



Cost Estimate for Bill C-399 “Fairness for Persons with Disabilities Act”



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

Ottawa, Canada
29 January 2019
www.pbo-dpb.gc.ca

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report responds to a request of Mr. Tom Kmiec, member for Calgary Shepard, to estimate the financial cost of Bill C-399, which broadens eligibility for the disability tax credit for persons spending extensive time on therapy to support their vital functions. This report provides that cost estimate.

Lead Analyst:

Ben Segel-Brown, Financial Analyst

This report was prepared under the direction of:

Mark Mahabir, Director of Policy for Costing and Budgetary Analysis

Nancy Beauchamp and Caroline Bernier assisted with the preparation of the report for publication.

This analysis is based on Statistics Canada's General Social Survey Public Use Micro-Data files and on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The PBO would also like to thank Ian McRae and his colleagues for providing time-use data underlying their study of time use by seniors with diabetes. All computations, assumptions, use and interpretation of these data files are entirely that of the Office of the Parliamentary Budget Officer.

For further information, please contact pbo-dpb@parl.gc.ca

Yves Giroux
Parliamentary Budget Officer

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Executive Summary

The Disability Tax Credit (DTC) is a non-refundable tax credit for persons with severe and prolonged disabilities.

Most DTC claimants are eligible for the credit based on marked restrictions in their ability to perform the basic activities of daily living. An alternative ground for eligibility, known as "life-sustaining therapy," is that the person needs therapy to support a vital function at least three times per week for an average of at least 14 hours per week.¹ That time includes time spent determining the necessary dosage of medications.² Currently, about 4% of all approved DTC claims are filed under this ground of time spent on life-sustaining therapy.³

Tom Kmiec, Member of Parliament for Calgary Shepard, asked the PBO to estimate the cost implications of Bill C-399. Bill C-399:

1. lowers the number of required weekly hours of life-sustaining therapy from 14 hours to 10 hours,
2. clarifies that time taken to determine the appropriate dosage of medical food and formula should be counted as part of therapy, and
3. allows claimants to include time spent on activities directly related to determining dosages of medication which is also related to a dietary or exercise regime.

Using data from a time-use survey conducted by Statistics Canada, the PBO estimates that 35,000 people will become eligible resulting in 22,000 additional claims for each tax year.

Bill C-399 is expected to:

1. Cost the federal government \$39 million annually consisting of:
 - \$25 million annually in reduced income tax revenue
 - \$0.4 million annually in working income tax benefit supplements, and
 - \$13 million annually in Registered Disability Savings Plan related tax and program expenditures which will rise with increasing adoption;
2. Cost the provinces \$9 million annually in reduced income tax revenue; and,
3. Provide an average of \$2,140 in benefits per person for each tax year.

The number of persons who will qualify for the DTC under Bill C-399 depends, in large part, on how it affects the eligibility of persons with diabetes. Time-use data from seniors with diabetes suggests that the hourly threshold will continue to exclude 98% of persons with diabetes.

The DTC eligibility criteria are also used to determine eligibility for a variety of federal and provincial tax expenditures and programs. The cost associated with changing the DTC criteria was estimated by multiplying the number of additional claimants by the current average cost per claimant. The overall fiscal impacts are outlined in Figure E-1.

Figure E-1 Summary of Fiscal Impact of Bill C-399

| | Estimated impact of Bill C-399 |
|--|---|
| New Eligible Persons | 35,000 |
| Additional claims for each tax year | 22,000 |
| Total federal cost per additional claimant for each tax year | \$1,748 |
| Total federal cost per year | \$39 M |
| Total provincial cost per additional claimant for each tax year | \$39 |
| Total provincial cost per year | \$9 M |
| Total benefits per claimant for each tax year | \$2,140 |

1. Introduction

1.1. Nature and Value

The focus of this cost estimate is on the Federal DTC, provincial disability amounts, registered disability savings plans/grants/bonds and the working income tax benefit for persons with disabilities because they represent the bulk of the costs arising from expanding eligibility for the disability tax credit.

