



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

# Legislative Costing Note

Publication date: 2020-01-28

Short title: Cost Estimate of Increasing the Basic Personal Amount Tax Credit

Introduction: In December 2019, the government announced its intention to increase the Basic Personal Amount (BPA) beginning in 2020.<sup>i</sup> The BPA is an indexed non-refundable tax credit available to all residents of Canada. Individuals can also claim an equivalent amount if they have a dependent or partner, net of their dependents' and partner's net income.

Effectively, the new measure will be an indexed top-up to the BPA (i.e. base BPA) and individuals with net incomes at or below the 4<sup>th</sup> federal income tax bracket (\$150,473 for 2020) would be eligible for the full value of this top-up. Individuals with higher income would see their increased BPA reduced until it is equal to the base BPA for individuals with income over the 5<sup>th</sup> federal income tax bracket (\$214,368 for 2020). The increased BPA schedule is outlined below:

Year	Existing BPA	Proposed BPA
<b>2020</b>	\$12,298	\$13,229
<b>2021</b>	\$12,542	\$13,808
<b>2022</b>	\$12,794	\$14,398
<b>2023</b>	\$13,052	\$15,000
<b>2024</b>	\$13,315	\$15,302*

\* First year the proposed BPA is indexed to the growth of the consumer price index

Changes to the BPA have consequential changes to the Child Care Expense Deduction.<sup>ii</sup> These are included in PBO's analysis. Since the BPA tax credit is means tested, there is a potential behavioural response by individuals with net incomes above \$150,473 and below \$214,368.<sup>iii</sup>

PBO also provides distributional analysis to examine the impacts on families by their incomes and size.

Data sources:	<u>Variable</u>	<u>Source</u>
	Consumer Price Index (CPI) projections	PBO's Economic and Fiscal Outlook (EFO)
	Proposed BPA	Government of Canada Ways and Means to amend the Income Tax Act and related Regulations
	Existing BPA amounts for 2020	Canada Revenue Agency, Indexation adjustment for personal income tax and benefit amounts
	Projected baseline BPA amounts and income thresholds	PBO estimation using PBO's CPI projections

Estimation and projection method: This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the simulation results were prepared by the office of the PBO; the responsibility for the use and interpretation of these data is entirely that of the PBO.

PBO modified the glass box files in SPSPD/M v. 28 to model the means-tested increase to the BPA Tax Credit. PBO projected the baseline BPA amounts and income thresholds using PBO's CPI projections. The increased BPA amounts were projected to 2024 using PBO's CPI projections.

Once the model was built, the baseline and projected BPA amounts were entered into SPSPD/M.<sup>iv</sup> PBO used SPSPD/M to calculate the resulting change in federal personal income tax (PIT) revenues.

To estimate the behavioural response, PBO calculated the change in the marginal tax rate (MTR) for individuals with incomes between the fourth and fifth federal income tax bracket thresholds, for each year between 2020 and 2024 (inclusive). PBO used an elasticity of taxable income (ETI) of 0.1, which indicates that a 10% decrease in the after-tax value of an extra dollar earned will reduce taxable income by 1% (and consequently reduce tax revenues).<sup>v</sup>

The results produced by SPSPD/M were then standardized according to PBO's EFO, using the ratio of SPSPD/M's baseline federal PIT revenues to EFO projections of federal PIT revenues.

Aggregate Results: PBO estimates the net cost of this policy change to be \$783 million in 2019-2020, rising to \$6.9 billion in 2023-2024 once the increased BPA is fully implemented.

## Net fiscal cost

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Static *	781	3,394	4,573	5,813	6,834
Behavioural	3	11	16	21	20
<b>Total cost</b>	<b>783</b>	<b>3,404</b>	<b>4,589</b>	<b>5,834</b>	<b>6,854</b>

\* Includes consequential change to the Child Care Expense Deduction, which was a small amount.

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

Positive numbers for aggregate results subtract from the budgetary balance, negative numbers contribute to the budget balance.

### Distributional Analysis:

The distributional impacts of this policy were simulated using SPSPD/M. PBO estimates 0.9 million individuals will no longer pay federal income tax and 21.0 million individuals will pay less federal income tax as a result of this policy change.

Individuals with net incomes between \$51,510 and \$159,694 receive the largest average reduction in their income taxes and individuals with net incomes below \$15,000 or above \$227,504 receive the smallest reduction in their taxes.

The reduction for individuals with incomes greater than the 5<sup>th</sup> tax bracket threshold is due to those individuals claiming an additional amount from their dependent or partner.

## Average change in federal income taxes payable for individuals by income group in 2023

Individual's Net Income <sup>vi</sup>	Change in individual's taxes payable (dollars)
\$0 to \$15,000	-1
\$15,001 to \$51,509	-211
\$51,510 to \$103,017	-337
\$103,018 to \$159,694	-347
\$159,695 to \$227,504	-257*
\$227,505 and above	-11
<b>All Canadians with positive net income</b>	<b>-218</b>

\* includes change in taxes payable due to behavioural response

## Average change in federal income taxes payable for families by family type in 2023

Family Type	Change in family's taxes payable (dollars)
Single person family	-189
Couples with children	-573
Couples without children	-467
Single parent family	-336
<b>All Families<sup>vii</sup></b>	<b>-364</b>

- 
- <sup>i</sup> Government of Canada, Notice of Ways and Means Motion to amend the Income Tax Act and related Regulations. December 9, 2019. <https://www.fin.gc.ca/drleg-apl/2019/nwmm-amvm-1219-l-bil.pdf>, last accessed December 10, 2019.
- <sup>ii</sup> The definition of an 'eligible child' for whom one can claim child care expenses is dependent in part by the child's net income, and whether that net income is below the Basic Personal Amount. The increased BPA is now used to determine this eligibility criteria.
- <sup>iii</sup> An increase in their net income reduces their Basic Personal Amount, increasing their marginal tax rate.
- <sup>iv</sup> PBO further modified the black-box SPSPD/M v. 28 by turning off the commodity tax facility, and turning off the flags that allow for re-allocation of pension income among eligible seniors. These were turned off for both the baseline and the variant scenarios.
- <sup>v</sup> This ETI is consistent with previous PBO analysis, including the PBO Research Tool "Ready Reckoner", url: <https://www.pbo-dpb.gc.ca/en/Research%20Tools> and the PBO report "The Fiscal and Distributional Impact of Changes to the Federal Personal Income Tax Regime", 2016, url: <https://www.pbo-dpb.gc.ca/en/blog/news/PIT>
- <sup>vi</sup> **PBO used CRA's definition of net income, as it is used in the formula to determine the size of an individual's BPA.**
- <sup>vii</sup> **All families where at least one member of that family had positive net income.**