

MITCHELL & PEARCE

PROFESSIONAL CORPORATION

Chartered Professional Accountants

Taxation of Students

If you're a student, you want to stretch your budget as far as you can. When it comes to personal income tax, there are a lot of good ideas that can help you save money, whether you're studying full time or part time.

Income source	Tax implications	Deductions allowed
Employment	Taxable.	Limited expenses may be allowed.
Self-employment	Taxable on net income (after expenses).	Normal business expenses are allowed.
Scholarship, fellowship, bursary	Qualifying awards are not taxable.	
Research grant	Taxable.	Reasonable expenses to carry on research, including travel, lodging and fees to assistants are allowed.
Student loan	Not taxable.	Interest is not deductible, but may be eligible for credit.
RRSP	Withdrawals are taxable in the year withdrawn, and tax is withheld (except withdrawals under the Lifelong Learning Plan or Home Buyers' Plan).	No deductions allowed.
RESP	Education assistance payments are taxable to the student in the year paid.	No deductions allowed.

Expenditure	Tax implications	Details
Tuition fees/certain ancillary fees	<ul style="list-style-type: none">Tax credit for tuition fees, certain professional examination fees and ancillary fees (e.g., library fees, lab fees, computer service fees) paid for the year.	Form T2202 or T2202A or official receipt must be available to support the claim, but does not have to

be attached to the return.

- General federal education amount of \$400/month for each full or part month in full-time attendance; education amount of \$120/month for part-time students. Provincial tax credits vary depending on the province.
- Unused tuition, education and textbook amounts (see below) transferable to a supporting spouse, parent or grandparent up to a maximum of \$5,000 (federal) per person.
- Tuition, education and textbook credits that cannot be used in the current year, and not transferred, can be carried forward and claimed by the student in a later year.
- If an employer paid the student's tuition, fees are not creditable to the student unless they're included in the student's income.

Student must complete designation on the back of Form T2202 or T2202A to transfer unused amounts to a supporting person.

Books, student fees, parking, equipment	<p>Neither deductible nor included in tuition fees.</p> <p>General federal textbook tax credit, based on \$65/month for full-time education and \$20/month for part-time education, can be claimed by students eligible for the education tax credit.</p>	<p>Form T2202 or T2202A must be available to support the textbook and education credit.</p>
Transit passes	<p>Tax credit available for cost of eligible passes (monthly or longer duration).</p> <p>If the student is under 19, the unclaimed amount may be claimed by a parent.</p>	<p>Transit pass receipts/stubs should be retained.</p>
Interest on student loans	<p>Tax credit for interest paid on student loans in the current year or five preceding years.</p>	<p>Official CRA slip summarizes interest paid for the current taxation year.</p>
Donations	<p>15% federal tax credit on the first \$200 of donations (29% thereafter).</p> <p>Unused credits can carry forward up to five years.</p>	<p>Must attach all official donation receipts to the tax return.</p>

Expenditure	Tax Implications	Details
Rent and accommodation	Ontario provides refundable property tax credits on rent/property taxes paid in the year if resident in the province on 31 December.	Cancelled cheques or receipts don't have to be filed, but have to be kept available to prove payments made in the year.
Moving expenses to attend university or start employment	<p>Deductible against employment, self-employment, taxable scholarship or net research grant income from new location if the move is at least 40 km. Student can claim for each move. Move can be within Canada unless student retains Canadian residence while outside Canada.</p> <p>Expenses cannot exceed income from new location.</p> <p>Carry forward excess moving expenses to following year to deduct against income from new location.</p>	<p>Must submit all receipts if asked by the CRA.</p> <p>Eligible expenses include direct expenses (e.g., travel expenses including gas, meals and lodging, lease cancellation charges and costs on sale/purchase of home).</p>
Child care (for children under 17)	<p>If a single parent or both parents are in full-time attendance at an educational institution, expenses are deductible against income.</p> <p>If one spouse in a two-parent family is a full-time student and the other spouse works, child-care expenses are deductible by the working spouse.</p> <p>If one spouse in a two-parent family is a part-time student and the other spouse works, child-care expenses are deductible by the working spouse.</p>	<p>Maximum weekly claim of \$175 for each child under age seven, and \$100 for each child aged 7–16, for each week the spouse was a full-time student). Maximum claim of \$7,000 for each child under seven and \$4,000 for each child aged 7–16.</p> <p>Maximum monthly claim of \$175 for each child under age seven, and \$100 for each child aged 7–16. Maximum claim of \$7,000 for each child under seven and \$4,000 for each child aged 7–16.</p>