Federal DTC

The DTC is non-refundable. This means that while the tax credit can reduce the taxes claimants owe, claimants do not receive a refund when the amount they owe in taxes for a taxation year is less than the value of the credit. However, where the person with the disability is dependent on a relative, the DTC can be transferred to that relative to reduce their tax liability.⁴ Because the tax credit is non-refundable, it is of little to no value to low-income families who do not have positive income taxes owing.⁵

Under the *Income Tax Act*, the maximum "amount" of the DTC in 2017 was \$8,113 with an additional \$4,733 supplement for persons under 18.⁶ The potential reduction in tax liabilities is determined by multiplying this amount by the lowest personal income tax rate, i.e. 15%. So, the DTC could reduce tax liabilities by \$1,217/year in 2017⁷, with a further \$710/year reduction associated with the supplement for persons under 18.⁸ The value of the DTC is indexed to inflation. Not all claimants will be able to use all of the DTC's value.⁹

This report uses data regarding the disability tax credit from several sources. The number of persons receiving the disability tax credit is forecasted based on CRA's T1 Final Statistics.¹⁰ The resulting tax reduction is forecasted based on CRA's "DTC at a glance" statistics. Using strong ($R^2 > 0.97$) linear models, it is forecasted that 1.3 million people will claim the disability tax credit for 2019, with an associated tax reduction of \$1.5 billion including retroactive claims for that year filed in subsequent years.¹¹

Provincial Disability Amounts

All provinces other than Quebec provide disability amounts which are contingent upon the federal disability tax credit eligibility criteria. Quebec has a disability amount based on very similar criteria. The value of provincial

disability amounts varies, from a high of \$14,417 in Alberta to a low of \$6,058 in Newfoundland and Labrador. The tax reduction resulting from provincial disability amounts varies accordingly, as outlined in Figure 1-1.

Figure 1-1 Fiscal Impact of Provincial Disability Amounts

| Province | Disability amount | Supplement for persons under 18 | Estimated current tax reduction from provincial disability amount (\$M) |
|---|-------------------|---------------------------------|---|
| British Columbia ¹² | \$7,656 | \$4,467 | \$52 |
| Alberta ¹³ | \$14,417 | \$10,819 | \$132 |
| Saskatchewan ¹⁴ | \$9,464 | \$9,464 | \$23 |
| Manitoba ¹⁵ | \$6,180 | \$3,605 | \$37 |
| Ontario ¹⁶ | \$8,217 | \$4,793 | \$206 |
| New Brunswick ¹⁷ | \$8,011 | \$4,673 | \$20 |
| Nova Scotia ¹⁸ | \$7,341 | \$3,449 | \$24 |
| Prince Edward Island ¹⁹ | \$6,890 | \$4,019 | \$5 |
| Newfoundland and Labrador ²⁰ | \$6,058 | \$2,851 | \$11 |
| Northwest Territories ²¹ | \$11,579 | \$4,733 | - |
| Yukon ²² | \$8,113 | \$4,733 | - |
| Nunavut ²³ | \$13,128 | \$4,733 | - |
| Total cost to provinces of claims for each year | | | \$510 |
| Average cost to provinces per federal claimant per fiscal year | | | \$391/person/year |

Source: Disability amount and supplement amount from CRA information sheets.

Note: Estimated tax reduction based on Statistics Canada SPSPD/M run for 2019. The assumptions and calculations underlying the simulation results were prepared by PBO; the responsibility for the use and interpretation of this data is entirely that of the author. A 47% markup was applied for retroactive claims which would not be captured in SPSPD/M based on the ratio of federal T1 Final Statistics claims in 2015-16 (1,087,140) to persons whose tax liabilities would increase with the elimination of the DTC according to SPSPD/M run for 2015-16 (742,000).

No change occurs for Quebec because its disability amount is not dependent on the federal criteria. No data was available for the territories.

