



TAX MATTERS

Seven tax-smart ways to educate your kids

TIM CESTNICK

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You have to wonder about some of the courses kids are taking today in [college and university](#). Skidmore College in Saratoga Springs, N.Y., for example, offers a course called "The Sociology of Miley Cyrus." Then there's Pitzer College in California that offers the course "Learning from YouTube." I share all of this with you at the risk of having my own kids read it and then decide to pursue a bachelor's degree in something like "Wasting time on the Internet." Regardless of the course of study, it's important to make use of tax-smart education planning.

Tax-smart education planning is all about putting dollars in the hands of that student in your life, to pay for an education in a manner that results in tax savings to you, no tax to the student, or both.

In these cases, you're causing the taxman to partner with you in paying for that education. Here are seven creative ideas to consider.

1. Scholarship dollars. Last week I talked about the fact that scholarship dollars can be tax-free for a student – and won't come from your pocket. Encourage your child to apply for various scholarships up to one year ahead of attending school. As a start, take a look at the following websites for specific scholarships available: www.scholarshipscanada.com, www.yconic.com and www.canlearn.ca.

2. Wages from a family business. If you happen to own a business – full- or part-time – and are looking for ways to save tax, consider paying your child to work in the business. You can pay reasonable wages which are deductible against your business income. If your child's total income is under \$11,474 (the basic personal amount in 2016), she won't pay any tax on those wages. These dollars can be used to pay for education. Effectively, you will have deducted the costs of education from your business income. Don't have a business? Consider starting one part-time to create the opportunity to claim deductions like this.

3. Loans from a parent's corporation. If you have a corporation, it's possible for your company to lend money to your child to pay for an education. The amount will be taxed in the hands of your child if it's not repaid within one year of the company's year end. No problem. If your child's total income is under \$11,474 in 2016, including the amount of the loan, then your child won't face tax. Here's the best part: When your child has graduated and is working, he can repay the loan at that time and will receive a deduction for the amount repaid. That's right. No tax when the loan is made, in my example, but a valuable deduction later when your child can use it.

4. Helping in a family move. If you plan to move in the near future and are eligible to deduct the costs (such as for work, etc), consider paying a child who is 18 or older to help in the move. If you're otherwise eligible to deduct moving expenses, you'll be able to deduct these wages. Your child can then use those dollars to contribute toward an education. Your child will have to report the wages as income, but won't face tax if his taxable income is less than \$11,474 in 2016.

5. Looking after younger siblings. Pay your adult child (18 or older) to look after the younger ones (16 or younger) and you may be able to claim the amount paid as child-care expenses if you otherwise qualify to deduct child-care costs. Your child can use those dollars to help pay for school, and won't face tax if her taxable income is under \$11,474 in 2016.

6. Investing gifts from mom and dad. Consider a registered education savings plan (RESP) to set aside funds for your child. Contributions can come with a Canada Education Savings Grant (CESG), which I've written about before. Also consider setting up in-trust accounts for your minor children and invest for growth in those accounts. Any capital gains over time will be taxed in the hands of your child, who will likely pay little or no tax. Your child can use those funds for education later (although she won't be obligated to do that; still, you likely carry some moral suasion on that point).

7. Transferring certain tax credits to a parent. A student is entitled to tuition, education and textbook tax credits (the latter two disappear in 2017 and later years). These can be transferred to a parent (or spouse) if the student doesn't need them to reduce taxes to zero.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author and founder of WaterStreet Family Offices.