CESTNICK

TAX MATTERS

Borrowing for school should be guided by earning potential

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Post Malone is an American singer, songwriter, and producer – and he's quite an entrepreneur. In addition to his music, he's featured on a special-edition Bud Light beer can, has a line of sunglasses, footwear, wine, collectible trading cards, and has invested in an e-sports and gaming company.

He might want to get into the lending business. Particularly student loans. He could market the business as being student-friendly, maybe allowing for delayed repayments until certain milestones after graduation. Hey, he could call the business "Post Malone's Postpone Ma Loans." Just a thought.

The fact is, many students simply could not pursue a postsecondary education without student loans. Being able to delay repayment of this debt helps, but students need to manage how much debt they accumulate. Let me explain.

8 tax ideas to put money back in the pockets of students

The Idea

Borrowing to increase your income and net worth through a good education is generally a prudent use of debt. The caveat is that you should pay attention to the terms of your borrowing. Avoid the usurious interest rates that often come with borrowing from private lenders, don't expose any of your assets to the lender, and make sure you're allowed to pay off the debt early.

And when you do borrow, don't borrow so much that it will cause significant financial stress for years to come.

But how much student debt is too much? Well, different types of education will produce different financial results. Some areas of study offer higher income potential than others, and certain types of degrees or certification generally lead to higher incomes as well.

I'm not suggesting that you choose a course of study or type of program just because you can earn more. Many would say actually enjoying what you do and pursuing your passions is just as – or even more – important. But make sure you do this with your eyes wide open so that you know what to expect and govern your borrowing accordingly. We'll look at some guidelines for how much debt is acceptable. But let's first take a look at earnings potential.

The Potential

If you're looking for research on the level of income earned by graduates of certain education programs, there's lots of information out there. Statistics Canada has a plethora of information available. In April of this year, the agency updated statistics detailing the median employment income of postsecondary graduates five years after graduation.

The data were grouped by level of educational qualification and field of study. As for educational qualifications, the following levels provide the following median amounts of income, five years after graduation (all in 2021 dollars): (1) career, technical or professional training certificate – $45,100, (2) career, technical or professional training diploma – $49,000, (3) undergraduate degree – $64,000, (4) professional degree (numbers provided are specifically for law, medicine, dentistry, veterinary medicine, optometry, and pharmacy) – $106,700, (5) master's degree – $80,900, and (6) doctoral degrees – $90,100.

Within each of these six qualification levels, the highest-paying fields of study are mathematics, computer and information sciences, architecture, engineering, and related technologies. The lowest-paying fields of study are visual and performing arts, communications technologies, education, and humanities.

Students, don't take the first credit card offered to you, even if it comes with a freebie

The Guidelines

So, how much should you borrow for your education? I suggest following the Rule of Tens: Figure out how much you think you'll earn annually upon graduation, then subtract $10,000. This is most debt you should accumulate in order to pay off that loan comfortably in 10 years.

Consider this example: If you believe that you can earn $50,000 annually upon graduation, then subtract $10,000 from this amount, which equals $40,000, and this should be the most student debt you should accumulate in order to pay off that debt over 10 years without much stress. With this formula, your loan payments will generally be 10 to 15 per cent of your take-home pay each month, for 10 years, which should be manageable.

In addition, make sure that you borrow, if you can, under a government student or apprentice loan program – as opposed to borrowing, say, using a line of credit or in some other manner. The reason? You'll then be able to claim a tax credit for your student loan interest. This will reduce the cost of your borrowing and also generally means that student loans should be paid off last of all your debts. Further, these loans often provide flexibility in deferring repayment in certain situations.

If you're an apprentice, you should know that there's a Canada Apprentice Loan initiative that can provide up to $4,000 in interest-free loans per period of technical training. You can apply for both government grants and loans online at www.canada.ca (enter "apply for student loans" in the search field).

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