

TAX JUSTICE OF THE REFORM OF HIGHER EDUCATION: TUITION FEES OR TAX RELIEF?

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Abstract

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This paper deals with the current reform of higher education which is now being discussed in the Czech Republic. The Government and the Ministry of Education, Youth and Sports propose a tuition fee for students at universities but there is still no clear concept of it. University leaders and students are against the tuition fee because of their fear of getting into debt during their study. The aim of this paper is to show an alternative way of funding higher education without tuition fee loans and from the point of view of tax justice. According to the concept of horizontal justice (Mankiw, 1999) taxpayers should pay taxes at the same rate, but it does not work this way. The result of research is that changes in Act 586/1992 Coll., on income tax and in Act 117/1995 Coll., on state social welfare are required. Abolition of tax relief is proposed where discrimination against other taxpayers and groups of students could occur. By abolition of tax relief for a student and tax relief for a dependent child the amounts of 4,020 CZK and 13,404 CZK respectively could be saved. Changes in legislation could be politically more acceptable than the tuition fee. The solution could also lead to simplification for taxpayers. The target should be equal access to higher education for all students.

higher education, reform, students' tax relief, tax justice, tuition fee

The reform of higher education is currently a serious problem and one of the frequently discussed issues that divides not only the Ministry of Education, Youth and Sports of the Czech Republic (hereinafter the "Ministry of Education") from the academic community but also splits the political parties. One of the major points that cause controversy is the planned proposal of the Ministry of Education to introduce tuition fees at universities. Tuition proposal was already discussed in the nineties of the 20th century. One of the main proponents was already at that time Václav Klaus (Klaus, 2001).

Senators also proposed the introduction of tuition in bachelor's and master's degree programs in 2004. The Chamber of Deputies rejected this proposal at first reading (PSP, 24. 2. 2005).

Tuition proposal that was submitted by the Ministry of Education headed by the Education Minister Dana Kuchtová in 2007 was adopted by

the opposition Czech Social Democratic Party (hereinafter "ČSSD") (Zlámalová, Benešová, 2007).

In the following years new proposals appeared on how tuition (or enrolment) fees should be set and collected. In press statements of the Ministry of Education, the ruling and opposition parties some changes in priorities for tuition issues have occurred and perhaps this is why the final shape of tuition is still unknown. The academic community expresses its dissenting opinions on the planned reform and this creates the environment in which it is difficult to find a common solution.

By introducing tuition fees universities should obtain revenue into their budgets. However, universities support their students and do not believe in the positive benefit of pending legislation. Furthermore, as they say, they cannot see clear guarantees of further positive development of universities (ČT BRNO, 2012).

One of the proposed ways of funding is deferred tuition fees. According to a deferred tuition fee system students should be able to take out loans with state guarantee (apparently) from the private (banking) sector with low interest rates. They will start paying back after graduation when their income reaches the average salary. The former Minister of Education Josef Dobeš further proposed that the government should pay interests on student loans (Parlamentnilisty.cz, 31. 10. 2011).

However, students do not like this offer. They point out that they are not willing to get into debt already during their study and do not believe that tuition fees will bring higher revenue to universities. The banking sector offers savings programs that could also be used to provide financial support to higher education students. The intended proposal to use building savings to finance tuition fees had previously failed through the approval procedure in the Parliament of the Czech Republic (PSP, 9. 9. 2009).

MATERIALS AND METHODS

The aim of this paper is to propose an alternative way of financing higher education with a view to reducing student reliance on loans while reducing the administrative burden on students and the concerned state institutions. The proposed solution should remove the risk of financing which may result in two problems. The first is the answer to the question of what happens if students after graduation do not reach the average salary. Who will pay educational costs or who will repay this tuition loan? The second is the risk of debt trap due to forced borrowing.

On the other hand, there is the issue of tax fairness. Current solutions and support for students divide students into two groups according to age: those who meet the requirement of student status and those who are older. Despite studying the same degree programs, they are not eligible for some of the benefits of their younger classmates (e.g. discounts in stores, discount fares, tax benefits, etc.)

An alternative method of financing could bring real benefits such as simplicity for taxpayers and tax authorities based on current legislation, especially the law on income tax.

