

Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-30																	
Short title:	Broadening eligibility for the Disability Tax Credit																	
Description:	<p>Reducing the number of required weekly hours of life-sustaining therapy required to qualify for the Disability Tax Credit from 14 hours to 10 hours and including time taken to determine the dosage of medical food and formula.</p> <p>The change will be implemented for the 2020 tax year.</p> <p>This proposal interacts with another proposal that would decrease progressively the federal income tax rate of the first bracket from 15% to 13.75% starting in 2021.</p>																	
Operating line(s):	<p>Personal Income Tax</p> <p>Transfer Payments to or on Behalf of Individuals</p> <p>Transfer Payments to or on Behalf of Individuals Through the Tax System</p>																	
Data sources:	<table> <thead> <tr> <th><u>Variable</u></th> <th><u>Source</u></th> </tr> </thead> <tbody> <tr> <td>Time spent on life-sustaining therapy</td> <td>PBO analysis using Statistics Canada's General Social Survey</td> </tr> <tr> <td>DTC Tax savings</td> <td>PBO analysis using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M)¹</td> </tr> <tr> <td>Retroactive DTC Claims</td> <td>Canada Revenue Agency (CRA)</td> </tr> <tr> <td>Program Expenses and trend in Program Expenses</td> <td>Employment and Social Development Canada's Disability Savings Program's Annual Statistical Review 2017</td> </tr> <tr> <td>Trend in tax savings</td> <td>Department of Finance's Report on Tax Expenditures</td> </tr> <tr> <td>Trend in number of claims</td> <td>CRA T1 Final Statistics</td> </tr> <tr> <td>Consumer Price Index</td> <td>PBO Election Proposal Costing Baseline</td> </tr> </tbody> </table>	<u>Variable</u>	<u>Source</u>	Time spent on life-sustaining therapy	PBO analysis using Statistics Canada's General Social Survey	DTC Tax savings	PBO analysis using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) ¹	Retroactive DTC Claims	Canada Revenue Agency (CRA)	Program Expenses and trend in Program Expenses	Employment and Social Development Canada's Disability Savings Program's Annual Statistical Review 2017	Trend in tax savings	Department of Finance's Report on Tax Expenditures	Trend in number of claims	CRA T1 Final Statistics	Consumer Price Index	PBO Election Proposal Costing Baseline	
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Estimation and projection method:	<p>The expected increase in the number of persons claiming the Disability Tax Credit (DTC) and Registered Disability Savings Plans (RDSPs) was estimated based on time-use survey data as set out in the PBO's 29 January 2019 report "Cost Estimate for Bill C-399 "Fairness for Persons with Disabilities Act".</p>																	

¹ This analysis is based, in part, 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.

Average costs for new claimants were assumed to be equal to average costs for existing claimants.

The personal income tax savings from the DTC were estimated using a modified version of SPSPD/M, with a markup to account for retroactive claims. These savings were forecasted to grow in line with the trend in retrospective estimates of the value of tax savings in the Department of Finance's Report on Tax Expenditures.

The tax savings or refunds from the Federal Working Income Tax Benefit Supplement for persons with disabilities were estimated using SPSPD/M. These savings or refunds are projected to grow in line with increases in the number of DTC claimants (projected based on CRA's T1 Final Statistics) and CPI (as set out in the PBO's EPC baseline).

The program expenses from Canada Disability Saving Grants were estimated and projected based on the trend in actual costs between 2009 and 2017.

The program expense associated with Canada Disability Saving Bonds was estimated and forecasted as the product of the trends in the number of Canada Disability Saving Bonds and the average value of Canada Disability Saving Bonds between 2014 and 2017. A 2012 policy change allows unclaimed Registered Disability Savings Bonds to be claimed up to ten years back to 2008, which drove increases in average bond claim values which are not expected to continue.

Investment income earned on RDSP assets is not subject to tax, nor are Canada Disability Savings Bonds and Canada Disability Savings Grants, but withdrawals from RDSPs are subject to tax. The net tax expenditure associated with the sheltering of RDSPs was estimated and projected based on the Department of Finance's Report on Tax Expenditures.

Uncertainty
assessment:

The estimate has moderate uncertainty. There is significant sampling error surrounding the estimated number of persons gaining eligibility and the rate for persons 18 and under had to be assumed to be equal to the rate for youngest age group over 18. The increases in uptake of the DTC and RDSPs observed in historical data and used for the projection of the costs of this measure exceed the growth expected due to population aging and cannot be sustained indefinitely. Persons eligible for the disability tax credit on the grounds of life-sustaining therapy may differ from the general population eligible for the disability tax credit in ways which impact their propensity to use Registered Disability Savings Plans and the grants and bonds for which they are eligible. This estimate is not sensitive to uncertainty in the economic outlook and no behavioural response is expected.

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	-	40	43	45	49	53	57	61	66	71

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
Cost	Lost tax revenue due to expanded eligibility for disability tax credit	Personal Income Tax	-	27	29	32	35	38	41	45	48	53
	Federal Working Income Tax Benefit	Transfer Payments to or on Behalf of Individuals Through the Tax System	-	1	1	1	1	1	1	1	1	1
	Canada Disability Savings Grants/Bonds	Transfer Payments to or on Behalf of Individuals	-	11	12	13	14	15	16	16	17	18
	Net lost tax revenue from tax exemptions related to RDSPs	Personal Income Tax	-	1	2	2	2	2	2	2	2	3
	Interaction effects	Personal Income Tax	-	-	-1	-2	-2	-3	-3	-3	-3	-4
Total cost			-	40	43	45	49	53	57	61	66	71

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