The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation’s finances, the Government’s estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

In response to a request by the Member of Parliament for Carleton, the Honourable Pierre Poilievre, the PBO has prepared a short background primer regarding the potential impacts of eliminating the federal Public Transit Tax Credit.

This report was prepared by the staff of the Parliamentary Budget Officer. Jason Jacques wrote the report. Mostafa Askari provided comments. Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication. Please contact pbo-dpb@parl.gc.ca for further information.

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1. Introduction

This primer responds to the 3 May 2017 request made by the Honourable Pierre Poilievre regarding the fiscal impacts of the proposed elimination of the federal Public Transit Tax Credit. Specifically:

- The increased cost to individuals who took the bus and no longer have this credit available;
- The impact of this cancellation on persons with disabilities and living in low-income or poverty; and,
- The possible behavioural changes arising from the after-tax increase in the cost of public transit.

1.1. Increased cost to individuals

Using Statistics Canada's Social Policy Simulation/Database (SPSD/M), it was estimated that roughly 1.2 million Canadians will pay additional federal tax in 2018 as a result of eliminating the Public Transit Tax Credit. On average, each of these individuals will need to pay an additional $137 in federal tax as a result of this specific measure.

You will note that this does not reflect other policy changes announced in Budget 2017, which could affect actual federal tax payable based on each taxpayer’s circumstances.

1.2. Impact on designated groups

Using the SPSD/M, the PBO identified about 4,200 individuals who claim the federal disability tax credit and also receive a financial benefit from the federal Public Transit Tax Credit (0.4% of individuals that received a financial benefit).
With respect to low income individuals, the PBO screened the results from the overall impact on all Canadians against Statistics Canada’s Low Income Measure (LIM) for single person households. The LIM is a relative measure of low income, set at 50% of adjusted median household income. Based on this, we estimate that there are approximately 185,000 individuals earning annual after-tax income below $22,600 that would receive a financial benefit from the federal Public Transit Tax Credit (15.4% of total individuals that received a financial benefit).

1.3. Potential responses to elimination of the federal Public Transit Tax Credit

There have been several recently published papers regarding the impact of the federal Public Transit Tax Credit on public transit ridership. Generally speaking, these studies indicate that there was, at most, a marginal increase in ridership that could be attributed to the federal tax credit. These findings are also consistent with the 2012 Finance Canada evaluation of the tax expenditure.

As noted in the 2012 Finance Canada evaluation, there are multiple factors that influence an individual’s transportation choices. Given the research findings that the federal Public Transit Tax Credit did not materially increase public transit ridership, it is unlikely that the elimination of this single tax incentive will materially affect ridership choices.
Notes

1 Simulations were run on version 22.3 of the SPSD/M.

2 Definitions of LIMs are presented here: http://www5.statcan.gc.ca/cansim/a05?lang=eng&id=2060091. Note that PBO projected forward Statistics Canada estimates using the mean historical average growth rate from 2011 to 2014.
