



Department of Finance  
Canada

Ministère des Finances  
Canada

Deputy Minister

Sous-ministre

Ottawa, Canada  
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Kevin Page  
Office of the Parliamentary Budget Officer  
Library of Parliament  
Ottawa, ON K1A 0A9

  
Dear Mr. Page:

I am writing in response to your letter of July 23, 2012, in which you request any data or information that could help your office address a request from the House of Commons Standing Committee on Finance to estimate the cost of Bill C-399, *An Act to amend the Income Tax Act (volunteers)* and Bill C-427, *An Act to amend the Income Tax Act (income averaging for artists)*.

The attached document outlines the methodology used by the Department of Finance to undertake its revenue cost estimates.

Yours sincerely,

Michael Horgan

Enclosure

- c. Rick Stewart, Assistant Secretary to the Cabinet, Privy Council Office, Liason Secretariat for Macroeconomic Policy

## Federal Revenue Cost Estimate for Bill C-399

### Background on the Bill

Bill C-399 would create a new non-refundable tax credit of between \$75 and \$300 for individuals who perform a minimum of 130 hours of eligible volunteer services at a charity, non-profit organization (NPO) or municipality during a year and make at least 12 trips in order to do so.

- The individual would have to volunteer with one or more organizations “whose primary mission is to aid a vulnerable population group”.
- The Governor-in-Council would define which organizations qualified.
- The individual would have to travel at least one kilometre from home to volunteer.
- An individual with no travel expenses (or none which were not reimbursed by the organization) would receive a credit of \$75 (lowest tax rate of 15% x \$500 amount).
- In addition to the \$75 tax credit, an individual would be eligible to receive a credit of 15% on up to \$1,500 of unreimbursed travel expenses (i.e., up to 15% of \$1,500 or \$225).
- The maximum credit that could be claimed is \$300 (\$75+\$225).
- If requested by the Canada Revenue Agency (CRA), taxpayers would have to provide a certificate from the organization(s) with which they volunteered confirming the number of hours and related trips.

### Revenue Impact

The Department of Finance Canada estimates that the introduction of Bill C-399 could result in forgone tax revenue of roughly \$130 million per year. This estimate was obtained as follows:

- Using information from the 2010 Canada Survey of Giving, Volunteering and Participating, the number of individuals volunteering more than 130 hours for organizations “whose primary mission is to aid a vulnerable population group” was estimated to be about 1,210,000.
- It was estimated that about 915,000 of individuals would be in a taxable situation and would benefit from the credit (e.g. they were living in households with household income of at least \$40,000 per year).
- Unreimbursed eligible travel expenses were assumed to average about \$430 per year. There are no data on the weekly travel distance for volunteers. For the purpose of this estimate, it was assumed that weekly travel distance would

average about 15 kilometres at an eligible rate of about 55 cents per kilometre. The 55 cents per kilometre is based on reasonable per-kilometre allowance rates published by the Canada Revenue Agency for 2012 (e.g. 53 cents per kilometre for the first 5,000 kilometres with an additional 4 cents for the territories) with inflation and rounded up.

- No behavioural changes were considered.
- The cost estimate was calculated by multiplying the number of potential beneficiaries by the estimated tax benefit or  $915,000 \times (\$500 + \$430) \times 15\% = \$127,642,500$ . This estimate was rounded to \$130 million.

## Federal Revenue Cost Estimate for Bill C-427

### Background on the Bill

Private Member's Bill C-427 contains two proposals.

First, the Bill proposes "to amend the *Income Tax Act* to permit Canadian artists to benefit from income averaging for the purposes of federal taxation over a maximum period of five years." The apparent intention of the amendment is to allow artists to average their personal income for tax purposes over up to a five-year period, in order to reduce their tax liability when they receive a large amount of income in a single year (e.g., the year in which a significant work is sold).

Second, the Bill proposes to exempt from taxation "the first \$10,000 of income that is derived from royalties, gratuities, or other residual payments from the taxpayer's artistic activities."

### Revenue Impact

#### *General Income Averaging:*

The Department of Finance Canada has assumed that the Bill is proposing what is frequently referred to as general income averaging. Under current rules, tax is generally paid in the year income is received. Under general income averaging, an individual receiving a large amount of income in a year could average their income over a number of years when determining their income for tax purposes, in order to reduce their overall tax liability.

Based on this assumption Bill C-427 could result in forgone tax revenue of roughly \$10 million per year. This estimate was obtained as follows:

- It was assumed that the proposal would reinstate the general income averaging formula which was in place in the Canadian tax system prior to 1982 (using taxable income rather than total income to better reflect the calculation of tax under the current system).
- Using information from the 2006 Canadian Census and from T1 data, it was estimated that about 55,000 individuals would benefit from this measure.
- Using tax data for multiple years, the average benefit for artists was estimated to be about \$130 for 2012.

- The cost estimate was obtained by multiplying the number of potential beneficiaries by the estimated tax benefit or  $55,000 \times \$130 = \$7,150,000$ . This estimate was rounded up to \$10 million given the uncertainty surrounding the number of artists that could benefit from income averaging.

*Exemption of Royalty Income:*

The Department of Finance Canada estimates that the introduction of an Exemption for Royalty Income under Bill C-427 could result in forgone tax revenue of roughly \$15 million per year. This estimate was obtained as follows:

- Using data and information from the Copyright Collective group and from the 2006 Canadian Census it was estimated that approximately 41,600 individuals could benefit from an exemption with respect to their royalty, gratuity and/or residual income.
- Using information from the Copyright Collective group and from T1 data, it was assumed that the average royalty payments exempt from taxation would be about \$1,500 per artist in 2012.
- Using information from the 2006 Canadian Census and from T1 data, the marginal federal tax rate applied to this group is assumed to be 22%.
- The cost estimate was obtained by multiplying the number of potential beneficiaries by the estimated tax benefit or  $41,600 \times \$1,500 \times 22\% = \$13.7$  million. This estimate was rounded to \$15 million.
- Copyright Collective groups include the Society of Composers, Artists and Musicians (SOCAN), the Society for Reproduction Rights of Authors, Composers and Publishers in Canada (SODRAC), COPIBEC in Quebec and Access Copyright in the rest of Canada.