

Cost Estimate of Election Campaign Proposal

Publication date: 2019-09-17

Short title: Enhancing Registered Education Saving Plans (RESP)

Description: The proposal enhances the Registered Education Savings Plan (RESP) through modifications to the Canada Education Savings Grant (CESG) beginning in January 2022. Specifically, the CESG rate increases from the current 20% to 30% on the first \$2,500 contributions, and the lifetime maximum CESG amount from \$7,200 to \$12,000. The proposal also increases the maximum annual CSEG from \$1,000 to \$1,500. This proposal interacts with another proposal that would progressively decrease the federal personal income tax rate of the first bracket from 15% to 13.75% starting in 2021.

Operating line(s): Personal income tax revenues and transfer payments

Data sources:	<u>Variable</u>	<u>Source</u>
	Population Estimates	Statistics Canada Population Estimates https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000501 Annual population projections by age and sex for July 1, 2018 to 2100, Canada, provinces and territories
	Canada Education Saving Grants	Canada Education Savings Program Annual Statistical Review (2008-2017) and https://open.canada.ca/data/en/dataset?portal_type=dataset&q=cesp

Estimation and projection method: Statistics Canada population estimates and projections were used to forecast current and future beneficiaries of the RESP. Historical trends in the age profile of beneficiaries and the statistical association between the number of children, age and average contribution were also used to estimate the enhancements to the CESG.

The tax expenditure is calculated as the difference between tax revenue forgone from the non-taxation of investment income earned on RESP assets, and the taxes paid on RESP withdrawals. A marginal tax rate of 29% was applied to contributors' investment income to reflect associated contributors' withdrawal penalties, while a marginal rate of 15% was used for beneficiaries' withdrawals. The impact of the proposed changes to the lowest personal income tax rate on tax expenditures is also calculated as an interaction effect. Historical contribution and withdrawal amounts were used to generate an investment profile that best illustrates current RESP asset values.

Behavioural changes are not incorporated in the cost estimate, but the following observations are made based on the extant literature. First, there is general agreement that saving incentive plans induce shifts in savings (that would have occurred anyway) from taxable into tax-preferred accounts. Second, more recent studies provide specific measures of sensitivity to change (elasticities) regarding the substitution from one saving vehicle to another. These studies differ in magnitude and asset preference (whether the substitution is within tax sheltered assets or not).

The increase in CESG rates is expected to induce higher contribution rates in both existing and potential account holders while the new grant contribution limit is expected to facilitate more frequent contributions. However, because the program has limits on the *annual* contributions on which CESG can be paid, the main cost driver is the percentage of the CESG rate.

Uncertainty
assessment:

The estimate has moderate uncertainty. This assessment assumes that the behavioural impacts are within the existing trend increases in participation rates.

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	-	-	145	612	640	664	688	713	737	763

Supplementary information

\$ millions	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Grants (CESG) 30%*	-	-	142	585	604	624	643	661	680	700
Tax Expenditure	-	-	1	8	11	14	17	21	25	30
Interaction Effect	-	-	3	19	25	27	29	30	32	34

Notes:

* Lifetime limits on maximum grants affect contribution pattern as described in the estimation section.

Estimates are presented on an accrual basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance. The program is assumed to take effect on January 2022.

"-" = PBO does not expect a financial cost