OFFICE OF THE
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CANADA

Cost Estimate for Bill C-394: An Act to amend the Income Tax Act (parenting tax credit)

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

This report is consistent with the Parliamentary Budget Officer's legislated mandate to provide cost estimates of proposals before Parliament.

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 the authors and the responsibility for the use and interpretation of these data is entirely that of the authors.

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Executive Summary

Consistent with PBO's mandate, this report estimates the net fiscal cost resulting from an implementation of a private member's bill, Bill C-394. Introduced by MP Andrew Scheer (Regina — Qu'Appelle, CPC), this Bill amends the *Income Tax Act* to establish a tax credit with respect to maternal and parental benefits, and would "provide a tax credit that would offset any taxes owing on their maternity and parental leave."[1]

Recipients of the Québec Parental Insurance Plan (QPIP) would be eligible to claim benefits equal to what they would have received in employment insurance (EI) benefits, had they been eligible.

The tax credit is both non-refundable and non-transferable. Any unused parenting tax credit at the end of the calendar year can be carried over to the following years.

PBO estimates that this tax credit would result in forgone revenues of $607.6 million in 2018-19. Given that the tax credit is non-refundable, not all families will have sufficient income to claim their total eligible amount in 2018-19. As such, PBO also estimates a future fiscal liability of $261.0 million that could be claimed in future fiscal years.

Existing statistics indicate that mothers predominantly claim EI parental benefits. As a result, new mothers will comprise more of the direct recipients.

Budget 2018 introduces a new EI Parental Sharing Benefit, which provides additional weeks of parental benefits if both parents agree to share a minimum amount of weeks. PBO projects that Bill C-394 would increase the cost of this Budget 2018 proposal by $24.1 million in tax expenditures and $8.8 million in the maximum carryforward, starting in the 2019-20 fiscal year.

These estimates assume no additional administrative costs to the EI program, nor any behavioural changes.[2]

1. Introduction

The private member's bill, Bill C-394, introduced by MP Andrew Scheer (Regina — Qu'Appelle, CPC), would amend the *Income Tax Act* to establish a tax credit with respect to maternal and parental benefits. As described in the first reading, the purpose of Bill C-394 is to "provide a tax credit that would offset any taxes owing on their maternity and parental leave."[3]

The proposed tax credit is calculated based on two variables:

1. The total amount an individual received in the taxation year for maternity and parental benefits[4,5]; and,
2. The basic rate for federal tax credits (15%).[6]

Recipients of the Québec Parental Insurance Plan (QPIP) are eligible to claim benefits equal to what they would have received in EI, had they been eligible.

The tax credit is both non-refundable and non-transferable. Any unused parenting tax credit at the end of the calendar year can be carried over to the following year.

See Appendix A for a complete summary of the calculations for the proposed changes.

2. Analysis

2.1. Static Federal Fiscal Impact

Bill C-394 will create a tax credit allowing recipients of maternity and parental EI benefits to reduce their taxes payable by 15% of these amounts. As such, Bill C-394 will reduce the amount of revenues collected by the federal government. Reducing income tax revenues in this manner is typically referred to as a tax expenditure. This section of the report provides a five-year projection of these tax expenditures.

In 2016-17, total EI spending on parental benefits, including maternity, parental and adoption, was $3.9 billion. [7]

Unlike EI, QPIP offers new fathers paternity leave. Additionally, QPIP is more generous than the EI program with respect to parental leave (including maternity leave and adoption), in the following ways:

- QPIP provides a higher percentage of income replacement (70% for standard leave) compared to EI parental benefits (55% for standard leave and 33% for extended leave);
- New mothers and fathers can choose to take fewer weeks of leave at a higher percentage of income replacement (75% rather than 70%);
- Maximum insurable earnings for QPIP is higher ($72,500 in 2017) than that of EI ($51,300 in 2017), resulting in potentially greater weekly maximum benefits; and,
- Eligibility for QPIP is based on having earned $2,000 in insurable income for the 52 week period prior to the benefit period, regardless of hours worked. EI eligibility is based on having 600 hours of insurable employment during the same qualifying period.

