



# Income Tax for Students

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## Overview

This information circular will outline the special circumstances available to individuals falling into specific classifications, and is to be used as a guide when preparing personal income tax returns. When individuals fall into any of the following classifications, they may be entitled to additional tax credits, deductions and/or other benefits and is detailed later in this document.

- Senior Citizens
- Persons with Disabilities
- Students
- Northern Residents
- Farmers
- Fishermen
- Native Canadians

The information contained herein is intended for reference purposes only, when a question arises, you should always consult the appropriate CRA Guides or other resources as may be necessary.

This guide is divided into sections for each relevant topic, ***The Table of Contents references are active links***, in other words, if you click on a line in the Table of Contents, it will take you to that page.

Sections of this manual may refer to Interpretation bulletins, CRA tax guides, Forms and other materials. When possible, a referred guide or form may be accessed by clicking on the referenced hyperlink. These links in most cases will refer you to a web page; therefore, your Internet connection should be active.

Example link: [more information](#)

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## Students



As most students are low-income earners, taking advantage of all available credits, deductions and other benefit programs is essential when preparing a personal tax return. This guide will classify the information into the following categories:

- Sources of Income
- Personal Tax Credits
- Transferring and Carry Forward of Credits
- Deductions from Income
- Paying Taxes
- Residency Rules
- Provincial Tax Credits

## **Why File a Return?**

A Student may wish to file a return even if they do not owe any taxes or if they had no income during the year for the following reasons:

- To claim a refund
- To apply for the GST/HST credit
- To qualify or receive the Child Tax Benefit
- Carry forward unused credits and / or deductions available to them
- To transfer unused credits to a spouse, parent or other supporting person
- To have income included in future RRSP eligibility calculations

## **Sources of Income**

A Student will generally receive income from a limited number of sources such as:

- Full Time or Part-Time Employment
- Self-Employment
- Scholarships, Bursaries or Grants
- Registered Education Savings Plans
- RRSP Lifelong Learning Plan
- Student Loans
- Sales Tax (GST) Rebates
- Canada Pension Plan Children's Benefit for Students
- Canada Child Tax Benefit



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## Employment Income

Employment income is calculated on a cash basis, the money must be received to be included in income. Employment income includes:

- Salary and wages
- Commissions
- Bonuses
- Vacation pay
- Tips and Gratuities
- Taxable Benefits

Students for the most part will have part-time jobs and would not be in a position to earn a large amount of money in a tax year unless they had full-time employment during the summer months or were in a co-operative education program that provided them with additional earnings potential.

### Casual Labour?

There is no such thing! Essentially, if an individual is hired to provide services to a business, in an employer – employee relationship, any earnings paid to the individual must be reported and taxed under the Income Tax Act.

## Self-Employment Income

In certain circumstances, and due to some of the Federal and Provincial initiatives available to students, entrepreneurial students are electing to start a small business to assist with paying their education. It is quite common now to see a sign for 'Student Painters', 'Student Landscapers', etc.

If an individual elects to go into business for themselves, they are governed by the same reporting rules and tax laws that are applicable to any other resident of Canada (unless incorporated). They therefore must keep books and records, detailing the source of revenues as well as receipts and details of any expenses incurred while running the business. The Canada Revenue Agency will show no leniency for poor records just because an individual is a student.

Where a student has income from self-employment some expenses of the business may have to be prorated based upon the number of days the business was in operation.

### What is the Difference Between Employee and Self-Employed?

[\(more information\)](#)

If a person is not an employee, it follows that they are self-employed. Sometimes the distinction is an obvious one, however, in some instances it may not be obvious and the individual circumstances must be considered.

The most common scenario is that of an employee who wants to be treated as self-employed. This classification would offer several advantages:

- Self-employed individuals are allowed to deduct all reasonable expenses incurred in earning income while employees are more strictly limited
- Self-employed individuals avoid paying E.I. premiums (of course, they are also unable to collect benefits)
- The employer does not have to make contributions to C.P.P. or E.I.

It is not enough for an individual to classify himself or herself as self-employed. It is not even enough if both employer and employee agree on the classification, similarly any written agreements will not override the facts of the situation.

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## Tests

The following tests can be used to determine if an individual is an employee or self-employed:

### 1) Control

- Who exercises control in the relationship?

### 2) Degree of Integration

- Is the individual an integral part of the organization

### 3) Economic Reality

- Is the individual carrying on business for personal gain or for the benefit of someone else

Generally, if the worker receives direction from the business, supplies no capital (tools or equipment), bears no financial risk or liability, has a lasting relationship with the business and does not have the opportunity to provide services to others, they would be considered to be an employee.

