exceptions where the higher income parent can claim this deduction.

They can claim up to $16,000 in child care expenses, which will help them save $3,200 in the total tax bill (15% federal tax + 5.05% provincial tax).

The end-objective of this deduction is to help parents who are working, studying, or doing research and need help with child care. You can claim this expense only if you are using a third-party child care service, nursery, daycare, or boarding school, and the caregiver is not related to you. You need to collect a receipt from the caregiver.

Canada Child Benefit

In addition to tax deductions on child care expenses, the CRA also offers a CCB of up to $6,400 for a child below six years of age and $5,400 for a child in the six-17 age group. Looking at the previous example, John and Paige can get up to $12,800 in CCB for their two kids if their adjusted family net income is below $30,000. This CCB will not be added to their taxable income.

This benefit will phase out as their family income increases. For instance, both John and Paige got a promotion, and their family income increased to $70,000. Their CCB will reduce by $5,010 to $7,790. Apart from the regular CCB, this year they received an additional $600 in CCB as part of the COVID-19 response. As a couple, they also received a one-time bonus of up to $600 in Goods and Services Tax (GST) Credit.

The CRA offers these benefits to help parents meet this expense. You can get these benefits by filing your tax returns regularly and keeping your information updated.

Invest in your child’s future

You might need the CCB amount to pay for your children’s expenses. However, you can invest the amount you save out on your tax bill on your kid’s future. Going back to the previous example, John saved $3,200 in taxes by claiming child care expenses. Plus, he earned an additional $600 in CCB. He can invest this amount in growth stocks for the long term.

One of my favourite growth stocks is **Enghouse Systems** (TSX:ENGH), which has more than doubled in a year. Enghouse has built a broad customer base across different geographies by acquiring smaller software companies that cater to contact center and logistics industries. The company is in the growth stage, increasing its revenue at a CAGR of 7% and adjusted EBITDA of 11%. It has significant growth potential.

If Enghouse stock replicates its last 10 years growth, John’s $3,800 could grow to $68,500 in the coming 10 years. This amount could help take care of his children’s college tuition fees.

Parents’ takeaway

As a parent, you struggle to meet the expenses of your children. Savings can become a challenge in such a tight budget. You can leverage the tax savings and CCB the CRA gives you to invest in your child’s future without hampering your current budget.

CATEGORY

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1. TSX:ENGH (Enghouse Systems Ltd.)

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