To determine the EI-equivalent QPIP amounts eligible for this tax credit, PBO applied the same eligibility rules to QPIP recipients and calculated their EI benefits using the EI rates and maximum insurable earnings. This implicitly assumed that all paternity benefits paid under QPIP were ineligible.[8] PBO estimates the EI-equivalent QPIP amounts were roughly $1.5 billion in 2016-17.[9]

Together, the EI and QPIP benefits eligible for this tax credit are an estimated $5.4 billion in 2016-17.[10] PBO estimates this amount will grow to $5.8 billion in 2018-19 (Table 2-1).

This represents roughly $868.6 million (15%) in potential tax expenditures. However, since some recipients may offset their taxes payable to zero using only a portion of this tax credit, this amount is overstated – some of that amount will represent a tax expenditure in the year claimed, and the remaining amount will represent the carryforward amount.

Using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M), PBO estimated the eligible annual tax expenditures parental EI recipients and eligible QPIP recipients could claim. Any remaining amounts that would be claimable if individuals' taxes payable had not already been reduced to zero were assumed to be the carryforward amounts.

Table 2-1 Projected tax expenditures

millions $	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Total benefits	5,587.1	5,790.7	5,996.7	6,221.9	6,451.6	6,686.8
Tax expenditure	150.5	607.6	631.5	658.2	685.5	713.8
Maximum carryforward	64.8	261.0	268.0	275.1	282.2	289.2

Source: Parliamentary Budget Officer calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 26.0

PBO estimates that Bill C-394 will cost the federal government $607.6 million in 2018-19. The smaller amount for 2017-18 denotes the fact that this tax credit is effective starting with the 2018 tax year, and thus the estimate represents one-quarter of the 2018 calendar year value.

These estimates are net of the estimated value of the carryforward, which is estimated to be $261.0 million in 2018-19. Carryforward reflects potential future costs for the federal government.

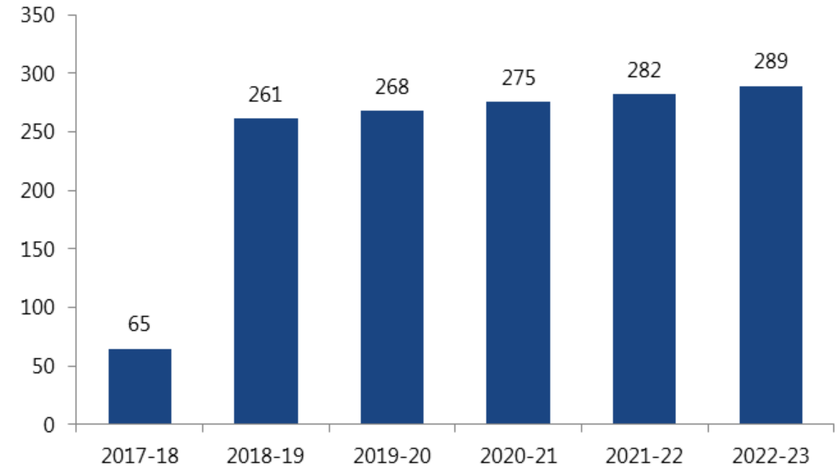
PBO was not able to determine when individuals would be able to claim the carryforward amount. As a result, Figure 2-1 does not represent the net carryforward, but rather the maximum carryforward for that year. As such, the yearly profile as presented above could vary by size of the estimated cumulative carryforward amount.

For example, if all $261.0 million of the carryforward estimated for 2018-19 was not claimed until 2020-21, the cost for 2020-21 would be greater. Additionally, the cumulative carryforward for 2021-22 would be smaller, thus narrowing the potential size of the estimated tax expenditure for the 2021-22 fiscal year.

In theory, individuals would reduce their taxes payable as much as they are able every year. Barring significant impacts to the incomes of Canadians resulting from a sudden event, PBO's assumption is that the annual growth of the net carryforward will remain relatively stable over time.

Figure 2-1 **Projected Maximum Annual Carryforward**

$ millions



Source: Parliamentary Budget Officer calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 26.0

2.2. Impact from Budget 2018

Budget 2018 introduces a new EI Parental Sharing Benefit, which provides additional weeks of parental benefits if both parents agree to share a minimum amount of weeks.[11] As shown in Table 2-2, PBO estimates that Bill C-394 would increase the cost of this new proposal by $24.1 million in tax expenditures and $8.8 million in the maximum carryforward, starting in the 2019-20 fiscal year.[12]

Table 2-2 **Projected additional tax expenditures, Budget 2018 EI Parental Sharing Measure**

millions $	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Tax expenditure	-	-	24	30	31	32
Maximum carryforward	-	-	9	11	11	12

Source: Office of the Parliamentary Budget Officer report.[13]

Note: PBO assumed the same ratio as Table 2-1 for tax expenditures and carryforward amounts as a percentage of the total benefits for this new Budget 2018 measure.

