Tax Tips and Strategies for Parents and Students

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With the often chaotic start of the school year now behind us, it's a good time for families to delve into some taxing financial questions. For parents, having one or more of your children in university or a post-secondary institution comes with a big price tag. For students, it's often a time of tight budgets and low-pay, part-time jobs.

It's important not to neglect tax filing during these academic years, since there are a number of tax benefits available to students and parents that could translate into real savings.

Tuition Tax Credits for Post-secondary Students

Tuition can be one of the expensive, but there may be some tax relief available to you. Don't forget that these fees qualify for a non-refundable 15% Federal Tuition Tax Credit for 2022, and potentially a provincial tax credit. Tuition includes fees paid to an eligible post-secondary and other types of academic institutions and professional associations.

Tuition isn't the only school fee or expense that can qualify for this tax credit. Other examples include the cost of books, library fees and lab charges, exam fees, application fees and mandatory fees paid for health services, athletics, and computer services.

How RESPs Work

Parents, grandparents, and students have long known the benefits of saving for an education with a Registered Education Savings Plan (RESP). Contributions to a RESP may trigger a 20% government grant of up to $500 per year. The funds may be invested and earn income on a tax-deferred basis, meaning taxes are paid only once they are withdrawn. For this reason, the type and amount of RESP withdrawals should be carefully planned.

There are two types of RESP withdrawals: one is taxable and one is not. Taxable amounts include income earned in the plan and government grants received. Non-taxable amounts are the contributions that have been made to the plan. Where students have little or low amounts of taxable income, they may choose to withdraw the taxable amounts from the RESP to take advantage of their low tax rate.

Moving Expenses

Moving expenses can qualify as deductible expenses if a student is moving to study full-time in Canada or abroad. Another way moving expenses could qualify would be if you move to start a job or your own business. These expenses are deductible against the income earned for which the expenses of moving were incurred. Students should keep this in mind when, for example, they return home for a summer job.

Good News for Scholarship Recipients

Not that many years ago, scholarships, fellowships and bursaries were considered taxable income or only a small tax exemption was applied. Thankfully, that changed in 2006 for provinces and territories outside Quebec. This income is now generally tax-free for qualifying full-time post-secondary, elementary and secondary school study.

For part-time study, some exemptions on scholarships are also available, though these are usually limited to the cost of tuition and course materials. If you attend school part-time due to a mental or physical impairment or qualify for the disability tax credit, then the tax rules are more generous.

Tax Credit for Student Loan Interest

Student debt in Canada has risen dramatically over the past decades, with students now owing an average of $13,000 at the time of graduation. To ease the burden, students and former students who receive loans through registered federal and provincial loan programs can claim a 15% federal tax credit – and potentially a provincial tax credit – on interest paid in 2022.

Extra Deductions for Students with Children

Heading back to school can be particularly challenging for parents with children at home. To make things easier, full-time and part-time students may be eligible for additional childcare deductions above the general limits, depending on the age and number of children in their care. Parents should look into eligible deductions that apply to their situation before tax time.

Lifelong Learners and RRSPs

There's also a federal "Lifelong Learning" program that permits withdrawals from a Registered Retirement Savings Plan (RRSP) to cover a student's (or spouse's) educational costs. Up to $10,000 per year in withdrawals can be made over a four-year period, to a maximum of $20,000.

These amounts can be repaid in equal instalments over a 10-year period following graduation. This is especially helpful to mature students who have accumulated RRSP savings.

Stay Organized

Things are bound to get even busier as the school year progresses, so stay on top of your expenses from the beginning and make sure you're maintaining your receipts. On that front, schools are going digital and, instead of mailing out tuition tax credit slips, they're often available online. Above all, don't miss out on the potential tax savings for you and your family.