

Building the Future for Canadians

Budget 1997

Investing in Post- Secondary Education

February 1997



Canada



“Canadians know that a better education equals better jobs.”

*Finance Minister Paul Martin
1997 budget speech*

The 1997 Budget

Federal support for post-secondary education will increase by \$137 million in 1997 and by \$275 million annually when the budget changes have matured.

The budget provides assistance to:

- students and their families, including workers upgrading their skills, to cope with the rising costs of post-secondary education;
- students facing higher debt loads after graduation; and
- parents saving for their children’s education.

These initiatives build on the \$80 million increase in direct federal tax assistance for post-secondary education provided in the 1996 budget.

And they are complemented by the creation of the Canada Foundation for Innovation which will ensure that post-secondary students have access to better facilities and equipment to prepare for the knowledge-based economy of the 21st century.



Helping Students and Families Cope With Costs

To help post-secondary students, the budget proposes the following measures.

- The amount used to establish the education credit will increase immediately to \$150 per month from \$100, and to \$200 per month for 1998 and subsequent years.
- The budget proposes to extend the tuition tax credit to mandatory fees set by post-secondary institutions to cover the costs of education. This extension will not apply to fees levied by student bodies.
- To ensure that all students can use these credits fully, students will now be allowed to carry forward all unused portions of these credits, to be applied against any future income. This measure will also benefit workers who are returning to school.

As a result of these budget measures, by 1998 an eligible student with tuition fees of \$2,800 and eligible additional fees of \$300 will receive over \$1,200 in combined federal and provincial tax assistance per year. This is an increase of more than 30 per cent from the \$900 in assistance available to this student in 1995.



Helping Students Repay Their Loans

Through the Canada Student Loans Program, the federal government provides financial assistance to students who need help to pursue post-secondary education.

Students are expected to start repaying their Canada Student Loans six months after graduation. Some students may face difficulties because they cannot find work quickly or, for other reasons, do not have sufficient income to meet their payments.

Therefore, students facing hardship are allowed to defer making payments on their loans for up to 18 months. The federal government pays interest accruing on the student's loan during this period.

This provides considerable help but, as a post-secondary education coalition recently pointed out, it still leaves some students unable to meet their obligations.

- To better recognize that some students still may not have the capacity to repay their loans, the budget will extend from 18 to 30 months the period of time during which students are allowed to defer making payments.
- The government will pay the interest that the students would have paid over this extended period.
- Combined with the initial six months after graduation when no payments are required, students will have up to three years of help in dealing with their loans.
- This measure will be effective August 1, 1997 and will provide an additional \$20 million a year in assistance to students.



The federal government is also ready to pursue with interested provinces, lenders and other groups a new repayment option that would offer students another choice. Students would be able to choose between current repayment arrangements and a repayment schedule tied directly to the individual's income. Tailoring payments to individual circumstances would make the debt more manageable.

Helping Parents Save for Their Children's Education

Registered education savings plans (RESPs) exist to provide parents with incentives to save for their children's education. The full benefits of these tax-sheltered plans are reaped by parents who start saving when their children are very young.

■ The budget proposes that annual contribution limits to RESPs be doubled to \$4,000. This will assist parents who were not able to start saving for their children's education when they were young and, therefore, have fewer years to make contributions. It will also provide major incentives for increased savings for education.

Under current RESP provisions, all RESP income must go for education purposes. The family loses the investment income in its plan if their child does not pursue higher education. Since this can discourage parents from starting an RESP, two measures are proposed to address this problem.



- Individuals winding up an RESP will now be allowed to transfer all or part of their RESP income into their registered retirement savings plans (RRSPs), provided they have unused RRSP room.
- Alternatively, individuals without available RRSP room or who do not wish to make RRSP contributions will be allowed to receive the investment income directly, subject to an appropriate charge. This charge will ensure that assistance is not provided to those who might use RESPs for tax-deferral purposes unrelated to either education or retirement savings.

Canada Foundation for Innovation

“We must broaden our notion of infrastructure. We must take it beyond its traditional meaning, to include the components of future economic success – post-secondary education, knowledge, innovation, for example. These are the building blocks of the new wealth of the nations and it is in this infrastructure as well that government must invest.”

Finance Minister Paul Martin
1997 budget speech

A goal of the Foundation is to create greater opportunity for young Canadian students to pursue their research careers in Canada.

Equally important to Canada is a workforce with the capacity to put new technologies into practice. People who understand developments



in science and technology are indispensable if knowledge is to be applied in ways that add value to the economy.

Excellence in education for Canadian young people and global competitiveness for Canadian companies go hand in hand.

- The government is therefore proposing the creation of the Canada Foundation for Innovation. This new independent body, operating at arm's length from government, is designed to help renew facilities and equipment – research infrastructure – at Canadian post-secondary institutions and associated research hospitals.

- The initiative will help support innovative capital projects in the areas of health, the environment, science and engineering. Funded through an up-front investment by the federal government of \$800 million, it will provide an annual average of \$180 million over five years.

- It will operate on the basis of partnerships with the private sector, universities and colleges, voluntary organizations and provinces that wish to participate.

- On this basis, funding by the Foundation is expected to trigger about \$2 billion in support of research infrastructure over five years.

The Canada Foundation for Innovation is about looking forward. It is about our children. It is about education. In short, it is about investing in the future growth of our economy, making a down payment today for much greater reward tomorrow.



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