

# Income Test Questions and Answers

## INCOME TESTING - GENERAL

- Q. In the past, child care subsidy applicants had to be permanent residents of Canada and had to have permanent status in Canada e.g. Canadian citizen, landed immigrant or refugee claimant in order to be eligible for child care subsidy. Are foreign persons in Canada such as university students with a student visa, foreign citizens with a work permit, and visitors for an extended period with a visitors' permit eligible for child care subsidy?**
- A. The regulations under the *Child Care and Early Years Act, 2014* do not establish specific requirements regarding immigration/citizenship status nor does the Ontario Child Care Service Management and Funding Guideline. CMSMs/DSSABs may wish to establish local policies in this regard.

## DETERMINING AND VERIFYING INCOME

- Q. Will CMSMs/DSSABs be able to access income tax information on behalf of the client directly from the Canada Revenue Agency (CRA) similar to the procedures in place for the Ontario Works program?**
- A. No, the Province has not established a procedure for CMSMs/DSSABs to access clients' income tax information directly from the CRA. Clients will bring in a copy of their *Notice of Assessment* or *Canada Child Benefit (CCB) Notice*. Those who can't locate their form can contact the CRA to obtain the relevant information, e.g. through the federal government's website.
- Q. Generally speaking child support payments under an agreement after May 1, 1997 are taxable in the hands of the parent making the payment and not in the hands of the recipient. Should child support payments be included as income if the person receiving them applies for fee subsidy?**
- A. The income test is based on adjusted income which equals net income from line 236 on the income tax return. Generally speaking, child support payments received under an agreement after May 1, 1997 are not taxable and they are not included in the net income on line 236. Thus, child support payments received are excluded from adjusted income and are not to be added for purposes of the income test.
- Q. Generally speaking child support payments under an agreement after May 1, 1997 are taxable in the hands of the parent making the payment and not**

**in the hands of the recipient. When parents pay child support and are taxed on this amount, do they receive consideration for the expense under the income test?**

A. Child support payments made under an agreement after May 1, 1997 are normally taxable in the hands of the person making the payments. They are included in net income on line 236 of the income tax return of the payer and therefore they are included in adjusted income for purposes of the income test. The income test is based on income only and no expenses are considered.

**Q. Some young teen mothers live with their parents. The mother may have custody and guardianship of a child but the parents of the mother receive the Canada Child Benefit. If the mother has never filed a tax return can a child care subsidy be approved while the mother waits to receive a *Notice of Assessment*?**

A. A copy of the income tax *Notice of Assessment* (NOA) or *Canada Child Benefit Notice* must be provided by every applicant for fee subsidy who is assessed using the income test.

For new applicants who have never filed a tax return CMSMs/DSSABs may wish to consider local policies that allow for flexibility in providing an interim child care placement until the NOA is received by the applicant and the child care fee subsidy is confirmed.

**Q. One parent in a two parent family may have filed an income tax return and claimed the spouse as a dependant. The spouse may not have filed their own tax return. What does this mean for families applying for subsidy?**

A. A copy of the income tax *Notice of Assessment* or *Canada Child Benefit Notice* must be provided by every applicant for fee subsidy who is assessed using the income test. Each parent in a two parent family must file an income tax return annually in order to be considered for child care fee subsidy.

**Q. Is a CMSM/DSSAB required to reassess a parent's fee when a *Notice of Reassessment* is received? Sometimes it is in the parent's advantage and other times it is not. CMSMs/DSSABs are only required to adjust income once per year at review time unless the parents request a review to look at a 20% decrease. Do we recalculate the parent's eligibility based on the corrected NOA? Do we wait until the next review? Do we look to see if the new amount is a decrease of more than 20%?**

The income test is based on the most recent available *Notice of Assessment*. This includes any *Notice of Reassessment*. If parents present a *Notice of Reassessment* and the amount on line 236 has changed, then the parental contribution should be recalculated based on the new income information. The

recalculated parent fee would apply as soon as possible regardless of whether there is an increase or decrease.

