

Summer 2006 issue

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## New GST Regulations

As you are aware, the Goods and Services Tax ("GST") rate was reduced to 6% effective July 1, 2006. The HST ("Harmonized Sales Tax") was also reduced to 14% to account for a 1% decrease in the federal component.

GST/HST becomes payable on the earlier of the payment and invoice date. If GST/HST becomes payable on or after July 1, 2006 and is not paid before that day, GST should be charged at 6% and HST at 14%. If GST/HST is paid on or after July 1, 2006 and does not become payable prior to that day, GST will be charged at 6% and HST at 14%.

The 7% GST rate and 15% HST rate will still apply for amounts that are payable or paid prior to July 1, 2006.

Here are some examples of common transactions from the perspective of a vendor in Ontario:

- If you invoiced a customer prior to July 1, 2006 for goods or materials, you should have charged GST at 7%. It does not matter whether the client paid you prior to July 1, 2006 or not, because the invoice was issued prior to July 1, 2006.
- If you invoice a customer after July 1, 2006, even if they received the goods prior to July 1, 2006, you would still charge GST at the reduced rate of 6%, as the invoice was generated after July 1, 2006.
- When a customer returns goods that were purchased prior to July 1, 2006 and the return takes place after July 1, 2006, the amount refunded should include GST at 7%. If the customer chooses to make another purchase at this time, the new purchase should include GST charged at 6%.
- In the case of a lease, payments due or paid prior to July 1, 2006, GST at 7% will apply. If the payment is due prior to July 1, 2006 and the customer has not yet paid, GST should still be charged at 7%. Payments due after July 1, 2006 should include GST at the 6% rate.
- When a supplier requires the customer to make a down payment prior to July 1, 2006, the down payment would have GST charged at 7%. If the remaining balance is not due and paid until after July 1, 2006, then GST would be charged at 6%.
- When a supplier requires the customer to make a deposit, no matter what the date, GST is not charged; GST should not be charged until the goods or services are invoiced. The GST would be charged at the appropriate rate as of the invoice date.
- When a holdback is legislatively sanctioned or provided for in a written agreement, as is the case in the construction industry, GST on the holdback is charged at the appropriate rate in effect on the earlier of the day which the holdback is paid or the day on which the holdback period expires.

If you are invoicing a customer for services provided prior to July 1, 2006, but the invoice is issued after July 1, 2006, you should charge GST at 6%, as the invoice is issued after July 1, 2006.

If an item is purchased on or after July 1, 2006 and the customer, who is not a GST registrant, is charged GST at 7% instead of 6%, the customer may seek a refund directly from the supplier or file for a rebate of the tax paid in error with Canada Revenue Agency (form GST/HST 189, General Application for Rebate of GST/HST).

If you have any questions regarding the content of this article, please contact the W&P Tax Group at (416) 969-8166.

## CLIENT'S CORNER

### St. Thomas of Villanova College

St. Thomas of Villanova College is a co-educational Catholic Augustinian day school for students in grades six through to university entrance. Founded in 1999, the school opened its doors to twenty-six students in grades seven to nine in a modular twelve thousand square foot facility on thirty-three beautiful acres on the Marylake property in King City, Ontario.

The school received permission from the Archdiocese of Toronto to provide Catholic families in York Region an option for a traditional, university preparatory programme focusing on faith, academia and community similar to the programming offered at St. Michael's College and De La Salle College in Toronto.

The school has enjoyed tremendous success over its short history, boasting a current enrollment of five hundred and twenty-five students, a physical plant which includes four science labs, four computer labs, three music classrooms, thirty academic classrooms, gymnasium and three athletic fields. Plans for another eighty thousand square feet are underway, which will complete the physical plant. The new construction will include a chapel, cafeteria, auditorium, drama and rehearsal rooms and a triple gymnasium, with fitness and medical rooms and an indoor running track.

The school is a Ministry-inspected school and has received commendations for its curriculum development and programming in each of its last inspections. The school's first graduates have gained admissions to the university programming of their choice and many have

received multiple scholarship offers upon acceptance. The school not only challenges its students academically, but also expects students to participate in one or more of the school's arts, athletic and Christian service programmes. The school's motto of *fides, excellentia, disciplina and sacrificium* are the cornerstones of the student and community life at Villanova College. As a result, the school has enjoyed success in all areas of student life; in athletics, the school has over twenty school teams from under-fourteen to under-nineteen and has captured four championships in both the York Region Athletic Association and now in the Conference of Independent Schools Athletic Association. The school's music department has placed first at the Kiwanis Music Festival in each of its last three years in the concert band division and the drama club has received outstanding performance awards in the Sears Drama Festival. The school's social outreach programme includes bi-weekly sandwich patrols, service to the Good Shepherd Refuge, Scott Mission, Overnight Fasts for Freedom, African Child Sponsorship Programmes, and Habitat for Humanity.

