the facts about post-secondary education

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Canadian Federation of Students
www.cfs-fcee.ca

Post-Secondary Education Tax Credits

Billions in Misdirected "Financial Aid"

Background

Since the mid-1990s, the federal government has increasingly looked to tax expenditures as a substitute for directly allocated student financial assistance. As defined by the 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". In total, federal tax expenditures for post-secondary students have grown from $566 million in 1996 to more than $1.63 billion in 2007.[1] This represents a 288% increase and more than the total amount the federal government will spend on direct student financial aid this year.

Despite their large price tag, federal tax expenditures are a very poor instrument to either improve access to post-secondary education or 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.

A Confusing Patchwork

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.

Registered Education Savings Plans

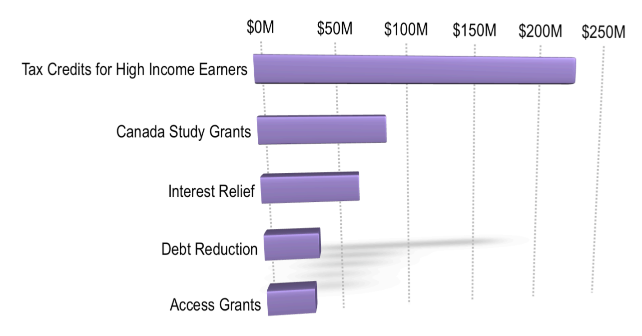
Contributions to Registered Education Savings Plans (RESPs) grow tax-free until the time that they are withdrawn, at which point the saved amount is taxable as income for the beneficiary. For more information, see the Canadian Federation of Students' factsheet on the RESP program at www.cfs-fcee.ca.

An Inferior Approach to Reducing Student Debt

The non-refundable education and tuition fees tax credits have been the most expensive and widely used federal tax measures for post-secondary education. In the 2005 tax year, 2,219,280 students and their family members claimed the education and tuition fee credits, costing the federal government almost $1.11 billion in foregone tax revenue.[2]

This massive public expenditure, if offered as upfront grants, could nearly eliminate the need for students to borrow. For example, the Canada Student Loans Program lent approximately $1.92 billion in fall 2005.[3] In other words, if the amount of money the federal government spent on the tuition fee and education tax credit each year was simply shifted to the "front-end" in the form of grants through the Canada Student Loans Program, student debt could be reduced by approximately 60%.[4]

Figure 1. Expenditures on Selected Education-related Measures



Failing to Meet the Increased Costs of Education

Tax credits, in addition to diverting public funds to high income graduates, have not come close to offsetting soaring tuition fees.

Despite increased government spending on the education and tuition fees credit, the gap between tuition fees and education tax credits had soared to $3,937 by 2007—a $1,000 increase since 2001. Federal tax credits have clearly failed to compensate for the steep tuition fee increases.

Helping Those Who Need Help the Least?

In total, individuals with incomes over $70,000 claimed more than $216 million in federal education and tuition fee tax credits for

60%
Student debt reduction that could be realised by converting tax credits into needs-based grants

$2,847
Gap between tuition fees and education related tax credits in 1988

$3,937
Gap between tuition fees and education related tax credits in 2007

the 2005 tax year, and most of this total was likely claimed as amounts transferred from students to family members. This $216-million tax break to high-income parents is more than triple the amount spent in 2005 on the federal Interest Relief program, and nearly triple what the government spent on Canada Study Grants for high-need students that year.[5]

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.[6]

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". Although the total cost of this credit was over $62.4 million in 2005, the average amount claimed works out to only $94 per year ($7.83 per month) per claimant. Low-income claimants fared even worse, averaging only $5.49 per month worth of debt and tax "relief".[7] Given that the monthly loan payment on the average student loan is at least $237, 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 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, "[a]lthough 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".[8] 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".[9]

Conclusion

The evidence is clear: tinkering with the tax system is not an effective means of improving access to post-secondary education or reducing student debt. Federal tax measures have come nowhere near compensating for tuition fee increases brought on by long-term federal and provincial government under-funding of post-secondary education. Benefits derived from education tax credits disproportionately benefit higher income households and do little to help those most in need of financial assistance. Government funding currently directed at 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 2006.
2. Canada Customs and Revenue Agency Income Statistics 2007 (2005 tax year).
3. Based on loan uptake calculations in the 2006 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. Canada Student Loans Program Annual Report 2003-2004.
6. Department of Finance Canada Tax Expenditures and Evaluations 2006.
7. Canada Customs and Revenue Agency Income Statistics 2007 (2005 tax year).
8. 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.
9. 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.