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**CHILD AND ADULT FITNESS TAX CREDITS  
CANADA, QUEBEC, ONTARIO AND BRITISH COLUMBIA  
THE ECONOMIC BENEFITS OF A FEDERAL AND PROVINCIAL  
FITNESS TAX CREDIT FOR CANADIANS**

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**NOVEMBER 2009**



## EXECUTIVE SUMMARY

This report was prepared by the Centre for Spatial Economics (C4SE) in November of 2009 at the request of the Fitness Industry Council of Canada. It builds on a report prepared by C4SE for the Council in December 2007 that estimated on a national scale the economic benefits, tax revenue gains and tax revenue losses that would occur if:

- The federal government was to extend the existing federal Children's Fitness Tax Credit (that went into effect January 1, 2007) to Canadians of all ages.
- The federal and provincial governments were to implement an Adult Fitness Tax Credit.

This report reveals that the net benefits of a Fitness Tax Credit are significant in each of the three provinces considered here and are so regardless of whether the program is a federal and/or provincial one.

The cumulative net benefit of a fitness tax credit in Quebec over the period from 2010 to 2029 is:

- \$560 million if only the federal government participates;
- \$250 million if only the Quebec government participates; and
- \$810 million if both the federal and Quebec governments participate.

The cumulative net benefit of a fitness tax credit in Ontario over this period is:

- \$960 million if only the federal government participates;
- \$240 million if only the Ontario government participates; and
- \$1.2 billion if both the federal and Ontario governments participate.

The cumulative net benefit of a fitness tax credit in British Columbia over this period is:

- \$560 million if only the federal government participates;
- \$250 million if only the British Columbia government participates; and
- \$810 million if both the federal and British Columbia governments participate.

In all cases the health care cost savings can be expected to continue to increase each year beyond 2029 as the higher rates of physical activity prompted by the tax credit have an ever increasing cumulative impact on the physical fitness and health of Canadians at all age levels.

## **Section 1**

# **THE ECONOMIC BENEFITS OF A FEDERAL AND PROVINCIAL FITNESS TAX CREDIT FOR CANADIANS**

This report was prepared by the Centre for Spatial Economics (C4SE) in November of 2009 at the request of the Fitness Industry Council of Canada. It builds on a report prepared by C4SE for the Council in December 2007 that estimated on a national scale the economic benefits, tax revenue gains and tax revenue losses that would occur if:

- The federal government was to extend the existing federal Children's Fitness Tax Credit (that went into effect January 1, 2007) to Canadians of all ages.
- The federal and provincial governments were to implement a Fitness Tax Credit for all Canadians.

This report updates the estimates contained in our earlier report and provides detailed estimates for each of the provinces of Quebec, Ontario and British Columbia. The report includes estimates for three cases: (a) if the federal government only implements a fitness tax credit, (b) if the provincial government only implements such a credit, and (c) if both the federal and provincial governments implement such a credit.

This report consists of five sections:

- Drawing on our earlier report Section 2 reviews the process by which a fitness tax credit would lead to reductions in direct and indirect health care costs, and to tax losses and regained taxes.
- Section 3 illustrates the net benefits to Quebec if the federal government alone implements a fitness tax credit, if the Quebec government alone implements such a credit, and if both the federal and Quebec governments implement the credit.
- Section 4 illustrates the net benefits to Ontario if the federal government alone implements a fitness tax credit, if the Ontario government alone implements such a credit, and if both the federal and Ontario governments implement the credit.
- Section 5 illustrates the net benefits to British Columbia if the federal government alone implements a fitness tax credit, if the British Columbia government alone implements such a credit, and if both the federal and British Columbia governments implement the credit.

## **Section 2**

### **THE IMPACTS OF A FITNESS TAX CREDIT FOR ALL CANADIANS**

The intent of the Child Fitness Tax Credit that went into effect January 1<sup>st</sup>, 2007 is to encourage physical fitness program participation among Canadians under the age of 16. The long term impact of the tax credit will be to foster a generation of Canadians whose health and fitness profile improves on that of adult Canadians today. The Child Fitness Tax Credit is a tool that serves to prevent the onset of childhood obesity which studies show is on the rise.

