

TAXATION

Understanding Child Care Expenses

Taxpayers are sometimes confused as to what and by whom child care expenses may be claimed. As the deduction may provide significant tax savings for parents, the following synopsis may be of help.

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 from employment or self-employment 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.

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Strategies for tomorrow*

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 expenses. 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-employment. It also includes the taxable portion of scholarships, bursaries and net research grants.

There are additional requirements and benefits regarding children with disabilities. These would best be discussed with your chartered accountant.

Child care expenses include amounts paid to caregivers, nursery schools and day-care centres. 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 dependant 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. The latter would include school fees paid for kindergarten in those provinces where kindergarten is not mandatory. Be sure to request a receipt showing a breakdown of the fees.

Summer Camp Programs

Summer camp is another area of potential child care deduction. Sports and other 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.

These circumstances include situations where the other person is:

- **Enrolled in a full-time or part-time qualified educational program** The program must be offered by a secondary school, college, university or other designated educational institution, including any institution certified by the Minister of Human Resources and Skills Development for courses that develop or improve occupational skills. An eligible program has to last at least three consecutive weeks. A full-time program requires that the student spend at least 10 hours a week on courses or work in the program. A part-time program requires the student spend at least 12 hours in a calendar month on courses in the program.
- **Confined to a prison or certified by a physician to have a mental or physical infirmity** The confinement or mental or physical infirmity must be not less than two weeks in the year during which he or

she was incapable of caring for the children or is likely to be incapable of caring for the children for a long-continued period of indefinite duration.

- **Separated but later reconciles** The higher income earner may deduct child care expenses if the taxpayer and the supporting person separate in the year for a period of at least 90 days beginning in the year because of a breakdown of the marriage or common-law partnership and were living separate and apart at the end of the year but reconciled within 60 days after the end of the year. However, the claim is valid only if the taxpayer with the higher income paid those child care expenses.

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. Do not submit the receipts with your tax return but keep them on file in case the CRA asks to see them.

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 your chartered accountant with all of the receipts received from caregivers or child care organizations when it is time to prepare your tax return.

MANAGEMENT

Motivating Employees

Finding good staff is increasingly challenging. As more baby boomers choose to retire in the coming years, it is going to become harder. So when you find the right people, your company should make every effort to look after them well.

Too often, 'looking after staff' is translated into paying them well. But this is not nearly enough. Research shows that a large part of employee satisfaction comes from the personal fulfillment they receive from working with the company. This includes the interactions with other staff, the company's mission and beliefs, its work environment, the technology employed and the types of clients served.

Recognition and Praise

The most commonly overlooked management skill is simply making a habit of saying 'well done' or 'thank you' for good work. This alone can have a tremendously positive impact on your employees' performance. These positive 'deposits' also make it easier when you need to make 'withdrawals' to address poor performance.

Recognition and praise help to improve performance but employees also need to be given specific goals to achieve. And they need honest and thoughtful feedback on a regular basis as to whether they are meeting these targets and how they can improve.

This requires you or your supervisors taking the time to carefully think about the employee's performance, identify the individual's strengths and weaknesses, and then help the individual develop an action plan for the coming months or year.

Performance Reviews

Performance reviews are an important foundation to achieving several goals, including:

- Improving the professional development, skill level and performance of each employee;
- Strengthening working relationships between supervisors and employees;
- Clarifying job duties and responsibilities;
- Establishing mutually understood standards for measuring performance; and
- Assisting in promotion, retention and salary decisions.

Obviously timely performance reviews help a company motivate and retain employees. However, too often the busy owner/manger needs to put performance reviews on the back burner while tending to pressing business issues. Others may think it requires too much time or may be reluctant, thinking that a confrontation or argument with an employee could surface. But there is an easier way.

Self-assessment Evaluation Process

A self-assessment evaluation process can improve the quality of your performance reviews as well as save you considerable time. The process involves having your employees first complete a self-assessment form in which they rate their individual performance and then submit it to you so you can then add your own assessments. This is sometimes referred to as a negotiated appraisal.

There are five key steps to carrying out a

self-assessment process:

- Plan — Schedule the evaluations and inform staff of the process and the schedule.
- Assign — Distribute the self-assessment forms to employees and set deadlines for submission.
- Prepare — Review self-assessment forms and prepare your evaluation before meeting with each employee.
- Discuss — Meet with the employee to discuss the evaluation and agree on an action plan for the future. Document the plan and comments.
- Finalize — Have the employee sign the evaluation and provide him or her with a copy.

