Students and Income Tax

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STUDENTS AND INCOME TAX

There's no denying that the cost of getting a post-secondary education is one of life's major expenditures. For students who live away from home during their college or university years, even a conservative estimate of the total cost of those years can easily top $60,000. And in many cases, a student graduates with a student loan or line of credit that must be paid off over the next several years.

The good news for post-secondary students (and their parents) is that the Canadian tax system provides them with a number of tax "breaks" with respect to both the tax treatment of income earned and the relatively generous deductions and credits for the numerous and varied costs which must be incurred.

This article summarizes the federal tax rules that apply to income and expenses of typical post-secondary students. Note that in many cases, the federal deductions and credits summarized here are also available for provincial tax purposes, with the actual credit amounts varying by province.

Getting a Social Insurance Number

Many high school students now hold down part-time or summer jobs, so it's likely that most students already have a social insurance number by the time they're ready to leave for college or university. If not, it's necessary to obtain one, in order to file a tax return and claim any benefits, deductions, or credits that may be available.

For those who need to obtain a SIN, the process of doing so is relatively straightforward. An application for a Social Insurance Number, as well as information on how to apply (in person or by mail), can be found on the government of Canada Web site at www.servicecanada.gc.ca/en/sc/sin/index.shtml.

Student income: what's taxed and what's not?

Post-secondary students receive income from a number of different sources – part-time or summer jobs, scholarships, bursaries and research grants, and sometimes, payments from a registered education savings plan set up and funded, usually, by the student's parents or grandparents. Each of those sources of income is taxed differently.

Employment and business income

The bad news is that, when it comes to income from employment or business, income received by a student is treated no differently from such income earned by any other taxpayer – that is, such income is fully taxable in the year in which it is earned. There is no special tax treatment available to post-secondary students in respect of such income.

Scholarships, bursaries, etc.

More favourable tax treatment is accorded the kinds of income that are typically received only by students. A student who is fortunate (or diligent) enough to receive scholarships, fellowships, study grants, or bursaries will receive the full benefit of such income, as such amounts are usually not taxable. In order to treat such income as non-taxable, a post-secondary student must be enrolled in a program for which the federal education tax amount can be claimed. While the list of such programs is long and detailed, it's a good rule of thumb that a student enrolled in a program at any Canadian university or community college will be eligible.

For the minority of post-secondary students who do not qualify, the first $500 of any scholarship, bursary, or fellowship income is exempt from tax, but any amount over $500 must be reported and taxed as income.

Research grants

Research grants received by post-secondary students are taxed somewhat differently. Such grants are reported as income and taxed as such, but recipients are entitled to deduct certain expenses from the grant amount and report only the net figure on their returns. Expenses that may be deducted include those which generally are incurred in relation to the research activity undertaken – for instance, the cost of remuneration paid to assistants or the cost of equipment used in the work. It's not possible to deduct personal or living expenses (except travel expenses incurred in the course of doing the research work) or expenses that were reimbursed or paid by the university or similar institution.

The differing tax treatment accorded scholarships, fellowships, bursaries, and study grants (not taxable) and research grants (mostly taxable) naturally leads to the question of what distinguishes one from the other. The following is a summary of the explanation provided by the Canada Revenue Agency (CRA) in its Income Tax Folio S1-F2-C3, *Scholarships, Research Grants, and Other Education Assistance.*

In order for a grant to be considered a research grant, the terms of the grant must establish that the primary purpose of the grant is to carry out research. The following factors may be helpful in the following context.

- If only one of the major purposes of the grant is to enable the recipient to carry out a research project, this does not in itself establish the primary purpose.

- The term or terms relating to the research requirements for the grant must be specific. Vague and general references, such as "including research", do not in themselves make the grant a research grant.
- Generally, awards to undergraduates are not taxed as research grants, even though some research for essays, projects, etc., is required as part of the course requirements.
- If the terms of the grant do not mention research, the grant is not a research grant, even if a great deal of research is in fact done.

2010 Budget restrictions re: scholarships and grants

Pursuant to the 2010 federal Budget, the scholarship exemption for post-secondary scholarships, fellowships, and bursaries will be narrowed for post-secondary programs that consist primarily of research. For these programs, the Education Tax Credit and the scholarship exemption will be available only if it leads to a college diploma, bachelor, masters, doctoral, or equivalent degree. Post-doctoral fellowships will therefore be taxable. Furthermore, amounts will be eligible for the scholarship exemption only to the extent that they can reasonably be considered to be received in connection with enrolment in eligible education programs for the duration of the period of study related to the scholarship. If amounts are provided in connection with part-time programs, the scholarship exemption will generally be limited to the amount of tuition paid for the program plus the costs of program related materials. These changes are to be effective for the 2010 and subsequent taxation years.

