

Post-Secondary Education Tax Credits

Billions in Misdirected "Financial Aid"

Background

As defined by the federal government's Department of Finance, tax expenditures include "exemptions, deductions, rebates, deferrals and credits" that serve "to advance a wide range of economic, social, environmental, cultural and other public policy objectives".

Since the mid-1990s, federal governments have increasingly favoured tax expenditures over directly allocated student financial assistance. In total, federal tax expenditures for post-secondary students have grown from \$566 million in 1996 to more than \$2.4 billion in 2009.¹ This represents a 431% increase and more than seven times the amount the federal government's granting program will distribute in student financial aid.

The collection of tax expenditures offered by the federal government for post-secondary education fall into two categories: tax credits for expenses that have already been incurred; and tax deductible savings plans to be used for future education costs.

Education Tax Credit: Students may claim a 16% tax credit for the accrued "education amount". The education amount is equal to the number of months enrolled in post-secondary education multiplied by \$400 for full-time students and \$120 for part-time students.

Tuition Fee Tax Credit: Students may claim a 16% tax credit for tuition fees and ancillary fees paid. In 1987, it became possible to transfer this credit to a spouse, parent, or grandparent. As of 1997, this credit may be carried forward for application in future tax returns.

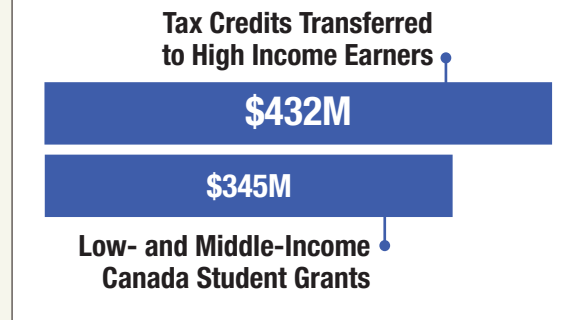
Student Loan Interest Tax Credit: Students may claim a 16% tax credit for the interest paid in a year during repayment of a Canada Student Loan and provincial student loan.

Textbook Tax Credit: Students may claim a 16% tax credit for the assigned "textbook amount". The amount is equal

the number of months enrolled in post-secondary education multiplied by \$65 for full-time students and \$20 for full-time students.

Scholarship, fellowship and bursary tax credit: all amounts received for post-secondary scholarships, fellowships and bursaries exempt from tax, where these amounts are received in connection with enrolment in a program for which the student can claim the education tax credit

Figure 1. Each year, the federal government spends more on education related tax breaks for families earning over \$70,000 than it does on needs based grants.



Registered Education Savings Plans

Plans: Contributions to Registered Education Savings Plans (RESPs) grow tax-free until the time that they are withdrawn, at which point the saved amount is taxable as income for the beneficiary. For more information, see the Canadian Federation of Students' factsheet on the RESP program at www.cfs-fcee.ca.

All of the post-secondary tax credits can be used either by the student or transferred to a family member. Registered Education Saving Plans are, in the vast

majority of cases, established by parents for their children's future education costs.

A Poor Approach to Reducing Student Debt

The non-refundable education and tuition fees tax credits have been the most widely used and expensive federal tax measures for post-secondary education. In the 2007 tax year, the most recent year for which statistics are available, 2,688,240 claims were filed for the education, tuition fee and student loan interest credits, costing the federal government almost \$1.8 billion in foregone tax revenue.²

This massive public expenditure, if offered as upfront grants, could have almost eliminated the need for students to borrow. For example, the Canada Student Loans Program expects to lend roughly \$2.2 billion during the 2009-10 academic year.³ In other words, if the amount of money the federal government spent on education related tax credits this year had been shifted to the "front-end" in the form of grants through the Canada Student Grants Program,

student debt owed to the federal government could have been reduced by more than 80%.⁴

In addition to diverting public funds to high income graduates, tax credits have not come close to offsetting soaring tuition fees. Despite increased government spending on the education-related tax credits, the gap between tuition fees and those tax credits soared to \$3,184 by 2007. Federal tax credits have clearly failed to compensate for steep tuition fee increases.