### 4) Specific Result

- Is the work performed to achieve a specific result or for an indefinite period of time
- Is the contract such that the individual worker must provide the service or just ensure that the task is completed and not necessarily do the work themselves

**5) Commission salespeople** or traveling salespeople present another type of situation. Canada Revenue Agency considers three main factors in determining their status:

1. Salesperson is not restricted to the supplier's product and can sell other products whether or not they are competitive
2. Salesperson is not required to personally sell the product
3. Salesperson is given no instruction about what territory to cover, what client to approach or when and how to perform the work

All three factors together indicate self-employed status, if one of these factors is missing, then the tests discussed earlier must be taken into consideration.

## Scholarships, Fellowships, Bursaries and Grants

**Scholarships and Bursaries** are amounts paid or benefits given to an individual to enable them to continue their education, generally at a University, College, Technical Institute or other educational facility. If a scholarship or bursary includes allowances to pay for the education, lodging, travel, tools or books, those amounts must be included in the income of the individual, however, they may be entitled to additional tax credits.

If an individual is gainfully employed, and their employer as part of their compensation pays an amount towards the individuals continuing education, the amounts paid would be considered a Taxable Benefit and included in employment income. These amounts would not be considered Scholarships. Alternately, if the individual does not work for the company and the company pays an amount to the individual as an incentive to have them work for the business upon completion of their education, this is considered a scholarship.

### Fellowships

A Fellowship is generally the same as a scholarship, with the exception the money is usually paid by a University, College, Charitable Organization or other similar facility to a graduate student that wishes to carry out research for the organization.

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## Research Grants

A research grant is generally an amount of money paid to an individual to enable that individual to carry out a research project on behalf of the business or organization making the grant. The research grant may include living expenses and an amount of remuneration for the recipient. For the money received by the individual to be considered a grant, it must establish that the primary reason for making the grant is to establish and conduct a specific research project with a specific scientific aim.

## Registered Education Savings Plans

[\(more information\)](#)

A Registered Education Savings Plan is a program that allows a contributor (usually a parent or guardian) to save money for the education of a beneficiary (usually a child or other dependant). Although the contributions made are not deductible for tax purposes, they have other significant benefits such as:

- The income earned within the plan is not taxable until withdrawn (tax deferral)
- When the withdrawals are made, the tax is payable in the hands of the beneficiary (income splitting)
- Government incentives will match contributions by 20% up to a maximum of \$400 per year per plan.

## Payments from the Plan

The student may receive two different types of payments from the plan:

- Payment to a designated educational institution in Canada (tuition etc.)
- Educational Assistance Payments

## Payments to a Designated Educational Institution

A designated educational institution generally includes, a College, University, Technical or Trade School that will provide qualifying educational programs to the student. The payments may include amounts for tuition, books, residence fees, or general living expenses.

## Educational Assistance Payments

These payments from the plan are to assist the beneficiary with the cost of obtaining post-secondary education. The income from EAP's is reported on the recipients T4A in box 42, including any income earned within the plan as well as any matching contributions from the government. To obtain these payments, the student must be enrolled in a qualifying educational institution in a full-time qualifying educational program.

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## The Lifelong Learning Plan

[\(more information\)](#)

The Lifelong Learning Plan is a program under which eligible individuals can 'borrow' up to \$10,000 per year, up to a maximum of \$20,000 over a 4-year period, in funds from their RRSP. Providing the taxpayer meets the qualification criteria, they will not have to include the withdrawal as income on their tax returns, and will therefore, not incur any additional tax liability on the withdrawals.

Some special conditions apply to the Lifelong Learning Plan, such as:

- The recipient of the funds or their spouse, must be enrolled or committed to enrolling in a qualifying educational institution as a full-time student in a qualifying educational program with a duration of not less than 3 months.
- The student must commence the qualified education program before the end of March of the following year. In addition, the student must also meet one of the following criteria:
  - The student must complete the educational program before April of the year following a withdrawal
  - The student must be enrolled in the program at the end of March of the year following the withdrawal
  - Less than 75% of the tuition paid between the beginning of the year when the withdrawal was made and April of the following year, is refundable
- If the student fails to commence the course prior to March of the following year, they must return the funds to the RRSP prior to December 31<sup>st</sup> of the same year.
- The individual withdrawing the funds must complete [Form, RC96, Request to Withdraw Funds From an RRSP under the LLP](#). The money borrowed from the RRSP under this plan must be repaid within 10 years
- The repayments must begin in or before the 5<sup>th</sup> year after the initial withdrawal was made
- If the student no longer qualifies for the education credit as a full-time student, repayments must begin the second year after they no longer qualify

## Canada Student Loan Program

[\(more information\)](#)

The Government of Canada helps students gain access to post-secondary education through the Canada Student Loans Program, Canada Study Grants, the Canada Education Savings Grant Program and the Canada Millennium Scholarship Foundation. Although the money received from a student loan is not taxable, the interest paid on the loan is deductible for most individuals.