Registered education savings plan payments

Many post-secondary students benefit from registered education savings plans (RESPs), which are usually set up by parents or grandparents. In brief, those parents or grandparents can make contributions to the plan within a specified lifetime limit of $50,000 per beneficiary (for 2007 and later years). No deduction from income is provided for contributions made, but those contributions earn investment income and compound on a tax-free basis. When the beneficiary of the plan begins post-secondary education, he or she begins to receive payments from the plan, which are taxed in the following ways.

The plan beneficiary (or the plan sponsor) can receive refunds of contributions made to the RESP. Such refunds of contributions are received tax free, no matter who the recipient is. There is no reporting of such payments by the plan administrator, and payments are not included on the recipient's annual tax return.

Beneficiaries of the plan may also receive educational assistance payments (EAPs) from the funds in the RESP. In order to receive an EAP, an RESP beneficiary must be enrolled full time in a qualifying educational program. For these purposes, a qualifying educational program is a program at a post-secondary educational institution which lasts at least three weeks and requires that a student spend at least 10 hours per week on program work or courses. Again, virtually all students in full-time attendance at Canadian universities or community colleges would qualify. It's also possible for a beneficiary to receive EAPs where he or she is at least 16 years of age and is enrolled part time in a specified education program. The requirements for a specified educational program are similar to those of a qualifying educational program, except that the student need spend only a minimum of 12 hours per month on course or program work.

Where a student is entitled to receive an EAP, limits are imposed on the amount which may be received. Generally, a full-time student can receive up to $5,000 for the first 13 weeks of full-time study in a qualifying educational program. After the 13th consecutive week of enrollment, no limit is placed on the amount of EAP the student can receive. Part-time students can receive up to $2,500 in EAPs, subject to the same 13-week enrollment requirement.

No matter how much is received, all EAPs are taxable to the student who receives them. The plan administrator or promoter of the RESP will issue a T4A slip, *Statement of Pension, Retirement Annuity and Other Income*. The income is then reported on line 130 of the student's income tax return for the year the EAP is received.

Anna is an 18-year-old student who enrolled in full-time studies at a Canadian university in September 2015. Anna's parents set up an RESP for her when she was born and have contributed regularly to the plan over the years. Those contributions eventually totaled $30,000. The balance in the plan is now $45,000, representing $30,000 in original contributions and $15,000 in investment income earned over the years.

When she starts university in the fall of 2015, Anna receives $15,000 from the RESP to cover her first-year costs, $10,000 of which comes from the contributions made by her parents and the balance ($5,000) of which represents the maximum allowable EAP she may receive.

When Anna files her tax return for 2015, she reports the $5,000 in EAP payments (for which she will have received a T4A from the plan administrator) on line 130 of her tax return. The $10,000 in original contributions which she received is not taxable and does not have to be reported on her tax return. There are no tax consequences to Anna's parents with respect to any of the funds paid to Anna from the RESP.

Provincial payments into RESPs

The federal and provincial governments provide financial assistance to Canadian families who wish to save for their children's education through RESPs. Additionally, the federal government provides certain grants and bonds, such as the Canada education savings grant and the Canada learning bond, in relation to RESPs. Only provincial payments made into RESPs and RDSPs through provincial programs that are administered by the federal government receive the same treatment as federal grants and bonds paid into RESPS and RDSPs; accordingly, such provincial payments do not exhaust a beneficiary's RESP or RDSP contribution room and they do not attract or reduce federal grants and bonds.

All payments made into an RESP or RDSP through a program administered by a province or under a program funded, directly or indirectly, by a province but administered by a third party will be treated for purposes of the Act in the same manner as federal grants and bonds paid into RESPS and RDSPs.

Why file a tax return?

Students generally don't have a lot of income. Also, it's possible to earn up to about $11,000 in any tax year without having any tax liability, thanks to the basic personal exemption provided to all Canadian-resident tax filers.

