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Your Guide to Tax-Saving Strategies

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Back to School Savings

Tax Credits for Students

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Back to school shopping is a time-honoured tradition. And over the years, the bill for pencils, notebooks and first-day-of-school outfit seemed manageable. But as your kids get older, the higher that back-to-school shopping bill gets, what with laptops and furniture for the older kids moving away to school. And I haven't even mentioned tuition for post-secondary schools yet. But studying is not just for kids. By keeping yourself well informed about the various tax credits and deductions available for students, you can ensure that this type of homework actually puts money back into your hands. Keep in mind, however, that with the

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passing of Bill C-44, there will be less of that refundable money than in previous years.

Tuition Credit

A student may deduct a credit for tuition fees paid for certain types of schooling from federal taxes payable. 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. However, based on rules now in law for 2017 as a result of the federal budget, if a student is at least 16 years of age, and the purpose of

the course is to provide occupational skills, such courses will also apply. The credit is equal to an amount equal to the lowest tax rate multiplied by the tuition paid for the year (i.e. 15 per cent for 2017). 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 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.

Education Credit

Prior to 2017, a student was also able to claim an "education credit" equal to the lowest tax rate percentage (i.e. 15 per cent for 2017) multiplied by \$400 per month (i.e. \$60 a month) for each month in the year that the student was enrolled as a full-time student at a designated institution, and enrolled in a qualifying educational program. (Note: There was no full-time enrolment requirement for students who are disabled or can-

not be enrolled full-time by reason of mental or physical impairment.)

A qualifying educational program was one that required at least ten hours per week of work, and was at least three consecutive weeks in duration, at a post-secondary school level, except in the case of courses to improve occupational skills certified by the Ministry of Human Resources Development.

A “part-time education credit” was also available for qualifying educational programs lasting at least three consecutive weeks and involving a minimum of 12 hours of courses per month. The net tax credit available was \$18 a month (15 per cent of \$120 per month).

However, as a result of changes announced in the 2016 Federal Budget, effective January 1, 2017, the education tax credit and a textbook credit were eliminated. If, however, you had unused education and text book credits carried forward from prior years, they will remain available to be claimed in 2017 and subsequent years.

Transfer or Carry Forward of Federal Tuition and Education Tax Credits

The tuition credit, and any unused education and textbook credits from prior years, 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 (only one transferee is allowed). However, the amount transferred is limited to the amount that the student designates in writing. This amount, in turn, is limited to the lesser of the total amount of education, tuition and text-

book 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 (see some discussion 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 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 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, as

long as 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 enrolment 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, 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. However, from 2017 and forward years, this is only relevant for the tuition tax credit.

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 2017) 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, Canada Student Financial Assistance Act, Apprentice Loans Act or a similar provincial or territorial program to students at the post-secondary school level. Unlike the tuition credit, this credit is not transferable; the claim is available only to the person who received the loan 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 administrating 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

Prior to July 1, 2017, students were able to claim a tax credit for the cost of monthly or annual public transit passes. However, this credit was eliminated for transportation that occurs after July 1, 2017 (per the 2017 Federal Budget). So for 2017, students can at least claim a credit for the first part of the year 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” – 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 available to parents who go back to school). Expenses may include temporary accommodation near the old or new residence (up to 15 days), gas, meals and lodging en route. If the move is farther afield, don't forget plane fare. □