



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

**Cost Estimate for
Bill C-364: An Act to
amend the Canada
Elections Act
and to make a
consequential
amendment to
another Act
(political financing)**

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

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Executive Summary

In October 2017, MP Michel Boudrias (Terrebonne – BQ) introduced a private member's bill, Bill C-364. The purpose of the Bill is to amend the *Canada Elections Act* by reducing annual individual political contribution limits while reintroducing public funding for registered political parties through quarterly allowances. There is also a consequential amendment to the *Income Tax Act*, impacting the amount individuals can claim as tax credits for political contributions.

PBO estimates that, in total, the cost to the federal government will be \$45.2 million in 2018, increasing to \$46.2 million in 2021. The reintroduction of a quarterly allowance, which is paid from the Consolidated Revenue Fund to registered political parties, represents the overwhelming majority of the cost (Summary Table 1).

Summary Table 1

Projected Total Cost to Federal Government

	Payments from Consolidated Revenue Fund (\$M)	Increase in Tax Expenditures (\$M)	Total (\$M)
2018	43.4	1.8	45.2
2019	44.1	1.9	46.0
2020	43.2	2.0	45.2
2021	44.1	2.1	46.2

Source: Parliamentary Budget Officer calculations based on data from Elections Canada, Statistics Canada, SPSPD/M and PBO forecasts.

This quarterly allowance significantly increases the funds available to registered political parties. While the Bill proposes reducing the maximum amounts individuals can contribute, it does not have a significant impact.

1. Introduction

Bill C-364, introduced by MP Michel Boudrias (Terrebonne – BQ) in October 2017, amends the *Canada Elections Act* by reducing annual individual political contribution limits while reintroducing public funding for registered political parties through quarterly allowances.¹ It also has a consequential amendment to the *Income Tax Act*, impacting the amount individuals can claim as tax credits for federal political contributions.

The specific amendments to the *Canada Elections Act* relate to:

1. A reduction to the Individual Contribution Limits in 2018, changing from²:
 - \$1,575 to \$525 in total in any calendar year to a registered party;
 - \$1,575 to \$525 in total in any calendar year to the registered associations, nomination contestants and candidates of a particular registered party;
 - \$1,575 in total to a candidate for a particular election who is not the candidate of a registered party to \$525 in total in any calendar year to a candidate who is not the candidate of a registered party; and
 - From \$1,575 to \$1,025 in total in any calendar year to the leadership contestants in a particular leadership contest.
2. Providing Quarterly Allowances Payable to Registered Political Parties:
 - \$0.4375 multiplied by the number of valid votes cast in the most recent general election and an inflation adjustment factor.³

Additionally, Bill C-364 resulted in an amendment to the *Income Tax Act*:

- Removing the tax credit calculation rate of 33% for federal political contribution amounts over \$750; and,
- Removing the \$650 maximum for the federal political contribution tax credit.

This change effectively allows individuals claiming contribution totals in excess of \$400, up to the total maximum as described above, at a rate of 50%, and increases the maximum federal political contribution tax credit amount from \$650 to \$1,400 in 2018.

See Appendix A for a complete summary of the proposed amendments.

2. Analysis

The focus of the report is the fiscal cost of the Bill to the federal government and the financial impact for political parties. The following sections provide an analysis of the aggregate data for 2018 through to 2021.

2.1. Federal Fiscal Impact

The proposed amendments to the *Canada Elections Act* alter both the source and amount of total funds available to registered political parties. The Bill seeks to reduce individual contribution limits and reintroduce a quarterly allowance fund.

This allowance fund previously existed since 2004, and was phased out in 2015.^{4, 5} It is calculated by the Chief Electoral Officer, and paid by the federal government from the Consolidated Revenue Fund. The fund is based on valid votes cast to registered parties in the most recent general election preceding the quarter, multiplied by a factor (0.4375 for 2018) that is adjusted for inflation.

Based on historical voter turnout and future projections, PBO estimates the implementation of a quarterly allowance fund will result in a total cost to the federal government of \$43.4 million in 2018, increasing to \$44.1 million in 2021, as shown in Table 2-1.^{6,7}

Table 2-1 Total Projected Annual Allowances to Registered Parties

Total Allowances Paid (\$M)	
2018	43.4
2019	44.1
2020	43.2
2021	44.1

Source: Parliamentary Budget Officer calculations based on data from Elections Canada, Statistics Canada and PBO forecasts.

Despite reduced total maximum federal political contribution limits, the changes to Bill C-364 will also result in an increase to the associated tax credit.

