

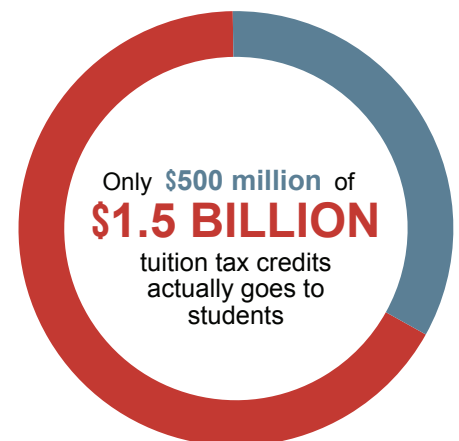
RECOMMENDATION

The government of Canada should eliminate the tuition tax credit and relocate the estimated \$1.5 billion to upfront grants, to be administered through the Canada Student Grant Program.

POST-SECONDARY EDUCATION TAX MEASURES

Since the 1960's, federal post-secondary education tax credits have been a consistent expenditure for the government of Canada. Currently, approximately \$1.5 billion is spent on tuition tax credits. Though they are a classic form of financial aid for students, tax credits should be viewed as vestigial, as they have been widely criticized by stakeholder groups, private consultants, and even the Parliamentary Budget Officer for the following reasons:

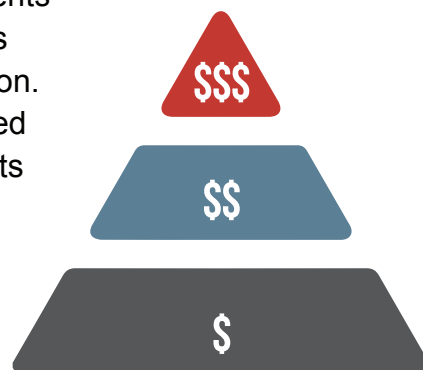
- 1 The number of tax credits claimed is steadily decreasing, resulting in lost tax revenue and inefficiencies.** A report by the Parliamentary Budget Office (PBO) in 2016 highlights that the stock of unused tuition tax credits is increasing. In 2013-2014¹ the unused stock of tax credits exceeded \$27 billion, which represents a loss of \$4.2 billion in tax revenue.
- 2 Higher income families are increasingly benefitting from tuition tax credits while low income families continue to struggle.** The PBO indicates that higher income families receives the majority of the approximate \$1.5 billion spent on tuition, textbook, education, and student loan interest tax expenditures. The C.D. Howe Institute report highlights that students making below \$10,000 per year are often not able to claim the tuition tax credit. Further, low-income students coming from low-income families are forced to carry forward the tax credit until after graduation, once they find employment.
- 3 Students receive only one-third of tax credit expenditures.** According to a study published by the C.D. Howe Institute, in 2012, "about two thirds of the tax expenditures on these credits was not used to reduce student tax bills in the year the credit was earned, but was claimed either by parents, grandparents or a spouse, rather than the student, or went to credits accumulated in an earlier year and carried forward."³



WHY SUPPORT THIS RECOMMENDATION?

The government of Canada should eliminate the tuition tax credits and relocate the estimated \$1.5 billion to upfront grants to be administered through the Canada Student Grant Program, because tax credits are no longer an effective tool to financially support low income students. Upfront grants will reduce the sticker cost of education, thus lowering debt levels and better utilize the government's current allocation of funding, while adding no additional expense to the federal budget.

This recommendation is supported by wide-ranging groups; from students to the Parliamentary Budget Officer. The PBO explains clearly that the reallocation of the federal tax expenditures would make post-secondary education more affordable for Canadians. In addition, this recommendation would allow for more timely and upfront relief for students directly. At peak of times of the academic year, particularly at the beginning of academic terms when tuition payments and other expenses are due, students require direct upfront aid. Grants provide this upfront relief and are applied directly to the cost of education. Finally, this recommendation would provide more aid for those who need it most. The Canada Student Grant Program provides grants for students based on need. By reallocating the tax credit system to upfront grants, financial aid is emphasized based on need and is implemented proportionately by maximum income thresholds, rather than income brackets. This system will also allow students who do not currently have the income to qualify for tax credits to benefit directly from this new system.



¹Fréchette, J. (2016, May 5). Federal Spending on Postsecondary Education. Retrieved from http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/PSE/PSE_EN.pdf

²C.D. Howe Institute. What You Don't Know Can't Help You. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_393_0.pdf

³C.D. Howe Institute. What You Don't Know Can't Help You. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_393_0.pdf