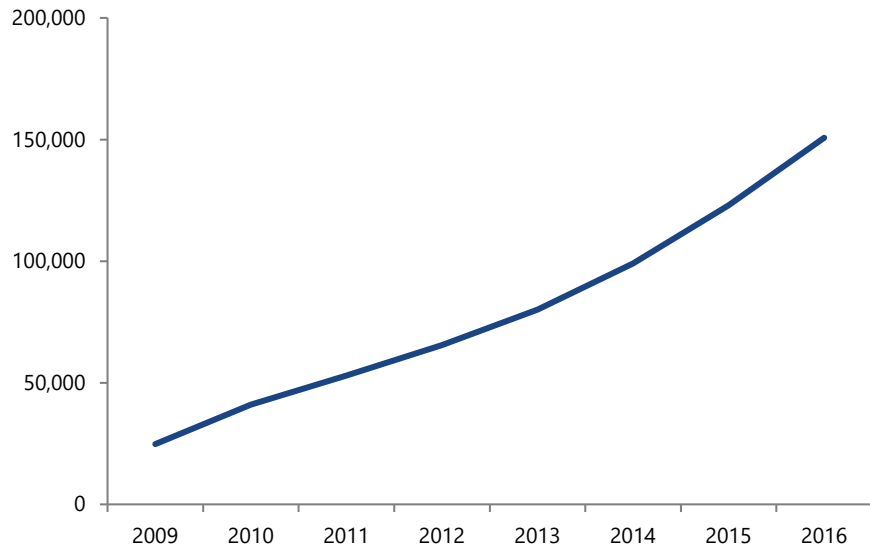
Registered Disability Savings Plans

Individuals who are eligible for the DTC gain access to Registered Disability Savings Plans (RDSPs), Canada Disability Savings Grants and Canada Disability Saving Bonds. A few additional eligibility requirements apply before an individual can open an RDSP, specifically being resident in Canada and being under 60 years of age.

Because RDSPs are relatively new, being created in 2008, a long-term uptake level has not yet been determined. The number of RDSP beneficiaries is growing rapidly, having increased 22–24% per year over the last five years as

shown in Figure 1-2. Current uptake is 13% of the number of DTC claimants reported by Finance Canada, suggesting potential for continuing increases in uptake. Uptake for Registered Education Savings Plans (which similarly has an associated grant) was 51.1% in 2016.²⁴ Canada Learning Bonds, available to low-income families without matching contributions, had uptake of 34.7%.²⁵ So, uptake of RDSP remains substantially lower than other similar benefits.

Figure 1-2 Trend in Number of Registered Disability Savings Plan Beneficiaries



Source: PBO visualization of data from ESDC [Canada Disability Savings Program - Annual statistical review 2016](#)

To account for rising uptake, the PBO used a strong ($R^2 = 0.99$) linear model of total Canada Disability Savings Grant spending to forecast that such grants will cost \$419 million in 2019. In addition to rising uptake, the average value of Canada Disability Savings Bonds is rising due to a 2012 policy change which allows unclaimed bonds to be claimed retroactively for up to ten years back to 2008.²⁶ To account for the effects of both rising uptake and rising claim values, the PBO forecasted Canada Disability Savings Bonds as the product of strong linear forecasts of the number of bonds ($R^2 = 0.97$) and average value of bonds since 2012 ($R^2 = 0.99$). The value of bonds is assumed to level-off in 2018 when the retroactive period that can be claimed by new claimants reaches the maximum 10 years. This gives an estimated cost for Canada Disability Savings Bonds of \$245 million in 2019.

RDSP tax savings for 2019 were drawn from Finance Canada's Report on Federal Tax Expenditures, which forecasts a cost of \$85 million for 2019.

Producing a forecast of long-term uptake of RDSPs is beyond the scope of this analysis. The costs and benefits associated with RDSPs are likely to

continue to rise with increasing uptake. For 2019, Registered Disability Savings Plans represent an estimated cost of \$575 per federal disability tax credit claimant per fiscal year.

