

Cost Estimate for the Multigenerational Home Renovation Tax Credit



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The proposed measure introduces a refundable tax credit for eligible expenses incurred during a qualifying renovation that leads to the creation of a secondary unit within an existing home. Undertaking a qualifying renovation must result in an eligible person (a senior or a person with a disability) residing with a qualifying relation. The amount of the tax credit would be 15 per cent of the lesser of eligible expenses and \$50,000.

5-Year Cost

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Total cost	2	9	10	11	11	44

Notes

- The cost for the 2022-2023 fiscal year represents the first 3 months of 2023.
- 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).
- Totals may not add due to rounding.

Estimation and Projection Method

Using 2017 microdata on expenses claimed under the Home Accessibility Tax Credit (HATC) from SPSP/M, the PBO simulated and constructed samples of would-be multigenerational home renovation eligible expenses of \$50,000 or less at the taxpayer level. Sample sizes were determined using data on the number of beneficiaries of HATC, the number the Disability Tax Credit (DTC) claimants, estimates and projections on the population of persons aged 65 and older. The PBO also projected sample characteristics such as the amount of variation among the set of taxpayers' incurred expenses as well as their average using CPI inflation data and projections.

Spending data simulations were run from 2022 to 2026. A 15 percent tax rate was applied on simulated incurred costs to yield the refundable tax credit amount at the individual level. An annual estimate of the cost of the new tax credit was obtained by summing individual amounts. A behavioural effect was approximated by assuming that Multigenerational Home Renovation Tax Credit (MHRTC) and HATC are complementary tax credits. The PBO assumed that MHRTC beneficiaries would also incur and claim \$20,000 of their total renovation costs as home accessibility expenses. This implies that MHRTC beneficiaries claim 100% of the maximum amount permitted under the HATC as of January 1st, 2023.

Sources of Uncertainty

Unforeseen changes to demographics and the economic environment, as well as the use of statistical methods for projections, imply that all growth rates and other relevant parameters applied have inherent uncertainty. Simulations and modelling rely on assumptions that, should they not approximate sufficiently taxpayers' reality, introduce systematic bias in the cost estimates.

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Data Sources

Variable	Source
Home accessibility expenses for tax credit in 2017	Statistics Canada – SPSP/M ¹ 29.0
Population estimates from 2016 to 2021	Statistics Canada – Table 17-10-0005-01
Population projections from 2022 to 2027	Statistics Canada – Table 17-10-0057-01
Consumer price index from 2017 to 2021	Statistics Canada – Table 18-10-0005-01
Number of DTC Claimants from 2011 to 2020	Canada Revenue Agency – Table 13
Consumer price index projections 2022 to 2027	PBO Economic and Fiscal Outlook
2017 HATC number of beneficiaries	Finance Canada – Tax expenditure report 2020
2018 HATC number of beneficiaries	Finance Canada – Tax expenditure report 2021

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¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSP/M). The assumptions and calculations underlying the SPSP/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.