Chaire de recherche Jacques-Parizeau
en politiques économiques
HEC MONTRÉAL

Tax Incentives and Older Workers: Evidence from Canada

Summary

Guy Lacroix et Pierre-Carl Michaud

Cahier de recherche n° 2
Septembre 2024

Les opinions et analyses contenues dans les cahiers de recherche de la Chaire ne peuvent en aucun cas être attribuées aux partenaires ni à la Chaire elle-même et elles n'engagent que leurs auteurs.

Les partenaires de la Chaire de recherche Jacques-Parizeau en politiques économiques

Banque CIBC
Banque Nationale
Beneva
BMO Groupe financier
Caisse de dépôt et placement du Québec
CGI
Cogeco
Desjardins
Énergir
Fonds de solidarité FTQ
Groupe Banque TD
Héroux-Devtek
Ministère des Finances du Québec
Québecor
RBC Fondation

© 2024 Guy Lacroix et Pierre-Carl Michaud. Tous droits réservés. Reproduction partielle permise avec citation du document source, incluant la notice ©. Dépôt légal du cahier de recherche : Bibliothèque et Archives nationales du Québec et Bibliothèque et Archives Canada, 2024. ISSN 2817-4887

Context and Objectives

In 2012 the Québec government implemented the **Tax Credit for Career Extension** (hereafter CIPC) to encourage workers aged 65 and older to remain in the labour market or reintegrate it. This non-refundable tax credit was gradually extended to include workers as young as 60 and has been made more generous over time, reaching a maximum value of $1,654 in 2019 for an older worker with annual labour income of $16,000. The income threshold where the credit reaches zero (i.e., after phase-out) has also increased over time, exceeding $60,000. The main goal of this measure was to increase tax revenues by encouraging older workers to remain active; the credit cost the Québec government $1.2 billion from 2014 to 2020, and it is expected to cost nearly $400 million in 2024 alone.