## Provincial Student Loan Programs

Many Provinces also have student loans, grants and scholarships available, and, in each case the same rules apply as for the Federal Programs.



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## Sales Tax (GST) Rebates

[\(see CRA Guide RC4210\)](#)  
[\(more information\)](#)

The **GST/HST credit** helps individuals and families with low and modest incomes offset all or part of the GST or HST that they will pay.

Generally, eligible individuals who apply for the GST/HST credit on their 2003 return will get payments in July and October 2004, and in January and April 2005.

Individuals wishing to receive the GST Credit should elect to do so when they file their personal income tax returns.

The GST credit is indexed based upon the students net income, and if they are married or living common-law, the family net income. As income increases, the amount of the credit (rebate) available to the individuals declines. Most students, providing they are over age 18 will qualify for the GST credit unless they have unusually higher than normal income for a student.

## Canada Pension Plan Children's Benefits for Students

[\(more information\)](#)

The Canada Pension Plan provides basic benefits when a person with Canada Pension Plan contributions becomes disabled, retires or dies. Both the Canada Pension Plan disability and survivor provisions can provide benefits for the dependent children of Canada Pension Plan contributors.

For an individual to be eligible for one or both of the following benefits, your parent or parents must have made sufficient contributions to the Canada Pension Plan. Also, you must be between the ages of 18 and 25 and attending school full-time at a recognized institution.

- The **benefit for the child of a disabled contributor** is a monthly benefit paid to a natural or adopted child of a Canada Pension Plan disability pensioner, or a child who is in the care and control of a disability pensioner.
- The **benefit for the child of deceased contributor** is a monthly benefit paid to a natural or adopted child of a deceased Canada Pension Plan contributor, or a child who was in the care and control of a deceased contributor at the time of death.

## Canada Child Tax Benefit

[\(more information\)](#)

The Canada Child Tax Benefit is a monthly payment made to eligible persons to assist them with raising children under the age of 18.

The Child Tax Benefit is indexed based upon the parent's net income, and if they are married or living common-law, the family net income. As income increases, the amount of the benefit available to the individuals declines. The benefit is based upon the number and age of the children that are dependant on the taxpayer. To be eligible to receive the CCTB, the individual making the application has to live with the child and be a resident of Canada for income tax purposes.

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## **Federal Personal Tax Credits for Students**

In addition to the regular credits available to individuals resident in Canada, Students may also be entitled to claim additional amounts:

- Tuition and Education Amounts
- Scholarship, Fellowships, Bursaries Credit
- Low Income Earners Tax Reductions
- Interest paid on Student Loans

### **Tuition Amounts**

An individual, attending school at any time during the tax year, either full time or part time, may claim credits for tuition and education amounts, subject to the criteria set forth below:

- The individual must be or have been enrolled in a qualifying educational institution
- The individual must be or have been enrolled in a qualifying educational program
- The total tuition and education amounts paid during the year must be greater than \$100
- The individual must use the calendar year to calculate tuition fees
- The individual must be over the age of 16 before the end of the year in which the courses were taken

### **Qualifying Educational Institutions**

Qualifying Education Institutions include the following:

- A University, College or other educational institution providing courses at a post-secondary level
- A Vocational institution certified by Human Resources Development Canada (HRDC) to provide courses that furnish a person with skills for or improve skills in an occupation
- Certain educational institutions outside of Canada if the:
  - Educational Institution is a university
  - Individual is enroll full time in a course leading to a degree
  - Course is of at least 13 weeks duration
  - Institution completes form TL11A, Tuition Fees Certificate – University Outside Canada

### **Qualifying Educational Programs**

Educational programs will be deemed qualified if the program lasts a minimum of 3 consecutive weeks and requires a minimum of 10 hours of instruction or work each week. Instruction or work may include lectures, practical training, lab work and research time spent on a post-graduate thesis. Instruction or work does not include study time of the individual.

