

UP-FRONT GRANTS: AN EFFICIENT CHOICE FOR STUDENTS AND FAMILIES

Overview

Student aid comes in many forms, typically a combination of tax credits, loans, and grants. Alberta's aid model currently skews toward tax credits and away from grants. However, evidence suggests that up-front grants are a far more efficient, time-sensitive, and effective student aid mechanism than tax credits. Up-front grants support students and their families when they need it most. By contrast, tax credits only deliver their value the better part of a year after the tuition bill comes due. And while tax credits generally service more affluent families who may not need the funding, up-front grants improve outcomes for the students with the greatest need for a fair chance at further education, including many first-generation students.

Tax credits, while better than no student aid at all, allocate money inefficiently. The Government of Alberta should study and embrace the benefits of shifting student aid funding from tax credits toward up-front grants.

"...there was no way on God's green earth that any fair-minded review could possibly find that tax credits were a better investment than bursaries."¹

Points of Comparison

Tax credits apply long after the costs of education come due, with a special impact on prospective first-year students. Up-front grants help students afford their education at the time of registration. Income tax returns typically arrive 10 or 11 months after students need to pay registration fees and Fall Semester tuition. Registration fees alone can easily climb into the hundreds of dollars,² an up-front cost that grants can address but tax credits do not. The up-front cost of tuition is an order of magnitude greater. Less affluent and middle-class parents and students face financial uncertainty under the current system, and a simple transition from tax credits to grants could make all the difference. A partial funding delay of almost a year can be a serious or

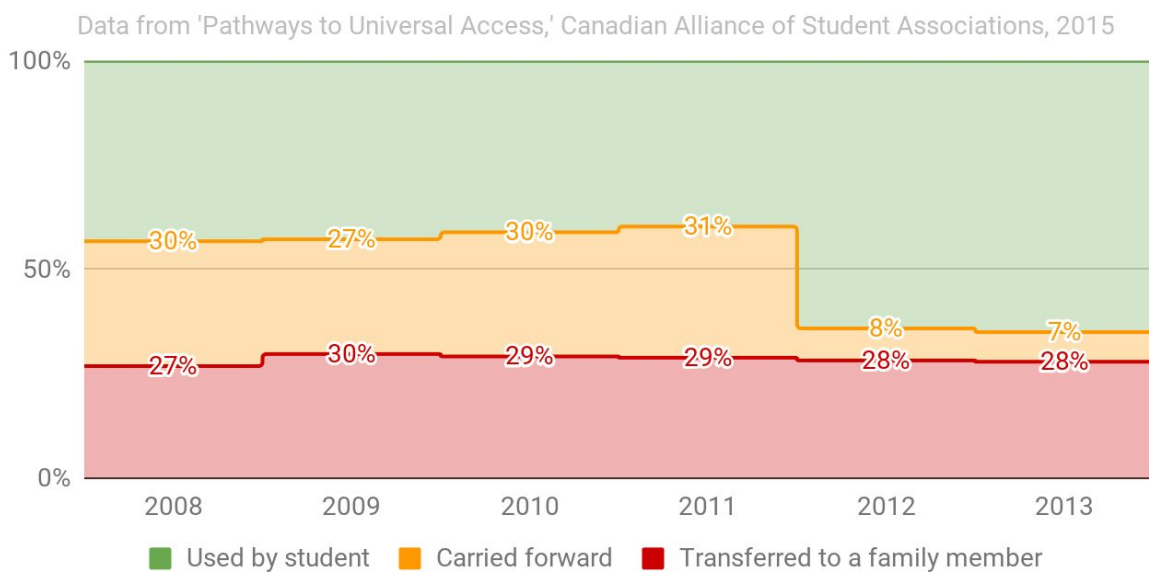
¹ Alex Usher, *One Thought*, Higher Education Strategy Associates (HESA), April 19, 2019, higheredstrategy.com/new-brunswick-brings-the-stupid/

² For example, Mount Royal University implemented a \$250 per-semester registration fee in April 2019.

insurmountable barrier to students in financially precarious situations. This delay constitutes unnecessary red tape that puts students from disadvantaged backgrounds and/or prospective first-generation students at special risk of deciding not to pursue further education and training.