Given those two realities, many students, especially when faced for the first time with the complexities of the Canadian personal tax return, wonder whether it's worth filing at all. Almost always, the answer is yes, for both short- and long-term benefits.

First of all, it's not possible to receive certain means-tested government benefits for which students usually qualify, such as the goods and services tax credit, unless a return is filed. Application for the credit is done on the return, and income information provided on the return enables the federal government to determine eligibility for the credit.

Secondly, students who have incurred tuition costs can claim a credit for those costs (as well as other credits related to their status as students) on the return. Where, as is often the case, the student doesn't have enough income to use the credits, they can be transferred to a spouse, parent, or grandparent, but such a transfer is possible only if a return is filed on which the credits are documented. If the student can't use the credits, but doesn't choose to transfer them, he or she can carry them forward for use in a future year when income (and tax liability) are higher. But once again, only credits that have been reported on the student's return can be carried forward and claimed in a future year.

Finally, every bit of earned income reported (whether from part-time jobs or summer employment) creates contribution room for the taxpayer's Registered Retirement Savings Plan, which will enable contributions to be made at a later date. And while the importance of being able to maximize contributions to a retirement savings plan likely doesn't have much resonance with 19- or 20-year-olds, it will surely resonate in the future.

Claiming the available credits and reductions

The credits and deductions that may be claimed by students fall into two categories. The first is those which, while not specifically restricted to students, are often claimed by them. The second group of deductions or credits arise either from costs incurred specifically by students (for example, tuition fees) or from credits that are made available only to post-secondary students.

General credits and reductions

Canada employment amount

Every Canadian taxpayer who earns employment income during a tax year can claim a credit known as the Canada employment amount on their tax return for the year. The amount on which the credit is based is $1,161 or employment income for the year, whichever is less. The amount is then converted to a federal credit by multiplying by 15%. Consequently, students who claim the maximum Canada employment amount of $1,161 (in 2016) can reduce their federal tax by just over $174.

Public transit amount

Generally, for reasons of economy, students are frequently public-transit users. And like other regular users of public transit, they can claim a federal tax credit equal to 15% of the cost of transit use. There are restrictions, in that the student must be a regular user of transit, such that he or she purchases monthly (or longer) passes that permit unlimited travel on local buses, streetcars, subways, or commuter trains for buses. While the purchase of shorter-duration passes may qualify for the credit in some circumstances, the periodic purchase of transit tickets or tokens will not.

Goods and services tax credit

The goods and services/harmonized sales tax credit is the mechanism by which the federal government tries to mitigate the impact of the GST/HST on lower-income taxpayers. Students generally fall into that group. The GST/HST credit is a refundable one, and payments are made by the federal government to eligible taxpayers four times a year (in January, April, July, and October).

It's not necessary for students to apply for the GST/HST credit in a separate application; taxpayers who wish to apply for the credit simply tick off a box on the first page of their annual tax returns. The federal government then determines eligibility for the credit based on the income reported on the return and advises taxpayers of their eligibility by mail.

Moving expense deduction

Students move a lot. Whether it's from home to school or from school back to home or moves during the school year, for co-op terms or otherwise, students seem to be almost perpetually on the move. Fortunately, some tax relief is available for at least some of the costs involved in those moves.

The general rule, for students and all other taxpayers, is that where the primary purpose of a move is to take a job, and the move brings the taxpayer at least 40 kilometres closer to the job location than the former residence was, then the costs of the move can be deducted from income earned at the new location. That rule applies regardless of how long the stay at the new location lasts. So a student who moves to take a summer job or a co-op-term job will be able to claim a deduction for costs incurred in the move, assuming the 40-kilometre requirement is satisfied.

Jeffrey is enrolled as a co-op student at a Canadian university. As part of his program, he does a work term every four months, and the position taken for that work term could be anywhere in Canada. As long as the move brings him at least 40 kilometres closer to his work-term job location, he can deduct the costs involved in making the move from the income earned at the work-term position. If, however, the move brings him only 20 kilometres closer to his work-term location, no deduction for moving costs will be available.

The question of the tax treatment of moving costs incurred to move to school (or back to school after a summer or work term) is less clear. It is clear that if a student has taxable scholarship or similar income, he or she can deduct the costs of moving to school from that income. However, as outlined above, most scholarship income is now not taxable for post-secondary students.

Even less clear is the question of whether a student who moves to go to school but has a part-time job while at school can deduct moving costs from the income from that part-time job.