Working Income Tax Benefit Supplement

The number of individuals who claimed the working income tax benefit supplement for persons with disabilities is estimated to be 36,000 in 2019.²⁷ The number of WITB supplement recipients is a small portion of the number of people claiming the disability tax credit because only low-income families with persons with disabilities would receive this benefit. The total benefit resulting from the WITB supplement for 2018 is estimated to be \$23 million, or \$644 per WITB supplement claimant.²⁸ Because a relatively small portion of disability tax credit claimants are eligible for the working income tax benefit supplement, the average cost of the WITB is estimated to be \$18 per federal disability tax credit claimant per fiscal year .

1.2. DTC Eligibility Criteria

In order to qualify for the DTC, the person must show either that:

1. They are markedly restricted in their ability to perform at least one of the basic activities of daily living ("markedly restricted"),
2. They have significant restrictions with a cumulative effect equivalent to a marked restriction ("equivalent to marked restriction"), or
3. They would have such restrictions but for therapy to support a vital function which is administered at least three times each week for a total duration averaging at least 14 hours a week ("life-sustaining therapy").²⁹

In addition, the person's impairment must be:³⁰

- prolonged, which means the impairment has lasted, or is expected to last for a continuous period of at least 12 months,³¹ and
- be present all or substantially all the time, which CRA defines as at least 90% of the time.³²

For the purposes of determining the amount of time associated with therapy to support a vital function, the *Income Tax Act* states that such time:

- Only includes therapy which would be of no significant benefit to persons who are not impaired
- Only includes time taken away from normal everyday activities
- Includes time taken to determine the dosage of medication

- Includes time take by parents to provide therapy to a child who cannot provide it to themselves due to age
- Does not include "time spent on activities related to dietary or exercise restrictions or regimes (even if those restrictions or regimes are a factor in determining the daily dosage of medication), travel time, medical appointments, shopping for medication or recuperation after therapy."³³

A detailed explanation of how CRA interprets these eligibility criteria is outlined [in Income Tax Folio S1-F1-C2, Disability Tax Credit](#).

1.3. Proposed Changes

A Parliamentarian asked the PBO to estimate the cost implications of Bill C-399. The full text of that bill is available [through LEGISinfo](#).

The impetus for this bill was a change in practice by CRA which made it more difficult for adults with Type 1 diabetes undertaking insulin therapy to claim the disability tax credit.³⁴ This resulted in a large number of applications for the disability tax credit by persons with diabetes being rejected over a 7-month period. Following public criticism, CRA reversed its position and reviewed the applications which had been denied, approving 1,326 out of 2,267.³⁵

Bill C-399 would expand eligibility for the disability tax credit under the grounds of life-sustaining therapy by:

1. Reducing the number of hours required to qualify for the tax credit from 14 to 10 hours per week,
2. Clarifying that time spent determining dosages of medical food and formula should be counted towards the number of hours, and
3. Allowing claimants to include time spent on activities directly related to determining dosages of medication which is also related to a dietary or exercise regime.