Tax credits primarily benefit more affluent families.³ Up-front grants can benefit all students, or focus on the students who most need aid. This distinction makes grants the more efficient choice. Whereas up-front grants support students when they need it, tax credits are frequently carried forward by students who often do not need them, or transferred to other taxpayers (primarily to the benefit of more affluent parents). This pattern is well-defined in the recent history of education tax credits at the federal level:

Improvements in targeting federal student tax credits (2008-2013)



Note the change in 2012, when the Harper majority government improved the targeting of student tax credits by reducing carry-forward.

In an Alberta context, Budget 2018 estimated a cost of \$150.8 million for personal income tax tuition/education exemptions. On top of that amount, \$33.4 million (18% of the total payout for tuition/education exemptions) would be transferred to a parent in strong enough financial circumstances to owe income tax.⁴ While many parents make enormous contributions to their children’s education, tax credits do not appear well-suited to supporting the students and families with the greatest need for financial aid.

³ Estelle Herbaut and Ken Geven, “Policy Research Working Paper 8802: What Works to Reduce Inequalities in Higher Education? A Systematic Review of the (Quasi-) Experimental Literature on Outreach and Financial Aid,” World Bank Group: Education Global Practice (April 2019): 28, openknowledge.worldbank.org/handle/10986/31497.

⁴ *Budget 2018 - A Recovery Built to Last: Fiscal Plan*, 134

Peer-reviewed research supports up-front grants, but does not support tax incentives as a strategy for improving access to education. The World Bank's recent global scan of substantive studies on student aid effectiveness found that "need-based grants quite consistently appear to improve the completion rates of disadvantaged students."

⁵ Meanwhile, "the available evidence on tax incentives does not suggest any positive impact for disadvantaged groups' access to higher education."⁶

Tax credits are sometimes represented as a good incentive for graduates to stay and work in their home province. However, it appears that tax credits fail as incentives, even when designed for this purpose. From 2006 to 2018, a graduate tax rebate aimed to keep graduates in New Brunswick. As described by the post-secondary education consultant Dr. Alex Usher, the rebate did not achieve its goal:

*"...ask the people who used the credit whether the credit made a difference in their decision to live there, which fortunately the Finance Department did to everyone who submitted a request for the tax credit. ...as I understand it, the answer is "not much": of the various factors graduates were asked about, the tax credit was least often credited as having had an effect on location. ...based on the evidence which is currently available, it's really hard to see much of a case for the previous tax regimes having done much good."*⁷

Tax credits are typically adopted for political convenience, rather than because they are the best tool for the job. In the world of political messaging, tax credits have been easy to paint as investments in student funding and/or as tax cuts, depending on the audience. While education tax credits are certainly better than no aid at all, more substantive mechanisms are available for the same price.

"In sum, for the price of two badly-designed tax credits, Manitoba could make real investments in access, both in terms of financial aid and providing spaces in under-served areas, increase support to Indigenous students and communities, improve the quality of education and provide more funds for employer-led training that could help relieve skills bottlenecks for investors. How could you pass this up? Who wouldn't do this?"⁸

The Alberta government can gradually shift its student aid investment away from tax credits and toward up-front grants. All-or-nothing, overnight transformations are unnecessary. As Alberta's higher education sector looks to measure and improve outcomes, a reasonable dollar-for-dollar transition to up-front grants has a strong chance of concrete, pioneering impact. These grants could support tens of thousands of Albertans at times when the cost of education is the most prohibitive.

⁵ Herbaut and Geven, abstract

⁶ Herbaut and Geven, 28

⁷ Usher, *One Thought*, Nov. 22, 2018, higherstrategy.com/re-litigating-new-brunswicks-tax-credits/

⁸ Usher, *One Thought*, Feb. 2, 2017, higherstrategy.com/manitobas-golden-opportunity/