

# Budget 1998

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*Building Canada  
for the 21<sup>st</sup> Century*

## ***The Canadian Opportunities Strategy***

Helping Canadians  
Upgrade Their Skills

February 1998

Canada



*“Canadians know that their ability to continue earning depends on their ability to continue learning.”*

*Finance Minister Paul Martin  
1998 budget speech*

Canadians know that the economy is becoming increasingly knowledge-based. And this is not only because of the new “high-skill” jobs in “high-tech” industries. There has been a steady rise in skill requirements in all sectors of the economy and in most types of jobs.

Today, more than ever, good jobs require greater knowledge, broader skills and higher education. And it is clear that more and more Canadians want or need to upgrade their knowledge and skills. For example, over the last 20 years, the number of adults returning to full-time study has tripled, most of them returning for job-related reasons.

The *Canadian Opportunities Strategy* will expand access for Canadians to the knowledge, skills and learning they will need for better jobs that deliver a better standard of living in the 21<sup>st</sup> century.



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## **Tax-Free RRSP Withdrawals for Lifelong Learning**

To keep their job or get a new one, many Canadians who are already in the workforce want to take time away from work to upgrade their skills through full-time study. But often they do not have the necessary financial resources. For many, the most readily accessible source of funds may be their registered retirement savings plans (RRSPs) – a resource that, until now, they could not use without permanently reducing the amount of their retirement savings.

Few things are more critical to ensuring an adequate income in retirement than earning a good income while working. Allowing Canadians access to their RRSPs for retraining is a good way to achieve both goals.


Therefore, beginning on January 1, 1999, Canadians will be able to make tax-free withdrawals from their RRSPs for lifelong learning.

### *Who will be eligible?*

- An individual who has an RRSP and is enrolled in full-time training or higher education for at least three months during the year.
- Students with disabilities may qualify even while studying on a part-time basis.

### *How much can I withdraw?*

- Individuals may withdraw up to \$10,000 per year. More than one withdrawal can be made in a year as long as the annual limit is not exceeded.
- Further withdrawals can be made for a period of up to four years, provided the total amount withdrawn is not over \$20,000.

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- Contributions made to an RRSP less than 90 days before a withdrawal will not be eligible under the plan.

### *Will I have to pay it back?*

- Yes. To preserve the role of RRSPs in providing funds for retirement, individuals will have to repay the amount they withdraw.

### *How will the repayment work?*

- RRSP withdrawals will be repayable in equal instalments over a 10-year period.
- The first repayment must be made in the year following the last year the student was enrolled on a full-time basis, or in the sixth year after the first withdrawal for lifelong learning, whichever comes first.
- Individuals may choose to repay more than the scheduled amount in any year. If they decide not to proceed with retraining, they must repay the full amount withdrawn during the same year.
- All repayments are without interest, and cannot be deducted for income tax purposes.

### *What happens if I don't repay on time?*

- Any amounts not repaid on time will be included in the individual's income for tax purposes in that year.

### *Am I restricted to only withdrawing funds once?*

- No. Individuals may participate in this program on one or more occasions over their lifetime. However, once an individual begins repayment, no new withdrawals will be permitted until all repayments have been completed.



### ***Example***

*John loses his job in 1999 and decides to take a one-year, full-time computer programming course. To finance his studies, he withdraws \$5,000 from his RRSP, tax-free. He obtains a new job in the year 2000. He must repay \$500 into his RRSP for each of the 10 years starting in 2001, although he can repay more rapidly at any time.*

## **Tax Relief for Part-Time Students**

Canadians know that the realities of the new job market require them to continually upgrade their knowledge and skills. A growing number are seeking to do this through part-time study, and the majority are trying to manage the difficult balance of work, family and study. The *Canadian Opportunities Strategy* will provide further support to them.

### **Education Credit**

The education credit is one of the major ways the government provides assistance to post-secondary students. It helps with their non-tuition costs such as books and living expenses but, until now, has only been available to full-time students.

For the first time, beginning in 1998, about 250,000 part-time students enrolled in eligible post-secondary programs will be able to claim a portion of the education tax credit.

### ***How much can I claim?***

■ Students will be able to claim an education amount of \$60 for each month during which they were enrolled in a course lasting at least three weeks and including a minimum of 12 hours of course work per month.



### ***Example***

*Lynne is a part-time student. She is enrolled in two eligible courses for eight months during a year, and could be eligible for an education amount of \$480 (i.e. eight months at \$60 per month). This would result in an average combined federal-provincial tax saving of about \$120. If her tuition is \$1,200, the tuition and education credits together would be worth about \$420 in tax relief.*

## **Child Care Expense Deduction**

Parents who want or need to upgrade their skills and knowledge may face the added costs of caring for their children. The 1996 budget enabled full-time students who are parents to claim the child care expense deduction against all types of income.

The 1998 budget proposes to enhance this deduction – about 50,000 part-time students with dependants will now be able to deduct child care expenses.

### ***Who will be eligible?***

- Single parents will be able to deduct child care expenses for periods during which they were enrolled in part-time course work.
- In a two-parent family, the higher-income spouse will be allowed to claim child care expenses arising out of the part-time education of the other spouse.

### ***How much can I claim?***

- For two-parent families, the deduction will be equal to the least of: actual expenses; two-thirds of earned income for the year; and, for each month for which a part-time education credit is claimed, \$175 per child under age 7 and \$100 per child age 7 to 16.



### *Example*


*Lynne, a single parent with two children age 8 and 6, is a part-time student for eight months of the year. She claims an education amount of \$480, for a tax saving of \$120. In addition, she will now be eligible to also claim all her child care expenses up to \$2,200, for an additional saving of \$550. Together, these new measures provide tax savings of \$670.*

*If her tuition is \$1,200, she currently gets a tax reduction of \$300. Under the current system, that is the total tax relief she receives with respect to her education expenses. With this budget's two new measures for part-time students, the tax assistance for her education more than triples to \$970.*

## **The Canadian Opportunities Strategy**

The *Canadian Opportunities Strategy* contains important measures to enhance affordable access to knowledge and skills.

- **Canada Millennium Scholarships** will increase access to post-secondary education for over 100,000 students of all ages each year, and will be available for both full- and part-time studies.
- **Canada Study Grants** of up to \$3,000 a year will help over 25,000 needy students with children or other dependants.
- For the first time, all students will get tax relief for interest payment on their student loans.
- Improvements to the **Canada Student Loans Program** will help those facing financial difficulties in repaying their debt.
- Funding will be increased to the three **granting councils** to support advanced research and graduate students.



■ Tax-free withdrawals from **RRSPs** for lifelong learning will help Canadians upgrade their skills or learn new ones through their working lives.

■ The **education credit** and **child care expense deduction** will be extended to part-time students.

■ A new **Canada Education Savings Grant** will be provided to families who save for their children's education through **registered education savings plans**.

■ To support **youth employment**, funding will be more than doubled for youth at risk who lack basic education and job skills, and employers will be given an employment insurance premium holiday for additional young Canadians hired in 1999 and 2000.

■ Access to the **information highway** will be expanded to more schools and communities.

### *How can I get more information?*

For further information, call 1-888-781-0000 (TDD: 1-800-465-7735) between 8 a.m. and 10 p.m. eastern time Monday to Friday.

Information is also available on the Internet at: **<http://www.fin.gc.ca/>**

Copies of this brochure and other information regarding the *Canadian Opportunities Strategy* will be available at post-secondary institutions across Canada.

You can also obtain copies of this brochure or other budget papers from:

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