

## Outrage at tax credit reversal

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Canadian taxpayers are generally an obliging lot, considering the top marginal rate in Ontario is still an egregious 46%.

Most of us go along reluctantly with this level of confiscation, play by the rules and plan our financial lives accordingly. We take advantage of the few tax deferment vehicles available, such as RRSPs and registered education savings plans, and make do with comparatively little disposable income.

But when governments change the rules retroactively, as did the Dalton McGuinty Liberal administration in Ontario last week, taxpayers rise up in justifiable indignation.

The public and professional tax experts alike were outraged by McGuinty's move to eliminate the private school tax credit retroactively to last Jan. 1, 2003.

"It is indeed unfortunate that you can't plan your affairs with certainty based on the enacted tax laws in place at the time decisions are made ... without worrying about the law being changed retroactively 11 months later and benefits being taken away," says Paul Hickey, national tax partner with KPMG.

Hickey was genuinely surprised by the retroactive move. "I thought it would have been cancelled from say the date of last week's bill (or going back to the election date at the earliest) or possibly Jan. 1, 2004."

Since the credit has been around since 2002, people would have already taken the credit into account in their financial planning, Hickey says, "and likely in some cases in their decision as to whether or not they can afford to send their children to a private school."

The maximum credit for a child age 6 and over in 2003 was supposed to be \$1,400 (\$7,000 maximum tuition fees times 20%) and \$700 for a child under age 6 (\$3,500 maximum tuition times 20%), Hickey says. "So if you had two children in private schools (age 6 or older) this retroactive tax change will cost you a cool \$2,800 in 2003."

Parents who put their kids into private schools and planned their financial affairs with the expectation of the credit are understandably dismayed. Ken Klassen is an accounting professor at the University of Waterloo and has two children in private school.

"I'd say it's unfair," Klassen says. He had expected the worst case would be the Liberals would repeal the tax credit effective Jan. 1, 2004. So the retroactive repeal exceeded his most pessimistic expectations.

"You make decisions under the assumption the tax system is as it currently exists in legislation. If they actually implement a new provision you can make a decision based on that. But if they repeal it a year and a half late, you're stuck."

Speaking myself as a parent in the same situation, the private school tax credit has been nothing more than a series of hopes dashed. When it was first unveiled, it was clear you would have to wait five years before the full 50% (on \$7,000) would be phased in. Then even the Eves Tories delayed the implementation, so the second year the credit remained 10% instead of rising to the originally promised 20%.

Meanwhile, many private schools raised their fees, on the expectation the promised credit meant parents could better afford their fees. Needless to say, few intend to lower their fees now the credit has been axed.

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With the retroactive elimination of the credit, parents now have the worst of all worlds: higher fees and no credit. I can only feel sorry for any single-income family on a budget that took their kids out of the public system on the basis of this ever-receding mirage of a tax credit.

"It is outrageous and morally wrong," says John Williamson, Ontario director for the Canadian Taxpayers Federation. "The ETC is good education policy, good for kids and gives parents choice. If the government insists on taking it away, fine! But it should have happened not before the next school year so parents could budget for the change."

Because of the new administration's haste in acting on the credit, it was eliminated just in time to be incorporated into tax software programs for the 2003 calendar year, according to Intuit Canada, maker of QuickTax tax software.

Paul McKeever, head of the Freedom Party of Ontario, doesn't lament the demise of the tax credit, but does believe the "education tax" needs a radical overhaul. By that, he means the part of Ontario taxes (or surtaxes) allocated to the public education system.

"The current method of financing education causes and entrenches educational apartheid," McKeever says. "By forcing everyone to pay for government schools, it ensures that only the very wealthy will be able to afford to send their children to schools offering an environment or curriculum better suited for their children. Only the very wealthy can afford to pay two tuitions for one child."

McKeever's vision of choice in education is to eliminate the practice of forcing people to pay for an education their children do not use. But he also views the Ontario Conservative party's tax credit as "deeply flawed."

"It facilitated choice in schools, but allowed government to continue preventing choice in education." The tax credit went only to parents whose children are in schools which teach the curriculum set out by the Ministry of Education.

"By continuing to force everyone to pay education taxes, the PCs ensured that government could continue to dictate curriculum: conditions could be placed on which schools were eligible for the tax credit," McKeever says.

Ideally, both the tax credit and the "education tax" should be eliminated, McKeever believes. "However, eliminating only the former certainly leaves us worse off than we would be with the tax credit in place."

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