Post-Secondary Education Tax Credits

Canadian Federation of Students
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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, the federal government has increasingly favoured tax expenditures over direct funding as subsidies to students and their families. Federal tax expenditures for post-secondary students have grown from $566 million in 1996 to an estimated $2.97 billion in 2014.[1] This represents a four-fold increase over the past decade and a half, and represents roughly four and a half times the amount the Canada Student Grants Program will distribute in student financial aid.

Federal tax expenditures for post-secondary education fall into two categories: tax credits for expenses that have already been incurred; and the Registered Education Savings Program, a tax-deductible savings plan for education costs. The federal government's tax expenditures include:

EDUCATION TAX CREDIT: Students may claim a 16% tax credit to cover the cost of their being enrolled in a post-secondary program for the year prior. This "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.

APPROXIMATE COST OF EDUCATION TAX CREDITS AND SAVINGS SCHEMES FOR 2014-15:

$2.97 billion

AMOUNT THAT THE CANADA STUDENT LOANS PROGRAM EXPECTS TO LEND FOR THE 2014-15 YEAR:

$2.5 billion

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.

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.

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.[2]

The cumulative total expenditure by the federal government on education-related tax credits and savings schemes is approaching $3 billion dollars a year. This massive public expenditure, if offered as up-front grants, could go a long way towards eliminating student debt. The Canada Student Loans Program, the largest lender for post-secondary students, issued a 25 year projection and predicted that total new loans issued would increase at an average of 2.7% per year. This would mean that the amount loaned in 2013-2014 of $2.5 billion would increase to $4.2 billion in 2034-35.[3] If, however, the amount of money the federal government spent on education related tax credits and savings schemes is shifted to the "front-end" in the form of grants through the Canada Student Grants Program, student debt owed to the federal government could be more than eliminated.[4]

The Student Loan Interest Credit

The Student Loan Interest Credit was introduced in the 1998 federal budget with the professed aim of ensuring that, "Canadian students are not mired in a swamp of debt". In 2007, the amount claimed annually was on average only $590 ($49 per month) per claimant. Low-income claimants fared even worse, averaging only $35 per month worth of debt and tax "relief".[5] 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.

> "[Canada Education Savings Grants] give scarce public funds to the wrong households... the CESG program should be discontinued."
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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, "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".[6] 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".[7]

Conclusion

The tax credit and education savings schemes currently operated by the federal government allow for personal income tax savings on education-related costs and a higher rate of return on education-related savings, respectively. The indications are, however, that the total cost of the programs will exceed $2.9 billion this year, making them, by far, the government's most expensive direct spending measure.

Despite their large price tag, the education tax credit and savings programs are very poor instruments to improve access to post-secondary education and relieve student debt. All students qualify for tax credits, regardless of financial need, which ultimately benefits those with the lowest amount of debt and those from high-income backgrounds. Savings schemes have largely benefitted those from high-income backgrounds, as individuals from low-income families often do not have the funds necessary to invest in the first place.

If this $2.97 billion was instead used for up-front grants, it would turn every dollar loaned by the Canada Student Loans Program (CSLP) into a non-repayable grant. The CSLP expects to lend approximately $2.5 billion during the 2014-15 academic year. If the amount of money the federal government spent on savings schemes and education-related tax credits each year had been simply shifted to the Canada Student Grants Program, student debt owed to the federal government could be greatly reduced.

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.

Sources:

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 2014.
2. Canada Customs and Revenue Agency Income Statistics 2012 (2010 tax year).
3. Based on loan uptake calculations in the 2010 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 2012.
6. 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.
7. 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.