Planning opportunity	Strategy	Result
Withholding tax	In years when you expect your personal credits (e.g. basic, tuition) to offset personal tax on your earned income, complete form TD1 so your employer will not withhold tax. This may be advisable in taxation years when you are in school for eight months and working for four months.	As you will not have to wait until April 30 of the following year to obtain a tax refund, you will improve your cash flow.
RRSPs	<p>For working students, maximize annual contributions. The maximum annual contribution limit is 18% of your prior years' earned income, with indefinite carryforward of unused contribution room.</p> <p>If you contribute in low-income years claim a deduction in a high-income year to reduce your taxes at the higher rate.</p> <p>Consider contributing for a year when you're employed for eight months, and withdraw in a year when you're in school for eight months.</p> <p>Withdraw amounts of less than \$5,000 to keep withholding taxes to a minimum.</p> <p>Even when you make no RRSP contribution, file a tax return if you have earned income.</p> <p>Consider withdrawing funds from your RRSP under the Lifelong Learning Plan to fund your education.</p>	<p>Investment income earned in an RRSP is tax sheltered until withdrawn. Contributing when you're young maximizes tax-free compounding.</p> <p>The benefits of tax sheltering begin immediately and the tax benefit for the deduction is at a higher rate.</p> <p>Little or no income tax is payable when funds are withdrawn in a low-income year.</p> <p>Establishes contribution room (the CRA tracks RRSP information from filed tax returns.)</p> <p>RRSP withdrawals under the Lifelong Learning Plan are not taxable, but must be returned to the RRSP over 10 years.</p>
Tax-free savings accounts (TFSA)	For students 18 or older, maximize annual contributions. The maximum annual contribution is currently \$5,500, with indefinite carryforward of unused TFSA contribution room.	Investment income earned in a TFSA is completely tax free. Withdrawals can be made at any time and used for any purpose.

TFSA's (cont'd)	Make TFSA contributions in low- or no- income years. Make TFSA withdrawals in later high-income years to fund RRSP contributions.	TFSA withdrawals are tax free, and at the same time a deduction may be available for RRSP contributions. All amounts withdrawn from a TFSA may be recontributed in a subsequent calendar year in addition to the annual contribution amount, resulting in potential for additional tax-free earnings.
Income splitting	<p>Interest-free or low-interest loans to related children can be used to generate capital gains.</p> <p>Parents can pay salary or wages to children who provide services to their corporation or business.</p> <p>Parents can gift property to children 18 and older.</p>	<p>Capital gains do not attribute back to the lender.</p> <p>Deduction to corporation/business and income to child.</p> <p>No attribution to parents on income reported by adult child.</p>
Loan from connected corporation	<p>If you're 18 or older, borrow from the corporation in a year of low personal income.</p> <p>If the loan is not repaid, it's included in the student's income in the year it's received. Repay the loan in a high-income year.</p>	<p>No or low income tax is payable when a loan is included in a low-income year.</p> <p>Deduction claimed in year repaid</p>
Donations	Carry forward all donation receipts and use them in a high-income taxation year to maximize claim over \$200 (carry forward for up to a maximum of five years).	Greater potential to receive a 29% tax credit against taxable income versus a low-rate tax credit.