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A teaching moment: Tax tips for students

by Jamie Golombek

With the escalating costs of post-secondary education, it's important for students to ensure they are well-educated as to the various tax benefits, deductions and credits that are available to them, along with the benefits of filing a tax return – even if they don't owe any tax.

A. INCOME AND BENEFITS

Tax-free scholarships

The tax rules changed back in 2006 to exempt the full amount of any post-secondary scholarships, fellowships and bursaries from tax. The scholarship exemption applies for students enrolled in an educational program that entitles the student to the education tax credit.

The 2010 federal budget clarified that a post-secondary program, which consists principally of research, is eligible for the education credit and thus the scholarship exemption only applies if it leads to a college or CEGEP diploma, or a bachelor, masters or doctoral degree. As a result, post-doctoral fellowships are taxable.

Report only the EAP portion of RESP withdrawals

If funds in a Registered Education Savings Plan were paid to the student in 2010, only the educational assistance payments (EAPs) are taxable. EAPs consist of the income, growth or Canada Education Savings Grants (CESGs) paid out to the student from an RESP and reported to the student on a T4A slip. Any contributions withdrawn are received tax-free.

B. TAX DEDUCTIONS

Moving expenses (line 219)

Students who move more than 40 kilometres from home to attend post-secondary level education on a full-time basis may be able to deduct the cost of moving to school. Moving expenses can only be deducted against the taxable portion of any scholarships, fellowships, bursaries, certain prizes and research grants or against employment income at the new location.

Given that nearly all scholarship and bursary income is now exempt from taxation as discussed above, the moving expense deduction will only be relevant for students who earn employment income from a part-time job or taxable research grants.

Students can also deduct moving expenses if they move more than 40 km from their school address to start a job or a business, including summer employment. The Tax Act specifies the student may only deduct these expenses from employment (or self-employment) income they earn at the new location.

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If the student doesn't have enough income for the year to claim all moving expenses, they can carry forward any unclaimed expense to a subsequent year, provided there is sufficient income from the relevant source (taxable grants or employment, as the case may be) to offset the deduction.

The list of eligible moving expenses is quite exhaustive and includes: travelling expenses (including car rental, gas, meals and any accommodation en route) as well as actual moving expenses, such as packing, hauling, in-transit storage and insurance.

C. TAX CREDITS

Interest on student loans (line 319)

Students can claim the interest paid on loans for post-secondary education under the Canada Student Loans Act, the Canada Student Financial Assistance Act, or similar provincial or territorial laws. If the student doesn't need to claim all of the interest in the year it is paid, it can be carried forward and claimed in any of the next five years.

Students may wish to consider refinancing their student loans using a line of credit from a financial institution. This can be a good idea if the interest rate on the line of credit is substantially lower than the student loan, but by doing so, you give up the ability to claim the student interest tax credit.

That's exactly what happened in a 2003 tax case when an MBA student refinanced nearly \$25,000 of student debt originally obtained under the Canada Student Loans Act with a line of credit. The Canada Revenue Agency denied his interest expense credit since the line of credit from the bank was not a qualifying loan.

As a result, students should do the math before immediately paying off a student loan. The interest rate differential between the qualifying and non-qualifying loans will determine if it makes sense to refinance the loan.

Tuition, education and textbook tax credits (line 323)

Non-refundable tax credits are available for tuition fees paid for post-secondary level education. Education and textbook tax credits are also available for each month of either full- or part-time post-secondary studies.

For full-time students, the education amount is \$400 for each eligible month of attendance (\$120 per month for part-time students). Those who can claim the education amount can also likely claim the relatively new textbook amount, equal to \$65 for each eligible month (\$20 per month for part-timers) in school.

Transferring tuition (line 324)

Some students may find they don't need to claim all of their tuition, education and/or textbook tax credits to reduce their income tax to zero. As a result, students can transfer any unused amounts to a spouse or common-law partner (CLP), parent, grandparent, or carry forward unclaimed amounts indefinitely. It is not necessary for the parent (which may be a natural parent, step-parent, adoptive parent or even a spouse's or CLP's parent) to have paid any or all of the student's tuition to take advantage of any unused credits.

The student must first use the tuition, education and textbook credits to reduce their tax payable to zero before carrying forward and/or choosing to transfer any unused credits. The maximum amount that can be transferred is \$5,000 less the amount claimed on the student's return. In addition, amounts carried forward from previous years must be used before the current year's amounts. Note, however, that any carried-forward amounts unused by the student in the current year can never be transferred and will only be available to be claimed by the student in a subsequent year.

The student needs to complete *Schedule 11, Federal Tuition, Education and Textbook Amounts* to determine the amounts that must be used in the current year and the amounts that can be carried forward and/or transferred to a spouse, CLP, parent or grandparent.

To transfer any unused tuition, education and textbook amounts to a parent, grandparent, spouse or CLP, the student needs to complete the applicable areas on the back of Form *T2202, Education and Textbook Amounts Certificate*, or Form *T2202A, Tuition, Education and Textbook Amounts Certificate*. If the transfer is going to the student's spouse or CLP, they need to complete their own *Schedule 2, Amounts Transferred From Your Spouse or Common-Law Partner*, to calculate the transfer amount.

Canada employment amount (Line 363)

If a student had employment income in 2010, perhaps from a part-time or summer job, they can claim the Canada employment amount. This amount provides recognition for work-related expenses such as home computers, uniforms or supplies which would not otherwise be tax deductible.

For 2010, the amount is the lesser of \$1,051 or the amount of employment income in the year. The lesser amount is then multiplied by 15% to get the non-refundable federal tax credit.

Public transit passes amount (Line 364)

Students who take public transit and purchase a monthly pass can claim this relatively new federal non-refundable credit worth 15% of the amount spent on public transit. Eligible public transit includes bus, streetcar, subway, commuter train, commuter bus and local ferry.

D. FILE A RETURN

While there is generally no obligation to file a return if taxes are not owed, students may wish to consider filing a tax return for 2010 for a few reasons.

First, if they're at least 19, students should file a return to establish their right to collect the GST/HST credit, which is a tax-free quarterly payment meant to assist individuals with low incomes to offset all or part of the GST/HST they pay. To receive the GST/HST credit, Canadians must apply for it each year, even if they received it last year. To apply, they must file a tax return, even if they have no income to report. The application for the GST/HST credit can be found on Page 1 of the return. To estimate how much the credit may be worth to them, filers can go to the Canada Revenue Agency's website and check out the Child and Family Benefits Online Calculator.

Another good reason to file a return is to get a refund of any tax withheld at source. If students had a part-time or summer job, chances are good their employer automatically withheld some income tax from their pay.

Since most students are in a non-taxable position owing to the myriad of credits available to them as students (discussed above), filing a return to get back the amounts withheld at source may well be worth the effort.

As well, filing a return to report part-time or summer earnings will generate RRSP contribution room for use in future years. The RRSP contribution limit is based on 18% of earned income from the previous year. Since there is no limit to how much unused RRSP contribution room can be carried forward, filing a return now to report earned income will allow students to make more of an RRSP contribution later in life, when they're in a higher tax bracket and the corresponding deduction is worth more.

Students generally qualify for a number of tax benefits, deductions and credits. By studying which apply to their particular circumstance, they can reduce taxes payable and maximize their earnings during these typically lean years

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