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## Eligible Tuition Fees

The following are considered eligible tuition fees, and when substantiated by a receipt are allowable deductions:

- Admission Fees
- Charges for the use of the library
- Laboratory Fees
- Examination Fees
- Application Fees, providing the student enrolls in the institution at a later date
- Charges for a certificate, diploma or degree
- Mandatory computer service fees
- Academic Fees
- The cost of books that are included in the total cost of correspondence courses
- Athletic or Health Services fees paid to the college or university, when the fees are required to be paid by all students. If all students are not required to pay, the amount is limited to \$250

## Ineligible Tuition Fees

The following items cannot, in any case be claimed as tuition fees:

- Students' association fees
- Medical care
- Transportation and parking
- Meals and lodging (student residence fees)
- Goods of lasting value that will be retained by the student (computers etc.)
- Initiation or entrance fees to a professional organization (these however could potentially be claimed as professional dues under other deductions)
- Cost of books (other than allowable under correspondence course costs)

## Education Credit Amounts

Qualifying individuals may be entitled to additional credit amounts providing they were attending, either Full-time or Part-time a qualifying educational institution at any time during the tax year.

### Full time students may claim an amount equal to:

- \$400 per month for each month they were in full time attendance at the institution

### Part-time students may claim:

- \$120 per month for each month of any part-time attendance at the institution

### Students with a disability or Infirmary may claim:

- \$400 per month for each month they were in full time attendance at the institution (regardless of attending full time or part time)



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## Scholarship, Fellowship, Bursaries Credit

When a student receives income from Scholarships, Fellowships or Bursaries, they are generally entitled to claim a credit equal to the greater of:

- \$500 or
- \$3,000 of the income received providing the income received is for a qualifying program for which the student may claim the education amount.

## Interest Paid on Student Loans

If a student receives the proceeds of a loan under the Canada Student Loans Act, the Canada Student Financial Assistance Act or a similar Provincial or Territorial Program, they may claim, as a credit, the amount of interest paid on the loan after 1997, in the year it was paid.

Under no circumstances however, may an individual claim interest paid on any other kind of loan or on a student loan that has been combined with another kind of loan. In addition, an individual cannot deduct interest paid in respect of a judgment made against them when they fail to pay back a student loan.

## Low Income Earners Tax Reduction

Many of the provinces have incorporated a tax reduction for Low Income single individuals and families. Although the Provinces may have different names for the reduction, it essentially works the same everywhere. When a person earns income less than the threshold amount (established annually by each province) the individual is entitled to a tax reduction. The reduction is calculated by determining how much the individual (or family) earned in respect to the threshold, then a simple calculation is made to reduce the amount of tax that the individual would have to pay, effectively, in most cases, reducing their tax rate below the lowest tax bracket.

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## **Transferring and Carry Forward of Credits**

### **Transferring Credits to a Spouse or Parent**

An individual making a claim for Tuition and Education amounts, may transfer any unused portion of the available credits to a spouse, common-law partner, a parent, or a grandparent providing the following conditions are met.

- The student must use all available credits towards reducing their taxable income to \$0 before any amount may be transferred.
- The amount transferred to another individual cannot exceed \$5,000 in any tax year

### **Carry Forward of Unused Amounts**

An individual that cannot use all of their Tuition and Education amounts in one year, and cannot transfer all of the remaining amounts to another individual, may carry forward the balance and apply it against taxable income in future years. There is no time limit or expiration of the carry forward balances, however, the individual must use the balances immediately upon having taxable income and cannot elect to not make a claim in any given year.

The only complication in the carry forward calculation is that an individual must utilize any unused amounts carried forward from prior years before they can claim current year tuition and education amounts. The amount, if any, remaining can then be carried forward again for future years.

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## **Deductions from Income**

In addition to the regular credits available to individuals resident in Canada, Students may also be entitled to claim additional amounts for the following providing certain conditions are met:

- Moving Expenses
- Child-Care Expenses
- Repayment of Scholarships, Bursaries and Grants
- Research Expenses

### **Moving Expenses**

[\(more information\)](#)

Students that have been in full-time attendance at a qualified educational institution within Canada and move for the purposes of gaining employment, either summer employment or permanent employment, or to start a business may claim moving expenses under the same general guidelines of other individuals.

Students moving from any point in Canada to another point within Canada may only deduct moving expenses when they have declared income from the following items reported on their tax returns:

- Scholarships or Bursaries
- Fellowships
- Research Grants, or other similar awards

Students leaving Canada to study full-time at a post-secondary institution in another country may also deduct moving expenses, but only to the extent they received income as above. These same rules apply for students coming into Canada.

In all instances, a student may only claim moving expenses if the move is greater than 40km

### **The Simplified Method**

Under certain circumstances, it may be advisable, and it is allowable to use the simplified method for calculating allowable moving expenses. If an individual is including the use of their own automobile in the moving expense calculation, they can use the traditional method – keeping receipts etc. or, they can keep track of their mileage, and use the prescribed per kilometer rate for calculating moving expenses. A similar treatment is available for meals, CRA will allow a flat rate per meal of \$15 to a maximum of \$45 per day. In either case, the individual is not required to keep receipts; they are only required to make note of the distance traveled for the move.



