

Cost Estimate of Election Campaign Proposal

Publication date: 2019-09-29

Short title: Measures to support parents with children under one

Description: Enhancing the Canada Child Benefit (CCB)

The base benefit for newborns will be 15% higher than the base benefit for children under the age of 6. That is, beginning in July 2020, the base benefit for newborns will be \$7,750.

Maternity Leave for Adoptive Parents

Extending maternity leave employment insurance (EI) benefits to adoptive parents.

Exempting parental and maternity employment insurance (EI) benefits from tax

EI maternity and parental benefits are exempted from income tax. For residents of Quebec, a portion of their maternity and parental benefits equivalent to what they would have received if they lived outside of Quebec is exempted from income tax.

EI program is self-financing; any new EI benefits must be fully funded by the premiums employees and employers pay. Over the period of projection, the introduction of the CIB program will increase the premium rate paid by employees and employers by less than 1-cent from the baseline.

The benefit is implemented in July 2020.

Operating line(s): Children's Benefits

Personal Income Tax

Data sources:

Variable

Source

Number of families with children under 1 year of age, family incomes, and EI maternity and parental claim

PBO analysis of Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 27.1¹

Average weekly benefits and average weeks claimed by maternity benefit recipients with a newborn

Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 27.1

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.

Lost federal tax revenue from a 15% tax credit on EI parental and maternity benefits	Update of model used for PBO's publication titled " Cost Estimate for Bill C-394: An Act to amend the Income Tax Act (parenting tax credit) ". ²
Beneficiaries of adoption EI benefits	Statistics Canada Table 14-10-0138-01 Employment Insurance Program (E.I.), income beneficiaries by province, type of income benefit, sex and age
Consumer price index, Projected EI benefits growth rate	PBO Election Platform Costing Baseline
Population projection	Statistics Canada's M1 Population Projection
EI premium revenue	PBO's fiscal model

Estimation and projection method:

PBO used Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 27.1.

The enhancement to the CCB used the glass-box mode of SPSPD/M to assign a base benefit to newborns that is equal to the base benefit for children under 6 years old multiplied by a factor of 1.15. The original base benefit for young children was then restricted to children ages one through five.

Extending maternity leave benefits to adoptive parents was calculated by multiplying the number of eligible recipients by the weekly EI benefit by the number of weeks of leave. The number of eligible recipients was estimated by applying the ratio of beneficiaries of adoption EI benefits to beneficiaries of parental EI benefits to the estimated number of beneficiaries of parental EI who had a newborn and at least \$1 of parental EI benefits paid in the calendar year. The ratio was estimated using historical data from Statistics Canada Table 14-10-0138-01. The number of parental EI benefit recipients with a newborn was estimated using SPSPD/M. The weekly benefit and number of weeks of leave was estimated using the average values among maternity EI benefit recipients with a newborn.

The lost tax revenue was estimated using a glass box modification in SPSPD/M to deduct maternity and parental EI benefits from taxable income. Then, the lost tax revenue arising from giving each family a deduction equal to the value of the maternity and parental benefits they received was calculated.

To determine the lost federal tax revenue for EI-equivalent QPIP benefits, PBO assumed the ratio of lost federal tax revenue from tax exempt EI benefits to a 15% tax credit on EI benefits would be the same in Quebec, as in the rest of Canada.

Projections for 2020 to 2025 were calculated using SPSPD/M. Projections beyond 2025 for the value of CCB were based on indexing to growth in the population <1 year of age and the consumer price index. Projections beyond 2025 for lost tax revenue were based on the trend in results for 2020 to 2025. Projections beyond 2025 for maternity EI for adoptive parents were based on the growth rate of EI benefits.

The administrative costs and the required premium revenue to fund the cost of the policy were estimated using PBO's fiscal model.

² "Cost Estimate for Bill C-394: An Act to amend the Income Tax Act (parenting tax credit)", published on May 10, 2018.

To convert estimates into a fiscal year, three-quarters of one calendar year's value was summed with one-quarter of the following calendar year's value with the exception of 2020-21 where the benefit begins half-way through the calendar year. In this case, only two-quarters of 2020 and one quarter of 2021 were added together.

Uncertainty
assessment:

The estimate has moderate uncertainty. The implementation of the CCB and the extension of parental leave benefits is simulated rather than being based on actual data regarding uptake. PBO assumed the ratio of lost federal tax revenue from tax exempt EI benefits to a 15% tax credit on EI benefits would be the same in Quebec, as in the rest of Canada. This estimate assumes the take-up rate among the estimated number of eligible recipients of maternity EI benefits for adoptive parents is 100%. Average weekly benefits and number of weeks among maternity EI benefit recipients may not represent that of adoptive parents. SPSPD/M maternity and parental EI benefits do not match those of the public accounts, and could be under or overstated.

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
Gross cost	0	777	1,074	1,115	1,156	1,199	1,241	1,287	1,334	1,384

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	Personal income tax	0	522	725	755	787	822	857	896	936	978
	Enhanced Canada Child Benefit	Children's benefit	0	252	345	355	364	372	379	386	393	400
	Maternity leave for Adoptive parents	Employment Insurance Benefits	0	3	4	5	5	5	5	5	5	5
	Administration EI cost	Employment Insurance	0	small	small	small	small	small	small	small	1	1
Cost recovery	EI Premium revenue	Employment Insurance	0	-1	-5	-5	-6	-6	-6	-6	-6	-7
Tax Implication³	EI Premium Tax Credit	Corporate Income Tax & Personal Income Tax	0	-1	-2	-2	-2	-2	-2	-2	-2	-2
Gross cost			0	777	1,074	1,115	1,156	1,199	1,241	1,287	1,334	1,384

Notes:

The EI program is self-financing. Increases in the cost of the program translate to an increase in the premium rate paid by employees and employers in Canada. Over this period, the new CIB benefits is expected to raise the employee premium rate by less than 1-cents from the baseline.

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

Small = Cost is less than \$500,000

³ The personal income tax provided in the table is the net impact from an increase in personal income taxes due to higher benefits and a decrease in personal income taxes due to higher premiums.