Currently, an individual can contribute more than \$5,000 a year, but only receive up to a maximum tax credit of \$650 for these political contributions. That is, any contributions in excess of \$1,275 will not result in a larger tax

credit. The proposed amendment in the Bill to the *Income Tax Act* removes this \$650 maximum tax credit amount, and the new calculation of the tax credit, for 2018, is as follows:

- 75% of the amount up to \$400 (maximum of \$300), and
- 50% of the amount between \$400 and \$2,600 (maximum of \$1,100)

Individuals are now only bound by the new lower contribution limits. If an individual reaches the maximum for political contributions in 2018 with the proposed amendments (that is, \$2,600), their maximum tax credit will be \$1,400, more than doubling their maximum tax credit.

Using SPSPD/M, PBO estimated the impact of the amendments to the total federal political contributions made and claimed on individuals' tax returns, as well as the associated tax credits.⁸ These tax credits, or tax expenditures, represent a cost to the federal government, and would increase by approximately \$1.8 million in 2018.^{9, 10}

When accounting for the public funding paid from the Consolidated Revenue Fund, the total cost to the government in 2018 is approximately \$45.2 million, as displayed in Table 2-2.

Table 2-2 Projected Total Cost to Federal Government

	Payments from Consolidated Revenue Fund (\$M)	Increase in Tax Expenditures (\$M)	Total (\$M)
2018	43.4	1.8	45.2
2019	44.1	1.9	46.0
2020	43.2	2.0	45.2
2021	44.1	2.1	46.2

Source: Parliamentary Budget Officer calculations based on data from Elections Canada, Statistics Canada, SPSPD/M and PBO forecasts.

2.2. Impact to Political Parties

A portion of the political party funds stem from individual contributions. Reducing the limits on these contributions does not significantly impact the funds provided to parties, as shown in Table 2-3. The majority of contributions were less than the new proposed annual limit of \$2,600¹¹, resulting in a total estimated reduction of \$0.3 million in 2018.

Table 2-3 Projected Total Individual Contributions

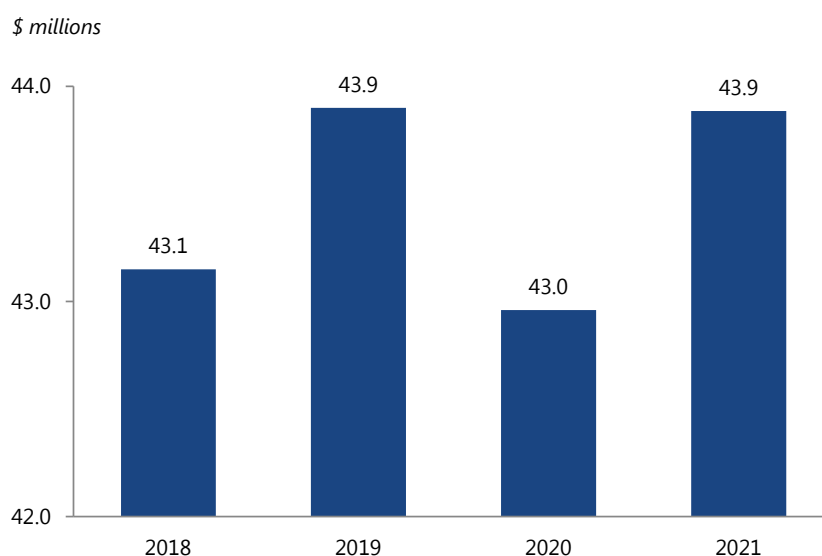
	Current Projected Individual Contributions (\$M)	Projected Individual Contributions after Bill (\$M)	Difference (\$M)¹²
2018	44.3	44.1	-0.3
2019¹³	45.8	45.6	-0.2
2020	47.3	47.1	-0.2
2021	48.8	48.7	-0.2

Source: Parliamentary Budget Officer; The Social Policy Simulation Database and Model (SPSD/M) v. 22.3

On the other hand, the reintroduction of a quarterly allowance fund, as explained in the previous section, increases funds to registered political parties who meet the requirements as outlined in *Canada Elections Act*.

Overall, registered political parties would see a total net increase in political funds of approximately \$43.1 million in 2018, increasing to \$43.9 million in 2021, as shown in Figure 2-1.

Figure 2-1 Total Projected Increases to Registered Political Party Funds



Source: Parliamentary Budget Officer calculations based on data from Elections Canada, Statistics Canada, SPSPD/M and PBO forecasts.

3. Conclusion

The changes proposed by Bill C-364 will result in a net increase in the amount of funds provided to registered political parties. While Bill C-364 reduces the federal political contribution limits for individuals, this is more than offset by the increase from the reintroduction of the quarterly allowance fund. The overwhelming majority of this increase is a result of the reintroduction of public funding for registered political parties through quarterly allowances. This will be allocated from the Consolidated Revenue Fund, which directly increases the cost to the federal government.

