



## CRA Tax Filing: Don't Miss the \$8,000 Childcare Expense Tax Deduction

### Description

Are you biting your nails, stressing over the tax-filing deadline? The Canada Revenue Agency's (CRA) COVID-19 benefits looked good last year. But now, they only bring trouble with the repayment and heavy tax bill. You should study the various tax deductions and credits the CRA offers to help taxpayers reduce their tax bills. If you are a parent, you can deduct up to \$8,000 in childcare [expenses](#). I have put together a quick guide to this deduction.

### Are you eligible for the CRA childcare expense tax deduction?

Only the parents or the person responsible for the child can claim the childcare expense deduction, irrespective of your income. If your employer reimburses you for the entire childcare expense, then you can't claim the deduction.

The way tax deduction works, you should have incurred the qualifying expenditure and have supporting documentation to prove the expense. The CRA caps the tax-deduction expense. You can claim the lowest of the options below as a childcare expense deduction:

- The expense you incurred for childcare;
- Two-thirds of the income of the person who is claiming the deduction; or
- \$8,000 for children under seven, \$5,000 for children between seven and 16, and \$11,000 for children with disability.

### What constitutes a childcare expense?

The CRA has a long list that qualifies as childcare expenses. To give you an understanding of this, it is the fees you pay to a third-party institution or an adult (above 18) to take care of your child. That third party can be a camp, a boarding school, or a daycare centre where they give you fee break-up. For such third-party care providers, you can claim \$200/week for children under seven and \$275/week for children between seven and 16 in childcare expense.

If you hire an individual, they should be above 18, not a blood relative, and you should provide their social insurance number.

## When should you deduct the childcare expense?

All the above might look like a hassle, but they can save you a great deal of tax. The tax deduction reduces your taxable income. So, if you fall under the higher tax bracket because of a \$5,000-\$8,000 difference, you should consider the childcare-expense deduction. It can bring you into the lower tax bracket.

2020 Taxable Income	Tax rate
\$1 to \$48,535	15%
Over \$48,535 to \$97,069	20.5%
Over \$97,069 to \$150,473	26%
Over \$150,473 to \$214,368	29%
Over \$214,368	33%

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Over \$48,535 to \$97,069	20.5%
Over \$97,069 to \$150,473	26%
Over \$150,473 to \$214,368	29%
Over \$214,368	33%

For instance, Grace, a mother of a six-year-old, has a taxable salary of \$55,000 after all other tax deductions. Looking at the tax brackets, she has to pay a 20.5% federal tax on \$6,465 (\$55,000-\$48,535), which comes to \$1,325. She can save this tax by claiming childcare expense of up to \$8,000 and reducing her taxable income to \$47,000.

## Maximizing tax savings with an RESP

If your tax bill is still high, you can invest up to \$50,000 in a lifetime in the Registered Education Savings Plan (RESP). The CRA deducts your RESP contribution from your taxes. Instead, it levies a tax on withdrawals. There are many restrictions to RESP withdrawals, so it is better to invest in a stock that can give you a long-term return.

**Constellation Software** ([TSX:CSU](#)) is a [stable growth](#) stock. The company is in a mature stage. It grows its EPS at a compounded annual growth rate of 16% between 2016 and 2020 by acquiring companies with stable cash flows. Its target companies are providers of mission-critical software solutions targeting one or two specific verticals.

The critical nature of their offering makes them a need-to-have technology, ensuring regular cash flows. Consider how a riding-sharing app is critical for a driver who earns money from riding services and is willing to stay subscribed to the app.

Coming back to Constellation, it is a cluster of such software companies. As long as it keeps acquiring software companies, its EPS will grow, and so will the stock price. However, it faces the risk of unsuccessful acquisitions and a lack of good acquisition targets. For taking that risk, Constellation stock rewards you with an average return of 20% per year.

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