**Q. If the tax return of a fee subsidy client is reassessed by the Canada Revenue Agency how can CMSMs/DSSABs verify that this has occurred and ensure that the client provides the *Notice of Reassessment*?**

A. Eligibility for child care fee subsidies is based on the most recent *Notice of Assessment* or *Notice of Reassessment*. CMSMs/DSSABs may consider local policies about informing clients of the expectation that any in-year changes in adjusted income as a result of reassessments by the Canada Revenue Agency (CRA) are to be reported to the CMSM/DSSAB in a timely manner.

If net income has decreased it would be in the client's interest to provide a *Notice of Reassessment*.

If information becomes available that a client's net income has increased and the client has not provided the *Notice of Reassessment* CMSMs/DSSABs may collect overpayments based on their own policies. The province has not established a procedure for CMSMs/DSSABs to access clients' income tax information directly from the CRA.

**Q. Employment income for Status Indians may be exempt from income tax if the income is earned on reserve. If the employment income is exempt from tax the individual does not have to include that income when filing a personal income tax return. What does this mean for parents applying for child care fee subsidy?**

A. The income test is based on adjusted income which equals net income from line 236 on the income tax return.

If an applicant for fee subsidy earned income on a reserve that is exempt from income tax and not reported on line 236 of the personal income tax return then that income is also excluded from adjusted income for purposes of the income test. The federal tax rules in this regard may be complex however the onus is on the individual preparing the tax return to prepare it accurately.

All applicants for child care fee subsidy are expected to file an income tax return annually and provide the most recent available documentation of adjusted income.

**Q. A family applying for fee subsidy includes a parent who is employed in another country. The other parent living in Canada is applying for fee subsidy. The family is receiving Canada Child Benefit (CCB) payments. The Canada Revenue Agency has complex rules for determining whether a person not residing in Canada must file a Canadian tax return or declare**

**their foreign income. However all world income must be declared when applying for the CCB. What does this mean for determining the adjusted income to be used when assessing eligibility for fee subsidy?**

- A. The income test is based on adjusted income which equals net income from line 236 on the income tax return.

The onus is on parents applying for fee subsidy to determine whether a parent living outside of the country is required to file a personal income tax return in Canada.

When applying for the CCB a parent who is a non-resident of Canada during any part of the year must complete form CTB-9, *Canada Child Benefit – Statement of Income* to report world income. However any income that is not required to be reported on a Canadian tax return is not included in adjusted income when determining eligibility for child care fee subsidy. The net income from line 236 on the *Notice of Assessment* should be used if it differs from income shown on the *CCB Notice*.

- Q. Are postsecondary students receiving funding under the Ontario Student Assistance Plan without any other income automatically eligible for a full child care subsidy the same as social assistance recipients? Are the earnings of a spouse included in family income?**

- A. The income test is based on adjusted income which equals net income from line 236 on the income tax returns of both spouses.

For postsecondary students, the proceeds of student loans are not considered income for tax purposes and thus are not included. Scholarships, fellowships and grants received by a postsecondary student may be fully or partially exempt from income tax, depending on circumstances.

- Q. If a postsecondary student receives funding under the Ontario Student Assistance Plan, is this considered income for income testing purposes?**

- A. The income test is based on adjusted income which equals net income from line 236 on the income tax return.

For postsecondary students, the proceeds of student loans are not considered income for tax purposes and thus are not included. With respect to grants received by a post-secondary student, they may be fully or partially exempt from income tax, depending on circumstances.

**Q. With respect to self-employed applicants for child care fee subsidy, is it only adjusted income based on income tax information that is considered?**

A. Yes, adjusted income for self-employed applicants for fee subsidy will be net income from line 236 of the personal income tax return.

