Introduction

The 2001 Speech from the Throne outlined the Government’s commitment to high standards for students and more choice for parents in education.

Consistent with this vision, the 2001 Budget dedicated an additional $360 million for the publicly-funded school system. Since 1995, the Government has increased education spending from $12.9 billion to $13.8 billion – more than is required to meet the needs created by increasing enrolment. This funding will ensure that students in public, Catholic and French-language schools have the tools that they need to succeed. The Government is firmly committed to a quality publicly-funded education system, and will continue to make new investments to improve the quality of education in Ontario.

The 2001 Budget announced the introduction of the Equity in Education Tax Credit. This tax credit is intended to support parents who have been seeking more choice in education for their children. Some parents choose to send their children to an independent school. For many, the cost is prohibitive. The Government believes it is time to address the needs of these parents.

In doing so, Ontario joins other provinces who support educational choice. British Columbia, Alberta, Saskatchewan, Manitoba and Quebec all support educational choice by providing grants to independent schools. Ontario is taking a different approach by providing support directly to parents so that they can make the decisions that they believe are right for their children.

The Government believes that education is one of the best investments that can be made for the future of this province, and it is making those investments by providing additional funding to publicly-funded schools, and tax support to parents to increase choice in education.
TECHNICAL DISCUSSIONS

The legislation implementing the Equity in Education Tax Credit, Bill 45, has been passed by the Legislature of Ontario and received Royal Assent. Hearings were held on Bill 45 by the Standing Committee on Finance and Economic Affairs in June. Over 100 groups and individuals made presentations, and another 200 groups and individuals provided written submissions. Now that the Legislature has approved the tax credit, the Government is seeking advice about the structure and content of any necessary regulations. This paper is designed to facilitate the technical discussions scheduled to begin in September 2001.

No decision has been made on any of the issues, and no decision will be made without considering both the comments made by all participants and written submissions received.

Written submissions are welcome from all interested parties, including those that participate in the technical discussions. These should be received by September 28, 2001 in order to be considered.
AIMS OF THE EQUITY IN EDUCATION TAX CREDIT

The aim of the tax credit is to support choice in education at the primary and secondary levels for parents and guardians by providing a partial refundable tax credit.

PRINCIPLES OF DESIGN

Key to designing the tax credit is ensuring parental choice within the parameters established in the May 2001 Ontario Budget and the provisions approved by the Ontario Legislature in Bill 45 in June of 2001.

Section 8.4.2 of the Income Tax Act (Ontario) (see Appendix) allows a qualifying taxpayer to claim a tax credit of 10 percent of eligible tuition fees paid to an eligible independent school in respect of 2002. The tax credit rises to 20 percent in 2003. The 2001 budget proposal would also increase the tax credit rate to 30 percent in 2004, 40 percent in 2005 and 50 percent in 2006 and subsequent years.

The credit rates will be applied to the first $700 of tuition fees per month of full-time study, to a maximum of $7,000 per taxation year. In the first year, the maximum value of the credit will be $700 for each eligible child and would rise to $3,500 when fully implemented in 2006.

The tax credit should be calculated in such a way as to ensure that tax support is received in an equitable manner. This calculation should recognize any reimbursements and other tax credits for tuition.

The design of the tax credit must also minimize the complexity and paperwork for parents and schools.
DISCUSSION ISSUE: DEFINITION OF “ELIGIBLE FEES”

“Eligible fees” will include the fees that parents normally pay for instruction at an independent school. The budget stated that “eligible fees” would not include expenses such as books, sports, uniforms, computers, travel or boarding. In practice, schools would be expected to provide a receipt to parents indicating the amount of fees paid, reduced by the costs of travel, boarding and uniforms, etc., that were included in the fees.

There are two issues relating to the definition of eligible fees on which comments are especially being sought:

1. Interaction of the Equity in Education Tax Credit and the Charitable Donations Tax Credit
2. Treatment of Scholarships and Bursaries

Comments on other issues relating to “eligible fees” are also welcome.

1. Interaction of the Equity in Education Tax Credit and the Charitable Donations Tax Credit

Canada Customs and Revenue Agency (CCRA) allows religious schools to issue tax receipts in respect of the religious education component of tuition costs through the Charitable Donations Tax Credit (CDTC). The potential for overlap creates the need to clarify the interaction between the two credits.

*How should the tax credit be calculated in order to reflect the availability of the charitable donation tax credit?*

2. Scholarships and Bursaries

As the Equity in Education Tax Credit is intended to be a partial tax credit to assist parents with the tuition costs of independent schools, advice is needed on how best to recognize amounts that are paid by another party.

*Are there issues arising from the availability of scholarships and bursaries that should be taken into consideration?*
DISCUSSION ISSUE: DEFINITION OF “ELIGIBLE SCHOOLS”

For many years, parents have made the decision to pay for an independent education for their children on the basis of their own views and research. Schools, for their part, have been successful in meeting parents’ needs and expectations. The Government would appreciate hearing options for supporting the objective of increasing parental involvement and choice in independent schools.

What requirements or criteria should independent schools have to meet to be eligible for the tax credit?

Would requiring schools to provide disclosure statements on issues that are important to parents better assist parental choice?

The following issues may be appropriate for disclosure:

1. Academic Program
2. Safety Issues
3. Operating Experience

Are there other areas where disclosure would be appropriate?

1. Academic Program

Currently, independent schools must file annually a Notice of Intent to Operate, along with other information. Those secondary schools wishing to grant Ontario Secondary School Diplomas (OSSD) must also pass an inspection of their curriculum, instruction methods and student work products.

