



Attention Students: Pay \$0 Tax to CRA With These Tax Breaks

Description

Students are busy preparing for their 2020-21 academic year, which starts in September. You have to arrange for your tuition fees and apply for government grants. At the same time, you have to calculate your estimated tax bill. While you are doing your finances, make note of these two tax breaks, as they can reduce your 2020 tax bill to \$0.

- Personal amount
- Tuition tax credit

Before discussing these tax breaks, calculate your total taxable income.

What is your taxable income?

This year, the Canada Revenue Agency (CRA) launched [several benefits under the COVID-19 response](#), which will be added to your taxable income.

Your 2020 taxable income will include up to \$5,000 in the Canada Emergency Student Benefit (CESB) payments. The CRA will distribute these payments between May and August to help students with their living expenses. Your taxable income will also include up to \$5,000 in the Canada Student Service Grant (CSSG), which you can earn by doing 500 hours of volunteer work.

In addition to the above payments, you will need money to pay for your tuition fees. According to [Statistics Canada](#), the average cost for graduate programs was \$7,056 in 2019/2020. You can fund your graduate program using the educational assistance payments (EAPs) from your Registered Education Savings Plan (RESP). EAPs are taxable, as they comprise of the government grants and interest earned from investments.

Adding the \$5,000 in CESB, \$5,000 in CSSG, and \$7,000 in EAP, your total taxable income comes to \$17,000. If you are living and studying in Ontario, your total tax amount will be \$3,409 (15% in federal tax and 5.05% in provincial tax) on a taxable income of \$17,000.

Two tax breaks that can reduce your tax bill to \$0

Every year, the federal government and provinces set a minimum basic personal amount, which is exempted from tax. Anyone earning below this personal amount pays no tax. For 2019, the federal personal amount is \$12,069, and Ontario's personal amount is \$10,582.

This personal amount will reduce your taxable income to \$6,418 (\$17,000 – \$10,582). On the next approximate \$1,500 income your applicable tax rate will be 5.05%. For the remaining approximate \$4,900 in income, your applicable tax rate will be 20.5%. As an Ontario resident, you can claim up to \$2,345 in personal amount tax credit.

The CRA allows students to claim the federal tax (15%) applied to the tuition fees. You can claim this tuition tax credit only if your fee is not paid or reimbursed by your employer, your parent's employer, or by a federal, provincial, or territorial job training program. If you pay \$7,000 in tuition fees with the EAP, you can claim up to \$1,200 in tuition tax credit.

The above two tax breaks add up to about \$3,500, which is more than your total tax bill of \$3,400. If you claim these two tax breaks, you will pay \$0 in tax to the CRA.

As the two tax credits are non-refundable, you will not receive the balance of \$100 as the income tax refund. However, you can carry forward this \$100 in unused credit to a future tax year or transfer it to your parent or spouse.

Start saving your CRA benefits

Even though you are not paying tax, you can receive cash benefits and financial assistance the CRA offers students who file their income tax returns regularly. The CRA gives goods and service tax credit (GSTC) of \$400 per year to those whose adjusted family net income is below \$20,000. In the COVID-19 response, it paid an additional one-time GSTC of up to \$400.

It might be tempting to spend the \$800 you received in GSTC. But if you hold the temptation and invest this amount in high-growth stocks through your Tax-Free Savings Account, it can multiply five to 10 times in 10 years.

Enghouse Systems is a good growth stock to invest in the long term. The company acquires smaller software companies that cater to the contact centre and logistics sectors. It increased its revenue at a CAGR of 15% between 2015 and 2019. It funds the acquisitions from the cash flows collected from software subscriptions. Hence, it has no debt.

\$800 invested in Enghouse in July 2010 would now be \$14,300. The stock has the potential to grow another five to six times in the next 10 years. Your \$800 can become \$4,800 by 2030.

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