Here’s a summary of the best back-to-school tax savings.

**Education credit**

A student may deduct from federal taxes payable a credit of 15 per cent of $400 per month, or $60, for each month of the year he or she is enrolled full-time in a designated institution or a qualifying educational program.

This includes full-time post secondary students enrolled in distance education programs and correspondence courses. (Note: There is no full-time enrolment requirement for students who are disabled or cannot be enrolled full-time by reason of mental or physical impairment.)

A qualifying educational program is one that requires at least ten hours of work a week and is a least three consecutive weeks in duration.

The program must also be at a post-secondary school level, except in the case of courses to improve occupational skills certified by the Ministry of Human Resources Development.

However, the credit is unavailable if the student is reimbursed for the course by his or her employer, or if the course is taken as part of an employee’s duties and the student is paid.

Any unused portion of the education credit may be transferred to a spouse, parent or grandparent. It may also be carried forward for future use by the student.

By the way, fellowships, bursary income and achievement prizes are fully exempt from tax provided that you are enrolled in a program that qualifies for the education amount. A previous ruling put in place prior to 2006 only allowed for the first $3,000 to be exempt.

**Part-time education credit**

Part-time students are also entitled to claim a federal education credit of 15 per cent of $120 per month, or $18.

To be eligible for this credit, part-time students must be enrolled in a qualifying educational program lasting at least three consecutive weeks and involving a minimum of 12 hours of courses per month.

The unused portion of the part-time credit may also be transferred to a spouse, parent or grandparent, or carried forward for future use.
**Tuition credit**

In addition to the education credit, students may also be eligible for a credit for the tuition fees they paid.

To qualify, the student must pay tuition fees in excess of $100 to either an educational institution in Canada for courses at the post-secondary level or an institution certified by the Minister of Human Resources.

This would generally include a college or university, a professional organization providing courses to graduates of a secondary school, or a Ministry certified institution for acquiring or improving occupational skills.

The credit is equal to an amount equal to the lowest tax rate multiplied by the tuition paid for the year (i.e. 15 per cent for 2009). Some private secondary schools offer university-level courses which qualify for the tuition and education tax credits.

However, when an athletic scholarship is paid on behalf of an individual or the individual is entitled to a reimbursement for the fees, the tuition tax credit is not available unless the scholarship or reimbursement is included in the student's income for the year.

Also, the tuition credit is not available if the fees are reimbursed by a student's employer or if the student is reimbursed or receives assistance from a federal or provincial job training program. That is, unless the amount is included in the student's income.

**Textbook credit**

A new tax credit for textbooks was introduced back in 2006.

For 2009, the credit is calculated as follows: 15 per cent of $65 times the number of months during the year in which the student was a full-time student (the formula is amended to $20 for part-time students).

Again, any unused portions of this credit can be transferred to a spouse or common-law partner, parent or grandparent.

**Transfer or carry forward of federal tuition and education tax credits**

I’ve mentioned several times in this article that a credit may be transferable. Here’s how it works.

The education, tuition and textbook credits may be a good source of shelter for a parent, grandparent or spouse. However, only one transferee is allowed.

The amount transferred is limited to the amount which the student designates in writing. This, in turn, is limited to the lesser of the total amount of education, tuition and textbook credits combined, or $5,000, less the amount claimed by the student. (The transfer does not necessarily have to be to the parent or grandparent who actually paid the fees.)

Note: One tax case confirms that the transfer can be current year credits, but not those carried forward by the student.

This extra shelter provided by your child, when combined with proper income splitting techniques with a child, could help ease a parent's tax return.

If a parent doesn’t need this extra shelter, and there is insufficient tax on the part of the student to absorb the credits, any unused combination of education, tuition and textbook credits can be carried forward for future use by the student.

However, if a student passes up claiming the credit, thereby leaving a tax liability, a 2004 Technical Interpretation confirms that the credit carryforward will erode – so it’s use it or lose it!

The CRA document also indicates that the use of certain other credits (such as medical or dividend tax credits) rather than the education-based credits will also reduce the amount available for carry forward.

Another way to look at this is that if an individual has more than enough of these credits to wipe out his or her tax, and there is no benefit to a potential transferee, they will simply go to waste.

**Credit for interest on student loans**

A student may also claim a personal tax credit equal to the lowest tax rate (15 per cent for 2009) multiplied by the amount of interest paid in a year, or any of the previous five years, on a loan made under the Canada Student Loans Act or a similar provincial law.

Unlike the tuition and education credits, this credit is not transferable; the claim is available only to the person to whom the loan was made, or who legally owes interest on the loan.

However, the interest may be paid by the student or a person related to the student. Note that the credit applies to interest only and not repayment of the principal.

Moreover, it does not apply to interest accrued but not paid or to any forgiven interest.

Institutions administering the student loans will usually provide students with statements indicating the eligible
interest payments.

The receipt of the student loan itself is not taxable because it is a loan rather than an income item.

**Transportation credit**

For those kids that take the bus or other forms of public transportation to school, a tax credit is available for the cost of monthly or annual public transit passes.

This credit can be claimed by the student in respect of his or her eligible transit costs (and can also be claimed by a spouse or common-law partner and such person’s dependent children under the age of 19 years).

**Filing a tax return**

The credits I’ve discussed are predicated on the student filing a tax return. However, there are several other advantages which may be available through filing a tax return, including the following:

- **Tax refund**: A student can be entitled to a refund of tax that was withheld by an employer on a summer job. However, this money is not available unless a return is filed.

- **Government cash**: Older students may be entitled to receive cash from the government. These students will usually not actually owe any tax because of the tax credits and deductions available. However, a number of credits are linked to income, such as GST and provincial tax credits.

  For example, if you are 19 or over you may be eligible for the annual GST/HST credit, which is paid in quarterly installments. To apply for it, complete the GST/HST application section of your tax return.

  Also, some provinces provide tax credits for low-income taxpayers which are paid in the form of a tax refund. Find out what is offered in your province.

- **RRSP contributions**: Filing a tax return can establish RRSP “contribution room,” i.e. the ability to make future contributions to an RRSP.

  The student does not have to contribute now, since any unused contribution room can be carried forward indefinitely.

- **Moving expenses**: If students leave home to attend university, they can deduct expenses to move to the school if they have income from scholarships or a part-time job at that location.

  Students can also deduct moving expenses to return home against their income from summer employment. (Note that other deductions, such as child care expenses, are available to parents who go back to school).

  Expenses may include temporary accommodation near the old or new residence (up to 15 days), gas as well as meals and lodging en route.

  If the move is farther afield, don’t forget plane fare.