



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

Cost Estimate of Election Campaign Proposal

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Short Title: Extension of the Northern Zone for the purpose of the Northern Residents Deduction

Description: Along with the doubling of the Northern Residents Deduction, all prescribed Intermediate Zones (Zone B) to become prescribed Northern Zones (Zone A) for the purpose of the Northern Residents Deduction, to begin January 1, 2022. In extending the Northern Zone, residency deductions (basic and additional) and deductions for travel benefits in zones previously classified as Intermediate will increase to deduction rates of Northern Zones.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		42	141	142	143	144	613

Notes:

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a reduction in the budgetary balance (lower revenues or higher spending). A negative number implies an increase in the budgetary balance (higher revenues or lower spending).
- "-" = PBO does not expect a financial cost.

Estimation and projection method: Given historical Northern Residents Deduction (NRD) claims data, PBO projected the number of claims forward based on population growth from the EPC baseline. PBO estimated the breakdown of claims by Zone A and B using the population in the prescribed zones. PBO assumed the residency deduction will continue to not exceed 20 per cent of net income. Increases in claim values for Zone B were approximated based on estimated net income and used to determine the potential impact to Personal Income Tax (PIT) expenditures. A behavioural response was not incorporated.

The cost estimate accounts for the interaction with the *Doubling the Northern Residents Deduction* proposal.

Source of Uncertainty: The main sources of uncertainty relate to the proportion of individuals in each zone, as well as the distribution of net incomes and claim values within zones.

Data Sources:	Variable	Source
	Projected population growth	PBO EPC baseline
	Population by Census subdivision	Statistics Canada
	Places located in prescribed zones	Canada Revenue Agency
	T1 final statistics	Canada Revenue Agency
	Tax expenditure estimates and projections	Canada Revenue Agency