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Your Guide to Tax-Saving Strategies

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Education tax lessons every parent should learn

Savings 101

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Back-to-school shopping is a time-honoured tradition. And for families with young children, the bill for pencils, notebooks and a new outfit for the classroom usually seemed manageable.

But just like your kids, that shopping bill keeps growing with each passing year. Soon enough you'll be comparing prices for laptops and furniture for your older child who is moving from home to continue her or his education. And I haven't even mentioned tuition for post-secondary schools yet.

That's why it's important to remember that studying is not just for kids. By learning about the various tax credits and deductions available for students, parents can ensure

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that this type of homework actually puts money back into their hands.

Education Credit

A student may deduct from federal taxes a credit equal to the lowest tax rate percentage (i.e., 15 per cent for 2014) multiplied by \$400 per month (i.e., \$60 a month) for each month in the year that the student is enrolled full-time in a designated institution and 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 a minimum of ten hours per week of work and is a least three con-

secutive weeks in duration.

The program must also be at a post-secondary school level except in the case of courses to improve occupational skills certified 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 can 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 the student is enrolled in a program that qualifies for the education amount (as opposed to the previous rule in place prior to 2006 which allowed only the first \$3,000 to be 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 represents an amount equal to the lowest tax rate multiplied by the tuition paid for the year (i.e., 15 per cent for 2014).

Some private secondary schools offer university-level courses which qualify for the tuition and education tax credits.

Part-time students are also entitled to claim a federal education credit

In the case where 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 the student is reimbursed or

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 2014, is calculated as 15 per cent times \$65 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 as these credits may be transferred to any of the latter (but only one transferee is allowed).

The amount that is allowed to be transferred, however, is limited to \$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 (see below) 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: 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 2011, 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 that leads 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.

But in light of the fact that many programs at foreign universities are based on semesters shorter than 13 weeks, changes to the Tax Act reduced 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 2014) 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 whomever the loan was made to, 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 taking public transportation to school, a tax credit is available for the cost of monthly or annual transit passes.

This credit can be claimed by the student in respect of his or her eligible transit costs. It 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 often not 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.

If you are 19 or over, for example, 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.

And some provinces provide tax credits for low-income taxpayers, which are paid in the form of a tax refund. Be sure to learn what is offered in your province.

RRSP Contributions: Filing a tax return can establish RRSP “contribution room” – i.e., 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 also available to parents who go back to school.

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