

Note • Bill C-59

Amendment to the Excise Tax Act to exempt psychotherapy and mental health support services from the GST



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This bill proposes making psychotherapy and mental health support services exempt from the Goods and Services Tax (GST). The cost estimate shown below represents the reduction in GST revenues if all goods and services provided under North American Industry Classification System (NAICS) code 621330 (Offices of mental health practitioners (except physicians)) were to become GST exempt.

The PBO estimates that this measure would result in a \$64 million shortfall for the public treasury over a five-year period.

5-Year Cost

\$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Total cost	10	12	13	14	15	64

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).

Estimation and Projection Method

The reduction in GST revenues as a result of Bill C-59 was estimated using data on GST/HST registrants classified under NAICS code 621330 from 2016 to 2022. The average growth rate in GST/HST collected across all jurisdictions over the same period was used to project the cost into future years for each of the provinces.

The average annual growth rate of GST revenues from the offices of mental health practitioners was 16.5% from 2016 to 2022. During the same period, federal tax revenues from all goods and services grew at an average annual rate of 4.9%.

It is possible that pandemic-related disruptions stimulated activities associated with mental health. Accordingly, the PBO developed its projections using GST amounts (net of input tax credits) collected in 2022 (the most recent year available) and based on the pre-pandemic average annual growth rate, which was 10.1% over the period from 2016 to 2019.

To calculate the portion attributable to GST from the total GST/HST amounts, we used the tax rates in place in each province to determine the ratio of GST to HST.

According to the 2019 input-output table, just over half of the demand comes from public service bodies (PSBs), which are eligible for a partial or full GST rebate. To account for the rebate, the PBO made an adjustment to the projected total amounts.

As the measure was announced in the 2023 Fall Economic Statement and will take effect once Bill C-59 receives Royal Assent, the PBO assumed that the exemption will take effect on April 1, 2024.

Sources of Uncertainty

The main sources of uncertainty stem from the inherent limitations of the tax data available on mental health services.

For example, a company may report tax revenues on behalf of branches operating in other provinces. As a result, the data may not accurately reflect the economic activity occurring in each province and territory. Given that a large proportion of companies have their headquarters in Ontario, this may lead to an overestimation of activities actually carried out in that province.

The GST/HST tax revenues provided by the Canada Revenue Agency potentially include amounts collected on other goods and services that will not be exempt but that are declared by registrants of the same classification code.

No behavioural response was considered, although a federal service tax exemption could encourage companies to raise their prices to compensate for the loss of input tax credits (ITCs).¹ However, this response would depend on a number of factors, including the market structure of the offices of mental health practitioners and the price elasticity of demand and supply.

¹ Exemption, like zero-rating, means that registrants do not have to collect GST/HST. However, unlike zero-rating, exemption does not allow registrants to claim ITCs to recover the GST/HST paid on inputs used.

Data concerning GST/HST amounts collected in the three territories have been suppressed due to Canada Revenue Agency confidentiality requirements.

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Data Sources

- Total GST/HST Collected by GST/HST Registrants Classified under NAICS 621330 (Canada Revenue Agency)
- Total ITCs Claimed by GST/HST Registrants Classified under NAICS 621330 (Canada Revenue Agency)
- GST/HST Rates by Province (Canada Revenue Agency)
- Table 2. Use Table at Basic Prices, Canada, 2019 (Statistics Canada)

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