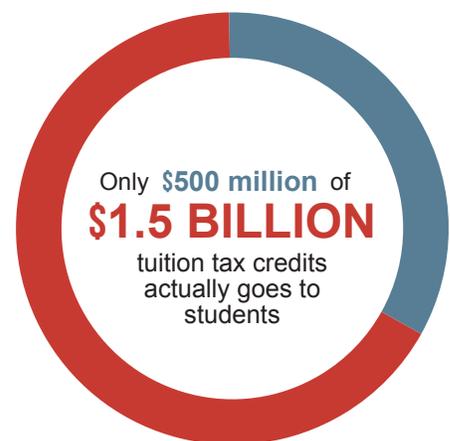


RECOMMENDATION

The federal government should eliminate the Tuition Tax Credit and reallocate the estimated \$1.5 billion to be spent in 2018 to upfront grants and loans to be administered through the Canada Student Loans Program.

POST SECONDARY EDUCATION TAX MEASURES

Federal post-secondary education tax credits have been around since the 1960's as a financial aid measure. Of the more than \$11 billion that the federal government invested in post-secondary education in 2013-14, nearly 20 per cent was in the form of tax credits, which are meant to serve as financial aid. However, tax credits have been criticized by stakeholder groups, private consultants and even the Parliamentary Budget Officer as an inefficient and ineffective way of providing financial aid to students. There are three prevalent criticisms:



- 1** Tax credits disproportionately benefit those from higher-income backgrounds.
- 2** Students directly 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 [sic] 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.”¹¹
- 3** Tax credits are inaccessible financial instruments for low-income families.
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 have no options except to carry forward the tax credit until after they have graduated, and are already working¹².

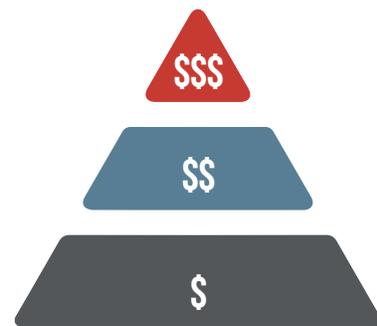
In addition to the three criticisms, the tuition tax credit is only received approximately nine months after tuition is paid. Under the current structure, the tax credit cannot effectively be used as a means of reducing the barrier to entry for post-secondary education.

In response, education and textbook tax credits were limited in 2016 and funds were reallocated to expand the upfront grants available to students through the Canada Student Loans Program. However, the tuition tax credit remains, which is by far the largest of the government's tax credits intended to reduce the cost of education.

THE TUITION TAX CREDIT

The tuition tax credit is meant to “provide students with tax relief by recognizing the costs of enrolling in qualified programs or courses.”¹³

The result of this program is a redistribution of tax wealth back towards high-income families, with minimal returns to low-income students who are most in need of government assistance¹⁴.



¹¹ C.D. Howe Institute. *What You Don't Know Can't Help You*.

¹² Ibid.

¹³ Department of Finance. *Report on Federal Tax Expenditures*. 272.

¹⁴ Parliamentary Budget Officer. *Federal Spending on Postsecondary Education*, 12, 16-17; Department of Finance. *Report on Federal Tax Expenditures*. 298-299;