2. Estimate

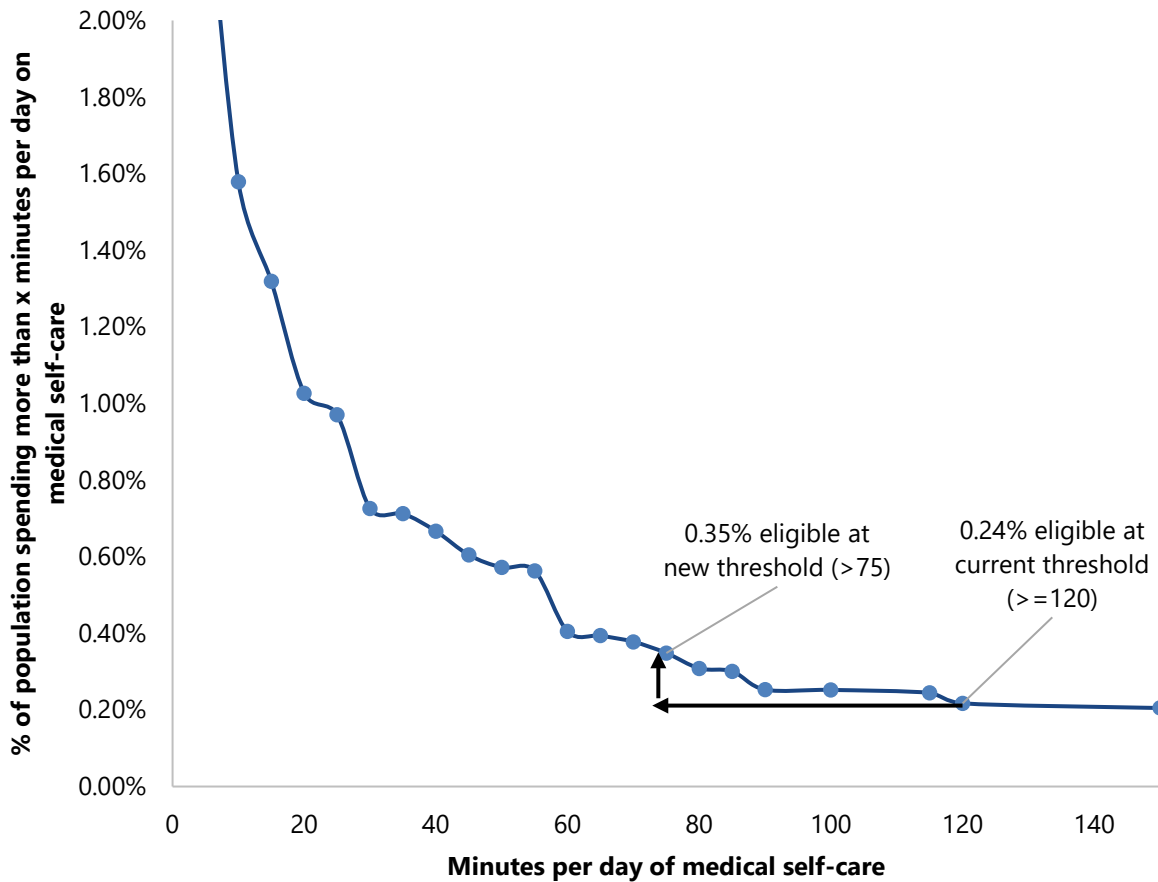
2.1. Estimated Claimants

The following analysis is based on a nationally representative time-use survey by Statistics Canada, specifically the 2015 General Social Survey Cycle 29: Time Use ("2015 GSS C29"). This survey collected a time-use diary for the prior day, including the time spent on personal medical care.

The sample of the 2015 GSS C29 was narrowed to the 12,110 respondents who indicated that the day in question was not very different from usual. 36 respondents reporting 120 minutes per day or more³⁶ on self-administered medical care were deemed to be already eligible. 18 respondents reporting more than 75 but less than 120 minutes per day³⁷ were deemed to gain eligibility.

Personal weights were applied to estimate the share of the population who are already eligible and would gain eligibility. Applying these weights, 0.24% of the sample was already eligible and 0.10% of the population gained eligibility as shown in Figure 2-1.

Figure 2-1 Cumulative distribution of daily time spent on self-administered medical care



Source: PBO Analysis of 2015 GSS C29
 Notes: 2015 GSS C29 sample limited to individuals who did not describe the day in question as "very different" from usual for that day of the week. Population weights are applied to ensure the sample is as representative of the Canadian population as possible. Arrows represent the decrease in the required number of hours and increase in share of population eligible for the disability tax credit on the ground of life-sustaining therapy.

These population shares were multiplied by the actual population over 15 years of age to determine the number of persons over 15 years of age gaining eligibility. Based on the assumption justified above that the prevalence of disabilities of persons under 15 is about half that for persons 15 and older, half the population share gaining eligibility was multiplied by the actual population aged 15 and under to estimate the number of persons aged 15 and under gaining eligibility. In total, 82,000 persons were expected to be already eligible and 35,000 were expected to gain eligibility due to Bill C-399.