While there is a negative financial impact to political parties with the decrease in the individual contribution limits, these specific amendments are not significant. However, this comes at a cost to the federal government in the form of increased tax expenditures. PBO estimates that removing the upper threshold for the calculation of the federal political contribution tax credit, as well as increasing the direct spending on funds for political parties via the quarterly allowance fund, will cost the federal government \$45.2 million in 2018, increasing to \$46.2 million in 2021.

Appendix A: Summary of Proposed Amendments

Current	Proposed
<p>Canada Elections Act:</p> <p>Contribution limits</p> <ul style="list-style-type: none"> 367 (1) Subject to subsection 373(4), no individual shall make contributions that exceed <ul style="list-style-type: none"> (a) \$1,500 in total in any calendar year to a particular registered party; (b) \$1,500 in total in any calendar year to the registered associations, nomination contestants and candidates of a particular registered party; (c) \$1,500 in total to a candidate for a particular election who is not the candidate of a registered party; and (d) \$1,500 in total in any calendar year to the leadership contestants in a particular leadership contest. 	<p>Canada Elections Act:</p> <p>Contribution limits</p> <ul style="list-style-type: none"> 367 (1) Subject to subsection 373(4), no individual shall make contributions that exceed: <ul style="list-style-type: none"> (a) \$500 in total in any calendar year to a particular registered party; (b) \$500 in total in any calendar year to the registered associations, nomination contestants and candidates of a particular registered party; (c) \$500 in total <u>in any calendar year</u> to a candidate who is not the candidate of a registered party; and (d) \$1,000 in total in any calendar year to the leadership contestants in a particular leadership contest.
<p>Canada Elections Act:</p> <p><i>Computation of fund</i></p> <ul style="list-style-type: none"> 445 (2) An allowance fund for a quarter is the product of the number of valid votes cast in the election referred to in subsection (1) multiplied by the applicable following number: <ul style="list-style-type: none"> (a) \$0.255, for the quarter that begins on April 1, 2013 and the three following quarters; and (b) \$0.1275, for the quarter that begins on April 1, 2014 and the three following quarters. 	<p>Canada Elections Act:</p> <p><i>Computation of fund</i></p> <ul style="list-style-type: none"> 445 (2) An allowance fund for a quarter is the product of: <ul style="list-style-type: none"> (a) \$0.4375 multiplied by the number of valid votes cast in the election referred to in subsection (1); and (b) the inflation adjustment factor determined under section 384 that is in effect for that quarter.

Current	Proposed
<p>Income Tax Act:</p> <p><i>Contributions to registered parties and candidates</i></p> <p>(3) There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is the eligible amount of a monetary contribution that is referred to in the Canada Elections Act and that is made by the taxpayer in the year to a registered party, a registered association or a candidate, as those terms are defined in that Act,</p> <ul style="list-style-type: none"> • (a) when that total does not exceed \$400, 75% of that total, • (b) when that total exceeds \$400 and does not exceed \$750, \$300 plus 50% of the amount by which that total exceeds \$400, and • (c) when that total exceeds \$750, the lesser of <ul style="list-style-type: none"> ○ (i) \$650, and ○ (ii) \$475 plus 33 1/3% of the amount by which the total exceeds \$750, <p>if payment of each monetary contribution that is included in that total is evidenced by filing with the Minister a receipt, signed by the agent authorized under that Act to accept that monetary contribution, that contains prescribed information.</p>	<p>Income Tax Act:</p> <p><i>Contributions to registered parties and candidates</i></p> <p>(3) There may be deducted from the tax otherwise payable by a taxpayer under this Part for a taxation year in respect of the total of all amounts each of which is the eligible amount of a monetary contribution that is referred to in the Canada Elections Act and that is made by the taxpayer in the year to a registered party, a registered association or a candidate, as those terms are defined in that Act,</p> <ul style="list-style-type: none"> • (a) when that total does not exceed \$400, 75% of that total, and • (b) when that total exceeds \$400, \$300 plus 50% of the amount by which that total exceeds \$400, <p>if payment of each monetary contribution that is included in that total is evidenced by filing with the Minister a receipt, signed by the agent authorized under that Act to accept that monetary contribution, that contains prescribed information.</p>

Note that each contribution limit in Section 367 (1) in the proposed Bill is increased by \$25, effective January 1, 2018.

