

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](#).

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Short Title: Canada Recovery Hiring Program

Description: Provide eligible employers with a subsidy of up to 50 per cent on the incremental remuneration paid to eligible employees between June 6, 2021 and November 20, 2021. Employers must choose between the Canada Emergency Wage Subsidy (CEWS) or the Canada Recovery Hiring Program (CRHP).

To be eligible, employers must be eligible for CEWS and thus have a minimum revenue loss in each qualifying period, calculated using the same criteria as the CEWS with one exception: for-profit non-Canadian controlled private corporations are not eligible. Consistent with CEWS, revenue losses of at least 10% are required beginning in period 18.

Eligible remuneration for each period is equal to the difference in remuneration between the qualifying period and the baseline period as shown in the table below, subject to a cap of \$1,129/week per employee. The subsidy rates applied to the incremental remuneration for each period are also presented in the table below.

Qualifying period	Period 17	Period 18	Period 19	Period 20	Period 21	Period 22
Qualifying period dates	June 6 to July 3, 2021	July 4 to July 31, 2021	August 1 to August 28, 2021	August 29 to September 25, 2021	September 26 to October 23, 2021	October 24 to November 20, 2021
Baseline period	March 14 to April 10, 2021					
Subsidy rate	50%	50%	50%	40%	30%	20%

A link to the costing note explaining CEWS can be found here: <https://www.pbo-dpb.gc.ca/en/blog/legislative-costing-notes--notes-evaluation-cout-mesure-legislative/LEG-2021-051-S--canada-emergency-wage-subsidy-cews-march-2020-to-june-2021--subvention-salariale-urgence-canada-ssuc-mars-2020-juin-2021>

Data Sources:	<p>Variable</p> <p>New employment by industry</p> <p>Eligible wage by industry</p> <p>Share of CEWS-recipient firms hiring a certain percent of employees</p> <p>Revenue loss (by bin)</p>	<p>Source</p> <p>Statistics Canada, Table 14-10-0202-01 Employment by industry, annual; PBO employment projections by industry</p> <p>Canada Revenue Agency, Claims to date - CEWS</p> <p>Statistics Canada, Table 33-10-0256-01 Percentage of workforce hired back after business was approved for the CEWS, by business characteristics</p> <p>See CEWS note for exhaustive list.</p>
Estimation and Projection Method:	<p>We used the existing PBO CEWS model to calculate the CRHP, with some modifications. This model was updated to incorporate our latest Economic and Fiscal Outlook (EFO) data and includes the recent CEWS extension from Budget 2021. The modifications for calculating the CRHP are described in the following paragraphs.</p> <p>To determine eligible incremental remuneration, PBO multiplied total incremental remuneration by the estimated share of new employees working at eligible firms. Total incremental remuneration was calculated by multiplying new employment (the difference between the baseline CRHP period and the qualifying period) by the eligible wage (as calculated previously for CEWS). The share of new employees working at eligible firms was estimated using data from the Canadian Survey on Business Conditions. Specifically, we multiplied the share of CEWS-recipient firms hiring a certain percent of employees by the mid-point of each hiring range, summed the result and divided by total new employment. This indicated 47% of new employment could be associated with CRHP-eligible (and CEWS-eligible) firms.</p> <p>To determine the proportion of eligible incremental remuneration that would be associated with the CRHP rather than the CEWS, we calculated the break-even subsidy rate where a firm would be no better or worse off from choosing either the CRHP or the CEWS. This was done for each revenue loss bin (increments of 10 percentage points). This break-even subsidy rate was converted into an equivalent break-even revenue loss amount. We assumed the distribution of firms' revenue losses was uniform within each bin and that they represented the percent of employees associated with firms choosing the CRHP. For example, if the break-even revenue loss for firms with less than 10% revenue loss was 2%, then 20% (0.02/0.1) of eligible incremental remuneration in that bin was allocated to the CRHP rather than CEWS. For periods 21 and 22 where the CEWS did not exist, total eligible remuneration was multiplied by the CRHP subsidy rate.</p> <p>We multiplied this result by the CRHP subsidy rate to calculate the total cost of the CRHP for the period. This process was repeated for the remaining periods and summed to produce an aggregate CRHP cost estimate.</p> <p>We estimated the decrease in the CEWS cost by multiplying the CRHP (incremental) remuneration by the applicable CEWS subsidy rates. This was repeated for the remaining periods and summed to produce an aggregate estimate.</p>	

The total CRHP cost less the savings from CEWS were summed to produce the final net cost estimate of the CRHP.

Sources of Uncertainty: This estimate is sensitive to the PBO's economic scenario regarding the impact of COVID-19 and, therefore, affected by the same sources of uncertainty outlined in that scenario. This estimate is also sensitive to the assumed share of new employment allocated to CEWS-eligible and CRHP-eligible firms. The assumption of a uniform distribution of firms' revenue losses around the estimated break-even revenue loss could over- or under-estimate the true proportion, to which the results are sensitive. Furthermore, the relation between revenue losses and new employment (and subsequently remuneration) is an untested assumption.

The distribution of revenue losses is uncertain for all industries. The relation between business revenue and GDP shocks is uncertain for those industries without data regarding revenue change attributable to COVID-19.

This estimate assumes all incremental corporate tax revenues are realized in 2021-22, while the actual revenues arising from mitigating current corporate losses may be realized in subsequent tax years.

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Cost of proposed measure

\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Total cost	220	-	-	-	-

Supplementary information

\$ millions		2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost of CRHP	Gross wage subsidies	260	-	-	-	-
Corporate Income Tax recovery		-39	-	-	-	-
Cost reduction of CEWS		-1	-	-	-	-
Total cost after recovery		220	-	-	-	-

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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