Should eligible schools be required to issue an annual disclosure statement that outlines their academic program?

   If so, what aspects of the program should be described in the disclosure statement?

Are there other ways of ensuring that parents have sufficient information about the academic program of a school?
2. Safety Issues

Currently, independent schools must comply with a range of public safety standards, building code, public health regulations, fire codes, etc. Parents have been sending their children to independent schools for many years under these provisions.

*Should other ways of improving children’s safety be considered?*

3. Operating Experience

Currently, the *Education Act* and other relevant legislation require independent schools to operate under the same consumer protection regime that applies to businesses. For example, the *Education Act* requires that the operator of an independent school file an annual Notice of Intent to Operate, providing information regarding the location of the school, and the names of the principal and the owner. The *Business Practices Act* provides protection to parents against unfair business practices such as misrepresentation.

*Are there other ways of providing increased protection to parents of children in independent schools?*
OTHER ISSUES

A number of other eligibility criteria will require definition.

1. Eligible Schools

(a) Number of Students

Currently, the Ministry of Education requires a minimum of five students for a school to be registered.

How many students should a school be required to have to be an eligible school?

(b) Location of School

Should schools have to provide instruction in, or substantially in, Ontario?

2. Eligible Taxpayers

(a) Relation to the Child

Should the taxpayer claiming the credit have some relationship to the child, e.g., a parent, legal guardian or other family member?

(b) Apportionment Rules

Where tuition is paid by more than one person, how should the maximum amount eligible for the tax credit (i.e., $7,000) be allocated between the persons?

3. Eligible Child

Currently, the funding formula for publicly-funded schools provides funding for students who are at least 4 years old on December 31st of the school year and as old as 20 years old, with certain adjustments for the number of years spent in high school.

Should there be age restrictions in respect of eligible children?
4. Eligible course of study

Currently, in publicly-funded schools, a course of study provides 1,500 minutes of instruction per week. For junior and senior kindergarten, full time study is defined as 750 minutes per week.

*What should an eligible course of study be?*

For more information, call toll-free 1-800-263-7965 or visit [www.gov.on.ca/FIN](http://www.gov.on.ca/FIN).

Written submissions can be mailed to the following address:

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Equity in Education Tax Credit

APPENDIX:
SECTION 8.4.2 OF THE INCOME TAX ACT (ONTARIO)

Note: Effective January 1, 2002, the Act is amended by the Statutes of Ontario, 2001, chapter 8, section 41 by adding the following section:

Equity in education tax credit

8.4.2 (1) In this section,

"eligible child" means, in respect of a qualifying taxpayer, an individual who satisfies the rules prescribed by the regulations; ("enfant admissible")

"eligible course of study" means an elementary or secondary school course of study,

(a) that is provided by an eligible independent school to a pupil enrolled in the school,

(b) that satisfies the rules prescribed by the regulations; ("programme d'études admissible")

"eligible fees" means the amount determined under the rules prescribed by the regulations; ("frais admissibles")

"eligible independent school" means a school that satisfies the rules prescribed by the regulations or a school that is designated by regulation as an eligible independent school; ("école indépendante admissible")

"qualifying taxpayer" means, in respect of a taxation year, a person,

(a) who is an individual for the purposes of section 8,

(b) who is resident in Ontario on the last day of the taxation year, and

(c) who satisfies the rules prescribed by the regulations. ("contribuable admissible")
Amount of tax credit

(2) The amount of the equity in education tax credit in respect of an eligible child for a taxation year is the amount calculated using the formula,

\[ A \times B \]

in which,

"A" is the appropriate percentage for the taxation year as determined under subsection (3), and

"B" is the lesser of,

(a) the prescribed monthly amount for the taxation year or, if no amount is prescribed for the taxation year, the amount, not exceeding $7000, that is determined by multiplying $700 by the number of months in the taxation year in which the eligible child was enrolled in an eligible independent school as a full-time pupil and attending classes at the school in the taxation year in an eligible course of study, and

(b) the amount of eligible fees reasonably attributable to the taxation year that were paid by a qualifying taxpayer to an eligible independent school in respect of an eligible child who was enrolled in the school during the taxation year as a full-time pupil and attending classes at the school during the taxation year in an eligible course of study.

Appropriate percentage

(3) For the purposes of "A" in subsection (2), the appropriate percentage for a taxation year is determined as follows:

1. If the taxation year commences after December 31, 2001 and ends before January 1, 2003, the appropriate percentage is 10 per cent.

2. If the taxation year commences after December 31, 2002, the appropriate percentage is 20 per cent.
Qualifying taxpayer's share

(4) The amount of a qualifying taxpayer's share of the equity in education tax credit in respect of an eligible child for a taxation year is the amount of the credit determined under subsection (2) as apportioned in accordance with the rules prescribed by regulation.

Regulations

(5) The Minister may make regulations,

(a) prescribing rules for the purposes of the definitions in subsection (1);

(b) designating particular schools as eligible independent schools for the purposes of the definition;

(c) defining terms used in this section that are not already defined in the Act;

(d) prescribing rules for the purposes of determining a qualifying taxpayer's share of an equity in education tax credit under subsection (4).

Same, eligible independent schools

(6) A regulation prescribing rules for the purposes of the definition of "eligible independent school" may establish different classes of schools and prescribe different rules for each class.

See: 2001, c. 8, ss. 41, 42 (4).