

Income taxes go back to school

Tax Help Plus

ROGER HAINEAULT

Published Tuesday April 8th, 2008

Appeared on page C2

With April 30 less than a month away, it's time for the serious taxpayer to get down to work. And what does he or she do? If they are so blessed, they are probably looking passionately at their student child's downloaded tax slip, wondering how they can turn it into an additional refund. Since it's that time of year, and I'm one of the many who enjoy living vicariously through both of our kids' university lives, we might as well look at how we can recoup some of those costs.

First, while you may feel right about pre-paying for school, you may only claim the applicable costs incurred in 2007.

Tuition is the only direct cost available for tax-credit purposes. Other expenses fall into a catch-all category referred to as the education amount. The official dollar value is reported on a T2202A Tuition, Education and Textbook Amounts Certificate. There is also a federal credit for textbooks as well. After the student is finished school and repayment of student loans begin, the interest at that time will also qualify for credit.

Full-time students can claim \$400 under the education amount and \$65 for textbooks for each month of attendance, while part-timers can claim \$120 a month for the education amount and \$20 for textbooks.

So how do you see if you can take advantage of your child's situation?

First, you can't have the credits until your loving progeny has done their tax return. This is probably the most common error we see in our offices. Parents show up with the T2202A and believe they can use the whole thing. Unfortunately, this is not the case.

As a result, many firms like ours process student returns for a nominal fee, when preparing the parent's return. This assures the parent of having the correct maximum amount of credit available for transfer.

Students must prepare their return and use whatever credits are available first to lower their taxes to zero. This is accomplished by taking the taxable income at line 260 and then subtracting the sum of the credits on lines 300 through 318.

The balance, if it is positive, is then subtracted from the total current year credits. The maximum transferable amount is \$5,000, less the amount needed to reduce the above balance to zero.

If the balance is negative, the value of the credit is transferable up to a maximum of \$5,000 and is completed on the Schedule 11 and the NB S11. Finally, this calculation is done for each student child, so, ouch, a parent with three kids in university could claim up to \$15,000. (I hate to say this

but the student might also choose to carry forward the full credit to use at a future date, but this rule does not officially apply in our house.)

Bursaries and scholarships are tax free if the student qualifies for the education amount.

If there is no education amount, the amount of scholarship in excess of \$500 is taxable. As well, some people are in receipt of RESP funds. These are reported on a T4A and are taxable to the student, representing the income earned in the plan and not the contribution provided by the participant.

A couple of final points. Tuition fees are only eligible if they are in excess of \$100 to a single institution. Two courses of \$75 each to NBCC qualify for \$150 in credit while \$100 to UNB does not. Also, the province does not have the textbook credit.

However, for those who have graduated, the provincial tuition rebate program is available and requires a tax return to be filed.

Graduates are able to apply for the rebate online. Go to the gnb.ca website and search the keywords Tuition Rebate to find the link.

Just a reminder -- with all the changes this year, and the significant increase in average refund by hundreds of dollars, this might be the year to contract out the job and seek professional help.

n Roger Haineault is with Tax Help Inc. He can be reached by e-mail at roger@help4taxes.ca or by calling 855-HELP. His column appears Tuesdays.