Although it might seem that such expenses would be deductible (assuming, as always, that the 40-kilometre requirement is met), the CRA disagrees. Its position, for assessing purposes, seems to be that the primary purpose of such moves is to go to school, and the taking of a part-time job is only incidental, meaning that the "primary purpose" requirement is not met, and therefore no deduction is available.

Finally, the list of what moving costs can be deducted where a moving-costs deduction is available is fairly specific. More information on eligible moving costs and on the moving-costs deduction generally can be found on the CRA form T1-M, available on the CRA's Web site at www.cra-arc.gc.ca/E/pbg/tf/t1-m/t1-m-15e.pdf.

Student credits and reductions

Tuition tax credit

The cost of tuition is one of the bigger expenses incurred by post-secondary students, and both the federal and provincial governments provide a credit against tax otherwise payable for the cost of tuition paid. The federal credit is equal to 15% of eligible tuition costs, while the amount of the provincial credit will vary, depending on the student's province of residence.

Students face a number of varied costs every year in connection with their education, and the CRA has firm rules on which of those costs will or will not qualify as "tuition" for purposes of the credit. Specifically, the following types of costs are included in "eligible tuition fees":

- admission fees;
- charges for the use of library or laboratory facilities;
- examination fees;
- application fees (but only if the student later enrolls in the institution);
- charges for a certificate, diploma, or degree;
- mandatory computer-service fees;

- academic fees;
- the cost of any books that are included in the total fees for a correspondence course taken through a post-secondary educational institution in Canada; and
- fees such as athletic and health-services fees, paid to a university, college, or other educational institution in addition to the tuition for post-secondary courses, when such fees are required to be paid by all students. The amount of eligible fees is limited to $250 if the fees are not required to be paid by all students.

The list of costs that are not included in eligible tuition fees is as follows:

- student-association fees;
- medical care;
- transportation and parking;
- meals and lodging;
- goods of lasting value that will be kept, such as a computer, microscope, uniform, or an academic gown;
- initiation or entrance fees to a professional organization; or
- cost of books (other than books that are included in the total fees for a correspondence course).

Note that the list of fees not eligible for inclusion in the cost of tuition includes meals and lodging, which would include any residence or meal plan fees paid by the student.

In addition to the inclusions and exclusions listed above, any tuition paid must, in order to be eligible for the credit, amount to more than $100 for the year. In addition, tuition fees must be paid, generally, to a university or college in Canada, or one near the Canada–U.S. border, to which the student commuted during the school year. Tuition paid to universities outside Canada that are outside commuting distance may also be eligible for the credit if the student was in full-time attendance for courses that lasted at least 13 consecutive weeks, as part of a program that would lead to a bachelor's (or higher-level) degree.

Education and textbook tax credits

The tuition tax credit is what's known as an "expenditure" tax credit, meaning that the student is required to have incurred an eligible expenditure in order to claim the credit. The education and textbook tax credits are different, in that they represent "status" tax credits, meaning that any taxpayer who fulfills the eligibility requirements can receive the credits, without the requirement for any kind of expenditure on his or her part.

To receive the education tax credit, a student, whether full-time or part-time, must be enrolled in a qualifying educational program (for full-time students) or a specified education program (for part-time students) at a designated educational institution. As is always the case in tax matters, all of those terms have specific definitions. The definition of a designated educational institution for purpose of the education tax credit is the same as that used for purposes of the tuition tax credit – that is, a college or university in Canada, or one within commuting distance of the Canada–U.S. border. More distant universities and colleges may qualify, assuming the student's courses and program meet the requirements outlined above.

Both full- and part-time students may claim the education amount. Full-time students, in order to claim an amount of $400 for each month of qualifying full-time attendance, must be enrolled in a qualifying educational program – one that lasts at least three consecutive weeks and requires a minimum of 10 hours of instruction or work each week. Where a student is enrolled part time, he or she must be enrolled in a specified educational program – one that lasts a least three consecutive weeks and requires at least 12 hours of instruction per month. A part-time student who fulfills those requirements can claim an education amount of $120 for each month of qualifying attendance.

Students who are eligible for the education amount can also claim what is termed a "textbook" amount. The name is misleading, as the amount has nothing to do with the cost of textbooks, and in fact, there is no requirement that any textbooks be acquired. The amount is simply an enhancement to the education amount, under which full-time students are permitted to claim an additional $65 and part-time students an additional $20 for each month of qualifying attendance.

