

Kill this ill-considered education tax break

The Opposition bill does not help needy students, and it will jeopardize the current federal surplus

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One has to wonder what federal Opposition parties were thinking when they rammed through Bill C-253 last week.

The bill, the brainchild of Ontario Liberal member of Parliament Dan McTeague, would allow parents to deduct from their income taxes up to \$5,000 worth of contributions to Registered Education Savings Plans.

According to McTeague and Opposition members, this would help "ordinary families" provide for their children's education. But according to just about everyone else, from the ruling Conservatives to economists to student associations, it would do no such thing.

Currently, contributions to RESPs cannot be deducted from income tax, but the government does match a portion of the contributions -- up to \$500 a year and up to \$7,200 over the lifetime of the RESP.

Further, income on the funds is not taxed until it is withdrawn, and then it is taxed in the hands of the student, who typically pays little or no tax.

McTeague's proposal would provide a significant further benefit in that, instead of merely giving a tax break on the income of the RESP, contributions to the principal (up to \$5,000) would also be tax exempt. But who exactly would benefit?

According to economists, the very same people who currently benefit from RESPs -- not "ordinary families" as McTeague insists, but middle and high-income earners. Research suggests that high-income households are much more likely to invest in RESPs, which is not surprising since parents in those households are more likely to be university graduates and to expect their children to attend university.

Further, many low-income households simply don't have sufficient disposable income to invest in programs like RESPs, and those with low incomes wouldn't receive a significant tax benefit anyway.

For this reason, many student groups, including the Canadian Federation of Students and the Canadian Alliance of Student Associations, oppose McTeague's proposal, and suggest government money should instead be directed at students who are currently under-represented in the post-secondary system.

The Conservatives are also furious with the proposal since it threatens to wipe out their projected budget surplus. Based on the current amount of contributions to RESPs -- and there would no doubt be an increase in contributions under the proposal -- the plan would cost the federal government some \$900 million in foregone revenues.

Consequently, the Conservatives have noted that the proposal risks placing them in a deficit situation, and have promised to kill the bill one way or another. And if they do so through their budget bills, which are a matter of confidence, then the Opposition risks triggering an election by voting against the bills.

This means that the Liberals would be responsible for bringing down the government over a bill that is poor economic and education policy. And even worse, the party that often accuses the Conservatives of favouring the wealthy will have to fight an election over its proposal to provide tax breaks to high-income families.

It's time for the Liberals to get off this road to nowhere and to support any measure aimed at killing Bill C-253. For by killing this ill-considered tax measure, they may be saving themselves.