

## Post-secondary students and income tax (August 2011)

As summer reaches its midpoint, students who are about to start their post-secondary education as well as those returning for a second, third, or fourth year of university or college will be gearing up over the next few weeks for the upcoming year. And while students are likely to be preoccupied with choosing courses, majors, or residences, or finding a place to live off-campus, their parents are more likely to be focused on tuition bills, residence costs, and the price of textbooks—and how to pay for it all.

Many current post-secondary students are likely the children of baby boomer parents. For the baby boomers, the cost of post-secondary education was, in many cases, offset by generous student loans on which no interest was payable while they remained in school, as well as by government student grants which didn't need to be repaid at all. While both the federal and provincial governments continue to provide student loans, receiving outright government grants just isn't the reality for post-secondary students in 2011. As well, the cost of post-secondary education has risen sharply over the past few years, at the same time as government funding of post-secondary educational institutions has, in many cases, diminished. For a student who lives away from home while attending university, the reality is that the combination of tuition, books and residence will cost at least \$15,000-\$20,000 per year, even for general undergrad studies. And, for students undertaking studies leading to a professional degree like law, medicine or dentistry, that amount may barely cover the cost of tuition.

The good news is that, apparently in recognition of the fact that students and their parents are being asked to shoulder an ever-increasing share of the ever-increasing cost of post-secondary education, the federal government has put in place or enhanced a number of tax “breaks” for post-secondary students.

While the rules governing eligibility for and the amount of those “breaks” can be detailed, students generally can claim a non-refundable tax credit for tuition (but not residence) bills, an “education amount” based on the number of months they attended school during the tax year and a “textbook amount” which, despite its name, has nothing to do with any cost incurred for textbooks. As well, many of the expenses which may be claimed by taxpayers generally, such as moving costs and the cost of public transit, are equally available to students.

Aside from the cost of residence (which is not, in any case, deductible or creditable for tax purposes), the largest single expense for most students is tuition fees, which can range from around \$5,000 to over \$15,000, depending on the school and the program. No matter what the amount, students are entitled to a federal tax credit (which reduces their tax otherwise payable) equal to 15% of their tuition bill. Each province also provides a non-refundable tax credit for tuition paid, with the percentage amount ranging from 5% to 11%.

Both full and part-time university students can also claim the “education tax credit”, which is calculated as a fixed amount for every month of full or part-time attendance during the tax year. For 2011, the full time amount to be claimed on the federal tax return is \$400 per month, while the part-time amount is \$120 per month. The total amount claimed is then multiplied by 15% to arrive at the credit claimed on the federal tax return. As with the tuition tax credit, the provinces all offer an education tax credit, with both the amount and the conversion percentage varying by province.

The final “standard” deduction available to post-secondary students is the so-called textbook amount. The name is something of a misnomer, as neither eligibility for nor the amount of the credit depends on expenditures made for textbooks. Rather, the federal textbook amount is a fixed monthly amount (currently \$65 for full-time and \$20 for part-time students) which, like the tuition and education amounts is converted to a credit by multiplying by 15%, and which can be claimed by any student who is eligible for the education amount.

Non-refundable tax credits, like the tuition, education, and textbook credits outlined above, work by reducing the tax which the individual claiming the credits would otherwise have to pay. However, post-secondary students generally have relatively low income—and consequently relatively low tax bills—and so may not be able to “use up” all of their available credits in a single tax year. Two solutions are possible. First, the student may transfer the unused credit to a spouse, parent, or grandparent (and it's not necessary for the parent or grandparent to have actually paid the tuition bill in order to claim the transferred credit). Second, the student can keep the excess credit and claim it in

any future tax year, when his or her income and tax bill will presumably be higher. There are some restrictions and limitations on the transfer of student tax credits, but generally speaking, most students should be able to transfer credits to parents or grandparents without difficulty.

The three credits outlined above (tuition, education, and textbook) are the credits which are specifically claimable by students. There are however, other credits which, while available to taxpayers generally, are frequently claimed by post-secondary students. The first is the moving expense. Most students move at least twice a year during the course of their post-secondary careers, and some of those moving expenses are deductible from income earned by the student. Specifically, where students move to take a summer job, any moving costs incurred are deductible from income earned at that summer job, as long as the student's new home is at least 40 kilometres closer to the job location than the place they're moving from. It doesn't matter if the student is simply moving back home for the summer – the moving expense deduction is available as long as the 40-kilometre requirement is met. As well, students who move for purposes of a co-op term can also deduct moving expenses from income earned during the co-op term, assuming once again that the 40-kilometre requirement is satisfied.

Finally most students, out of necessity, use public transit, especially when they live off-campus. Where those students purchase monthly (or longer) public transit passes, they can claim a credit for the total annual cost of those passes, without any dollar amount limit, on the tax return for the year. The cost of weekly passes can also qualify for the credit, assuming that those passes are purchased on a regular basis. As with the tuition, education, and textbook credits, the cost of transit passes is converted to a federal credit by multiplying by 15%. A parallel credit is offered by most of the provinces, with the conversion rate varying from province to province. And, as with the tuition, education, and textbook credit amounts, a parent can claim the cost of transit passes purchased by or for the student, assuming that student is under the age of 19 at the end of the year.

It's almost inevitable, notwithstanding savings, part-time and summer jobs, and all of the tax "breaks" offered to post-secondary students, that most students will end up incurring some debt in order to pay for their education. Where that debt is in the form of government-sponsored student loans (generally, loans provided under the Canada Student Loans program or the equivalent provincial program), interest paid on those loans after graduation can qualify for a tax credit, at both the federal and provincial levels. It is important to remember, however, that only interest paid on loans extended under government-sponsored programs qualifies for the credit. Loans provided by private lenders (e.g., through a student line of credit) do not qualify, and interest paid on any consolidated loans which include funds advanced by private-sector lenders will similarly not be eligible for the credit.

The number of tax credits, deductions and benefits available to post-secondary students, and the rules governing the calculation, transfer and carry-over of those credits can be confusing. The Canada Revenue Agency Guide P105, *Students and Income Tax*, which is usually updated annually, is an excellent source of information, providing answers to most of the questions which arise in this area. A current version of that guide, which was last updated in December of 2010, is available on the Canada Revenue Agency Web site at <http://www.cra-arc.gc.ca/E/pub/tg/p105/README.html>.