Appendix B: Methodology

PBO used Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) to estimate the cost of reducing the political contribution limits and the change in the federal political contribution tax credit.¹⁴

With the proposed legislation, the Quarterly Allowance Fund would be calculated as:

$(\$0.4375) \times (\# \text{ of valid votes cast in the most recent general election preceding the quarter}) \times (\text{annual inflation factor published in the } \textit{Canada Gazette})$

The data sources and calculations for the estimation of the Quarterly Allowance Fund are described below:

- Valid voting data from previous elections was used from the Elections Canada website;¹⁵
- The allowances paid in 2018 and 2019 are based on the valid votes cast in the 2015 election, while the allowances paid in 2020 and 2021 are based on the valid votes cast in the 2019 election.¹⁶
- PBO projected the valid votes cast in the next upcoming election¹⁷:
 - Calculated the ratio of valid votes for the previous five general elections by the population in those years, and applying the average of the ratios to the projected population in 2019.
- The 2017 inflation adjustment factor of 1.408, published in the *Canada Gazette* as per the requirements in the *Canada Elections Act*, was used as a baseline.¹⁸
 - PBO used its internal projections of the CPI growth rate to determine a projected inflation factor for 2018-2021.

The projected inflation factors and the total annual individual contribution limits are presented in Table B-1 below.

Table B-1 Inflation Factor and Maximum Total Individual Contribution Limits and Tax Credit Receivable

	Inflation Factor for Quarterly Allowance Fund¹⁹	Total individual maximum contribution limits	Maximum federal political contribution tax credit receivable
2018	1.429	\$2,600	\$1,400
2019	1.454	\$2,700	\$1,450
2020	1.484	\$2,800	\$1,500
2021	1.515	\$2,900	\$1,550

Sources: Parliamentary Budget Officer calculations based on data from Public Services and Procurement Canada, SPSPD/M version 22.3 and PBO forecasts.

Notes

1. In order to qualify, candidates for a registered party must have, in the most recent general election, either received 2% of the valid votes cast, or 5% of the number of valid votes cast in the electoral districts in which the registered party endorsed a candidate. <http://laws-lois.justice.gc.ca/eng/acts/E-2.01/page-56.html#h-137>
2. Annual limits increase by \$25 each year, effective January 1. The initial limits set forth in the bill would increase by \$25 each, as the provision would come into force January 1, 2018, the same day the limits are set.
3. This quarterly allowance existed since 2004, but was phased out in 2015. Bill C-364 reintroduces it.
4. Elections Canada, "Recommendations of the Chief Electoral Officer of Canada to the House of Commons Standing Committee on Procedure and House Affairs Respecting Specific Issues of Political Financing", 2007. <http://www.elections.ca/content.aspx?section=res&dir=rep/oth/jan2007&document=part8&lang=e>
5. *Canada Elections Act*, S.C. 2000, c 9, s 445(2). <http://laws.justice.gc.ca/eng/acts/E-2.01/FullText.html>
6. Assumptions used for this calculation can be found in Appendix B.
7. The average voter turnout percentage of the past five elections was lower than the voter turnout percentage of the 2015 election, which explains the decrease in the projected allowance in 2020.
8. PBO could only identify total federal political contributions made and claimed on individuals' tax returns, rather than contributions for each party, candidate, or contestant. It is possible this total amount is underestimated, since individuals may not claim small amounts of contributions made.
9. Calculated via SPSP/M.
10. Candidates and leadership contestants can contribute above the maximum contribution limits to their own campaign. PBO estimates do not account for this; however, analysis of data from Elections Canada shows that these amounts are not material. <http://www.elections.ca/wpapps/WPF/EN/CCS/Index?returntype=1>
11. Fewer than 1,000 individuals are projected to contribute over the proposed \$2,600 limit in 2018. Statistics Canada, SPSP/M version 22.3.
12. Totals may not add up due to rounding.
13. Data from Elections Canada indicates that individual contributions for the election year 2015 were significantly greater than both the preceding and following year. This suggests that PBO's estimates for 2019 may be understated. Source: Elections Canada, Financial Returns.

<http://www.elections.ca/wpapps/WPF/EN/Home/Index?returntype=1>

Accessed January 29, 2018.

14. For the calculations in this report, PBO turned off both the commodity tax and pension income splitting simulations.
15. Elections Canada, Past Elections.
<http://www.elections.ca/content.aspx?section=ele&dir=pas&document=index&lang=e> Accessed November 20, 2017
16. The next election date is currently set for October 21, 2019.
<http://www.elections.ca/content.aspx?section=vot&dir=faq&document=faqelec&lang=e>
17. All population data used was provided by Statistics Canada.
18. Public Services and Procurement Canada, Canada Gazette, Vol. 151, No. 7. February 18, 2-17. <http://www.gazette.gc.ca/rp-pr/p1/2017/2017-02-18/html/parliament-parlement-eng.php> Last updated February 18, 2017. Accessed November 20, 2017.
19. Calculated for the one-year period beginning April 1st.