#### **Impacts of a Fitness Tax Credit on Physical Activity Participation**

Our December 2007 report illustrated that the share of Canadians that is overweight and/or obese increases significantly with age. The intent of a Fitness Tax Credit for all Canadians is to bring about, within a very short time, an improvement in the proportion of the entire population that is physically fit. This outcome, in turn, and also within a very short time, would have an impact on both the direct costs of physical inactivity (i.e. medical treatment of the diseases associated with inactivity) and on the indirect costs (the lost productivity due to absenteeism from work).

Consumers typically respond to a price decline for a given product or service by purchasing more of that product or service. From the point of view of consumers, a Fitness Tax Credit for all Canadians would reduce the cost of being involved in physically fit activities up to a maximum of \$500 per year. Tax payers could claim the fees they pay for any and all kinds of physical fitness activities, be they fees paid to take aerobics classes at the local YMCA, to swim regularly at the community indoor pool, to play organized sports such as soccer, hockey, cricket, baseball, basketball, etc. in local leagues, or to take out a membership with a fitness facility. The tax credit would, in effect, reduce the “price” of physical activity participation.

This reduction in the average cost of physical activity participation would result in an increase in the number people choosing to participate in physical activities, thus increasing the rates of physical activity among the population in general, reducing the share of those who are overweight or obese, and ultimately reducing the health care costs associated with Canadians being overweight or obese. Furthermore, it would put money back into the pockets of Canadians who choose to be physically active and allow them to spend those savings on other items, or invest the savings elsewhere. This would be a welcome initiative especially in those provinces with a harmonized sales tax.

In developing our impact estimates in this report we assume that the credit would be equal to the lowest marginal tax rate of 15 percent (starting in 2010) on all eligible fees. Evidence suggests that the price elasticity of demand for recreation services is equal to -0.9. Thus the 15 percent decline in the “price” of physical fitness that would result from a federal government only Fitness Tax Credit would lead to a 13.5 percent increase in the number of people who are physically fit.

The provinces currently collect personal income taxes equal on average to about two-thirds of the federal income taxes collected. By recognizing the tax credit the provinces would therefore add another 10 percent to the decline in the average price of physical fitness (that is two-thirds of the lowest marginal tax rate of 15 percent) – for an overall decline in the average price of 25 percent – if both the federal and provincial governments participate. In other words, if the provinces also choose to recognize the tax credit the effective decline in the “price” of physical fitness across Canada would average 25 percent.

These estimates reveal that if the provincial governments collectively implemented a Fitness Tax Credit but the federal government did not follow suit the effective decline in the price of physical fitness would average 10 percent. In that regard it should be noted that the ratio of provincial to federal personal income taxes collected varies significantly across the country with Alberta and British Columbia at the low end (in the 40 to 50 percent range) and Newfoundland and Quebec at the high end (at 80 to 100 percent and more). The impacts of a provincial Fitness Tax Credit, therefore, will be relatively greater in those provinces with the highest personal income tax rates.

In developing our estimates we assume the increased physical activity induced by the tax credit impacts the degree of physical fitness among participants with a lag. We assume one half of the new participants become fit in the second year of the tax credit and the other half in the third year.

### **Impacts of a Fitness Tax Credit on Direct and Indirect Health Care Costs**

The increase in the number of physically fit people reduces both the direct and indirect costs of providing health care because the number of physically unfit Canadians declines. The beneficial impacts of the Fitness Tax Credit on these costs continue to increase over time because of the cumulative impacts of an ever increasing share of physically active Canadians on their use of the health care system per se (the direct costs) and on their rates of absenteeism in the workplace (the indirect costs).

### **Impacts of a Fitness Tax Credit on Government Personal Tax Revenues**

The proposed tax credit reduces the personal income taxes collected by the federal and provincial governments if either or both levels of government participate. It can be expected that there will be a recapturing of a small portion of these losses due to the reduced rates of workplace absenteeism. We assumed in developing our estimates that the net tax losses stemming from the Fitness Tax Credit will grow in the future at a slow rate in line with the growth in the population. We have not assumed the tax rate will change over time.

