CESTNICK

TAX MATTERS

How to fund your education amid COVID-19

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Last week, I wrote about the five methods of paying for a postsecondary education: begging (getting free money through scholarships or grants), borrowing (taking out student loans or parents borrowing to pay for an education), stealing (stealing from other assets to pay for an education; this could include making withdrawals from RRSPs or disposing of other assets to raise the cash necessary), sweating (where the student works during the school year or in the summer to earn the income to pay for school) and saving (where students, or more likely parents, save over time to cover the costs of education).

I then talked about the first two methods in more detail. Today, I want to finish the conversation with a focus on stealing, sweating, and saving for an education in today's COVID-19 world.

STEALING

Paying for a postsecondary education can be easier if you have other assets to steal from. Most commonly, I see parents drawing from non-registered investment accounts to help cover the costs of education, but I have also seen folks make withdrawals from a registered retirement savings plan (RRSP) to contribute to education costs.

Here's the issue: Saving for your retirement should take priority over raising the cash for your child's postsecondary education. After all, there are other ways to pay for that education. So withdrawing from an RRSP should be a last resort – and something to be avoided, if at all possible.

If you're going to borrow money to help a child pay for an education, and you have non-registered investments available, consider liquidating the investments (count the tax cost first) to cover education costs, then borrow to replace the investments. This way, you'll be able to deduct the interest on the borrowed funds. If you borrow directly for the purpose of paying for education costs, the interest won't generally be deductible (loans to the student under the Canada Student Loan Program or similar provincial programs are different in that they will give rise to a tax credit for interest costs paid).

SWEATING

Sweating involves the student working part-time during the school year and/or working during the summer months to help pay for school. As it turns out, 2020 is a tough year for many students to find the work they need because of COVID-19. Students should consider a couple of alternatives here. The first is the Canada Summer Jobs Program, which has been extended for 2020 to allow employers who hadn't applied for the program by the usual Feb. 28, 2020, deadline, to apply up until Feb. 28, 2021. In addition, employers can now receive a wage subsidy of up to 100 per cent (up from 50 per cent) of the local minimum wage to pay their workers. Job placements began on May 11, 2020, and can end as late as Feb. 28, 2021. To check out jobs available, youth can apply through the job bank website (www.jobbank.gc.ca) and app.

A second option will be the Canada Student Service Grant (CSSG) program. This program will pay between $1,000 and $5,000 for a student's education, depending on the number of hours the student volunteers in an eligible position (it must be a minimum of two hours a week for four consecutive weeks). This is the program that was to be administered by WE Charity, but that organization won't be involved any longer. At the moment, the government is considering options for administration of the program, and so applications for service opportunities and students are not currently being processed or accepted. Check the website www.jobbank.gc.ca/volunteer fo r updates.

When the program is rolled out, you'll qualify if you're 30 or under as of Dec. 31, 2020, enrolled full- or part-time in a recognized postsecondary education program in spring/summer 2020 or fall 2020 or have completed your postsecondary studies in Dec. 2019 or later. You'll also need to be a Canadian citizen, permanent resident or refugee.

SAVING

The sooner you start saving for a postsecondary education the better. Time is your ally here because of the power of compounding investment returns. Saving through a registered education savings plan (RESP) should be your first option since contributions can be accompanied by the Canada Education Savings Grant (CESG) worth up to 20 per cent of the first $2,500 of RESP contributions each year, or $500 ($100 higher in some lower-income situations), with a lifetime maximum of $7,200 a student.

Given the uncertainty surrounding equity markets in the short term because of COVID-19, funds should only include equity investments if the money won't be needed to cover education costs for, say, three or more years. Funds needed for the upcoming school year, or for 2021-22, should be invested in more conservative securities or cash to avoid volatility.

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