

Cost estimate

Publication date: 2019-04-30

Short title: Increase in Home Buyer's Plan Withdrawal Limit

Description: Increasing the limit for withdrawals from Registered Retirement Savings Plans (RRSPs) under the Home Buyer's Plan (HBP) from \$25,000 to \$35,000.

Operating line(s): Personal income tax

Data sources:

<u>Variable</u>	<u>Source</u>
All	Longitudinal Administrative Databank

Estimation and projection method: The value of HBP limit borrowers' additional withdrawals was multiplied by each limit borrower's inferred marginal tax rate to estimate the lost tax revenue due to current additional withdrawals no longer being taxed.

The expected increase in withdrawals was estimated based on the percentage increase in withdrawals of \$20K or more between 2008 and 2010 relative to the percentage increase in HBP limit. The additional withdrawals up to \$10,000 that were already being made were deducted to identify additional withdrawals that would be funded from residual balances or new contributions. This increase in withdrawals was converted into an increase in contributions by multiplying the increase in the total value of withdrawals by the percentage of limit borrowers with RRSP balances less than \$35K. The lost income tax revenue arising from the increase in contributions was calculated by multiplying the increase in contributions by the average inferred marginal tax rate of limit borrowers across the years of additional contributions.

The 2014 HBP default rate was multiplied by the amount due to be repaid each year to estimate the defaulting balance. The gained tax revenue was estimated by multiplying the defaulting balance by the average marginal tax rate of HBP defaulters.

Retirement withdrawals were assumed to fall outside the projection period.

Lost tax revenue was projected to increase in line with the Consumer Price Index.

Uncertainty assessment: The estimate has moderate uncertainty. The Longitudinal Administrative Databank is based on individual T1 tax returns. Affected existing withdrawals can be directly identified from this administrative data. Expected behavioral responses can be reasonably inferred based on the 2009 limit increase. Marginal tax rates can be reasonably inferred based on income.

Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost	-	15	15	16	16	16

Supplementary information

\$ millions	Description	Operating line	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost	Lost tax revenue due to current excess withdrawals no longer being taxed	Personal income tax	-	4	4	4	4	4
Cost	Lost tax revenue due to increased contributions	Personal income tax	-	11	11	12	12	12
Cost recovery	Gained tax revenue due to defaults on HBP repayment	Personal income tax	-	-	-	-	-	-
Cost recovery	Gained tax revenue due to withdrawal of repaid HBP amounts in retirement	Personal income tax	-	-	-	-	-	-
Total cost after recovery			-	15	15	16	16	16

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