

April 13, 2020

Crisis Working Group Report: Crisis Household Income and Credit Support

In order to help Canadian governments confront the public health and economic crisis resulting from the spread of the COVID-19 virus, the C.D. Howe Institute has established several working groups to rapidly distill expert policy advice. The working group on household income and credit support is chaired by Michael Horgan, Senior Advisor at Bennett Jones LLP and former Deputy Minister of Finance, Government of Canada, and supported by a group of Canadian business leaders and economists. Meeting weekly, this group identifies and prioritizes policy challenges, and communicates members' views in published communiques. The group's third meeting was held on Tuesday, April 7, 2020.

At its last meeting, and as recommended in its previous [communique](#), the group urged the federal government to release data on Employment Insurance (EI) claims on a timely and regular basis; the same data release policy should apply to Canada Emergency Response Benefit (CERB) applications. In addition, the group recommended a focus on changes to the “employed and at work” category, and changes to “actual hours worked,” instead of the usual headline unemployment figures, in the March Labour Force Survey (available on Thursday, April 9). Because that survey reflected the situation early in the crisis and related shutdowns, it provided only partial insights into the impact of COVID-19 on the Canadian labour market. Next month's Labour Force Survey release will be more indicative of the full impact.

In the meeting, the group principally discussed four issues and policy measures:

- Temporary suspension of tax collection on RRSP withdrawals
- Federal/provincial coordination of income support
- Supporting students and educational institutions
- Back-to-work strategy



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Temporary Suspension of Tax Collection on RRSP Withdrawals

The federal government has introduced several financial assistance measures to support households and individuals during the COVID-19 crisis. Many will qualify but gaps inevitably remain, especially among self-employed individuals. For others, existing or planned government financial assistance may arrive too late or may not be sufficient to cover immediate cash flow needs. To complement existing financial assistance measures, the group proposed that the government suspend tax withholdings and collection on RRSP withdrawals, up to a maximum amount, and for a limited time.

Design attributes for this policy measure could draw on existing programs such as the Home Buyers' Plan and the Lifelong Learning Plan. Tax-free RRSP withdrawals would have to be recontributed in the future over a maximum number of years (say, 10) with no loss of tax-deferred retirement savings room for participants. Implementation could be relatively quick through participating financial institutions who currently withhold taxes on withdrawals.

The government would eventually collect the deferred taxes when future recontributions are made out of after-tax dollars and later withdrawn for retirement, or when participants pay taxes on money they fail to recontribute. With interest rates so low, the cost to the government of what amounts to a delay in tax payments would be negligible. While the group noted that some RRSP holders might make unnecessary withdrawals and subject themselves to higher taxes, this measure could help some families and seniors needing liquidity during these difficult times.

Federal/Provincial Coordination of Income Support

Some provincial governments have taken measures to fill gaps or top up areas where federal assistance is insufficient. For example, the government of British Columbia announced a one-time payment of \$1,000 for eligible people who have lost their income as a result of COVID-19 through the BC Emergency Benefit for Workers. The working group noted that despite the fact that these provincial initiatives appear to piggyback on federal assistance, they make sense and may be necessary. Furthermore, there is a role for either federal or provincial governments to top up the gaps for workers who make less than the CERB in order to mitigate the work disincentive effects, particularly if the period for receiving the CERB needs to be extended. However, the federal government should coordinate any targeted initiative for the lowest income Canadians and those in poverty with provincial governments since provinces are responsible for social assistance programs. Some group members felt that crisis-related poverty reduction initiatives should rest with provincial governments, who are better placed to assess need and program design.

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Supporting Students and Educational Institutions

The group flagged that students are taking a hit: COVID-19 came at a bad time for students and graduates who were expecting summer employment. A weak job market will have long term scarring effects on graduates seeking employment. For students, an income loss during summer time could jeopardize their ability to return to education. In addition, post-secondary institutions will also likely suffer since billions of dollars of yearly tuition revenue from international students are now in jeopardy. In line with recommendations in a [C.D. Howe Intelligence Memo](#), working group members proposed the following policy responses to mitigate the impacts on students, educational institutions and education system stakeholders:¹

- Extending eligibility for the CERB to students whose job offers are not honoured;
- Making funds available to universities and colleges to make more courses available remotely over the next several months;
- Providing support to university and college instructors to hire student researchers and teaching assistants, thus helping students and graduates find employment;
- Making funds available to school districts to hire post-secondary students as assistants to teachers and parents to adopt online learning during school closures while addressing equity issues, for example related to [lack of device and internet availability](#), among school-age students; and
- Providing additional funding for scholarships for students by next September.

Back-to-Work Strategy

The working group identified the need to start framing a return-to-work strategy, including attention to issues such as health and safety regulations, financial compensation for those unable to return to work, and regional differences. The group identified return-to-work strategies as a topic for its next meeting, for more in depth consideration of what governments and employers need to do to bring workers back to work safely and protect populations vulnerable to the virus.

The Household Income and Credit Support Working Group will meet again this week.

¹ Subsequent to the working group meeting, the federal government announced new [measures](#) to support students: offering a wage subsidy of up to 100 percent for hiring students and extending the time frame for job placement to the winter.

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Household Income and Credit Support Working Group Members Include:

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