

# The TaxLetter®

Vol. 30, No. 9

Your Guide to Tax-Saving Strategies

August 2012

## TAXPLANNING

*Class is now in session...*

# Let the savings begin

**Samantha Prasad, LL.B**

The start of the school year reminds us that summer is rapidly coming to an end.

It also reminds parents to be on the lookout for savings, as wallets are opened and cash registers rung in the traditional back-to-school scramble to get students equipped for their return to the classroom.

But as you shop around for the best deals on fall clothing, school supplies, laptops and furniture (for those offspring moving away for their post-secondary studies), here's another saving tip to consider: there are a myriad of tax credits and deductions available to help put some of that hard-earned cash back into your wallet – or at least, back into your child's wallet.

---

Samantha Prasad, LL.B., is a tax partner with the Toronto-based law firm Minden Gross LLP, a member of Meritas Law Firms Worldwide, and a Contributing Editor of The TaxLetter, published by MPL Communications.  
[sprasad@mindengross.com](mailto:sprasad@mindengross.com)

### Education Credit

A student may deduct from federal taxes payable a credit equal to the lowest tax rate percentage (i.e. 15 per cent for 2012) multiplied by \$400 per month (i.e. \$60 a month) for each month in the year that the student is enrolled as a full-time student at a designated institution and enrolled in a qualifying educational program.

This includes full-time post secondary students enrolled in distance education programs or correspondence courses. (Note: There is no full-time enrollment requirement for students who are disabled or cannot be enrolled full-time by reason of mental or physical impairment.)

A qualifying educational program is one that requires at least ten hours per week of work and is a least three consecutive weeks in duration.

The program must also be at a post secondary school level except in the case of courses to improve occupational skills cer-

tified by the Ministry of Human Resources Development.

However, the credit is unavailable where the student is reimbursed for the course by his or her employer or if the course is taken as part of an employee's duties and the student is paid.

Any unused portion of the education credit may be transferred to a spouse, parent or grandparent, or may also be carried forward for future use by the student.

By the way, fellowships, bursary income and achievement prizes are fully exempt from tax provided that you are enrolled in a program that qualifies for the education amount (as opposed to the previous rule in place prior to 2006 which provided that only the first \$3,000 is exempt).

### Part-time Education Credit

Part-time students are also entitled to claim a federal education credit of \$18 per month (i.e. 15 per cent of \$120 per month).

To be eligible for this credit, part-time students must be enrolled in a qualifying educational program lasting at least three consecutive weeks and involving a minimum of 12 hours of courses per month. The unused portion of the part-time credit may also be transferred to a spouse, parent or grandparent or carried forward for future use.

### Tuition Credit

In addition to the education credit, students may also

be eligible for a credit for tuition fees paid.

The student must pay tuition fees in excess of \$100 to either an educational institution in Canada for courses at the post secondary level or an institution certified by the Minister of Human Resources.

This would generally include a college or university, a professional organization providing courses to graduates of a secondary school or a Ministry certified institution to acquire or improve occupational skills.

The credit is equivalent to an amount equal to the lowest tax rate multiplied by the tuition paid for the year (i.e. 15 per cent for 2012). Some private secondary schools offer university-level courses which qualify for the tuition and education tax credits.

Where, however, an athletic scholarship is paid on behalf of an individual or the individual is entitled to a reimbursement for the fees, the tuition tax credit is not available unless the scholarship or reimbursement is included in the student's income for the year.

The tuition credit will not be available if the fees are reimbursed by a student's employer or if the student receives assistance from a federal or provincial job training program unless such amount is included in the student's income.

### **Textbook Credit**

A textbook credit is also available to students, and, for 2012, is calculated as 15 per cent (i.e. the lowest tax rate) times \$65 times the number of months during the year in which the student was a full-time student (the formula is amended to \$20 for part-time students).

### **Transfer or Carry Forward of Federal Tuition and Education Tax Credits**

The education, tuition and textbook credits may be a good source of shelter for a parent, grandparent or spouse of a child because these credits may be transferred to any of the latter (only one transferee is allowed).

However, the amount transferred is limited to the amount which the student designates in writing, which, in turn, is limited to the lesser of the total amount of education, tuition and textbook credits combined and \$5,000, less the amount claimed by the student. (The transfer does not necessarily have to be to the parent or grandparent who actually paid the fees.)

Note: One tax case confirms that the transfer can be of current year credits, but not those carried forward by the student. This extra shelter provided by your child, when combined with proper income splitting techniques with a child could help ease a parent's tax return.