2.3. GBA+

PBO prepared a distributional analysis that shows the total potential tax credit amounts for maternity and parental leave, as well as total cost to the government (tax expenditures), by income group and gender for the 2018 tax year. This analysis does not incorporate the impact of the new Budget 2018 measure on EI parental sharing.[14]

Using SPSD/M, the income groups were split into quintiles of total income for individuals who are between the working ages of 15 to 64. As shown in Table 2-3, PBO estimates that the majority (72%) of the total parental tax credits will come from the third and fourth quintiles. However, as this is a non-refundable tax credit, individuals must have taxes payable greater than zero in order to claim this tax credit in the current tax year; otherwise, the unclaimed amount can be used in future tax years.

Table 2-3 Projected tax expenditures by income group, 2018

Income Group	**Total Parental Tax Credit ($M)**	**Total Tax Expenditures ($M)**	**Unused Parental Tax Credit ($M)**
< $10,934	4.1	0	4.1
$10,934 - < $27,246	96.8	21.3	75.5
$27,246 - < $47,064	322.7	179.5	143.2
$47,064 - < $75,198	295.3	247.8	47.5
>= $75,198	143.1	139.4	3.7
TOTAL	**862.0**	**588.0**	**274.0**

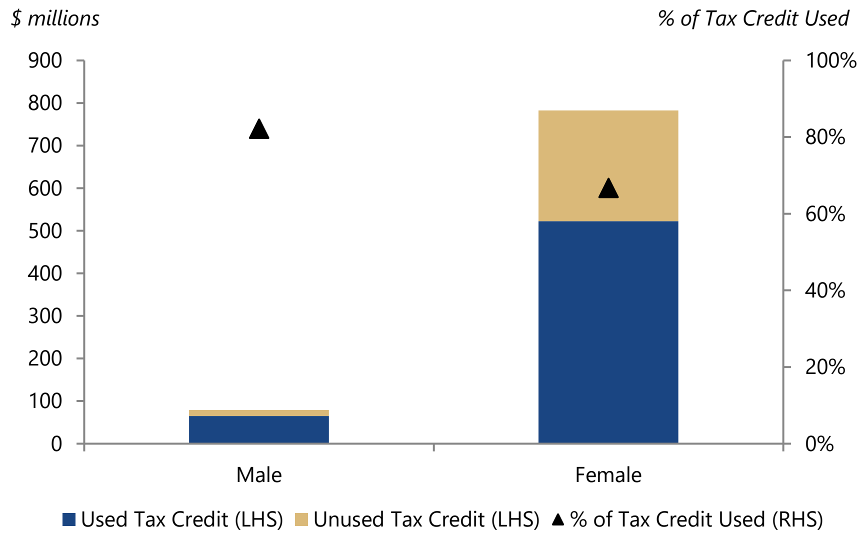
Source: Parliamentary Budget Officer calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 26.0

Note: The distributional analysis was calculated for the 2018 tax year, whereas the data presented in the previous section was on a fiscal year basis.

The analysis projects that individuals in the lower income groups will not be able to take advantage of the tax credit, in the current tax year, at the same percentage as individuals in the higher income groups. This is a result of a smaller taxes payable amount, as well as other tax credits potentially offsetting taxes payable prior to the use of the parental tax credit. Therefore, individuals in lower income groups are more likely to carryforward their unused parental tax credit to subsequent tax years.

PBO also estimated the impact of the parental tax credit by gender. Women represent the large majority of individuals who are claiming total parental benefits (including maternity), and thus are eligible for the tax credit. PBO estimates that women will also have a higher percentage of unclaimed parental tax credits for the 2018 tax year, as shown in Figure 2-2. These unused parental tax credit amounts are eligible to be carried over to future tax years.

