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TAX MATTERS

Postsecondary education planning tips for the family

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Some things in life are way more complicated than they need to be. Buying a mattress, for example. I walked into a store and the sales guy asked me, "Are you thinking about an innerspring, foam, gel, air, water, memory foam or pillow-top mattress?" "Wow, uh, I'm just thinking of something rectangular, a little bigger than me – you know, something I can lie on," I replied. Choosing a mattress is second in complexity only to choosing a postsecondary school – and figuring out how to pay for that education. Here are a few thoughts on postsecondary education to consider if you have a child or grandchild who's a student.

Saving for retirement is your first priority
Many people ask whether they should pause their retirement savings to pay for their kids' postsecondary education. My view is that your retirement savings are a higher priority. There are no scholarships, grants or government-guaranteed loans for your retirement as there are for your child's education. And if your employer matches contributions to a retirement plan for you, it wouldn't be wise to give up those dollars by redirecting your savings to your child's education. Let's face it, you won't want to fund the education of your kids if that causes your children to have to support you in retirement later. There may be better options to paying for that education than forgoing your retirement savings.

Grandparents can be a big help
If you're a grandparent with grandchildren attending postsecondary school, consider whether you can help with some of those costs. Transferring assets to the next generation(s) can be a great estate-planning tactic since it will reduce the value of your estate upon your death. This will reduce taxes and probate fees that might otherwise be owing at that time. Your best bet may be to contribute to a registered education savings plan (RESP) for the grandkids. These contributions can attract Canada Education Savings Grants (CESGs – equal to 20 per cent of your contributions to the RESP, up to $500 annually on contributions of $2,500) from the government. If you set up an RESP that is a family plan, you can name all of your grandchildren as beneficiaries, so that if one or more choose not to attend school, the funds will be available to the others. Make sure you speak to your own children (the parents of the student) to talk about your desire to help. If your own children are also contributing to an RESP for their kids, then CESGs might not be paid out on all of the contributions. Co-ordinating with them so that $2,500 is contributed by all of you combined each year will maximize the CESGs.

Establish an education budget
You should have some idea as to what it will cost for your child to attend postsecondary school. Tuition can vary widely, depending on the type, location and program of study. As a start, consider the averages across Canada: Tuition – $6,500; books and supplies – $2,000; accommodation – $7,500; food – $4,500; transportation and personal costs – $3,500. That totals about $24,000 for each school year, for a child living away from home. This is $96,000 for a four-year degree or diploma. Living at home will save big bucks. Once you know the estimate of total costs for the years your child will be in school, then it's time to creating a funding plan.

Create an education funding plan
I've written before about the five ways to pay for an education: begging (looking for scholarships, grants, awards or bursaries), borrowing (try your provincial student-loan program first), stealing (this involves liquidating your other assets to pay for school, whether it's retirement savings or other assets

– this should be your last resort), sweating (having your child earn income during the summer months and part-time during school to help cover costs) and saving (the surest way to pay for that education).

Be mindful of tax breaks for students

Every tax break will put a little more money in your pocket – or the student's. Consider the tuition, education and textbook tax credits (the last two will be eliminated Jan. 1, 2017, but the tuition credit will remain); exemption for scholarships, bursaries and fellowships; student-loan interest credits; moving expenses; public transit credits; the lifelong learning plan (allows withdrawals from an RRSP to pay for school – for you or your spouse or common-law partner, but not your child – under certain conditions); and the GST/HST credit worth up to about $276 this year just for being 19 years of age and filing a tax return.

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