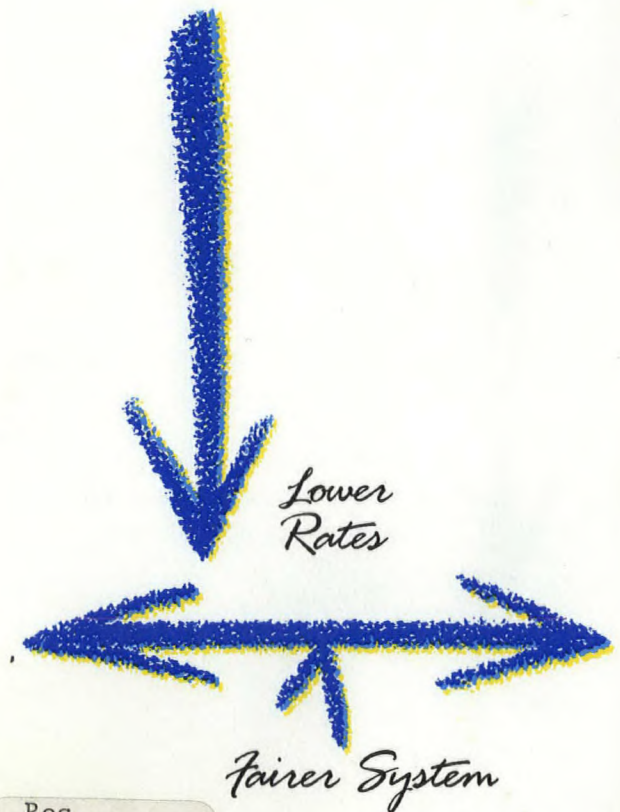
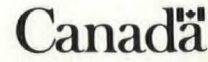


How Tax Reform Benefits Students



Res. HJ2449 C36q 1987



Highlights for Students
The majority of students and their supporting families will pay less tax as result of important changes to the personal income tax system.

Main Changes

There are two key ways in which tax reform will improve the personal income tax system.

Lower Rates: Personal income tax rates will be lowered. The present 10 tax brackets, with federal tax rates rising as high as 34 per cent, will be reduced to three brackets for tax year 1988:

Taxable income	Tax rate*	Proportion of taxpayers
Up to \$27,500	17%	66%
\$27,501 – \$55,000	26%	29%
\$55,001 and over	29%	5%

* These rates apply to the portion of a taxpayer's income that falls within the ranges shown.

Fairer System: A number of exemptions and deductions will be replaced by tax credits. Exemptions, which reduce taxable income, are worth more to taxpayers in the higher income brackets than in the lower. The new federal tax credits are fairer. They directly reduce tax and provide the same tax reduction for all taxpayers.

HJ2449 C36q 1987

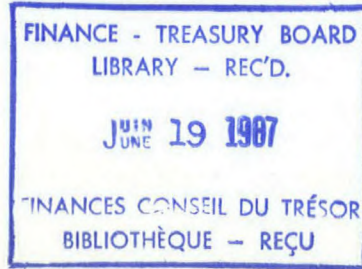
New tax credits – 1988	Federal tax* value for all taxpayers	Federal tax value of current exemptions with new rates	
		0 – \$27,500 of taxable income	Over \$55,000 of taxable income
Basic personal	\$1,020	\$725	\$1,240
Married or equivalent	850	635	1,085
Age (65 and over)	550	455	775
Disability	550	495	845
Dependant under 18**	65	65	115
Infirm dependant (over 18)	250	250	425

* The value of the federal credit is about two-thirds of its total value in all provinces except Quebec since Quebec levies its own personal income tax. For example, the basic personal credit of \$1,020 on federal tax will reduce provincial taxes by an average of about \$560 for a total value of \$1,580.

** Under present law, the child tax exemption is scheduled to equal the value of the family allowance by 1989. The new credit has been set at a level equal to 17 per cent of the estimated family allowance payable in 1988.

Many other deductions will be converted into federal tax credits at 17 per cent of their value. These include employees' Canada and Quebec pension plan contributions and unemployment insurance premiums; tuition fees and education deductions (transferable up

to \$600), eligible medical expenses above 3 per cent of net income, the first \$1,000 of pension income, and charitable donations (17 per cent for the first \$250 of donations and 29 per cent of each additional dollar).



Benefits for Students

- The income level at which students start paying tax will rise. A typical full-time university student who pays fees of \$1,000 will not pay any tax until his or her income reaches \$8,235, compared with the present threshold of \$6,885. As a result, many more students will pay no federal income tax.
- The current deduction for tuition fees will be replaced by a tax credit of 17 per cent of all post-secondary tuition fees eligible for the tax deduction. The current education expense deduction of \$50 per month will be replaced by a federal tax credit of \$10 per month for full-time students attending a designated educational institution. This increases the value of the education expense deduction for students in the 17-per-cent tax bracket.
- Under the existing rules, only the student may claim a deduction for tuition fees even if someone else paid them. Under tax reform the student may transfer the first \$600 of tuition and education credits that he or she is unable to use to a supporting parent, grandparent or spouse. Assuming the student spends eight months in attendance at a post-secondary institution and so earns an \$80 education credit, the \$600 transfer will cover about \$3,000 of tuition fees.

- For the majority of students and their families, the new tuition and education credits will provide benefits equivalent to or better than the current deductions.
- The changes will apply to the 1988 and subsequent taxation years. For the purpose of the new credit, the portion of tuition fees paid in 1987 that relate to courses taken in the 1987-1988 academic year, and that are not deducted in 1987, will be treated as having been paid in 1988.
- It is expected that about 1 million post-secondary students will claim the tuition fee credit. Approximately 600,000 full-time students will claim the education credit in 1988, with another 340,000 transferring the credit to a supporting parent, grandparent or spouse. Most of this latter group will now be able to transfer the tuition credit as well.
- Tax reform continues the exemption for the first \$500 of scholarship income.
- Many students will also be eligible for the increased, refundable sales tax credit of \$70 and will benefit further from the major enhancement and extension of this credit planned for stage two of comprehensive tax reform.



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