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## Child Care Expenses

[\(more information\)](#)

Child Care Expenses, are amounts paid to by an individual to another person for the purpose of caring for an eligible child, so that the individual, their spouse, common-law partner or other caregiver could:

- Attend a Qualifying Educational Institution
- Earn Income from employment or self-employment

### Eligible Child

An eligible child is one that meets the following criteria:

- Is less than 16 years of age at any time during the year
- Is the individuals, their spouse or common-law partners child
- Is a child that was dependant on the individual, their spouse or common-law partner and whose net income is less than \$7,484

The age restriction does not apply if the child is dependant upon the individual due to a physical or mental infirmity.

### Claiming Child Care Expenses

If an individual is the only supporting person (single parent) living with the child during the year, then they can claim the expenses relating to caring for the eligible child (ren). However, if at any time during the year, there was another supporting person living with the eligible child:

- The person with the lower net income (including zero income) must claim the childcare expenses.
- If the supporting persons have equal net income, either person may make the claim for childcare expense
- If the individuals became married during the year or began a common-law relationship, their net incomes for the entire year must be taken into account when completing the claim, as well as any child care expenses incurred by both partners for the entire year.

If any of the following conditions apply, the person with the higher net income may make the claim for childcare expenses:

- The other supporting person was in part-time or full-time attendance at a qualifying educational institution
- The other person was incapable of caring for the child due to a mental or physical infirmity (must be certified by a physician)
- The other person was incarcerated in a prison or similar facility for more than 2 weeks during the year
- The individual and their partner were living apart due to a breakdown in their marriage or relationship, lasting more than 90 days

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## Eligible Expenses for Child Care

Child Care expenses may include, subject to limitations, payments to:

- An Eligible person, whom is a person that is NOT:
  - The child's mother or father
  - A supporting person of the child
  - Under 18 years of age and related to the taxpayer
- A Nursery School
- A Day-Care Center
- A Day camp or day sports camp
- A boarding school or camp
- An educational institution where the institution is providing child-care services

## Limitation of Child Care Expenses

An individual, subject to the rules above may claim the lesser of the actual expenses incurred or:

- \$7,000 for each eligible dependant under the age of 7 years at the end of the tax year
- \$4,000 for each eligible dependant 7 years of age but less than 17 years of age at the end of the tax year
- \$10,000 for each eligible dependant, less than 17 years of age for whom the individual is entitled tot claim the disability credit relating to the dependant.
- 2/3 of the individuals earned income.

In addition to the above limits, there is a restriction on the claim allowed for boarding school a sports camp or an overnight sports camp, equal to:

- \$250 per week for each child whom has a severe or prolonged mental infirmity plus:
  - \$175 per week for each eligible child who was under 6 years of age and the disability amount credit cannot be claimed
  - \$100 per week for each eligible child who was between the ages of 7 and 16
  - \$100 per week for each child that was over 16 and dependant due to a mental or physical infirmity

Child Care expenses are further limited by the requirement for receipts, namely, an individual may not make a claim for Child Care expenses if the cannot support the claim by providing a receipt that illustrates the following:

- The name address and SIN of the person to whom the payments were made (not required for organizations providing proper receipts such as daycares or nurseries)
- The amount paid for child care
- The date of the payment
- The signature of the person(s) providing the child care

The receipts do not have to be filed with the return, however, they must be available for review upon request by CRA.



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## Repayment of Scholarships, Bursaries or Grants

If a student has declared income in either the current year or years prior and they repaid all or any portion of the amount they received, they can generally make a claim for a deduction of the amount repaid. Examples of amounts eligible for the deduction are:

- Scholarships, Fellowships and Bursaries
- Research Grants

In all instances, the deduction is limited to the amount originally included in taxable income in either the current or prior years.

## Research Expenses

A student, receiving income from a research grant, may claim expenses related to the grant to reduce their taxable income. Such expenses may include:

- Cost of Equipment
- Fees and Memberships
- Laboratory Charges

### Allowable expenses do not include:

- Personal Living Expenses
- Expenses when the student has been reimbursed
- Expenses that have been deducted or are deductible in another way
- Expenses that are not reasonable under the circumstances
- Expenses paid by the research sponsor on behalf of the student

Under no circumstances may the claim for research expenses exceed the amount of the research grant that has been included in the individuals income.



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## **Payment of Taxes**

When a individual is a student. the income they may receive generally has enough income tax withheld at source to prevent the individual from owing tax at the end of the year. In most instances, the student's credits and deductions from income, create a refund or a transfer to another person or a carry forward of unused credits.