The difference between the number of people who are already eligible and the estimated number of people actually registered based on administrative data is used to estimate uptake. Specifically, with 82,000 persons apparently eligible and 51,000 persons estimated to be currently receiving the credit on the ground of life sustaining therapy, uptake was estimated to be 62%. Note that this figure may reflect that a share of persons appearing eligible may not actually be eligible or may be receiving the disability tax credit on other grounds.

The number of persons gaining eligibility is multiplied by uptake to determine the number of persons likely to actually claim the DTC. Specifically, of the 35,000 persons estimated to gain eligibility, 62% are expected to claim the credit for each fiscal year, resulting in 22,000 expected claimants. Equivalently, the 43% increase in people apparently eligible based on survey data was estimated to result in a 43% increase in claimants, or 22,000 claimants.

Sampling error was calculated by rerunning the analysis using 500 bootstrap weights provided with the 2015 GSS C29.³⁸ The 95% confidence interval is 0.04% to 0.16%, suggesting a confidence interval of 13,000 to 54,000 persons gaining eligibility and 8,000 to 34,000 additional claimants.

2.2. Cost Implications

Modelling Average Costs per Claimant

The PBO estimated the average cost to the federal and provincial governments per federal disability tax credit claimant by dividing that forecasted cost for each tax expenditure or program for 2019 by the forecasted number of federal disability tax credit claimants for 2019 (1.3 million).

The cost of each component and the total costs are outlined in Figure 2-2.

Figure 2-2 Total and Average Cost of Impacted Programs

| | Total Cost for 2019 | Cost per federal DTC claimant |
|---|----------------------------|--------------------------------------|
| Federal Disability Tax Credit | \$ 1,504,000,000 | \$1,155 |
| Federal Working Income Tax Benefit | \$ 23,000,000 | \$18 |
| Expenditures related to RDSPs | \$ 750,000,000 | \$575 |
| Federal Total | \$ 2,277,000,000 | \$1,748 |
| Provincial Disability Tax Credits³⁹ | \$ 510,000,000 | \$391 |
| Provincial Total | \$ 510,000,000 | \$391 |
| Grand Total | \$ 2,787,000,000 | \$2,140 |

Source: PBO

Applying average cost per claimant

With 22,000 expected claimants and an average federal cost of \$1,774 per claimant per year, the total expected cost to the federal government is \$39M/y, as summarized in Figure 2-3. With average provincial costs of \$391 per federal claimant, the total expected cost to the provincial governments is \$9 M/y.

Figure 2-3 Summary of Fiscal Impact of Bill C-399

| | Estimated impact of Bill C-399 |
|--|---------------------------------------|
| New Eligible Persons | 35,000 |
| Additional claims for each tax year | 22,000 |
| Total federal cost per additional claimant for each tax year | \$1,748 |
| Total federal cost per year | \$39 M |
| Total provincial cost per additional claimant for each tax year | \$39 |
| Total provincial cost per year | \$9 M |
| Total benefits per claimant for each tax year | \$2,140 |

In applying the average costs associated with current disability tax credit claimants, this analysis assumes that the demographic profile of persons who will claim the disability tax credit as a result of Bill C-399 is similar to the demographic profile of persons who are currently claiming the disability tax credit. The sample of persons gaining status was too small to test this assumption.

Cost projection

Federal and provincial disability amounts are indexed to inflation and will have a relatively constant real value over time.

The average cost for registered disability saving plan tax exemptions, grants and bonds, is increasing in excess of inflation due to increasing uptake, increasing account balances, and an increasing average value of Canada Disability Savings Bonds. While a projection of long-term uptake is outside the scope of this report, RDSP costs are likely to increase substantially in real terms with increasing uptake.