Helping Those Who Need Help the Least?

For the 2007 tax year, individuals with incomes over \$70,000 claimed a total of more than \$432 million in federal education and tuition fee tax credits, thereby indicating that virtually all of this total was claimed as amounts transferred from students to family members.

With such a substantial portion of post-secondary education credits being claimed as amounts transferred to family members, there is no guarantee that the full value of these credits is even being applied to education-related expenses. The Department of Finance estimates that transferred amounts account for almost half the total value of education and tuition fee tax credits claimed.⁵

The Student Loan Interest Credit

The Student Loan Interest Credit was introduced in the 1998 federal budget with the professed aim of ensuring that, in the words of then Finance Minister Paul Martin, “Canadian students are not mired in a swamp of debt”. In 2007, the average amount claimed was only \$590 (\$49 per month) per claimant. Low-income claimants fared even worse, averaging only \$35 per month worth of debt and tax “relief”.⁶ Given that the monthly loan payment on the average student loan is at least \$200, the Student Loan Interest Credit cannot be considered a serious attempt to address the student debt crisis.

Tax Credits Do Not Increase Access

In order to derive any benefit from the education tax credits, students and their families must first find the resources to pay for tuition fees, textbooks and living expenses, and hope that a portion will be refunded sometime in the future. Tax credits do nothing to address the up-front financial barriers that prevent many students from low-income backgrounds from enrolling in the first place. As a result, education tax credits are most likely to benefit those who already have enough money to

afford post-secondary education.

A 2002 study by Harvard University professor Dr. Bridget Long found that this was precisely the case with education tax credits introduced in the United States. According to Dr. Long, “[al]though one goal of the tax credits was to increase access to higher education, this study found no evidence of increased postsecondary enrolment among eligible students”.⁷ These findings are consistent with an earlier US study that found education tax credits introduced in the state of Georgia actually “widened the gap in college attendance between blacks and whites and between those from low- and high-income families”.⁸

Conclusion

Despite their large price tag, federal tax expenditures are a very poor instrument to improve access to post-secondary education and relieve student debt. Moreover, since everyone who participated in post-secondary education qualifies for tax credits regardless of financial need, the federal government is diverting vast sums of public funding where they are not necessarily required. Government funding currently allocated to federal tax credits for post-secondary education would be better spent on up-front needs-based grants.

Endnotes

1. Includes Education Tax Credit (present, carry-forward, and transferred), Tuition Fee Credit (present, carry-forward, and transferred), scholarship exemptions, Registered Education Savings Plans, and the Student Loan Interest Credit using the Department of Finance’s Tax Expenditures and Evaluations 2007.
2. Canada Customs and Revenue Agency Income Statistics 2008 (2006 tax year).
3. Based on loan uptake calculations in the 2008 Actuarial Report of the Canada Student Loans Program.
4. This calculation is used for comparative purposes only. It does not take into consideration student loan borrowers in repayment, who also deserve debt relief.
5. Department of Finance Canada Tax Expenditures and Evaluations 2007.
6. Canada Customs and Revenue Agency Income Statistics 2009 (2007 tax year).
7. Bridget Terry Long, “The Impact of Federal Tax Credits for Higher Education Expenses”, Prepared for the National Bureau of Economic Research Volume and Conference: College Decisions: How Students Actually Make Them and How They Could, Harvard University, August 2002.
8. Susan Dynarski, “Hope for Whom? Financial Aid for the Middle Class and Its Impact on College Attendance”, paper prepared for the Kennedy School of Government at Harvard University and the National Bureau of Economic Research, April 2000.

80%

Student debt reduction that could be realised by converting tax credits into needs-based grants

\$1.81B

Federal expenditure on education-related tax credits and exemptions in 2007.