Not only will this approach save you considerable time, but also consider that:

- The timeliness of completing your annual performance appraisals will improve.
- The employee has time to think about the answers carefully and reflect on his or her goals and career plans. This preparation avoids the situation where an employee agrees or disagrees with your suggestions without any real thought or reflection.
- Prior to meeting with the employee, you can review the self-assessment form and be prepared to address areas of strengths or weaknesses that the employee has not recognized.
- The way in which the employee answers the questions on the form can also reveal a great deal about the individual's attitude and goals within the company.

Of course, there are some disadvantages of which you need to be aware:

- Some employees may overrate their performance whereas others may be humble and underrate their performance.
- The reviewer may be tempted to simply agree with the employee's own assessment of his or her performance rather than taking the time to think about the person's actual performance.
- The reviewer may disagree with an employee's assessment in a particular area based on a single and probably recent event that may not be

representative of the individual's overall performance.

- The reviewer may be unwilling to communicate bad news. This can happen in any evaluation system and helps nobody. Reviewers sometimes avoid having to deal with problems by rating everyone close to average. This practice does not help the employee improve and could result in legal action if an employee is let go without ever being told that his or her performance was unsatisfactory.

Everyone Wins

Recognition, praise and timely perfor-

mance appraisals will motivate your employees to succeed. The appraisal process, in particular, will provide valuable feedback on staffing needs and trends. Most importantly, having good listening skills and achieving a comfortable rapport during the performance appraisal interview can help you identify areas where the company could make improvements. You may get information that will alert you to a need to change company procedures, arrange for additional training or boost your incentive program.

MONEYSAVER

Managing Your Website

Even the smallest company can take advantage of the Internet by having an attractive, professional-looking web presence.

In today's competitive market, a website presence whether modest or sophisticated is a serious business tool that requires careful planning. There are numerous website developers and hosting companies vying for your business so a web presence can be found to fit any budget. A website is an opportunity to provide value-added services to existing customers as well as attract new ones or it may be a business operation in itself.

If your website is up and running, how is it performing? Does it work how you want it to work? Can it be easily updated? Do you know how many people are visiting your site?

Businesses that are just starting out or already have an established web presence need to ensure their websites deliver the best exposure possible for the dollar spent. Keep in mind that not only will a poorly managed website be increasingly hard for users to navigate and take up valuable staff time, it could be detrimental to your company's image and bottom line.

Choosing Your Website Provider

When you are ready to put your Web page up on the Internet, you need a hosting service provider. These can range from free services with few options up to expensive

business hosting and even hosting that you run yourself. The options you choose depend upon how you plan to use your website, how much you want to spend, and how much time you want to spend maintaining your website.

Ask your friends, business associates and members of local business groups if they can recommend companies or individuals that have proven experience in website design and hosting. Choosing the right provider for your website hosting will ensure that you have web solutions that are tailored specifically for your business. These solutions can include technologies that make your website processes more efficient, saving you money on operational expenses, enhancing sales and customer management options and providing affordable marketing services.

Select a website provider that will work with you to ensure continuous high quality development, performance and accessibility. Let's face it, your expertise is in running your business, not worrying about whether the website is going to work today and be inaccessible the next.

Cost is always a major consideration when developing a marketing program. Many providers offer a number of plans to suit various needs and budgets. Understanding the services that are provided and the cost of each will help you determine whether additional services are worth the investment. Typically, you will pay once a

month for space and services.

Make sure the provider has a data backup plan and redundant servers to ensure that your website remains up and running. You should also make sure they can provide you with log reports so you can check for broken links.

If your site includes e-commerce, you will need to ensure customers can transact securely online. For example, you may decide to set up an online credit card processing payment gateway and an Internet merchant account to securely accept credit cards online.

Impatience is the hallmark of anyone that uses a computer and those that use the Internet are no exception. Speed of access regardless of the browsers used is another consideration when choosing a provider. Further, increases in user volume should not slow the visitor's access to your site.

Keeping Your Website Up-to-date

To keep visitors returning to your website, you need to update your content frequently. For this reason, maintaining your website is an important consideration. You may wish to find a provider that can build, host and manage everything for you. However, if your budget is tight and you have some technical ability, the provider may be able to recommend a standard template that will allow you to make minor design and content changes. This will definitely reduce the cost of keeping your site up-to-date.