**Q. An applicant for child care subsidy may be an owner of an incorporated business. In addition to the applicant's *Notice of Assessment* do CMSMs/DSSABs need to gather further information regarding a corporation owned by the applicant for purposes of the income test?**

A. The income test is based on adjusted income which equals net income from line 236 on the income tax.

In the case of an incorporated business any profits belong to the corporation and may not be accessed for the personal use of owners or employees. Any corporate assets paid out to owners and employees such as dividends and salaries must be reported by the recipients in personal income tax returns in the appropriate manner.

CMSMs/DSSABs must take into account the policy statement "Access to Subsidized Child Care". CMSMs/DSSABs may establish and/or continue to apply local policies for self-employed applicants within the parameters of the policy statement.

**Q. Some parents cannot find their latest *Notice of Assessment (NOA)* or *Canada Child Benefit (CCB) Notice*. A parent could wait several months to receive another copy of the NOA. Parents could receive a proof of income statement from the Canada Revenue Agency (CRA) much more quickly; this is also known as an "Option-C Print". Can this form be used in place of the NOA or CCB Notice?**

A. The CRA proof of income statement is an acceptable alternative to the NOA or CCB Notice and may be used to verify income when determining eligibility for child care fee subsidy. This form is also referred to as an "Option-C Print".

**Q. A parent brought in her income tax assessment that she printed from the Canada Revenue Agency website under "my account". One of the headings in the 2006 assessment is "net income, including line 236". Is this document acceptable as an alternative to the original *Notice of Assessment*?**

A. Parents have the option of printing an online proof of income statement or requesting that a hard copy be sent to them by mail. Although the online version and the mailed version look different, both contain the same information (date,

social insurance number, and key information to validate income) and both are official CRA documents that can prove income for a specific tax year.

**Q. Can the *GST/HST Credit Notice* be accepted as verification of income instead of the *Notice of Assessment* or *Canada Child Benefit (CCB) Notice*?**

A. In some cases the *GST/HST Credit Notice* may be an acceptable alternative to the NOA or CCB Notice. The definition of income used for purposes of the GST/HST credit is consistent with the definition used for the CCB.

However a two-parent family may be eligible to receive the GST/HST credit even if only one of the spouses filed an income tax return. In order to apply for child care fee subsidy each parent in a two-parent family must file an income tax return annually. The CMSM/DSSAB will need to verify whether in fact both parents filed tax returns in the most recent tax year.

**Q. Some clients are bringing in their statement from the Ontario Child Benefit program as verification of income. Family net income is shown on this statement. Is this consistent with the definition of income for the income test i.e. line 236 and if so can CMSMs/DSSABs accept this statement as an alternative to the *Notice of Assessment* or *Canada Child Benefit* statement?**

A. Adjusted net income used for purposes of the Ontario Child Benefit is consistent with the definition of income use in determining eligibility for child care fee subsidies. Clients may present an original Ontario Child Benefit statement to the CMSM/DSSAB as verification of income.

**Q. A parent received worker's compensation benefits. This amount is recorded on line 144 and included in net income on line 236. Workers' compensation benefits are not taxable and the parent has zero taxable income on line 260 of the *Notice of Assessment*. How should the CMSM/DSSAB determine eligibility for child care fee subsidy in this situation?**

A. The income test is based on adjusted income which equals net income from line 236 on the income tax return. Adjusted net income is different from taxable income on line 260. All amounts that are reported as part of net income such as worker's compensation benefits are included in adjusted net income even if that income is subsequently deducted in determining taxable income.

**Q. When parents are divorced or separated a court order or agreement may specify who pays for child care. The child care costs may be paid either directly to the child care operator or to the custodial parent to pay to the operator. If one parent is contributing to child care costs due to a court order or agreement and the other parent is now paying less than this amount under the income test how should this extra income be treated?**

**The child care support would not be included as income for tax purposes by the parent receiving it. What if a court order/agreement requires one of the parents to pay a percentage of the cost of child care?**

- A. The income test is based on adjusted income which equals net income from line 236 on the income tax return.