Figure 2-2 Projected tax expenditures by gender, 2018



Source: Parliamentary Budget Officer calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) v. 26.0

Appendix A: Summary of Proposed Changes

118.08: Parenting tax credit The parenting tax credit amount is calculated using the following formula: A x B where A: The appropriate percentage for the taxation year, which is defined as lowest percentage referred to in subsection 117(2) of the Income Tax Act. For the taxation years after 2015, the lowest rate is 15%. B: The total amount an individual received in the taxation year for maternity and parental benefits, as is defined in paragraph 12(3)(a) or (b) or 152.14(1)(a) or (b) of the *Employment Insurance Act*. *Note: For residents of Quebec, the Province of Quebec is responsible for providing maternity, paternity, parental, and adoption benefits to residents of Quebec through a program called the Quebec Parental Insurance Program (QPIP). Therefore, the tax credit would be calculated based on benefits they would have received, in the same taxation year, if they received EI maternity and parental benefits.*
118.09 (1): Unused parenting tax credit The unused parenting tax credit at the end of the taxation year is calculated using the following formula: A + (B – C) – D where A: The unused parenting tax credit from the preceding taxation year. B: The parenting tax credit for the current taxation year, as calculated above (118.08). C: The lesser of B (parenting tax credit for the current taxation year) and the individual's tax payable for the current year (excluding the parenting tax credit). D: The carryforward amount from previous taxation year which can be used in the current taxation year. See calculation below.
118.09 (2): Deduction of carryforward The deduction of the carryforward (D in the equation above) is calculated as the lesser of A (the unused parenting tax credit from the preceding taxation year) and the individual's tax payable for the current year (excluding the parenting tax credit).
118.09 (3): Change of appropriate percentage If the appropriate percentage changes between the current and preceding taxation year, the individual's unused parenting tax credit at the end of the preceding taxation year is calculated using the following formula: A/B x C

where
A: The appropriate percentage for the current taxation year.

B: The appropriate percentage for the preceding taxation year.

C: The unused parenting tax credit at the end of the preceding taxation year with the preceding appropriate percentage.

Appendix B: Methodology

PBO used Statistics Canada's SPSD/M v. 26.0 to estimate the net fiscal cost to the federal government as a result of implementing Bill C-394. Calculating the value of the tax credit for EI recipients was relatively straightforward, requiring only a simple calculation of 15 per cent of the value of calculated EI parental and maternity benefits.[15,16] It was then applied to all observations' tax calculations, producing a total net change in federal taxes payable.

Calculating the EI-equivalent QPIP values required additional analysis. To do this, PBO:

- used the micro-data from SPSD/M for observations that received QPIP amounts and that had at least 600 insurable hours in the previous 52 weeks;
- adjusted the appropriate QPIP parameters, such that the maximum insurable earnings (and consequently the maximum average weekly benefit) and the income replacement rate were equal to those of EI; and,
- changed SPSD/M QPIP paternity parameters to zero or null values, so as to exclude these benefits from the calculation.

PBO did not expand the number of eligible weeks under QPIP which would inherently calculate a tax credit for an amount of the benefit that was not actually paid out to QPIP recipients. That is, maximum QPIP parental leave is 32 weeks, compared to the 35 weeks offered via EI.[17]

For the distributional analysis, PBO determined the income quintiles using net income of the working age population (ages 15 – 64 inclusive).

Finally, PBO determined that the summed EI maternity and parental amounts estimated by SPSD/M were below those published in the Public Accounts of Canada. Therefore, PBO adjusted the SPSD/M results by a factor of 1.09 which was the average difference between the values in the Public Accounts and SPSD/M estimates.[18] Similarly, PBO determined that the QPIP benefits as estimated in SPSD/M were lower than those published by the Conseil de gestion de l'assurance parentale were, and adjusted the SPSD/M results by a factor of 0.99[19]

Notes

1. Scheer, Andrew. "Routine Proceedings: Supporting New Parents Act". *House of Commons Debates (Hansard)*. 42nd Parl., 1st Sess. (February 5, 2018) (Online) Available at: http://www.ourcommons.ca/DocumentViewer/en/42-1/house/sitting-257/hansard [April 4, 2018]

2. It is possible the administrative costs will be non-zero, given that the calculation of EI-equivalent benefits for QPIP recipients may require additional resources. PBO did not estimate this potential additional cost. It is possible that parents may be incentivized to begin taking, or take additional weeks, of parental leave with this new tax credit in isolation of the new Budget measure for Equal Parenting. While this tax credit will reduce the financial burden parents face when taking parental leave on parents', potentially resulting in some parents' to begin taking, or take additional weeks, of parental leave, it will not completely offset the loss of income resulting from an income replacement rate of 55 per cent. Therefore, while there may be marginal impacts, PBO anticipates the cost to be close to zero. The estimated tax expenditure for the behavioural response of the Budget measure is included.

