

Co-operative Education Tax Credit

4014

Reference: Section 88 of the *Taxation Act, 2007*.

Application

This bulletin replaces Interpretation Bulletin 3021R1 dated November 2007.

This bulletin provides general guidelines on the co-operative education tax credit (CETC). It is not a substitute for the legislation contained in the *Taxation Act, 2007* (TA).

General

The 2009 Budget introduced enhancements to the CETC for expenditures incurred after March 26, 2009. The CETC reimburses employers 25 per cent of eligible expenditures. Smaller businesses are eligible for a higher credit rate of 30 per cent. The maximum credit for each qualifying work placement is \$3,000. For expenditures incurred prior to March 27, 2009 the CETC reimburses employers 10 to 15 per cent of eligible expenditures up to a maximum tax credit of \$1,000 for each qualifying work placement. The maximum amount of the CETC is prorated for taxation years straddling the effective date.

Table of Contents

- Pg 2 How does the tax credit work?**
- Pg 3 What is a small business?**
- Pg 5 How do I claim the tax credit?**
- Pg 5 Who is an eligible employer for the purposes of this tax credit?**
- Pg 5 What is a qualifying work placement?**
- Pg 6 Is there more than one placement if the student is employed for more than four months?**
- Pg 6 What is a qualifying co-operative education program?**
- Pg 7 What is an eligible educational institution?**
- Pg 7 What is an eligible expenditure?**
- Pg 8 How do eligible employers support their tax credit claims?**
- Pg 8 How do eligible educational institutions participate in this tax credit program?**

How does the tax credit work?

For each qualifying work placement ending in the taxation year, an eligible employer may claim a refundable tax credit for eligible expenditures incurred **after March 26, 2009**, equal to the lesser of:

- 25 per cent (30 per cent for small businesses for qualifying work placements) of the eligible expenditures made in respect of that work placement and
- \$3,000.

For eligible expenditures incurred **before March 27, 2009**, an eligible employer may claim a refundable tax credit equal to the lesser of:

- 10 per cent (15 per cent for small businesses) of the eligible expenditures made in respect of the work placement and
- \$1,000.

The maximum amount is prorated for qualifying work placements **straddling March 26, 2009**. The proration is calculated using the following formula:

$(\$1,000 \times X/Y) + [\$3,000 \times (Y - X)/Y]$ in which,

"X" is the number of consecutive weeks of the qualifying work placement completed by the student before March 27, 2009, and

"Y" is the total number of consecutive weeks of the student's qualifying work placement.

The eligible employer's total tax credit for the taxation year is equal to the sum of the tax credits for each qualifying work placement.

Example #1

Proration of the maximum amount of the CETC for a work placement straddling March 26, 2009.

Facts:

- Student began employment on February 23, 2009
- Work placement ended on May 15, 2009.

Solution:

The student was employed for a total of 12 weeks, four of which were completed prior to March 27, 2009.

X = 4, the number of weeks before March 27, 2009

Y = 12, the total number of consecutive weeks

$$(\$1,000 \times 4/12) + [\$3,000 \times (12 - 4)/12] = \$2,333$$

In this example the maximum prorated amount of the CETC is \$2,333.

What is a small business?

A small business is defined as a corporation, partnership or an individual with one or more unincorporated businesses whose total payroll in the previous year was \$400,000 or less. For eligible expenditures incurred **after March 26, 2009**, small businesses are entitled to the CETC at 30 per cent. Taxpayers with payrolls of \$600,000 or more are entitled to the CETC at 25 per cent.

For eligible expenditures incurred **before March 27, 2009**, a small business whose total payroll in the previous taxation year was \$400,000 or less is entitled to the CETC at 15 per cent. Taxpayers with payrolls of \$600,000 or more are entitled to the CETC at 10 per cent.

Example #2

Calculation of the CETC.

Facts:

- employer's total salaries in previous taxation year were \$300,000
- student began work placement on September 1, 2009
- work placement ended on November 24, 2009
- student's wages were \$750 per week.

Solution:

The student was employed for a total of 12 weeks. Since the corporation's salaries were less than \$400,000, the taxpayer is entitled to the credit at the rate of 30 per cent.

The credit is equal to the **lesser** of:

$$\mathbf{\$2,700} = (\$750 \times 12 \times 30\%) \text{ and}$$

\\$3,000, the maximum amount of the CETC for expenditures incurred after March 26, 2009.

In this case the calculated amount of the credit is less than the maximum amount. Therefore, the tax credit available is **\\$2,700**.

For taxpayers that have payrolls greater than \$400,000 but less than \$600,000 in the previous taxation year, the small business enhancement is gradually phased-out under the following formula:

$$A = (10\% \times E) + (25\% \times F) + [(5\% \times G) \times (1 - H/\$200,000)] \text{ in which,}$$

"E" is the sum of all eligible expenditures incurred by the taxpayer for the qualifying work placement before March 27, 2009,

"F" is the sum of all eligible expenditures incurred by the taxpayer for the qualifying work placement after March 26, 2009,

**What is a small business?
(continued)**

"G" is the sum of all eligible expenditures incurred by the taxpayer for the work placement and

"H" is the total amount of salaries or wages paid by the taxpayer in the previous year that exceed \$400,000.