The basics of updating a website include the ability to:

- Create and edit pages;
- Create new sections on the site;
- Add images to pages;
- Create links within a page;
- Create and update navigation tools;
- Maintain the overall design of the site; and
- Fix broken links.

Ask your provider about the support services they can provide and the related

costs, to help you resolve problems and keep your site up and running.

Consulting Services

If your technical knowledge is limited, consider contracting an Internet consultant's services. A consultant can help you throughout the entire process of designing a website and selecting a provider that will best meet your needs and your budget.

Careful Planning Pays Off

Carefully planning your web presence, choosing the right provider and managing your website on an ongoing basis can add up

to a real payback in increased sales, easier and less expensive modification costs and reduced frustration.



MANAGEMENT

Temporary Solutions

At times a business may face having to recruit specialized talent on short notice.

When a key person has to take an extended leave, a middle management talent suddenly departs or the company wins a bid for a project that requires additional expertise, should you rush to fill that position with full-time personnel? Hiring a temporary contract worker may be a better strategy for handling unexpected staffing needs.

Temporary staffing was once primarily used to cover administrative and clerical duties. However, today companies are increasingly recruiting professional, management and highly skilled staff on a temporary basis to handle more complex responsibilities for:

- Short and long-term projects;
- Peak business cycles;
- Staff vacations or medical or parental leaves; and
- Projects requiring specialized skills.

While temporary staffing is not recommended as a long-term human resources strategy, it can offer valuable assistance when your company has short-term needs. Rather than stretching the resources of permanent employees and decreasing productivity, you can have the right personnel in place in a timely manner.

For senior staff levels, filling an open position with temporary talent will give the company more time to re-assess the vacated position before beginning the search process for the permanent hire. As the search process can be long and drawn-out, the temporary employee can keep things running smoothly while the company finds the right person to fill the position. In the long run, this interim solution may save the company significant money.

Some argue that temporary staffing is more expensive than hiring full-time employees. Although this may be true in certain situations, temporary staffing eliminates the additional costs of carrying these individuals on the payroll year-round and providing benefits. Employee benefits can amount to as much as 20 to 25% of a company's salary budget.

In addition to the cost-benefit, the temporary's specialized skills, real-world knowledge and experience will shorten the learning process. Since the person may have worked at a number of different organizations, consider also that the temporary may bring fresh ideas and new ways of doing things that can enhance productivity.

Communicate with Staff

Bringing a temporary employee on your

team may create issues relating to supervising and motivating your employees and keeping up morale. Some employees may feel disgruntled by the decision to fill the position with a temporary person so communication is important. Handling any misperceptions or discomfort before the person starts will help ensure that the contract worker has a good start, the project is not stalled and unhappy staff members do not thwart the temporary person's effectiveness.

To deal with these issues, consider:

- Letting staff know early in the process that you will be hiring a person on a temporary basis.
- Explaining why the temporary is being hired, that is, the need for specialized skills and knowledge, etc.
- Describing the temporary's responsibilities and the length of the contract.
- Indicating which employees will be reporting to the temporary and ask for full cooperation.
- Assigning an employee to the temporary in the role of an apprentice. This is an opportunity for the employee to gain valuable knowledge and experience and could potentially groom a successor if the position is to become full-time.

The Contract

Whether you contract with the temporary employee directly or through an agency, make sure the details of the contract arrangement are finalized before the person starts. Generally, the contract should:

- Detail such issues as the term of the contract, fee arrangements, payment schedule, confidentiality, performance expectations and termination issues such as “acting in a manner unbecoming to the good name of the company”.
- Specifically indicate that the temporary person is not an employee and is

personally responsible for income tax, CPP, GST and other regulatory payments.

- Describe the environment where the temporary person will be working and the nature of the work and, where applicable, any tools, equipment or specific software programs that will be used.
- Set out to whom the temporary is to report. This is imperative to avoid internal upheaval, delays, misunderstandings and accidental confidentiality breaches.

On the first day, take time to introduce the temporary employee to your staff and express the confidence you have that

everyone will support the individual and his or her work.

Just-in-time Staffing

The concept of hiring temporary specialists to help you get through tough times or to assist with a special project is a relatively new development. With many boomers choosing a part-time career over early retirement, your company has access to a large pool of experienced and qualified candidates who can help you meet short-term staffing needs.

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Tips & Topics deals with a number of complex issues in a concise manner. It is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained herein.

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