3. Ibid, Note 1

4. The Province of Quebec is responsible for providing maternity, paternity, parental, and adoption benefits to residents of Quebec through a program called the Quebec Parental Insurance Program (QPIP). All other types of EI benefits, such as regular benefits, sickness benefits, compassionate care and family caregiver benefits, remain available to residents of Quebec. As such, residents of Quebec pay a lower EI premium rate.

5. For residents of Quebec, the tax credit would be calculated based on benefits they would have received, in the same taxation year, if they received EI maternity and parental benefits.

6. The appropriate percentage for a taxation year means the lowest percentage referred to in subsection 117(2) of the *Income Tax Act*. For the taxation years after 2015, the lowest rate is 15%. http://laws-lois.justice.gc.ca/eng/acts/I-3.3/page-107.html#h-32

7 Government of Canada, Minister of Public Services and Procurement, Public Accounts of Canada 2017, https://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/index-eng.html

8. PBO calculations using SPSD/M version 26.0, assuming all paternity benefits paid under QPIP are ineligible may underestimate the total amounts eligible for the tax credit, thus underestimating the net fiscal cost. This would occur where fathers could have taken parental leave instead of paternity, assuming total shared parental benefits among parents are still less than the

maximum, or where a single father chose paternity leave rather than parental.

9. PBO determined SPSD/M v. 26.0 overestimates total QPIP benefits relative to values published by the Conseil de gestion de l'assurance parentale. PBO therefore adjusted the results from SPSD/M version 26.0 by a factor of 0.99. This was based on the average difference from 2010 – 2017. Source of QPIP statistics: Government of Québec, Conseil de gestion de l'assurance parentale, Statistiques officielles sur les prestataires du Régime québecois d'assurance parentale, multiple years. http://www.cgap.gouv.qc.ca/statistiques/index.asp *[available in French only]*

10. PBO determined SPSD/M v. 26.0 underestimates total EI parental and maternity leave relative to values published in the Public Accounts, and therefore adjusted the EI portion of SPSD/M v. 26.0 results by a factor of 1.09. This was based on the average difference from 2010 – 2017. PBO also adjusted the EI-equivalent QPIP results from SPSD/M version 26.0 by a factor of 0.99 (see Note 9), and summed the two adjusted values.

11. Budget 2018. https://www.budget.gc.ca/2018/home-accueil-en.html

    Standard EI parental benefits (55% of their average weekly earnings): Each parent must take a minimum of 5 weeks in order to increase the total amount of sharable weeks from 35 to 40.

    Extended EI parental benefits (33% of their average weekly earnings): Each parent must take a minimum of 8 weeks in order to increase the total amount of sharable weeks from 61 to 69.

12 Office of the Parliamentary Budget Officer, "Costing Budget 2018 Measures", April 2018. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Costing%20Budget%202018/Budget%202018_EN_Final.pdf

13 Ibid, Note 12.

14. The data is not currently available for the PBO to include the Budget 2018 EI parental sharing measure in the distributional analysis.

15. PBO programmed this tax credit using SPSD/M Glass Box.

16. PBO used ucmtyp rather than ucbtyp to identify eligible maternity and parental benefits. Use of the former may overestimate total eligible benefits, as it represents the type of claim for which the most weeks were claimed. Use of the latter may underestimate total eligible benefits as it represents the type of claim which was first claimed. For example, people who received weeks of maternity benefits may also receive training benefits. The variable ucbtyp would assign full value of benefits as maternity, since it was the first claim type.

17 QPIP offers the first 7 weeks of parental leave at a rate of 70%, and 25 additional weeks at a rate of 55%, for a total of 32 weeks. Parents can also opt to take 25 weeks at a rate of 75%. Although a total of 37 weeks is offered for adoption, SPSD/M v. 26.0 assigns parental leave values to all non-paternity and non-maternity parental leave.

18 Ibid, Note 10.

19. Ibid, Note 9.