

# Cost Estimate of Election Campaign Proposal

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Short title: Enhancing the Northern Residents' Deduction

Description: This measure will establish a minimum value for the costs of travel that can be deducted through the Northern Residents Deduction (NRD), regardless of whether the claimer receives support from his employer or not. This will provide at least \$1,200 in a deductible travel cost for a resident in a northern zone (Zone A) and \$600 for a resident in the Intermediate Zone (Zone B).

Operating line(s): Personal Income Tax (PIT)

Data sources:	<u>Variable</u>	<u>Source</u>
	Air passenger at Canadian airports	Transportation Statistics: Interactive Dashboard, Statistics Canada
	Tourism transportation expenditure	Provincial and Territorial Tourism Satellite Account, Statistics Canada
	Demographic characteristics (population levels and growth rates, household size)	2011 and 2016 Census profiles, Statistics Canada
	The projected prices of the return air tickets for 14-day trips	Google flights
	The prescribed northern or intermediate zones	Government of Canada
	Provincial and Territorial Northern residents deductions	Canada Revenue Agency
	The ratio of passengers per capita in Iqaluit	Widener et al. (2017)
	The federal cost of the Northern residents deductions	SPSD/M <sup>1</sup>
	Claimed amounts of the Northern residents deductions	SPSD/M

Estimation and projection method: The air passenger traffic at Canadian airports was used to determine the number of total enplaned and deplaned passengers at hub airports in the prescribed zones A and B. The ratio of passengers per capita provided by Widener et al. (2017) was used to close data gaps in Yukon and Nunavut. The share of passengers residing in the prescribed zones was estimated based on

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<sup>1</sup> 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 and the responsibility for the use and interpretation of these data is entirely that of the author.

the plane transportation spending in a province or territory by residents of that province or territory. This number was then projected using the historical population growth rates in the major cities in the northern and intermediate zones.

Travel costs in the northern and intermediate zones were estimated based on the average price of return air tickets for 14-day trips between hub airports in the prescribed zones and airports in major cities (Vancouver, Calgary, Winnipeg, Toronto, Montreal, etc.).

The additional deduction due to setting the minimum amounts for travel benefits was calculated as the difference between the minimum set amounts and the estimated average travel expenses less than or equal to \$1200 in Zone A and \$600 in Zone B and then multiplied by the projected number of passengers.

We used an alternative method that relies on estimates of the travel costs included on form T2222; while the results under this alternative methodology are not identical, they are in the same order of magnitude, considering the limitations inherent in using aggregate tax data from this form.

Uncertainty  
assessment:

The estimate has high uncertainty. The uncertainty is inherent in the projected number of passengers who are residents of the prescribed zones who will take advantage of this deduction. Also, the average estimated travel costs by person could be different from the projected price of the return air tickets. In addition, we could not determine the income brackets of those claiming the travel benefits of the NRD, which introduces an additional level of uncertainty. Finally, a behavioural impact related to the measure is not incorporated in the cost estimate.

### Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	5	22	22	22	23	23	23	24	24	24

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