

Legislative Costing Note

Announcement date:	2020-08-20	
Publication date:	2020-10-07	
Short title:	Canada Recovery Benefit	
Description:	<p>The Canada Recovery Benefit, introduced on September 27, 2020, will provide \$500 per week for up to 26 weeks to workers who do not qualify for EI, who earned at least \$5,000 in 2019 or 2020 and who are unable to return to work or had their income reduced by at least 50% due to COVID-19. The program will last for one year.¹</p> <p>Claimants will need to repay \$0.50 of the benefit for each dollar of their annual income above \$38,000 in the calendar year up to a maximum of the amount of benefit they received. The \$38,000 threshold will not include amounts received under the benefit. The benefit will be taxable.</p>	
Data sources:	<u>Variable</u>	<u>Source</u>
	Demographic data	Statistics Canada's Labour Force Survey (LFS)
	Labour force statistics	Statistics Canada's LFS
	Projected labour market conditions	PBO - EFO
	Federal tax rate	PBO calculations
	Behavioural response	Card et al. 2015, ² PBO
Estimation and projection method:	<p>PBO used the most recent LFS data to estimate the number of workers who will benefit from the Canada Recovery Benefit once it is implemented. This number includes employed and self-employed workers who saw their regular hours significantly reduced, self-employed workers who left their jobs for reasons that PBO considered valid and certain former Employment Insurance recipients who have exhausted their benefits but have not returned to work since the beginning of the pandemic.</p> <p>PBO subsequently developed a stock and flow model to estimate the number of applicants on a monthly basis for the duration of the program. PBO estimated the number of weeks that workers should receive the benefit based on historical data, in addition to adding a behavioural effect.</p>	

1. Parliament of Canada, *Bill C-4*, accessed October 1, 2020, <https://parl.ca/DocumentViewer/en/43-2/bill/C-4/third-reading>.

2. American Economic Review, *The Effect of Unemployment Benefits on the Duration of Unemployment Insurance Receipt: New Evidence from a Regression Kink Design in Missouri, 2003–2013*, David Card et al., 2015

Using LFS microdata, PBO was able to identify the number of workers who are likely to have to repay part of their benefit. In addition, it was possible to estimate an average federal tax rate.

Aggregate Results: PBO estimates total net cost of this measure to be \$12.853 billion in 2020-2021 and \$5.087 billion in 2021-2022.

Source of Uncertainty: This estimate is highly sensitive to future labour market conditions and Canada's economy, as well as the progression of the COVID-19 pandemic. In addition, since the LFS does not collect information on self-employed earnings, several assumptions had to be made in order to estimate them. There is also significant uncertainty regarding the behavioural response of workers.

There is additional uncertainty surrounding how the proposed measure will be administered (specifically, the extent and intensity of compliance monitoring activities).

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Cost of proposed measure

\$ millions	2020-2021	2021-2022
Total cost	12,853	5,087
Gross cost	15,079	5,615
Cost recovery (repayment and income tax)	-2,226	-528

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