

# Cost estimate of Election Campaign Proposal

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Publication date: 2019-09-25

Short title: Post-secondary education measures

Description: Modifying the Canada Student Loans Program (CSLP) to:

- Providing new funding to provincial and territorial governments enabling Canadian students to attend either a university, a college, or a technical school without paying tuition fees starting in September 2020;
- Eliminating the non-refundable Student Loan Interest Tax Credit as of October 22, 2019. Interest paid on a student loan received for post-secondary education under *the Canada Student Loans Act*, *the Canada Student Financial Assistance Act*, *the Apprentice Loans Act* or similar provincial or territorial government programs up to October 22, 2019 will remain available; and
- Forgiving debt for students that are unemployed or earning less than \$70,000 per year as of November 2020. This policy is not applied to students entering repayment after the measure is implemented as it is assumed that no additional debt for tuition will be accrued. Consistent with the Canadian public sector accounting principles, the cost of forgiving the debt will be booked as a one-time hit to the fiscal profile in the year of implementation.<sup>1</sup>

Operating line(s): Transfer payments to other levels of government, personal income tax, and transfer payments.

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<sup>1</sup> CPA Canada Public Sector Accounting Handbook: Specific Items – Financial Statement Items, Section PS 3050 - Loans receivable, Paragraphs .17-.19.

Data sources:	<u>Variable</u>	<u>Source</u>
	Credit course and non-credit course tuition fees	Financial Information of Universities and Colleges, Canadian Association of University Business Officers and Statistics Canada
	Postsecondary and trade vocational program fees	Revenues of community colleges and vocational schools, Statistics Canada
	Estimated tuition paid by international students in 2015-16	The State of Post-Secondary Education in Canada, Higher Education Strategy Associates, 2018
	Estimated elasticity of student demand with respect to tuition fees	Fortin, Nicole M., "Rising Tuition and Supply Constraints: Explaining Canada-U.S. Differences in University Enrollment Rates", <i>Higher Education in Canada</i> , 2005
	Forecasted tuition revenues	PBO calculations; Actuarial Report on the Canada Student Loans Program as at 31 July 2018, Office of the Chief Actuary
	Tuition Tax Credit, Education Tax Credit, Textbook Tax Credit and Student Loan Tax Credit	Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2019, Finance Canada
	Household personal income	PBO Election Proposal Costing Baseline
	Estimated Canada Student Grant (CSG) and Canada Student Loan (CSL) disbursements	Needs Assessment Report System (NARS) database, CSLP, Employment and Social Development Canada (ESDC)
	CSLP revenue and expenses	PBO student financial assistance model
	Income statistics	SPSD/M <sup>2</sup>
	Canada Student Loans in repayment	ESDC

Estimation and projection method:

This cost estimate combined the three proposed measures that are related to post-secondary education and included the interactive effects on the impacted programs.

The PBO student financial assistance model was used to estimate CSLP net expenses under current policy parameters as well as the impact of the proposed measures.

For free tuition, the estimate is based on reported tuition fees paid to Canadian universities and colleges by Canadian students. The amount was then projected using annual forecasted tuition fee increases and the projected increase in demand for post-secondary education. Offsetting savings from the effective elimination of Tuition Tax Credit were also estimated.

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<sup>2</sup> This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

For eliminating the Student Loan Interest Tax Credit, the estimate was based on the reported tax expenditures for the Student Loan Interest Tax Credit, projected using annual forecasted growth in household personal income.

For student debt forgiveness, the CSLP population was divided by qualified beneficiaries and non-qualified beneficiaries as of November 2020. Data from ESDC and SPSPD/M was used to determine outstanding CSL balances in repayment of qualified beneficiaries.

Uncertainty  
assessment:

This estimate has high uncertainty. The estimate relies upon historical Tuition Tax Credit and Student Loan Tax Credit expenditures. Due to limitations in the data of CSL borrowers in repayment, some assumptions using other data sources are required. Projected increases to reported tuition fees paid to Canadian universities and colleges are determined by stated provincial and territorial government tuition fee policy intentions and projected enrolment growth.

Tax expenditure profiles for the Education Tax Credit and Textbook Tax Credit, eliminated January 1, 2017, were used to project unused Tuition Tax Credit and Student Loan Tax Credit amounts. CSG and CSL disbursements are projected using a top-down modeling approach and are sensitive to any increase in demand for post-secondary education.

With respect to free tuition, a behaviour response by students is included as empirical evidence indicates elasticity in demand for post-secondary education. A behavioral response by provincial and territorial governments with respect to their tuition policy and the funding of post-secondary education is not included in this cost estimate.

## Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-5	16,421	12,541	9,543	9,518	9,476	9,470	9,556	9,738	9,951

## Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
<b>Cost of measures</b>	Tuition fee funding to provinces and territories	Transfer to other levels of government	-	10,628	10,726	10,841	10,963	11,135	11,326	11,569	11,856	12,167
	Tuition Tax Credit	Personal income tax	-	-277	-1,150	-1,310	-1,469	-1,649	-1,822	-1,938	-1,984	-2,035
	Student Loan Interest Tax Credit	Personal income tax	-5	-22	-29	-34	-40	-41	-43	-45	-46	-48
	Effect of forgiven debt and free tuition on Canada Student Loans Program	Transfer Payment	-	6,093	2,993	46	64	31	9	-30	-88	-132
<b>Total net cost</b>			-5	16,421	12,541	9,543	9,518	9,476	9,470	9,556	9,738	9,951

### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost