Tax Tidbits – September 2015

Funding your child's post-secondary education

As children return to school, many parents are faced with the question of how they will fund their children's post-secondary education. For illustration purposes, let's assume that the annual cost to attend university is $30,000, which includes tuition, books and living expenses.

Some of these costs can be recovered through tax credits claimed by the children and parents.

Students can claim non-refundable tax credits for eligible tuition fees and a prescribed amount for each month of qualifying full-time or part-time attendance at classes. The eligible amounts are reported by the school on Form T2202A for students attending university in Canada or Form TL11A for students attending university outside Canada. In this Internet Age, students often need to log into their school's website to download these forms (the schools no longer distribute hard copies by mail).

Students can use the available tuition and education tax credits to eliminate their income taxes payable. Any excess credits can be carried forward for use in subsequent years and up to $5,000 of tuition and education amounts earned in the year can be transferred to a parent. This reflects the fact that the student's parents may be funding the cost of the student's university education. The maximum tuition and education transfer translates into approximately $1,000[1] of tax savings to the student's parents.

Registered Education Savings Plans (RESPs) can be a useful tool for parents who still have many years to save for their children's university education.

Annual contributions to an RESP are eligible for the Canada Education Savings Grant (CESG). The basic CESG is 20% of annual contributions to an RESP for a qualifying beneficiary up to a maximum annual amount of $500 (up to $1,000 in CESG if there is unused grant room from a previous year), subject to a lifetime maximum of $7,200. An enhanced CESG is available for contributions to an RESP for the benefit of children of lower income families[2].

While annual contributions to an RESP are not tax deductible, the CESG and the investment earnings inside the RESP accumulate on a tax-deferred basis. The CESG and investment earnings are taxable in the hands of the student when the funds are withdrawn to fund their

[1] The personal non-refundable tax credits are calculated at the lowest personal tax rate. For 2015 the combined federal and provincial rate for personal non-refundable tax credits is 20.06%.

[2] Families with qualifying net income of $43,953 or less are eligible for an additional 20% CESG on the first $500 of annual RESP contribution. Families with qualifying net income of more than $43,953 but less than $87,907 are eligible for an additional 10% CESG on the first $500 of annual RESP contribution.

university education. Often RESP beneficiaries have little other income so it is possible that no income tax is payable on the RESP withdrawal.

With an RESP, the student's annual university education costs are funded through a combination of non-deductible contributions by the student's parents, the CESG and investment earnings.

Parents who have not established RESPs for their children, or have not accumulated sufficient RESP savings may need to fund their children's university education out of current cash flow.

Assuming a personal marginal tax rate of 44%, an additional salary of $51,800 would be required for a parent to fund their child's annual university cost of $30,000. This is illustrated as follows:

Salary needed to fund education costs	$ 51,800
Less: Personal income tax @ 44%	(22,800)
Add: Tuition and education credit transferred from child ($5,000 @ 20%)	1,000
Net cash to fund education costs	$ 30,000

Family business owners who have introduced a family trust into their business ownership structure can fund their children's university education through the family trust. Doing so can reduce the cash flow needed as follows:

Corporate net income to fund education costs	$ 34,700
Less: Corporate income tax @ 13.5%	(4,700)
Dividend to family trust, which is allocated to student	30,000
Less: Personal income tax paid by student[3]	0
Net cash to fund education costs	$ 30,000

Please contact **Bryan Hubbell** of the Manning Elliott Tax Team for assistance with planning for education expenses in a tax-efficient manner.

[3] Assuming the student has attained the age of 17 before the year and has little or no other income, the non-refundable tuition and education credits and dividend tax credit will eliminate any income tax payable by the student.

Repeated failure to report income penalty

The 2015 Budget announced a change to the repeated failure to report income penalty under Subsection 163(1) of the Income Tax Act which will apply to taxation years beginning after 2014. The subsection has been amended to provide that the penalty only applies if the unreported income is at least $500 in both the year in which the penalty applies and in any one of the three preceding years. Furthermore, the penalty is to be the lesser of:

1. 10% of the unreported income; and
2. An amount equal to 50% of the difference between the understatement of tax (or the overstatement of tax credits) related to the omission and the amount of any tax actually paid (i.e. tax withheld at source).

Please contact **Dagmar Zanic** with any questions.

Change to withholding obligations for non-resident employers

Draft legislation released on July 31, 2015 introduced an exemption to the withholding obligations for certain non-resident employers on payments to non-resident employees who provide services in Canada. The exemption will apply if all of the following conditions are met:

- A non-resident employer is a resident of a country with which Canada has a Treaty;
- A non-resident employer is certified by the Minister of National Revenue at the time of the payment;
- A non-resident employee is exempt from Canadian income tax under a Tax Treaty between Canada and their country of residence; and
- A non-resident employee either:
  - Works in Canada for 45 or fewer days in the calendar year; or
  - Is not present in Canada for 90 days or more in any 12-month period (that includes the time of the payment).

The CRA indicated that the form for applying for certification should be available in late 2015 and that the certificate will apply for two years.

Even if no withholdings are required, the non-resident employer will still be required to issue a T4 slip to the non-resident employee.

If legislated, the above exemption will be applicable starting January 1, 2016.

Please contact **Jody Hatto** for assistance with non-resident employer obligations.

And More…

- **Airbnb**

  Like many other cities, Vancouver has seen a rapid increase in the number of suites available for rent on Airbnb. The accommodations website already collects additional taxes on bookings in Portland, San Francisco, Paris, Amsterdam and Chicago.

  Tourism Vancouver officials are considering extending the current hotel tax to Airbnb stays, but there are no imminent plans to do so and no details on what the rate would be or who would be responsible for collecting the taxes.

  If you earn income from renting your home on Airbnb, keep in mind that there may be tax consequences and the structure of these taxes may change over time as the taxation authorities clamour to keep up with the ever-expanding sharing economy.

- **Medical marijuana**

  The CRA has confirmed that it will allow taxpayers to include the costs of medically-prescribed marijuana as medical expenses on their income tax returns.

  While many are happy with the outcome, some question why other natural remedies (including vitamins) are not eligible even when prescribed by a physician.