For each qualifying work placement, the taxpayer will claim the **lower** of the amount determined under "A" and the maximum amount for a work placement (or prorated maximum amount as calculated in the section above).

Example #3

Calculation of the CETC for a work placement straddling March 26, 2009, where the employer's small business enhancement is gradually phased-out.

Facts:

- employer's total salaries in previous taxation year were \$500,000
- student began work placement on February 23, 2009
- work placement ended on May 15, 2009
- student's wages were \$750 per week.

Solution:

The student was employed for a total of 12 weeks, four of which were completed prior to March 27, 2009. The credit is calculated using the formula:

$$A = (10\% \times E) + (25\% \times F) + [(5\% \times G) \times (1 - H/\$200,000)] \text{ in which,}$$

E = \$3,000 (4 weeks x \$750), expenditures incurred before March 27, 2009,

F = \$6,000 (8 weeks x \$750), expenditures incurred after March 26, 2009,

G = \$9,000 (\$3,000+\$6,000), the sum of all expenditures incurred during the work placement and

H = \$100,000 (\$500,000-\$400,000), the total amount of salaries from the previous taxation year that exceeds \$400,000.

The credit is equal to the **lesser** of:

$$\mathbf{\$2,025} = (10\% \times \$3,000) + (25\% \times \$6,000) + [(5\% \times \$9,000) \times (1 - \$100,000 / \$200,000)] \text{ and}$$

\$2,333, the maximum prorated amount of the CETC as calculated in example #1 on page two.

In this case, the calculated amount of the credit is less than the maximum prorated amount. Therefore, the tax credit available is equal to **\$2,025**.

How do I claim the tax credit?

Eligible corporations can claim the tax credit on schedule T2SCH550 of their T2 Corporation Income Tax Return. Eligible employers operating unincorporated businesses can claim the tax credit on Form ON479, "Ontario Credits", included in their personal income tax return. Members of a partnership can claim their share of the CETC on their own corporate or personal tax returns.

Employers may claim a previous year's tax credit or change the amount previously claimed by requesting an amendment to their tax return. Incorporated businesses must send the reassessment requests to the tax centre that serves the corporation. The request must include the name of the corporation, the Business Number, the tax year, and any additional details. Relevant supporting information, such as revised financial statements and schedules must also be attached. A Canadian-controlled private corporation must make its request within three years of the initial assessment. Other corporations must make their request within four years of the initial assessment. Operators of unincorporated businesses requesting an amendment to a previous tax year should follow the instructions provided on the federal income tax and benefit package or call the nearest Canada Revenue Agency office for assistance.

The tax credit is available to businesses for the taxation year when the work placement ends. The tax credit will reduce tax payable for that year and any excess will be refunded. The full amount of the credit is considered to be taxable government assistance.

Who is an eligible employer for the purpose of this tax credit?

An eligible employer includes all corporations or unincorporated businesses with permanent establishments in Ontario subject to Ontario corporate income tax or Ontario personal income tax. Members of a partnership may share the CETC for each qualifying work placement. Limited partners are not entitled to this credit; however, the general partners of a limited partnership are entitled to share the credit.

When an eligible student is hired by two or more associated corporations for work placements, the associated/related employers will be considered to be one employer for the purposes of claiming this credit. The associated/related corporations will designate which corporation will have the qualifying work placement.

What is a qualifying work placement?

To qualify, a work placement must involve a student who is enrolled at an eligible educational institution and performs employment duties for an eligible employer under a qualifying co-operative education program that is offered by their school. The work placement must meet the following conditions:

- The placement has been developed or approved by the eligible educational institution,
- The student must be engaged in productive work during the placement and not be just an observer,
- The work placement is:
 - not less than eight months or more than sixteen months, for a qualifying internship program or
 - at least 10 weeks for all other qualifying co-operative education programs,

What is a qualifying work placement? (continued)

- The student is paid for the work performed during the placement,
- The employer supervises and evaluates the student's job performance during the placement and
- The educational institution monitors the student's progress in the work placement.

Is there more than one placement if the student is employed for more than four months?

Most work placements are for a minimum employment period of 10 weeks up to a maximum of four months. However, some educational programs (e.g., qualifying internships) call for employment periods to exceed four months. If this occurs any additional four-month periods for that student will be considered a separate placement. If the employment period does not divide equally into four months or if the period is less than four months but is more than 10 weeks, that period will be considered a separate placement. If the period is less than 10 weeks, then it will be considered part of the placement for the last completed four-month period.

For example, assume one student works 11 months and another student nine months. The first student has three qualifying co-op work placements i.e., two with four months and one with three months. The second student will have two placements, i.e., one for four months and one for five months.

What is a qualifying co-operative education program?

A qualifying co-operative education program is an educational program or course of study that formally integrates students' academic studies with work placements and meets the requirements below. These requirements generally parallel those established by the Canadian Association for Co-operative Education for defining a cooperative education program.

