

Marmer Penner Newsletter

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PROPOSED ONTARIO EDUCATION TAX CREDIT

The Ontario Ministry of Finance recently released its tax legislation bulletin outlining the Equity in Education tax credit. This is the new refundable credit announced in the 2001 Ontario Budget which is intended to compensate parents for the cost of their children's private school tuition.

The credit will be phased in over five years commencing 2002 for parents and legal guardians in respect of the tuition cost of independent schools in Ontario. It is expected that the proposed credit will lower the net cost of private school tuition. As such, the effect of this credit may be that it reduces the cost of this particular add-on with respect to child support. It is expected that most private schools in Ontario meet the definition of an eligible independent school.

The credit will be available for any child aged between four and 21 in each year based on maximum tuition of \$7,000 except for children under age six where the maximum is \$3,500. The credit cannot be claimed by a trust.

When fully phased in, the credit will reimburse parents and guardians for up to 50% of tuition fees. In 2002, the reimbursement is 10% and rises 10% annually until the phase-in is complete in 2006.

For some schools, a portion of fees paid may be eligible for charitable donation tax credits. Similarly, some portion of fees may be considered child-care expenses. Where either of these occurs, the net tuition for the credit is calculated after reducing fees by the charitable and child-care components respectively.

Consider the example of Sara and David who attend a religious private school. Sara is 14 and her fees are \$10,000. David is five and his fees are \$8,000. In both cases, 50% of the fees qualify as charitable donations. Accordingly, the net tuition fee for calculating the credit is \$5,000 for Sara and \$4,000 for David. Due to David's age, his maximum net tuition fees are capped at \$3,500 for the year. In 2002, the parents qualify for a credit of 10% of \$5,000 for Sara and \$3,500 for David, or \$850 (10% x [\$5,000 + \$3,500]). Where more than one parent pays the tuition fees, the tax credit may be allocated in proportion to payment. If Sara and David's parents were no longer married and the father paid 60% of the fee, he would be entitled to 60% of the credit.

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We wish our friends and clients a healthy, happy and prosperous New Year. We appreciate and thank you for your continued support.

This newsletter is intended to highlight areas where professional assistance may be required. It is not intended to substitute for proper professional planning. The professionals at Marmer Penner will be pleased to assist you with any matters that arise. Please feel free to visit our website at www.marmerpenner.com.