

Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-15	
Short title:	Maternity and Parental Leave Tax Credit	
Description:	Introducing a non-refundable and non-transferable tax credit for recipients of maternity and parental Employment Insurance (EI) benefits, which would reduce their taxes payable at a rate equal to the lowest federal marginal personal income tax (PIT) rate. Recipients of the Québec Parental Insurance Plan (QPIP) would be able to claim benefits equal to what they would have received from EI, had they been eligible. Any unused amounts at the end of the calendar year could be carried over to the following year, which would represent a future liability to the government.	
Operating line(s):	Personal Income Tax	
Data sources:	<u>Variable</u>	<u>Source</u>
	EI and EI-equivalent benefit and tax credit amounts	SPSD/M v. 27.1 ¹
	Historical Employment Insurance Benefits Data	Public Accounts
	Historical Québec Parental Insurance Plan Data	Conseil de gestion de l'assurance parentale
	Growth rates of Insurable Earnings	PBO Election Proposal Costing (EPC) Baseline
	Carryforward amounts	SPSD/M v. 27.1
	Growth of unused carryforward amounts	Statistics Canada (T1FF); Financial Information of Universities and Colleges, Canadian Association of University Business Officers and Statistics Canada; Statistics Canada Table 37-10-0028-01; Public Accounts
Estimation and projection method:	The net fiscal cost to the federal government of implementing this new tax credit beginning in 2020-21 was estimated using a Glass Box modification in Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 27.1. ²	

¹ This analysis is based 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.

² This cost estimate is an update to a previous PBO report titled, "Cost Estimate for Bill C-394: An Act to amend the Income Tax Act (parenting tax credit)", which was published on May 10, 2018. More details regarding the methodology can be found in this report.

The value of the tax credit for EI recipients was calculated by multiplying the value of calculated EI parental and maternity benefits by the lowest federal marginal personal income tax (PIT) rate.

To determine the EI-equivalent QPIP benefits, PBO applied the same eligibility criteria to QPIP recipients and calculated their EI benefits using the EI rates and maximum insurable earnings. The value of the tax credit for QPIP recipients was calculated by multiplying the value of the EI-equivalent benefits by the lowest federal marginal personal income tax (PIT) rate.

PBO estimated the annual tax expenditures parental EI recipients and QPIP recipients could claim. The remaining amount that would otherwise be claimable had individuals' taxes payable not already been reduced to zero, represents the maximum carryforward of that year. Some of this will be used in future years, and the rest will remain unused.

The cumulative stock of the unused carryforward amount was calculated using the growth rate of unused tuition, education and textbook credits from 2010-11 to 2013-14. This growth rate was then adjusted by the difference between the growth of maternity and parental EI benefits and the growth of domestic tuition fees. The growth rate was increased by the difference between the 15% PIT rate and the lowest federal marginal PIT rate in the fiscal year. This last adjustment accounts for the diminished capacity to use previous years' unused tax credits as a result of reduced taxes payable. Any remaining carryforward amounts above the cumulative stock were assumed to be used in that fiscal year, increasing the annual tax expenditure.

PBO determined that the summed historical EI and QPIP maternity and parental benefits estimated by SPSPD/M were below those published in the Public Accounts of Canada and by the Conseil de gestion de l'assurance parentale for the previous four years. Therefore, PBO adjusted the figures to account for this difference.

Finally, as SPSPD/M only provided estimates to 2025, PBO used the growth rate of insurable earnings from the EPC baseline to project total benefits paid until the end of 2028-29. PBO used the average ratio of tax expenditures and carryforward amounts for these later years.

Uncertainty
assessment:

The estimate has high uncertainty. In addition to the assumptions described above, PBO was also required to make an assumption regarding the take-up rate for the parental sharing benefit, which was introduced in Budget 2018. PBO assumed a 100% take up rate for the additional parental leave among two-parent families who exhausted all weeks of parental leave. PBO assumed paternity benefits received in QPIP would also be eligible for the tax credit based on similar EI criteria.

PBO's cost estimate also assumes no additional administrative costs to the EI program, nor any behavioural changes. The annual carryforward amounts may also be over or under estimated.

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	-	616	967	970	989	1,022	1,052	1,083	1,115	1,147

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
Total Cost (Tax Expenditure)	Personal Income Tax	-	616	967	970	989	1,022	1,052	1,083	1,115	1,147
Interaction with decrease to lowest federal marginal PIT rate	Personal Income Tax	-	-6	-45	-77	-94	-97	-100	-104	-108	-113
Tax Expenditure at 15%	Personal Income Tax	-	622	1,012	1,047	1,083	1,119	1,152	1,187	1,223	1,260
Cumulative Stock of Unused Carryforward		-	370	391	413	435	460	485	512	540	570

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