### **The Net Economic and Financial Impacts of a Fitness Tax Credit**

Our estimates indicate that the health care cost savings exceed the net tax losses within just a few years of implementing the Fitness Tax Credit whether the federal government alone, a provincial government alone, or the federal and provincial governments together, implement the credit. Our estimates reveal, not surprisingly, that the greatest net benefits occur if both the federal and provincial governments recognize the tax credit.

The subsequent sections of this report provide estimates for the provinces of Quebec, Ontario and British Columbia, separately, of the health care cost savings and net tax losses stemming from the implementation of a Fitness Tax Credit for all Canadians starting on January 1<sup>st</sup>, 2010. Estimates are provided for each province under the assumption that the federal government alone implements a Fitness Tax Credit for all Canadians, that each provincial government alone implements such a credit, and that both the federal and the provincial government in question implement such a credit.

It should be noted that in this report the net tax losses in each case include the impacts of the already implemented federal Child Fitness Tax Credit. It should also be noted that the estimates in this report cover the period from only from now through 2029. The net benefits can be expected to increase with each year beyond 2029.

### Section 3 A FEDERAL AND QUEBEC FITNESS TAX CREDIT

Exhibit Q-1 reveals the cumulative net direct and indirect health care cost savings that could be expected in the province of Quebec over the period from 2010 to 2029 under three alternatives:

- The federal government alone implements a Fitness Tax Credit for all Canadians in 2010;
- The Quebec government alone implements such tax credit; and
- Both the federal and the Quebec governments implement the tax credit.

#### **Exhibit Q-1 Health Care Cost Savings, Net Tax Losses and Net Benefits in Quebec from 2010 to 2029 Federal Only, Quebec Only and Both Federal and Quebec Fitness Tax Credit Participation Millions of Dollars**

	Federal	Quebec	Both
Health care cost savings	\$2,200	\$2,580	\$4,780
Net taxes lost	\$1,650	\$2,320	\$3,970
Net benefits	\$560	\$250	\$810

