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Your Guide to Tax-Saving Strategies

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Back to School Tax Tips

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The last few weeks of summer are usually all about back-to-school shopping: pencils, notebooks, and first-day-of-school outfit. For those older kids heading off to university, it's about furniture and getting them settled in away from home. This year, it seems like these responsibilities been overshadowed by uncertainty about sending our kids to school or managing virtual learning from home, all due to our COVID reality. So why even bother about taxes when you have so many other stressful things to manage? Well, COVID has also taken a toll on everyone financially, so every dollar counts. By keeping yourself well read on the various tax credits and

deductions available for students, you can ensure that this type of homework actually puts money back into your hands.

COVID RELIEF MEASURES

The government has also recognized that students themselves have been affected economically as a result of COVID. Per the government's website, it was noted that in March 2020, the number of post-secondary working students, aged 15-29, dropped by 28 per cent from February 2020.

As a result, specific COVID relief measures were introduced to assist students:

➔ Canada Emergency Student Benefit (CESB): The CESB provides financial support to post-secondary students, and recent post-secondary and high school graduates who are unable to find work due to COVID-19 (NOTE:

the CESB is for students who do not qualify for the Canada Emergency Response Benefit (CERB) or Employment Insurance (EI)). From May to August 2020, the CESB provides a payment to eligible students of:

➔ \$1,250 for each 4 week period; or

➔ \$2,000 for each 4-week period if you have a disability or a dependent.

The final eligibility period for the CESB is August 2 to August 29, 2020 (all applications for the CESB must be submitted before September 30, 2020).

The CESB is still available if you are still working, but you cannot earn more than \$1,000 during the 4-week period you are applying for. NOTE: the CESB will be included in the student's taxable income for the year.

➔ Canada Student Service Grant (CSSG): Unlike CESB, CSSG is a one-time payment that students can earn by volunteering for COVID-19 response programs. They can receive up to \$5,000 of taxable income for 500 hours of volunteer work, which will help them gain paid work experience.

➔ Canada Student Loans Program (CSLP): This provides financial assistance in the form of grants (this existed prior to COVID). As a result of COVID, the government has doubled the grant and eased the eligibility criteria as part of the COVID-19 support. A single full-time student can get a grant of up to \$6,000, while a student with a dependent can get an extra \$3,200 in the

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2020-21 academic year (note: this grant is not subject to tax and does not need to be repaid).

Students also were granted a moratorium for the federal portion of all student loans – all loan repayments and interest payments were automatically suspended until September 30, 2020.

For the 2020-2021 school year, the weekly maximum loan limit will increase from \$210 to \$350.

☛ Exemption from student and spousal contribution: For the 2020-2021 school year, students will not be required to make their fixed student contribution; no spousal contribution would be required either. This will ensure that more students with need can qualify for more financial support.

☛ Goods and Services Tax (GST) tax credit: The GST tax credit is a quarterly tax-free payment the CRA pays to low and modest-income families. As part of the COVID relief measures, the CRA has doubled this benefit for one quarter. The average additional benefit will be close to \$400 for a single individual (if you are eligible, you will automatically receive this payment).

Tuition Credit

A student may deduct, from federal taxes payable, a credit for tuition fees paid for certain types of schooling. 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. 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 2020). 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 their employer does not reimburse the student's fees, 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 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 in a qualifying educational program. (Note: There was no full-time enrolment requirement for students who are disabled or cannot 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 where 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% of \$120 per month).

However as of January 1, 2017, the education tax credit (as well as a textbook credit) was eliminated. So why am I writing about this? Well, if you still have unused education and textbook credits carried forward from prior years (i.e. before 2017), they will remain available to be claimed for the current year and subsequent years. So check your tax balances to see if there are still some unused tax credits.

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 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 (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, 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 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. 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 2020) multiplied by the amount of interest paid in a year, or any of the previous five years, on a loan made under either 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 to whom the loan was made or who legally owes interest on the loan. However, the student may pay the interest 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.

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 deduct moving expenses to return home against income from summer employment. □