It is extremely rare for a student to owe income tax and to have to make installment payments.

## **Residency Rules for Students**

The Income Tax Act does not define the terms residency or resident. The facts or circumstances of each case will decide. The following factors can be used as a general guideline:

- Length of time spent in Canada in current year and surrounding years
- Reason for entering or leaving the country, expected duration of the person's stay or absence
- Individual's background, origin and citizenship
- Family circumstances, where are the spouse and children living, etc.
- Does the individual continue to maintain bank accounts, club memberships, etc. in Canada
- Does the individual maintain personal property in Canada

### **Categories of Residency**

#### **1) Factual**

A factual resident is a person who lives primarily in Canada or one who meets the tests of residency described above. Factual residents are liable for tax on their world income.

#### **2) Deemed**

A deemed resident is one who does not meet the residency tests but is deemed to be a resident under one of the following situations:

- Sojourners in Canada. A sojourner is a person who visits Canada for periods totaling 183 days or more in a year. An example would be a foreign student attending an educational facility in Canada.
- Canadians employed abroad in official or quasi-official capacity.
- Members of the Canadian Armed Forces.

Students that are deemed residents are liable for tax on their world income and would file the non-resident/deemed resident version of a tax return.

Although a sojourner in Canada is deemed a resident under the 183-day rule, Quebec has special rules. Quebec deems a sojourner residing in the province for 183 days or more to be a resident of that province, and, as such, must file a Quebec Provincial tax return as well as the Federal return. If a sojourner is a resident of Canada for 183 days or more, but not in the Province of Quebec for 183 days, then they would not be considered a resident of Quebec and would only file a Federal, Non-Resident Return.

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### 3) Part-year Residents

A part-year resident is a person who becomes or ceases to become a resident of Canada during the year. Part-year residents are taxed in Canada on world income during that portion of the year they are a resident and will be treated as a non-resident during the remainder of the year. The tests of residency are applied to determine if a person is a part-year resident, and these factors override the "183 day" rule. That is, if a person becomes a permanent resident of Canada on March 1, they will only pay tax on their world income from March onwards, even though they have been in Canada longer than 183 days. For the period from January 1 to March 1, they would pay tax only on income from Canadian sources.

### 4) Non-residents

[\(CRA Guide T4058\)](#)

Non-residents are, as the name implies, people who do not fit the criteria for a factual, deemed or part-year resident. Non-residents are liable for tax only on their Canadian source income and would file a T1 for non-residents/ deemed residents.

### 5) Deemed Non-residents

Deemed Non-residents are people who are dual residents of Canada and a country with which Canada has a tax treaty, and under the provisions of the treaty are considered to be residents of the other country.

### 6) Residents Not Taxable

Some individuals, although they may be residents of Canada may not be taxable under certain circumstances. They are:

- Officials of Foreign Governments
- Visiting Foreign Teachers
- Students whom are temporary residents solely for educational purposes.

### Determining Residency Status

The following forms are useful for assisting in determining residency status

- [NR73](#) – For persons leaving Canada
- [NR74](#) – For persons entering Canada



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## **Provincial Tax Credits for Students**

In addition to the Federal Tax Credits available to students, a number of the provinces either match the federal credits or have additional credits available to students. A brief summary by province is detailed below:

### **Alberta Tax, Credits and Reductions**

#### **Family Employment Tax Credit**

Alberta has a child benefit supplement that is based on the federal child tax benefit program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases.

### **British Columbia Tax, Credits and Reductions**

#### **Refundable Sales Tax Credit**

Most individuals may claim the Sales Tax Credit if they were over 19 and are resident in BC on December 31 with some exceptions. The tax credit is equal to the total of \$75 for the taxpayer and \$75 for their co-habiting spouse. The sales tax credit is reduced based upon family income, and when net family income exceeds \$25,000, the credit is eliminated.

#### **BC Family Bonus**

BC has a child benefit supplement that is based on the federal child tax benefit program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases.

### **Manitoba Tax, credits and Reductions**

#### **Manitoba Family Tax Reduction**

Manitoba has a reduction for low-income families equal to the total of \$225 for the individual and an additional \$225 for the spouse and eligible dependants. A reduction of \$300 is available if the taxpayers spouse or dependant is disabled. The family tax reduction is reduced as the net family income increases. The reduction is calculated as 1% of the family net income.