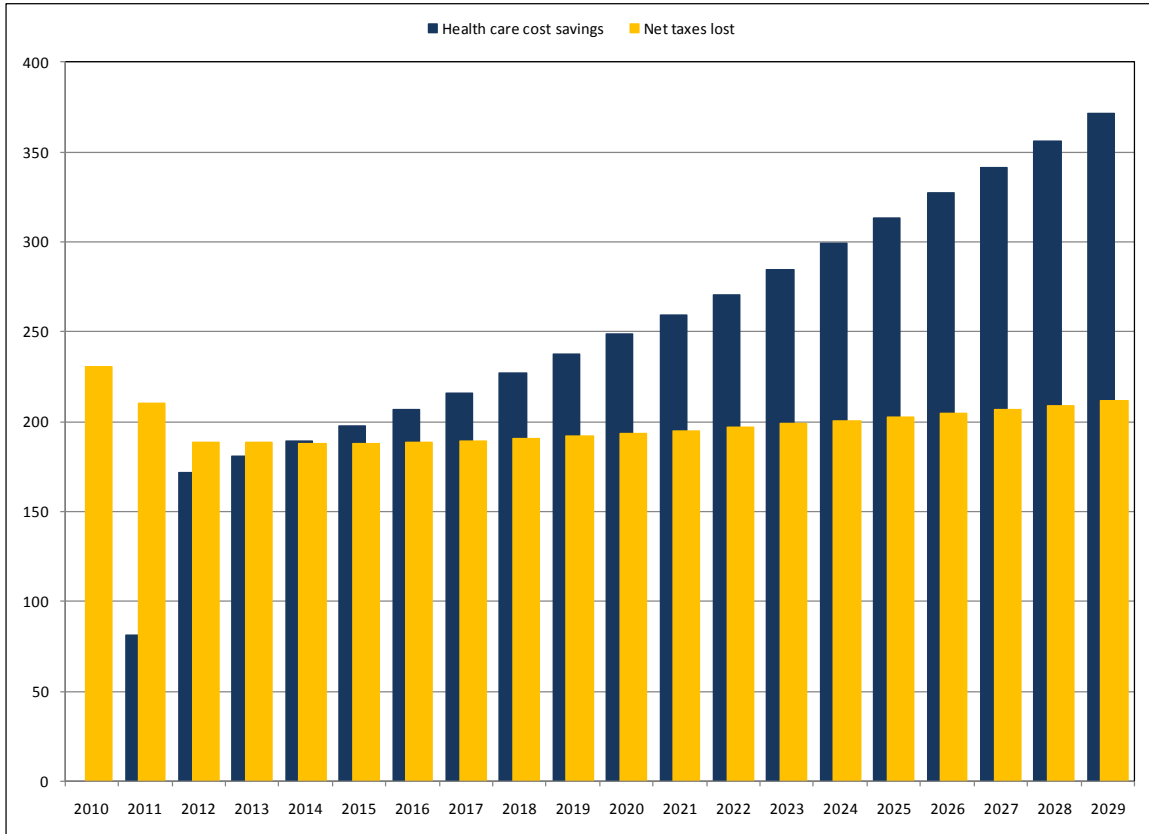
Source: C4SE

The cumulative net benefit of a fitness tax credit in Quebec over this period is:

- \$560 million if only the federal government participates;
- \$250 million if only the Quebec government participates; and
- \$810 million if both the federal and Quebec governments participate.

Exhibit Q-2 illustrates the annual health care cost savings and net taxes lost over the period from 2010 to 2029 for the alternative which includes both federal and Quebec government participation in the Fitness Tax Credit. The health care cost savings can be expected to continue to increase each year beyond 2029 as the higher rates of physical activity induced by the tax credit across time have an ever increasing cumulative impact on the physical fitness and health of Canadians at all age levels.

**Exhibit Q-2**  
**Health Care Cost Savings and Net Tax Losses by Year in Quebec from 2010 to 2029**  
**Both Federal and Quebec Fitness Tax Credit Participation**  
**Millions of Dollars**



Source: C4SE

**Section 4**  
**A FEDERAL AND ONTARIO FITNESS TAX CREDIT**

Exhibit O-1 reveals the cumulative net direct and indirect health care cost savings that could be expected in the province of Ontario over the period from 2010 to 2029 under three alternatives:

- The federal government alone implements a Fitness Tax Credit for all Canadians in 2010;
- The Ontario government alone implements such tax credit; and
- Both the federal and the Ontario governments implement the tax credit.

**Exhibit O-1**  
**Health Care Cost Savings, Net Tax Losses and Net Benefits in Ontario from 2010 to 2029**  
**Federal Only, Ontario Only and Both Federal and Ontario Fitness Tax Credit Participation**  
**Millions of Dollars**

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	Federal	Ontario	Both
Health care cost savings	\$3,680	\$2,020	\$5,710
Net taxes lost	\$2,720	\$1,780	\$4,510
Net benefits	\$960	\$240	\$1,200