As is the case with nearly all non-refundable federal individual credits, the amounts claimed are converted to a credit by multiplying by 15%, as shown in the following example.

Laura enrolls at a university in Canada in September 2014 as a full-time student, and she returns in September 2015 for her second year of full-time studies. She pays $2,500 in tuition fees for each of four semesters during the 2014-15 and 2015-16 academic years, and claims the following amounts on her 2015 tax return.

Tuition fees paid for courses taken in 2015:
$5,000

Education amount:
$3,200 ($400 per month × 8 months (January to April and September to December 2015))

Textbook amount:
$520 ($65 per month × 8 months)

Total tuition, education, and textbook amounts claimable for 2015:
$8,720

Credit amount available to reduce federal tax otherwise payable on 2015 return:
$8,720 × 15% = **$1,308**

As announced in the 2016 federal Budget, the Education and Textbook Tax credits will be eliminated in 2017.

Transfers and carryforwards of credits

Since the tuition, education, and textbook tax credits are non-refundable credits, they can be used only to reduce federal tax otherwise payable; they can't be used to create or increase a tax refund. It's frequently the case that students, because of low income or the claiming of other available credits (or both), have already reduced their current-year federal tax to zero before claiming any tuition, education, or textbook tax credits. In such circumstances, the student has two choices.

Firstly, credit amounts that the student cannot use can be transferred to a spouse, parent, or grandparent, who can then use the credits to reduce federal tax payable. Note that it doesn't matter who actually paid the tuition – as long as the student has already reduced his or her federal tax to zero, excess credit amounts can be transferred. There is a dollar limit imposed, in that the maximum amount transferable is $5,000, less any amount claimed by the student.

Where the student can't or doesn't want to transfer credit amounts, or there is an excess amount left after the maximum amount has been transferred, the student can carry forward such amounts and claim them in a future year, when income (and, therefore, tax payable) will presumably have increased. It's important to remember that once a credit amount has been carried over to a future year, it can no longer be transferred to another taxpayer – such carryover amounts can be claimed only by the student.

Student-loan interest deductibility

Despite their best efforts – and those of their parents – many students complete their post-secondary education in debt, whether from a government-sponsored student loan or a private loan, perhaps in the form of a line of credit from a commercial bank. While both kinds of debt must be repaid, usually once the student has graduated, they are treated differently for tax purposes.

Students who have received a government student loan (usually through the Canada Student Loans program or equivalent provincial programs) are able to claim a federal tax credit on their return for interest paid on that loan. The credit is equal to 15% of any qualifying interest amounts paid during the year, without limit. In addition, where qualifying interest amounts paid in a tax year aren't claimed for purposes of the credit on that year's return, they can be carried forward and claimed on any return filed for any of the next five tax years.

Interest paid on loans other than government student loans, including lending from commercial banks or private lenders, will not qualify for the interest credit, even if the borrowed funds were used to finance the student's education. As well, where students who have used both government student loans and private lending to finance their education combine the different types of loans (perhaps to create a consolidation loan at a more favourable rate of interest), no interest credit may be claimed on any part of the new loan – including the student loan portion that would formerly have qualified for the interest credit. Where students are considering such a consolidation loan or other type of financing that would combine the two types of borrowing, it's important to make sure that any interest rate "break" that may be received more than compensates for the resulting loss of the interest tax credit.

Conclusion

Although many high-school students hold down part-time or summer jobs, it's usually not until university or college that students are confronted with the intricacies of the Canadian tax system in a significant way. When they do, the effort required to understand the various tax forms, information slips, deductions, and credits can seem overwhelming. Notwithstanding this discomfort, it's an effort worth making, both for the current benefits that can be obtained and for those that can be preserved for future use.

The CRA provides a number of excellent sources of information with respect to the taxation of post-secondary students. Its general guide, Students and Income Tax (P105), is available on the CRA's Web site at www.cra-arc.gc.ca/E/pub/tg/p105/README.html. In addition, pages on that Web site, found at www.cra-arc.gc.ca/tx/ndvdls/sgmnts/stdnts/menu-eng.html and www.cra-arc.gc.ca/formspubs/clntgrp/ndvdls/stdnts-eng.html, are devoted exclusively to issues relating to post-secondary students and taxation, and provide links to all of the forms and publications that students may need when filing for the first time.