Notes

- ¹ CRA, [Eligibility criteria for the disability tax credit](#)
- ² CRA, [Eligibility criteria for the disability tax credit](#)
- ³ CRA, [Disability Tax Credit at a glance](#)
- ⁴ CRA, [Disability tax credit](#)
- ⁵ Wayne Simpson and Harvey Stevens, [THE DISABILITY TAX CREDIT: WHY IT FAILS AND HOW TO FIX IT](#)
- ⁶ CRA, [Disability tax credit](#)
- ⁷ The amount of the tax credit in 2017 was \$8,113 which when multiplied by the lowest personal income tax rate of 0.15 gives a \$1217 reduction. See CRA, [Disability tax credit](#).
- ⁸ The amount of the supplement in 2017 was \$4,733 which when multiplied by the lowest personal income tax rate of 0.15 gives a \$710 reduction. See CRA, [Disability tax credit](#).
- ⁹ Finance, [Report on Federal Tax Expenditures](#)
- ¹⁰ CRA clarified through correspondence that the lower figure reported in its Disability Tax Credit "at a glance" statistics represent the number of people who were able to use the disability tax credit to reduce their tax liabilities, including cases where a spouse claimed the disability tax credit on their own behalf then transferred it to the taxpayer. That number of persons able to use the disability tax credit was 706,968 for the same year (2015-16). See CRA, [Disability Tax Credit at a glance](#)
- ¹¹ CRA, [Disability Tax Credit at a glance](#)
- ¹² CRA, [Information for Residents of British Columbia](#)
- ¹³ CRA, [Information for Residents of Alberta](#)
- ¹⁴ CRA, [Information for Residents of Saskatchewan](#)
- ¹⁵ CRA, [Information for Residents of Manitoba](#)
- ¹⁶ CRA, [Information for Residents of Ontario](#)
- ¹⁷ CRA, [Information for Residents of New Brunswick](#)
- ¹⁸ CRA, [Information for Residents of Nova Scotia](#)
- ¹⁹ CRA, [Information for Residents of Prince Edward Island](#)
- ²⁰ CRA, [Information for Residents of Newfoundland and Labrador](#)
- ²¹ CRA, [Information for Residents of the Northwest Territories](#)
- ²² CRA, [Information for Residents of Yukon](#)
- ²³ CRA, [Information for Residents of Nunavut](#)
- ²⁴ ESDC, [Canada Disability Savings Program - Annual statistical review 2016](#)

- ²⁵ ESDC, [Canada Disability Savings Program - Annual statistical review 2016](#)
- ²⁶ ESDC, [InfoCapsule 12: Carry forward of grant and bond entitlements](#)
- ²⁷ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by PBO; the responsibility for the use and interpretation of these data is entirely that of the author.
- ²⁸ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model. The assumptions and calculations underlying the simulation results were prepared by PBO; the responsibility for the use and interpretation of these data is entirely that of the author.
- ²⁹ Income Tax Act, s 118.3(1)(a.1).
- ³⁰ Income Tax Act, s 118.3(1)(a).
- ³¹ Income Tax Act, s 118.4(1)(a)
- ³² Income Tax Act, s 118.4(1)(b).
- ³³ Income Tax Act, s 118.3(1)(a.1)(iii), 118.3(1.1)(a-d)
- ³⁴ Globe and Mail, [CRA Reverse Course of Disability Tax Credit Eligibility for Diabetics](#)
- ³⁵ CRA Disability Advisory Committee, [Readout of the May 28, 2018 meeting of the Disability Advisory Committee](#)
- ³⁶ 120 minutes per day reflects 14 hours per week, the current threshold for eligibility.
- ³⁷ A literature review and consultation with stakeholders suggested that carbohydrate counting requires 10 minutes per day for persons with severe diabetes. The potential impact of this inclusion on the number of eligible persons and claimants was modelled by adding 10 minutes to the daily times recorded in the time-use survey. More than 75 minutes per day captures persons who would do 10 hours per week of medical self care (the new threshold) after applying a 10 minute increase to all persons reflecting time associated with counting carbohydrates.
- ³⁸ Confidence intervals were estimate by applying the STATA svy proportion command to the bootstrap weights provided by Statistics Canada.
- ³⁹ Excludes Quebec which is not affected and territories for which data is not available