When parents are divorced or separated a court order may require one of the parents to pay child support to the other. The court order may provide additional support for special expenses such as child care. Generally speaking child support payments received under an agreement after May 1, 1997 are not taxable and they are not included in the adjusted income of the parent receiving the support. Child support payments are not to be added to adjusted income for purposes of determining eligibility for child care fee subsidies.

As circumstances change over time it is up to the parents to determine whether to go back to court to request a change to an existing court order.

Each court order should be reviewed on a case-by-case basis to determine its particular terms and conditions. In some situations such as when both parents are paying their share of child care costs directly to the child care centre it may be appropriate to consider the cost of child care for each parent separately. If one of the parents applies for a subsidy then that parent's share of the cost would become the maximum child care fee for the parent under the income test.

- Q. What documentation is necessary for the verification of income if a family with dual citizenship moves to Canada? What if the parents have high paying jobs but no *Notice of Assessment*?**

- A. Under the income test there is a specific provision for recent immigrants defined as people who were not residents of Canada in the previous year and had no Canadian income to report for income tax purposes. They are not required to have filed an income tax return and their adjusted income should be considered "zero" in the first year.

In the immigrants' second calendar year in Canada in order to be eligible for child care fee subsidies they will have to have filed income tax returns for the previous tax year and will have to provide a copy of the *Notice of Assessment* or *Canada Child Benefit Notice*.

- Q. When a parent indicates at their fee subsidy appointment that they are working (i.e. have eligible hours for child care) but reveal that they are not declaring the income to the Canada Revenue Agency (CRA) is the CMSM/DSSAB expected to take action such as reporting the situation to the CRA?**

A. The taxpayer is responsible for the information provided on their income tax return. The Canada Revenue Agency (CRA) indicates that there can be serious personal, legal, professional, and financial consequences for individuals who fail to report all income earned, cash or otherwise. Under the Voluntary Disclosure Program taxpayers can set the record straight if they have not reported all their income in previous years or if they have made other mistakes when filing tax returns. Those who make a full disclosure before the CRA starts any compliance action or investigation will only have to pay the taxes owing plus interest.

**Q. When a parent declares bankruptcy, there is a Notice of Assessment (NOA) for the period before the declaration and another for the period following. Should CMSMs/DSSABs add the two NOAs together to get the total income for the year? If not, what is the procedure?**

A. Under subsection 128(2) of the federal *Income Tax Act*, when an individual becomes bankrupt, the calendar year in which the bankruptcy occurs is divided into two taxation years. One taxation year runs from January 1 to the day before the bankruptcy (pre-bankruptcy period), and the other begins on the day of the bankruptcy and runs to December 31 (post-bankruptcy period). Where the individual has two taxation years ending in the same calendar year as a result of bankruptcy, the net income from line 236 on both Notices of Assessment should be added together to obtain the total net income for the year.

**Q. Social assistance recipients are eligible for full subsidy without being subject to the income test and they are not required to file a tax return. In the event that funding is provided for a child under the Assistance for Children with Severe Disabilities program are we correct in assuming that the fee for child care fee subsidy would not be waived and fee would be assessed based on Line 236?**

A. As indicated in subsection 8. (1) of O. Reg. 138/15 under the *Child Care and Early Years Act, 2014*, persons eligible for “income support” under the *Ontario Disability Support Program Act, 1997* are eligible for full subsidy. In addition, persons eligible for “income assistance” under the *Ontario Works Act, 1997* are also eligible for full subsidy.

The definitions of “income support” and “income assistance” are very specific in the respective pieces of legislation. Neither definition includes financial assistance provided under the regulations with respect to Assistance for Children with Severe Disabilities (ACSD). Eligibility for fee subsidy when a family receives ACSD payments only would be based on adjusted income which equals net income from line 236 on the income tax return.