The method used in this paper is prediction, i.e. estimation of future levels of tuition fees in the planned reform of higher education. Because it is still unknown what final shape the reform should have, press releases and official websites of parliamentary parties and public statements of universities are used mainly as literature (sources).

The method of induction was employed to estimate the level of tuition fee which is acceptable for government parties. Analytical search for alternatives was carried out within the law leading to the fulfilment of goals.

RESULTS AND DISCUSSION

Estimated tuition

The proposal submitted to the Senate assumed tuition fees at universities in the accredited Bachelor's and Master's studies in the range of 3,000 to 9,000 CZK per academic year. The decision as to whether or not universities will charge tuition and how much the tuition will be should be taken by a particular university.

Proposals put forward by the Ministry of Education concerning tuition have changed over time as a result of numerous debates not only in the Czech Parliament. The proposal submitted in 2007 set the tuition fee at 20,000 to 40,000 CZK per year (Ihned.cz, 31. 1. 2007).

The attitudes of the various political parties represented in the Chamber of Deputies of the Parliament of the Czech Republic towards tuition differ and often change as a reflection of the current responses to them.

The opposition parties are against the proposed tuition fees. ČSSD fundamentally rejects tuition and promises to cancel it (Chládek, 2012) if it wins the next election. The Communist Party of Bohemia and Moravia (hereinafter referred to as "Communists") regards equal access to education as one of the fundamental human rights and firmly rejects the shift in university funding (VV ÚV KSČM, 2011) towards citizens.

However, it is the ruling coalition that will have the decisive word in the Chamber of Deputies during the approval process. But it is not united on the introduction of tuition fees and since the year 2010 the parties have been in dispute over the final version which would be in accord with the coalition agreement.

The Civic Democratic Party (hereinafter referred to as "ODS") is in favour of establishing the system of deferred tuition savings and loans for students. The cost of tuition should be tax deductible not only for the student but also for the employer (ODS, 2010). Nečas as the party chairman goes beyond this in his visions, suggesting further tightening rules on study with the aim of tackling abuse of student status. Students should be entitled to 6 semesters in Bachelor's degree programs and 10 semesters in Master's degree programs (Nečas, 2012).

The political party Top 09 in its election program proposed the introduction of tuition fees and a system of bursaries and loans (TOP 09, 2010). Together with the ODS it refused to change the coalition agreement on tuition fees which, as suggested by the political party Věci veřejné ("Public Affairs", hereinafter referred to as "VV"), could be replaced with enrolment fees of up to 6,000 CZK (CT24, 14. 12. 2010). Unlike the coalition partners, Top 09 promoted direct tuition and regarded the government proposal for deferred tuition as another possible solution (TOP 09, 12. 10. 2010). The reason for this is the warning that any deferred tuition will

have to be paid off with all the accrued interest (TOP 09, 16. 6. 2010).

In 2010 Věci veřejné (VV) made an official statement that members of this party do not want tuition at universities in the current electoral term and want to put it off for the next term (Kalenský, 2010). To soften the proposed reform it suggests an alternative, i.e. to charge enrolment and tuition fees if the standard period of study is exceeded (Lidovky.cz, 7. 2. 2012).

The expected maximum tuition fee could be 10,000 CZK per semester and each university will have the power to decide whether or not it will charge tuition and at what rate (e.g. ODS, 16. 6. 2011, Klimánková, 2010). As the parties propose various exceptions, the average tuition fee may be even lower.

Income tax and tax justice

On the one hand, students will have to pay a tuition fee at a certain rate but on the other hand they are entitled in compliance with the Income Tax Act (hereinafter referred to as “ZoDzP”) to reduce their tax liability and also the tax liability of persons with whom they live in the same household as a dependent child (hereinafter “parent”).

Pursuant to § 35ba (1) (f) of the Income Tax Act the amount of 4,020 CZK can be deducted from the calculated tax for the taxpayers for the time during which they are constantly preparing for their future employment by pursuing studies or prescribed training up to the age of 26 or pursuing full time study in the doctoral program which provides higher education up to the age of 28.