- For an educational program other than an internship program:
 - each work component must be at least 10 consecutive weeks
 - the student is required to finish 50 per cent of the work components to complete the educational program
 - the total time spent in the work components is not more than 75 per cent of the total time spent in required academic study, and
 - the total time for mandatory work components must be at least 30 per cent of the total time spent in required academic study.
- If the educational program is an internship program:
 - there is an optional work component of at least eight consecutive months but not more than 16 consecutive months and
 - the total time spent in the work component is at least 30 per cent and not more than 75 per cent of the time spent in required academic study.
- All optional work placements must be completed before the start of the final academic term and must be recorded in the student's transcripts.
- The educational program provides credit towards a post-secondary degree, diploma or certificate by an eligible educational institution.
- The appropriate governing body for the eligible educational institution, through its authorized delegate, has provided to the Minister of Finance, or to his or her delegate, a list of programs that meet the requirements listed above.

An eligible educational institution must keep proper documentation to prove that its governing body or its authorized delegate has stated that the submitted list of programs to the ministry meet the above requirements.

What is an eligible educational institution?

The following are eligible education institutions for purposes of a qualifying co-operative education program:

- A university or college of applied arts and technology in Ontario whose enrolment is counted for the purposes of calculating annual operating grants entitlements from the Government of Ontario
- The Michener Institute of Applied Health Sciences
- The Ontario College of Art and Design
- Redeemer University College.

What is an eligible expenditure?

The following expenditures made by a business in respect of a qualifying work placement are eligible, provided the amount of the expenditure is reasonable:

- Salaries and wages including taxable benefits (i.e., the amounts reported on the T-4 slip) paid or payable to the student for the placement. The student's salary must be attributable to an Ontario permanent establishment (place of business).
- Fees paid or payable to an employment agency for the work placement for services of a student carried out primarily at an Ontario place of business.

In addition, a repayment of government assistance received for that student will also be entitled to the CETC tax credit, but only to the extent that it affected a claim in a previous taxation year.

Government assistance received by the business for the work placement will reduce the amount of the expenditure eligible for the credit. "Government assistance" means assistance in any form from any level of government including municipalities or other public authorities. Assistance can include a grant, subsidy, forgivable loan, deduction from tax or investment allowance, but does not include the following:

- An Ontario research and development tax credit deduction under section 39 of the TA
- A qualifying environmental trust tax credit under section 87 of the TA
- A co-operative education tax credit under section 88 of the TA
- An apprenticeship training tax credit under section 89 of the TA
- An Ontario computer animation and special effects tax credit under section 90 of the TA
- An Ontario film and television tax credit under section 91 of the TA
- An Ontario production services tax credit under section 92 of the TA
- An Ontario interactive digital media tax credit under section 93 of the TA
- An Ontario sound recording tax credit under section 94 of the TA
- An Ontario book publishing tax credit under section 95 of the TA
- An Ontario innovation tax credit under section 96 of the TA
- An Ontario business-research institute tax credit under section 97 of the TA
- For corporations, a Canadian film or video production tax credit under section 125.4 of the *Income Tax Act* (Canada)

What is an eligible expenditure? (continued)

- For corporations, a film or video production services tax credit under section 125.5 of the *Income Tax Act* (Canada)
- An investment tax credit under section 127 of the *Income Tax Act* (Canada).

While claiming the CETC does not reduce eligible expenditures, it must be reported as income.

How do eligible employers support their tax credit claims?

Eligible employers must have a certified document from an eligible educational institution confirming that the employer has provided a placement to a student for a qualifying co-operative education program. To help reduce compliance costs, the document could be the contract or memorandum of agreement between the employer and the institution. The document must, however, contain the name of the student, the employer, the institution, the term of the work placement and the name/discipline of the co-op program.

How do eligible educational institutions participate in this tax credit program?

The eligible educational institution will be responsible for certifying the placement document discussed above. The institution certifies that the student is enrolled in a qualifying co-operative education program, that the work performed with the employer is compatible with the objectives of that program and that the student has completed the minimum employment requirements e.g., 10 weeks. This can be done by a simple declaration in the document, i.e., The University of XXX certifies that this is a qualifying co-op work placement for purposes of the co-operative education tax credit in respect of Ontario students. A signature from the appropriate faculty member, e.g., Director Co-operative Education, will form part of the declaration.

For More Information

For general tax enquiries regarding this tax credit, taxpayers may telephone Canada Revenue Agency at:

- 1-800-959-5525 (English)
- 1-800-959-7775 (French)
- 1-800-665-0354 (TTY)

Or on the web visit:

Canada Revenue Agency website at: www.cra-arc.gc.ca
Ministry of Revenue website at: www.ontario.ca/revenue

Disclaimer

The information contained in this publication is provided only as a guideline and is not intended to replace the legislation.

Cette publication est disponible en français sous le titre
«Crédit d'impôt pour l'éducation coopérative».

© Queen's Printer for Ontario, 2010
ISBN 978-1-4435-1851-2 (PDF)
ISBN 978-1-4435-1850-5 (HTML)