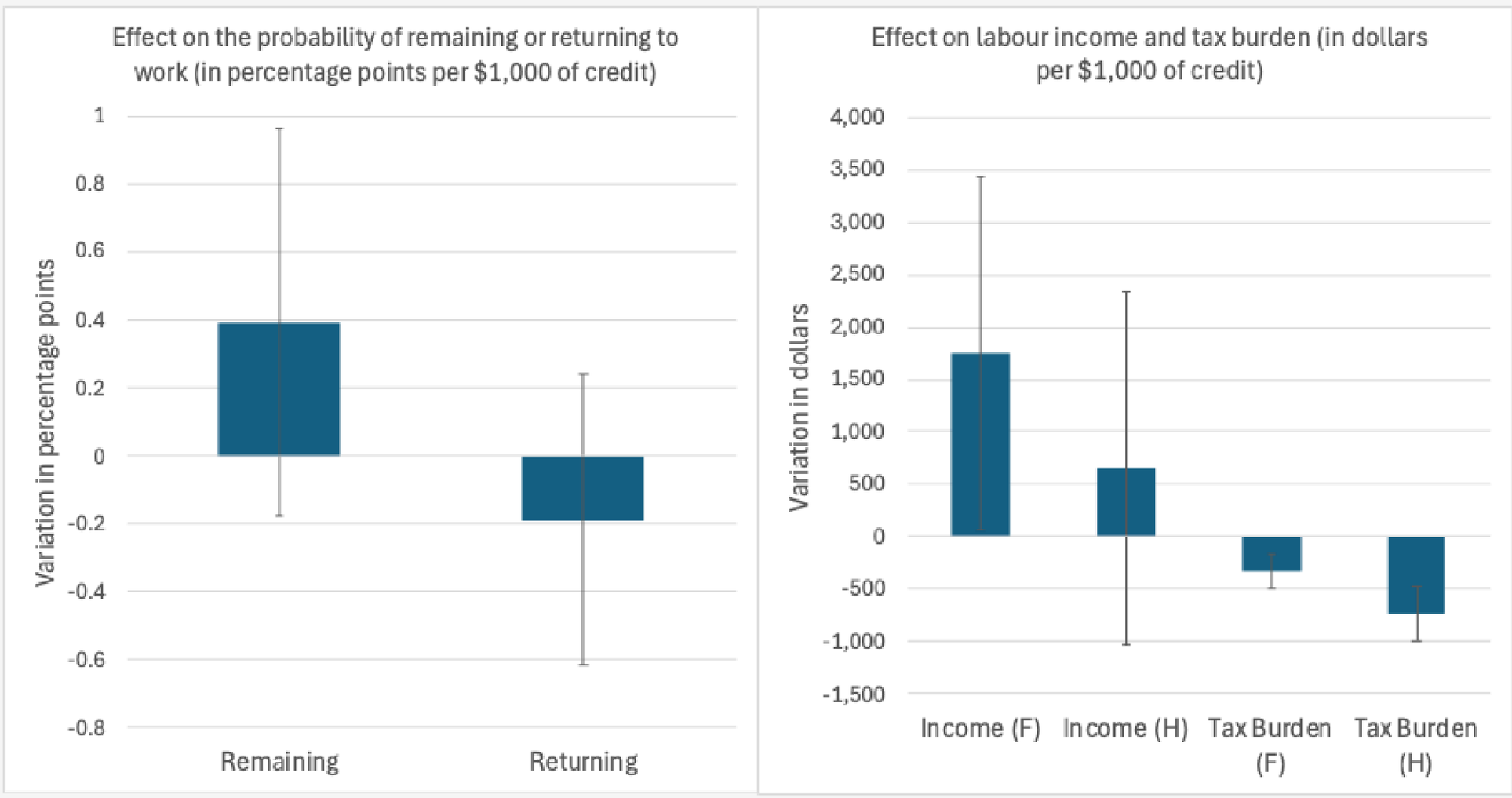
Methodology

The authors use several methods to assess the impact of the CIPC. First, a classic **difference-in-differences** (DiD) approach is applied, comparing employment trends in Québec with those in Ontario, a similar province that did not implement such a measure. They then use **longitudinal tax data** from the Longitudinal Administrative Databank (LAD) to analyze transitions into and out of the labour market among individuals aged 60 to 65. Finally, a **dynamic difference-in-differences** estimation is conducted to account for the staggered effects of the CIPC over time.

Results

The results show that the CIPC had a limited impact on employment rates among older workers:

- **Classic difference-in-differences:** The comparative analysis with Ontario did not reveal any statistically significant effect of the credit on employment for workers aged 65 and over, and little effect before this age. Moreover, the authors point out that the common trend assumption is rejected, as employment and participation rates converged between the two provinces, which limits the validity of this approach.
- **Tax data analysis (figure below):** Examining transitions in and out of the labour market, the authors found no significant effect of the credit on employment. There were minor effects on income, mainly among women, but these were accompanied by a reduction in net tax revenues from these taxpayers.
- **Dynamic difference-in-differences estimation:** The results from the dynamic estimation confirm that the CIPC had no significant impact on employment rates, although a very marginal effect on income was observed among women after 2016.



Note: 95% confidence intervals are illustrated.

Source: Authors' calculations based on the Longitudinal Administrative Databank (LAD) for the years 2016 to 2019.

Figure: Effect of the CIPC on the probability of remaining in or returning to employment, as well as on labour income and tax burden for beneficiaries aged 60-64

Conclusion

The study concludes that the CIPC did not significantly achieve its goal of extending older workers' careers. The lack of effectiveness could be attributed to several factors, including insufficient awareness of the measure, perceived insufficient generosity, and rigidity in available work hours for older workers.

Furthermore, the limited sensitivity of older workers' labour supply means that a large portion of the tax expenditure dedicated to the CIPC goes to individuals who would have remained active in the labour market anyway. Thus, the measure is far from self-financing, as its costs far exceed its benefits in terms of additional tax revenues (i.e., from individuals the measure encouraged to remain active).

Policy Implications

The authors suggest that the implementation of a similar measure at the federal level, as announced in Finance Minister Freeland's mandate letter in 2021, may not produce the expected effects and could result in additional tax expenditures without significant benefits in terms of employment rates. Québec should also reassess the relevance of this measure. The authors emphasize the need to explore other policy levers to encourage older workers' participation in the labour market.