The so-called tax relief for a student is not the only deduction the taxpayer may claim. A taxpayer referred to in § 2 of the Income Tax Act is entitled to a tax relief for a dependent child living with him as a member of his household in the amount of 13,404 CZK per year (§ 35c paragraph 1 of the Income Tax Act). A dependent child under § 35c paragraph 1 (b) of the Income Tax Act is also an adult child until the age of 26 if they do not receive a disability pension for third-degree disability and are constantly preparing for future careers. Preparation for future occupation is assessed under the Law on State Social Welfare (“ZoSSP”). Systematic preparation for future occupation of the child should be understood to mean study at secondary schools and universities in the Czech Republic (§ 12 paragraph 1 ZoSSP).

Tax relief under the Income Tax Act is subtracted from the calculated tax liability of the taxpayer. It means that the student and his parent save 17,424 CZK in taxes for the tax year 2012. Compared with the government proposal for 20,000 CZK with reservations, the government could obtain 17,424 CZK only by amending the law with no exceptions. Exceptions are another tax-related issue that are supported by political parties. Most parties promise voters their simplification (see election programs). Simplification alone would bring tax fairness and non-discriminatory behaviour towards different

age groups of students. According to the concept of horizontal justice (Mankiw, 1999) taxpayers should pay taxes at the same rate.

Comparison of the Advantages and Disadvantages of Tuition Fees and Tax Relief

On the basis of analysis of the Income Tax Act it is possible to find an alternative source of university funding. The introduction of tuition fees at this time is hardly acceptable, taking into account the views of the interested parties. If the opposition parties disagree with a tuition fee and promise that they will change it, if they win the election, then the introduction of a tuition fee will be short-lived.

The public, especially taxpayers, accept much better amendments to laws that simplify, unify and do not discriminate individual taxpayers and do not even give any non-standard advantage. The discussion, which would have to be held on this issue, is a purely political topic, which the authors of this article are trying to avoid.

The purpose of this paper, therefore, is to change the wording of the Income Tax Act in § 12 paragraph 1, as follows “the systematic preparation for future occupation of the child” should be understood to mean study at secondary schools in the Czech Republic. At the same time § 12 paragraph 3 and § 14 “systematic preparation of the child for a future career at university” would be repealed. By doing this, tax relief for taxpayers under § 35ba of the Income Tax Act would be applicable only to students at secondary schools and at the same time the definition of a dependent child under § 35c paragraph 6 of the Income Tax Act would be modified.

The state would collect a higher tax; a maximum increase would be 17,424 CZK. Now, there is a conflict between the solution proposed in this paper and the government press release that the government will not raise taxes (ODS, 2. 7. 2010). This promise was already broken in connection with floods and a so-called flood tax in the year 2011. Its main purpose was to reduce tax relief for a taxpayer from 24,840 CZK to 23,640 CZK in the taxable period of 2011 (§ 35ba subsection 1 (A)) ZoDzP).

The proposed solution would also be non-discriminatory because it would eliminate the differences (status and privileges) between students under age 26 and older. It can be argued that older students would not be affected by the reduction of tax relief. But it is not true. These students did not claim any reliefs from high school graduation until the day of entry to university. The right to education is also enshrined in Article 33, paragraphs 1 and 2 of the Charter of Fundamental Rights and Freedoms. It cannot be anticipated who will go on to university and who will not. Older students (over 26 years of age) should not be “punished” or disadvantaged that they decided to study later for whatever reason. Currently, they cannot claim tax relief for a student.

What is often criticized is abuse of student status. It is reported that some students go to university

I: *Comparison of the Advantages and Disadvantages of Tuition Fees and Tax Relief*

Factors	+/-	Tuition Fees	+/-	Tax Relief
Amount per year	-	Max. 20,000 CZK	+	17,424 CZK
Administrative costs	-	New costs for universities?	+	Fixed amount for tax authority
Difficulty with accepting	-	Consensus of all parties means political parties in general	+	Making a change in one law
Power of the government to enforce it (estimate)	-	No	+	Yes
Long-term measure	-	No	+/-	Maybe
Necessity of acceptance by the opposition	-	Yes	+	No
Necessity of acceptance by universities and students	-	Yes	+	No
Resistance to the measure	-	Enormous	+	Moderate
Tax justice	+/-	Maybe	+	Yes
Discrimination of students	+	No	+	No
Difficulty with checking if payments go to university budgets	+	Low	-	High
Motivation for students	+	Yes	-	No

Source: own research

just to get welfare benefits. And this is how public resources are wasted. (Nečas, 2012). This raises a question of whether or not to make some other changes, e.g. in social and health insurance, which universities pay for their college students. Participating in insurance levies could improve students' motivation to complete the study in due course much better than the introduction of tuition fees. Tuition is perceived as "something extra", while social and health insurance is paid by all taxpayers, regardless of education, position or student status. Students over 26 must pay insurance like the self-employed.