If a parent does not require this extra shelter, and there is insufficient tax on the part of the student to absorb the credits, any unused combined education, tuition and textbook credits can be carried forward for future use by the student.

However, if a student passes up claiming the credit, thereby leaving a tax liability, a CRA Technical Interpretation confirms that the credit carryforward will erode – so it's use it or lose it.

The CRA document also indicates that the use of certain other credits (such as medical or dividend tax credits) rather than the education-based credits will also reduce the amount available for carry forward.

Another way to look at this

is that if an individual has more than enough of these credits to wipe out his or her tax, and there is no benefit to a potential transferee, they will simply go to waste.

### **Studying Abroad**

Prior to the 2011 Federal Budget, Canadian students in full-time attendance at a university outside of Canada were eligible for the Tuition Tax Credit, the Education Tax Credit and the Textbook Tax Credit if they were enrolled in a course lasting at least 13 consecutive weeks and leading to a degree.

Similarly, a Canadian student can currently receive Educational Assistance Payments ("EAPs") from a Registered Education Savings Plan for enrollment at an educational institution outside Canada that provides courses at a post-secondary school level provided the student is enrolled in a course of not less than 13 consecutive weeks.

However, in light of the fact that many programs at foreign universities are based on semesters shorter than 13 weeks, recent changes to the Tax Act now reduce the minimum course-duration requirement from 13 to three consecutive weeks.

The 13-consecutive-week requirement for EAP purposes was also reduced to three consecutive weeks when the student is enrolled at a university in a full-time course.

### **Credit for Interest on Student Loans**

A student may also claim a personal tax credit equal to the lowest tax rate (15 per cent for 2012) multiplied by the amount of interest paid in a year, or any of the previous five years, on a loan made under the Canada

Student Loans Act or a similar provincial law.

Unlike the tuition and education credits, this credit is not transferable; the claim is available only to whom the loan was made or who legally owes interest on the loan. However, the interest may be paid by the student or a person related to the student.

Note that the credit applies to interest only and not repayment of the principal. Moreover, it does not apply to interest accrued but not paid or to any forgiven interest. Institutions administering the student loans will usually provide students with statements indicating the eligible interest payments.

The receipt of the student loans itself is not taxable – i.e., because it is a loan rather than an income item.

### Transportation Credit

For those kids that take the TTC or other forms of public transportation to school, a tax credit is available for the cost of monthly or annual public transit passes.

This credit can be claimed by the student in respect of his or her eligible transit costs (and can also be claimed by a spouse or common-law partner and such person's dependent children under the age of 19 years).

### Filing a Tax Return

In order to claim the credits discussed above, the student will

need to file a tax return. Although this may seem like more homework for your child (or, more likely, you) there are several other advantages which may be available by filing a tax return, including the following:

✓ **Tax Refund:** A student can be entitled to a refund of tax that was withheld by an employer on a summer job. However, this money is not available unless a return is filed.

✓ **Government Cash:** Older students may be entitled to receive cash from the government. Although students will usually not actually owe any tax because of the tax credits and deductions available, a number of credits are linked to income, such as GST and provincial tax credits.

For example, if you are 19 or over you may be eligible for the annual GST/HST Credit, which is paid in quarterly installments. You apply for it by filing a tax return and completing the GST/HST application section of the return.

Also, some provinces provide tax credits for low-income

taxpayers, which are paid in the form of a tax refund. Check out what is offered in your province.

✓ **RRSP Contributions:** Filing a tax return can establish RRSP “contribution room” – the ability to make future contributions to an RRSP. The student does not have to contribute now, since any unused contribution room can be carried forward indefinitely.

✓ **Moving Expenses:** If students leave home to attend university, they can deduct expenses to move to the school if they have income from scholarships or a part-time job at that location.

Students can also deduct moving expenses to return home against income from summer employment. (Note that other deductions, such as child care expenses, are available to parents who go back to school).

Expenses may include temporary accommodation near the old or new residence (up to 15 days), gas as well as meals and lodging en route. If the move is farther afield, don't forget plane fare. □

## Back to school? Save your receipts.

It is important for Students to keep all their records and receipts after filing their income tax and benefit return in case the Canada Revenue Agency (CRA) asks to see them later. Each year, the CRA looks at income tax returns to review deductions and credits and ensure that various income amounts have been correctly reported. Keep your receipts and supporting documents for six years.

For more information for students, go to [www.cra.gc.ca/students](http://www.cra.gc.ca/students)