"A community is a group of individuals bound together by the harmony and communion as to the things they look for and love. In order to discover the character of a community we only have to observe what they love." *St. Augustine from the City of God.*

WE ARE VC!  
GO KNIGHTS! GO BLUE!



### WE ARE PLEASED TO ANNOUNCE THE WINNERS OF OUR T1 EARLY BIRD DRAW FOR THE 2005 SEASON.

Grand Prize	Stuart Auty	iPod
2nd Prize	Paul MacDonald	iPod Nano
3rd Prize	Eleanor Beamish	\$100 Gift Certificate for any SIR Corp Restaurant
4th Prize	Donna Castledine	\$100 Gift Certificate for any SIR Corp Restaurant
5th Prize	Anthony Davidson	\$100 Gift Certificate for any SIR Corp Restaurant
6th Prize	Joanna Bugea	\$100 Gift Certificate for any SIR Corp Restaurant
7th Prize	Spencer Robinson	\$100 Gift Certificate for any SIR Corp Restaurant



September 4, 2006

Labour Day

September 15, 2006

3rd Income Tax Instalment Payment for 2006 due

### CONTACT US

You can reach us by phone at 416-969-8166 e-mail at [team@williamsandpartners.com](mailto:team@williamsandpartners.com), or on-line at [www.williamsandpartners.com](http://www.williamsandpartners.com).

### NOTICE

Williams & Partners distributes tax tips on a regular basis via email to our clients. If you wish to be on our email distribution list for tax tips, please contact Jackie Pincente at (416) 969-8166, ext. 235, or by email to [jackie.pincente@williamsandpartners.com](mailto:jackie.pincente@williamsandpartners.com).

**DISCLAIMER:** The material contained in this newsletter has been produced by Williams & Partners, Chartered Accountants LLP to provide information for our clients and associates. Additional information should be obtained before any action is taken on the basis of material contained herein.

## Understanding Child Care Expenses

As the summer camp season comes to an end and the school year begins, parents should be aware of the income tax benefit and planning available with respect to child care expenses.

Generally, child care expenses are deductible to the end of the calendar year in which the child attains the age of 16. Older children may qualify if they are dependent on you, your spouse or common-law partner because of a mental or physical infirmity. The expenses must have been incurred to allow you or your spouse or common-law partner to earn income or undertake certain educational activities.

An eligible child is your, your spouse's or common-law partner's natural or adopted child or a child who was dependent on you, your spouse or common-law partner and whose net income for the year did not exceed the basic amount (\$8,648 for 2005). The child must have lived with you or the other supporting person when the expense was incurred for the expense to qualify.

### —Lower Net Income—

Where there is another supporting person, the basic rule of thumb is that the parent with the lower net income is the taxpayer who is allowed to use the deduction. This is often frustrating for couples where one is a stay-at-home parent without earned income since the deduction is limited to two-thirds of that person's earned income. In this situation, the higher-income taxpayer is not entitled to receive the benefit of the child care expense deduction unless there are special circumstances, as discussed later in this article.

A supporting person includes the parent of the child, the taxpayer's spouse or common-law partner if the person lived with the taxpayer at any time in the year and at any time within 60 days after the end of the year. In cases where the parents are separated because of a breakdown in the marital or common-law partnership in the year and do not reconcile within 60 days of the end of the year, the taxpayer with the higher income can claim the child care expenses that he/she pays for a child living with him or her.

### —The Deduction—

For each child under 7 years of age at the end of the year, you can claim an annual maximum of \$7,000 in child care expense. For older eligible children, you can claim an annual maximum of \$4,000 each. The maximum claim for child care expenses is \$10,000 for children who are eligible to claim the disability tax credit.

In all instances, the deduction is limited to the least of the actual child care expenses incurred, the maximum deduction and 2/3 of your earned income. Earned income includes employment income and your net income from self-employ-

ment. It also includes the taxable portion of scholarships, bursaries and net research grants.