Political enforceability of this solution is uncertain because there will be a dispute between left-wing and right-wing politicians. Negotiations could end up with the same arguments as the negotiations over tuition fees. Left-wing politicians will be against the introduction of tuition fees for fear that students from underprivileged families will not be able to afford higher education. Right-wing politicians will advocate this measure because it is inevitable for the reform of higher education and offer a university tuition loan system. An alternative might be sacrificing a tuition fee (which is difficult to enforce) for a tax relief.

CONCLUSION

This paper was written as a response to recent social and political protests over the reform of higher education, particularly the introduction of

tuition fees. Due to the need to find funds for the budgets of universities an alternative solution was proposed, perhaps less controversial, perhaps more acceptable and effective.

According to press releases and pronouncements by government officials, the amount of tuition fee is estimated at 10,000 CZK per semester, i.e. 20,000 CZK per academic year. Such a solution is unacceptable to the opposition politicians, universities and students themselves who are afraid of getting into debt in the course of study. The proposal aims to offer a broad spectrum of loans and savings, which should make higher education accessible and affordable for the largest possible number of students.

The amount of 20,000 CZK was used as the target which should be replaced by other means. The proposed solution suggests the restriction of tax reliefs for income taxes, which allow tax deductions of 4,020 CZK (a student under age 26 or 28) and of 13,404 CZK (a dependent child). A dependent child for the purpose of the Income Tax Act is also a university student under 26 years of age. Subsidizing university students by other citizens, e.g. families with young children is considered antisocial by the government (Parlamentní listy, 23.1.2012). The same could be said about tax deductions. An unresolved question, however, remains how to ensure that the money (taxes) collected is the income of the Ministry of Education and not a contribution to the state budget.

SUMMARY

In the Czech Republic tuition fee payment for higher education has been discussed since the early nineties. Political parties came (and refused) various forms of student financial participation. The proposed tuition is one of the forms that universities would charge college students. The amount of tuition fees should be fully within the purview of universities depending on their prestige and the interests of students. The maximum amount of tuition fees is subject to political and public discussions and has been changing for almost 20 years. Tuition is an issue that splits two major groups – overnment and universities (including students).

Left-wing parties fear that the introduction of tuition fees will create an artificial barrier that will prevent poorer students from going on to higher education, which could be seen as discriminatory. Right-wing parties, on the other hand, argue that full government funding is demotivating for the others - taxpayers. They also point out that some abuse student status to obtain social benefits. One of the possibilities of suppressing this behavior is to introduce tuition fees for students who have exceeded the standard period of study which is 6 semesters in Bachelor's degree programs and 10 semesters in Master's degree programs. However, the real form is uncertain.

The authors of this paper use one of the possible rates of 10,000 CZK per term, which could be enforceable. This amount is then compared and replaced with alternative solutions. The purpose of this paper is to design a measure that would be acceptable to all parties. The aim is to propose such a solution that would be motivating for students, fair for all taxpayers and non-discriminatory against students of any age groups.

The analysis of the Income Tax Act revealed an unfair measure – a tax relief for a student under age 26 – 4,020 CZK per year. Older students cannot claim such a tax relief. From the perspective of tax fairness there are differences within the student population. Students under 26 years of age are seen as dependent children, and their parents can receive a child allowance of 13,404 CZK per calendar year.

It is thus proposed to amend the law on social assistance and to restrict the definition of a student to primary and secondary education. This would save the state budget up to 17,424 CZK per year. According to the authors this amendment is more easily acceptable to the majority concerned. The positive is that it would restrict exemptions to taxpayers.

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