**Q. Parents cashed in some of their Registered Retirement Savings Plan (RRSP) funds in order to pay off debts. This amount of cashed in RRSPs shows up on line 236 of the Notice of Assessment and overly inflates the**

**couple's income for the prior year. The family is paying a higher parental contribution based on income they did not really "earn". Can a CMSM/DSSAB take into account a lower amount than indicated on line 236 in such a situation?**

A. The income test is based on adjusted income which equals net income from line 236 on the income tax return. Income that results from cashing in RRSPs is included in adjusted income for purposes of the income test. Child care subsidy applicants and recipients who decide to cash in their RRSPs should take into account the potential implications for subsidy eligibility when they make their decision.

**Q. An applicant applies for child care subsidy and records on the application that they are single. The applicant has been cohabiting with a partner for 18 months although they do not have a child together. The applicant's *Notice of Assessment* identifies marital status as "Living Common-law" as Revenue Canada's deems a couple to be living common-law if they have lived consecutively for 12 months. Is the income test applied to the applicant as a single person or is the income test based on the incomes of both the applicant and co-habiting partner?**

A. As outlined in the Ontario Child Care Service Management and Funding Guideline, adjusted income includes the income of the applicant parent and spouse. As spouse includes someone with whom the parent has been cohabiting for a period of not less than three years or a person with whom the parent has a relationship of some permanence if they have a child together.

In the situation above, assuming the cohabitant has not been identified as a parent of the child seeking care, the applicant may be assessed for child care fee subsidy based on their individual income. When the family status changes, for example after a three-year period of cohabitation, the incomes of both spouses must be taken into account.

## **CHANGES IN INCOME OR OTHER CIRCUMSTANCES**

**Q. If a parent gets married, is the new spouse's adjusted income included immediately and used to determine continued eligibility for child care subsidy and to recalculate the parental contribution? Or is there no change until next review date?**

A. In most cases, parents are not expected to report in-year increases in income. The exception is for situations where the family composition changes from a one-parent family to a two-parent family. This may occur as the result of a marriage or establishing a common-law relationship. In this case, a parent already receiving subsidy is expected to report the change in circumstances to the

CMSM/DSSAB at the earliest opportunity. The most recent available *Notice of Assessment* must be provided for the new parent. The combined adjusted income for both parents will then be used to confirm eligibility for fee subsidy and the parental contribution recalculated.

**Q. As there is no expectation for parents to report an in-year increase in income, will overpayments be established if a significant change is determined on the following year's assessment?**

A. Overpayments are not to be established if there is a significant change in income in a subsequent year's assessment. Any change to the parental contribution will take effect after the review date.

**Q. If a social assistance recipient begins working and ceases to be eligible for financial assistance, how is the child care subsidy amount determined? Does the former recipient get full child care subsidy until the next *Notice of Assessment* is available?**

A. As part of their normal review cycle, CMSMS/DSSABs are to review eligibility at least annually. The CMSM/DSSAB will ask the former social assistance recipient for the most recent available *Notice of Assessment* or *Canada Child Benefit (CCTB) Notice*. There will always be a time lag involved as the *Notice of Assessment* or *CCB Notice* will be from the prior year or two years before. The adjusted income on the most recent available documentation may include a period of time during which the person was receiving social assistance and therefore had a low income for the year. If the adjusted income is \$20,000 or less, the former social assistance recipient will continue to be eligible for full subsidy. If adjusted income is higher, the former social assistance recipient will begin to pay the income tested parental contribution toward the cost of child care.

## **BUSINESS PRACTICES**

**Q. Are CMSMs/DSSABs still required to have a second person sign off on every income test client file?**

A. In the past, the Ministry of Community and Social Services Fee Subsidy Guideline (for example, the version dated September 27, 2000) indicated that CMSM/DSSAB policies should ensure that the staff administering the needs test and those who approve the subsidies are different parties. The intent of this expectation was to avoid situations where the potential for conflict of interest exists.

CMSMs/DSSABs should establish policies that provide a clear audit trail and reduce the potential for conflict of interest in conducting assessments or reviews. A CMSM/DSSAB may determine that approval of every fee subsidy file by a

second party is not required as long as there are business practices in place that minimize the potential for conflict of interest situations and copies of applicant source documents are retained for future file reviews.