Child care expenses include amounts paid to caregivers, nursery schools and day-care centers. However, they do not include amounts paid to the parent of the child, amounts paid to the other supporting person or amounts paid to a related person who is either under the age of 18 or is claimed as a dependent of the taxpayer or supporting person (e.g. the taxpayer's parent). Advertising expenses and placement agency fees paid to locate a child care provider may also be deducted as part of your child care expenses.

### —Private Schools—

Tuition fees paid to an independent school are generally not deductible as child care expenses. However, many private schools offer child care in addition to the educational program. In this instance, only the portion of the fees paid to the institution related to child care (i.e. supervision before and after classes or during the lunch period) may qualify as child care expenses. Amounts paid for students under the compulsory school age are generally considered to be child care expenses.

### —Summer Camp Programs—

Sports and other summer camp programs that provide the opportunity for the supporting parent(s) to continue to earn income are usually allowed as deductions. If the camp satisfies the guardianship, protection and child care criteria, then most likely the expenses will be allowed. Be sure to clarify this with the camp before registering the child. If the sports camp is for older children and is more goals oriented, the Canada Revenue Agency's position is that amounts paid are more of the nature of educational or training costs and are not child care.

There are additional limits for boarding schools and overnight camps as well. The maximum deduction is \$175 per week for a child under 7 years of age and \$100 per week per older child.

### —Special Circumstances—

The supporting person with the higher net income may claim the child care expenses incurred during the period when the spouse or common-law partner was enrolled in school or had a mental or physical infirmity and was incapable of caring for the child, or where the couple has separated and reconciled before 60 days after the end of the year. The amount of the expenses that may be deducted by the higher income person is generally limited to \$175 per week for a child under 7 years of age and \$100 per week per older child.

### —Shared Custody—

If the child lives with each parent at different times in a year (e.g. shared custody), each parent-taxpayer is entitled to claim the eligible child care expenses that were incurred during the

time that the child resided with the parent but only to the extent that they were paid by that parent. If the child lives with the parent for 50% of the time, the parent can claim 50% of the child care expenses. However, if the parent remarries or enters into a common-law relationship with another person, the new supporting person may be the one who is entitled to deduct the child care expenses.

### —Receipts—

Be sure to request a receipt from the individual or organization who received the payments. When the child care services are provided by an individual, you will also need the caregiver's social insurance number.

### —Child Tax Credit—

The deduction of child care expenses may affect the child tax credit but generally the impact is such that more benefit accrues from applying the expense against earned income.

### —Significant Savings—

Ensuring proper care for your child while earning a living can be a difficult balancing act. Child care expenses are an integral part of a parent-taxpayer's life and can amount to major tax-dollar savings. For example, a taxpayer earning \$50,000 per annum who can claim child care expenses of \$7,000 for a child under 7 years of age could save in excess of \$2,200 depending on the province of residence.

Make sure you receive the deductions that you are entitled to by providing us with all of the receipts received from caregivers or child care organizations when it is time to prepare your tax return.

## TAX TIP

### Tax Credit for Public Transit Passes

Beginning on July 1, 2006, the Government of Canada is offering individuals a non-refundable tax credit to cover the cost of public transit passes. The non-refundable credit may be claimed for transit passes that are monthly (or longer) in duration for commuting on buses, streetcars, subways, commuter trains and ferries.

You will be able to claim the tax credit for public transit passes on your 2006 income tax return for the amounts you have paid for travel that occurs after June 30, 2006. In order to support your claim, you will need to keep your expired monthly transit passes for the months after June 2006. Assuming the transit pass displays all the following information, the pass itself will be sufficient to support a claim for the tax credit:

- An indication that it is a monthly (or longer duration) pass;
- The date or period for which the pass is valid;
- The name of the transit authority or organization issuing the pass;
- The amount paid for the pass; and,
- The identity of the rider.

If the pass does not have all of this information, you will need to keep receipts, cancelled cheques, or credit card statements, along with your pass(es), to support your claim.

### How much can I claim?

You can claim the full amount paid for a public transit pass, or for the cost of passes for multiple transit systems. In addition, you can claim the tax credit for public transit passes on behalf of your spouse, common law partner and your children under the age of 19, to the extent that these amounts have not been claimed.

Tax Tip deals with a wide variety of issues and the information is general in nature. As each person's circumstances are unique, readers are urged to consult W&P prior to acting on the basis of material in this Tax Tip. If you have any questions regarding the content of this or any other Tax Tips, please contact the W&P Tax Group.