#### **Refundable Education Property Tax Credit**

A taxpayer may claim the education property tax credit if all of the following are true:

- they paid rent or property tax on a principle residence located in Manitoba
- their occupancy cost was more than \$250
- they were age 16 or older at the end of the tax year
- their family net income was less than \$27,500 or \$40,000 if they were over age 65 (2003)
- their education property tax credit was not deducted from their property tax assessment for the current tax year

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The credit available is \$675 if the taxpayer is under age 65 or \$800 if the taxpayer is over age 65. The credit is reduced by 1% of net family income, but to not less than \$400

## **New Brunswick Tax, Credits and Reductions**

### **Low Income Earners Tax Reduction**

New Brunswick has a reduction for low-income families equal to the total of \$460 for the individual and an additional \$460 for the spouse. This credit is reduced by 5% of the amount net family income exceeds the base amount of \$12,500 for 2004. Only one spouse can claim the credit.

### **Child Benefit Supplement**

New Brunswick has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

## **Newfoundland and Labrador Tax, Credits and Reductions**

### **Student Loan Tax Credit**

If the taxpayer is a resident of Newfoundland and Labrador, they may claim a credit based upon the principal amount paid in the tax year. The credit is a minimum of 20% of the principle paid and decreases as the taxpayer's net income increases.

### **HST Credit**

A taxpayer does not need to apply for the HST credit, it will be calculated based upon the information supplied by the taxpayer and their spouse when the tax returns are filed. The basic amount of \$40 per adult and \$60 per child is paid tax-free, each October to qualifying individuals. The amount of the payment is reduced as family income exceeds the base amount of \$15,000.

## **Northwest Territories Tax, Credits and Reductions**

### **Cost of Living Tax Credit**

A resident of the Northwest Territories can claim a cost of living tax credit, which now includes a supplement for the taxpayer, their spouse or common-law partner. If the credit is more than the tax owing, the taxpayer will receive a refund. If the taxpayer has a spouse or common-law partner, only 1 person can make the claim. The basic credit amount is variable, depending on the net income of the individual and decreases as net income increases. The supplement available to a taxpayer is equal to the sum of \$250 for the taxpayer, and an additional \$250 for their spouse or common-law partner, less the amount calculated as the basic credit.

### **Child Benefit Supplement**

The Northwest Territories has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

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## **Nova Scotia Tax, Credits and Reductions**

### **Low Income Earners Tax Reduction**

Nova Scotia has a reduction for low-income families equal to the total of \$300 for the individual and the spouse and infirm dependants, \$165 for other dependant children born after 1985. This credit is reduced by 5% of the amount net family income exceeds the base amount of \$15,000 for 2004. Only one spouse can claim the credit. You cannot claim the reduction if, at the end of the taxation year you were confined to a prison or similar institution and had been there for a total of more than 6 months throughout the taxation year.

### **Child Benefit Supplement**

Nova Scotia has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

## **Nunavut Tax, Credits and Reductions**

### **Cost of Living Tax Credit**

A resident of Nunavut can claim a cost of living tax credit. If the credit is more than the tax owing, the taxpayer will receive a refund. The basic credit amount is variable, to a maximum of \$750 depending on the net income of the individual and decreases as net income increases.

### **Child Benefit Supplement**

Nunavut has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

## **Ontario Tax, Credits and Reductions**

### **Low Income Earners Tax Reduction**

The Ontario tax reduction is available to individuals who were residents of Ontario on December 31, 2004. The basic reduction for 2004 is \$181, that is if your Ontario tax payable is \$181 or less no Ontario income tax is payable. The reduction is increased by \$334 for each dependant children under 18 or dependants over 18 who are disabled. The tax reduction is phased out as taxes payable increase. For co-habiting spouses, the higher income spouse must make all the claims under the tax reduction provision. If the Ontario tax is greater than the reduction, every dollar in excess of the reduction reduces the tax credit by \$2. Therefore when Ontario tax reaches 200% of the reduction amounts, the tax reduction disappears.

### **Property Tax Credit**

Ontario has a property tax credit, which is available to most individuals resident in Ontario on December 31 over the age of 16, with some exceptions. For spouses living together at the end of the year only one spouse may make the claim. The property tax credit is calculated as the taxpayer's occupancy cost to a maximum of \$250 (or \$500 for taxpayers 65 or over) plus 10% of their occupancy cost. As mentioned, this credit is income sensitive. The credit is reduced by 2% of the amount in excess of the base income. A student living in Residence at a qualifying educational institution is also entitled to claim \$25 as part of the property tax credit.

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Occupancy cost is either property taxes paid (including school taxes) in respect of the taxpayer's principal residence owned by them or their spouse or 20% of rent and property taxes paid for the calendar year, excluding any amounts for meals or amounts paid to family members which they do not include in their income for tax purposes. You are only entitled to claim property tax or rent paid in respect of the principal residence. If the taxpayer has more than one residence in Ontario, it is the primary place of residence that must be claimed.

