



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

Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Budget 2021. A list of the PBO's cost estimates of components of the Budget can be viewed on [its website](#).

Publication Date: 2021-06-03

Short Title: Canada Workers Benefit (CWB) Enhancement

Description: Broadening access to the CWB by increasing the phase-in rates and thresholds, as well as providing greater financial incentive for working couples. This includes:

- Raising the phase-in rate of the CWB basic amount from 26% to 27% and the phase-out rate from 12% to 15%.
- Increasing the phase-out thresholds from \$13,194 to \$22,944 for single individuals without dependents and from \$17,522 to \$26,177 for families.
- For the disability supplement, augmenting the phase-out rates from 6.0 per cent to 7.5 per cent for individuals and from 12.0 per cent to 15.0 per cent otherwise.
- Creating the new "secondary earner exemption" for working couples. This allows the spouse or common-law partner with the lower working income to exclude up to \$14,000 of their working income in the computation of their adjusted net income, for the purpose of the CWB phase out.

Data Sources:	Variable	Source
	Canada Workers Benefit	SPSD/M black box
	Household employment earnings	SPSD/M black box
	Marginal effective tax rates (METRs)	Calculated using SPSPD/M
	Participation Tax rates (PTRs)	Calculated using SPSPD/M
	Consumer Price Index (CPI)	PBO Economic and Fiscal Projection
	Labour supply elasticities	Literature [Hansen & Liu (2015), Annabi et al. (2013), Bartels and Shupe (2018)]

Estimation and Projection Method: The parameters of the CWB in SPSPD/M were adjusted to reflect the new policy enhancement regarding the phase-in and the phase-out rates and the thresholds.¹

New programming in SPSPD/M was introduced to reflect the new "secondary earner exemption".

For the behavioral response to the CWB enhancement, we calculated the effect of the measure on the METRs, PTRs and the household disposable incomes. Then, we used the labor

¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

supply elasticities to estimate the impact of the measure on the labor supply. This behavior response was used to calculate the change in the federal income tax and the CWB.

PBO did not expect any significant incremental administrative costs or savings.

Sources of Uncertainty: The SPSPD/M employment earnings distribution is used for the calculations. This implicitly assumes a quick return to the pre-COVID level of employment earnings.

Projected behavioral costs are sensitive to the elasticity choice.

Future phase-in and phase-out thresholds are indexed to CPI inflation and are sensitive to uncertainty in the economic outlook.

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Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	455	1,769	1,792	1,809	1,832	1,870

Supplementary information

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Static Cost	455	1,825	1,848	1,867	1,891	1,931
Behavioral Impact	-	-55	-56	-58	-59	-60
Total cost	455	1,769	1,792	1,809	1,832	1,870

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.

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