### **Sales Tax Credit**

Most individuals may claim the Ontario Sales Tax Credit over 16 who are resident in Ontario on December 31 with some exceptions. The tax credit is equal to the total of \$100 for the taxpayer and \$100 for their co-habiting spouse and \$50 for each dependant child under 18. The credit is reduced by 2% (4% for taxpayers 65 and over) of the amount in excess of the base income. Only one spouse can make the claim, the spouse claiming Sales Tax Credit must claim Property Tax and OHOSP credits.

### **Child Benefit Supplement**

Ontario has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

### **Equity in Education Tax Credit**

New in 2002, Ontario now offers a credit for primary and secondary private school tuition fees, the credit is equal to 20% of the fees paid to a maximum of \$1,400 per child per year. As this is a relatively new program, the rates and allowances are subject to change frequently, if a claim for this is to be made, contact the Ontario Government for the current regulations.

## **Prince Edward Island Tax, Credits and Reductions**

### **Low Income Earners Tax Reduction**

A taxpayer may claim this credit if any of the following conditions apply:

- they were 19 years of age or older
- they had a spouse or common-law partner
- they were a parent

The basic reduction is \$250 for the taxpayer, an additional \$250 for the spouse or common-law partner, \$250 for eligible dependants born before 1984 and \$200 for eligible dependants born in 1985 or later. The available credit is reduced by the net sum of family income in excess of \$15,000. Either spouse may make the claim for the tax reduction, and any unused amount may be transferred to the other spouse. If the taxpayer was confined to a prison or similar institution at the end of the tax year, and they were there for a total of six months or more throughout the tax year, they cannot make this claim. A claim also cannot be made for a taxpayer that died within the tax year.



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## **Saskatchewan Tax, Credits and Reductions**

### **Post-Secondary Graduate Tax Credit**

A taxpayer may claim a credit of \$350 if they meet the following conditions:

- they were a resident of Saskatchewan at the end of the tax year
- they are claiming this credit for the first time
- they completed an eligible program of post secondary studies and met the necessary qualifications for graduation
- they applied for and received a tax credit certificate from the Saskatchewan Department of Post-Secondary Education certifying they are entitled to the credit.

### **Child Benefit Supplement**

Saskatchewan has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases

### **Refundable Sales Tax Credit**

The Saskatchewan government has now introduced a sales tax credit, the same as and paid with the Federal GST credits. If an individual, resident in Saskatchewan, qualifies for the Federal GST credit, they will be entitled to and receive the Saskatchewan Sales Tax Credit.

## **Yukon Territory Tax, Credits and Reductions**

### **Low Income Family Tax Credit**

If the taxpayers net family income is less than \$25,000 they may claim up to \$300. The credit is reduced by an amount equal to 3% of net family income in excess of \$15,000. If the taxpayer is married, only the spouse with the higher net income may make the claim.

### **Child Benefit Supplement**

Yukon has a child benefit supplement that is based on the federal program. The supplement has a basic per child amount and a working income supplement. The program is administered by Canada Revenue Agency as part of the federal child tax benefit program. The supplement is based upon family size and is income sensitive, declining as family income increases



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## **Tax Software vs. Tax Professionals**

A common misnomer in the marketplace is that anyone can prepare an income tax return because they went to the store and bought a software package. Although many of the software packages available today are very good, they cannot possibly replace the knowledge and education of a professional tax preparer. Consider some of the following:

### **Can a software application ask you:**

- About your children, their schooling or tuition?
- About your rent, education or property taxes you are paying?
- About your health status and what allowable medical expenses you may have?

### **Can a software application counsel you on:**

- The best way to utilize RRSP deductions
- Capital Gains implications of selling a cottage or other real estate?
- Upcoming changes in legislation that could effect your personal tax situation
- Starting a home based business or how to make the best use of business deductions
- The deductibility of employment related expenses
- Transferring of credits or deductions to a spouse or from a dependant
- Credits and deductions you may have missed in prior years

**There is no doubt that a Professional Tax Preparer will charge you more than the software costs, but consider this:**

- A.) An individual purchases a software application to do their taxes for \$30.00  
The individual is thrilled to get a refund of \$300  
Net Refund \$270
- B) The same individual takes their tax return to a Ledgers Professional and pays \$75.00  
The individual is ecstatic to get a refund of \$500.  
Net Refund \$425

### **Where is the better result?**

This may not be true in every case, however do you want to risk being the person who missed out on a larger refund?

**This guide was prepared by Ledgers Canada,  
to find the Ledgers Representative in your area  
and to have your tax return professionally prepared, visit <http://www.ledgers.com/>**



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