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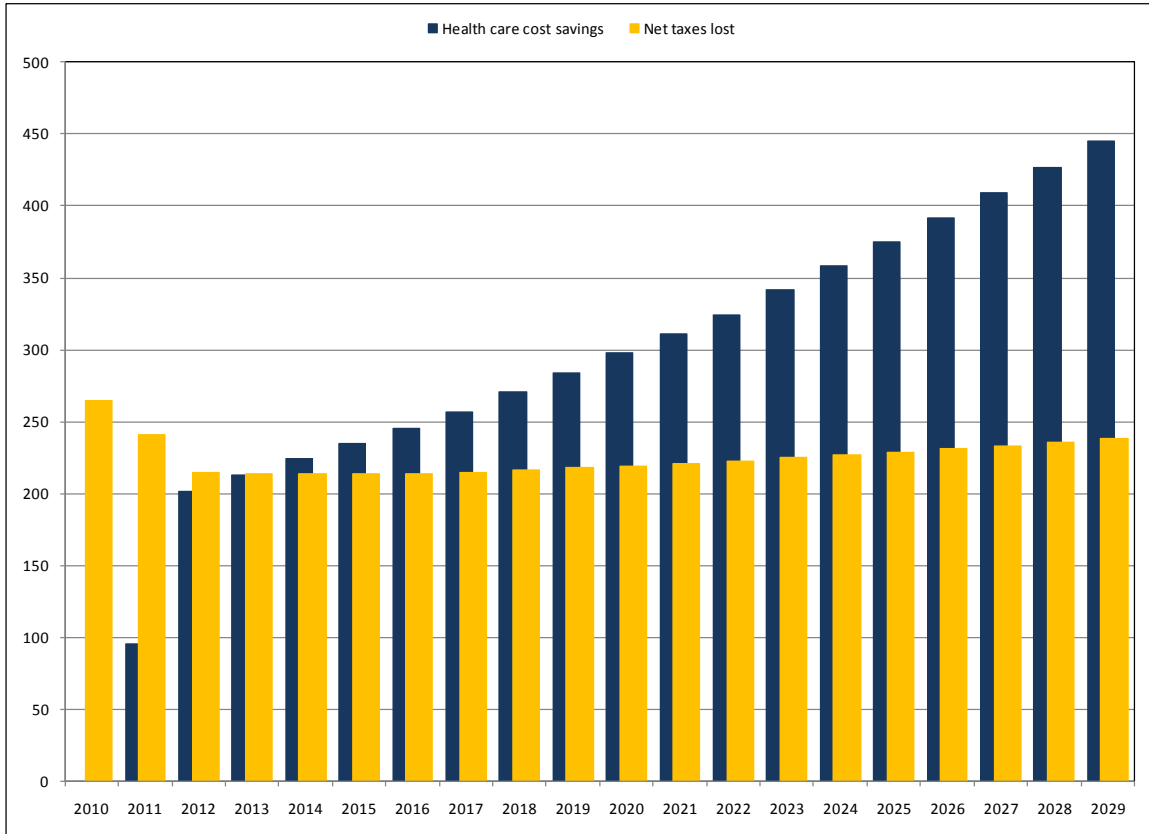
Source: C4SE

The cumulative net benefit of a fitness tax credit in Ontario over this period is:

- \$960 million if only the federal government participates;
- \$240 million if only the Ontario government participates; and
- \$1.2 billion if both the federal and Ontario governments participate.

Exhibit O-2 illustrates the annual health care cost savings and net taxes lost over the period from 2010 to 2029 for the alternative which includes both federal and Ontario government participation in the Fitness Tax Credit. The health care cost savings can be expected to continue to increase each year beyond 2029 as the higher rates of physical activity induced by the tax credit across time have an ever increasing cumulative impact on the physical fitness and health of Canadians at all age levels.

**Exhibit O-2**  
**Health Care Cost Savings and Net Tax Losses by Year in Ontario from 2010 to 2029**  
**Both Federal and Ontario Fitness Tax Credit Participation**  
**Millions of Dollars**



Source: C4SE

## Section 5

### A FEDERAL AND BRITISH COLUMBIA FITNESS TAX CREDIT

Exhibit BC-1 reveals the cumulative net direct and indirect health care cost savings that could be expected in the province of British Columbia over the period from 2010 to 2029 under three alternatives:

- The federal government alone implements a Fitness Tax Credit for all Canadians in 2010;
- The British Columbia government alone implements such tax credit; and
- Both the federal and the British Columbia governments implement the tax credit.

#### Exhibit BC-1

#### Health Care Cost Savings, Net Tax Losses and Net Benefits in B.C. from 2010 to 2029 Federal Only, B.C. Only and Both Federal and B.C. Fitness Tax Credit Participation Millions of Dollars

	Federal	Quebec	Both
Health care cost savings	\$2,200	\$2,580	\$4,780
Net taxes lost	\$1,650	\$2,320	\$3,970
Net benefits	\$560	\$250	\$810

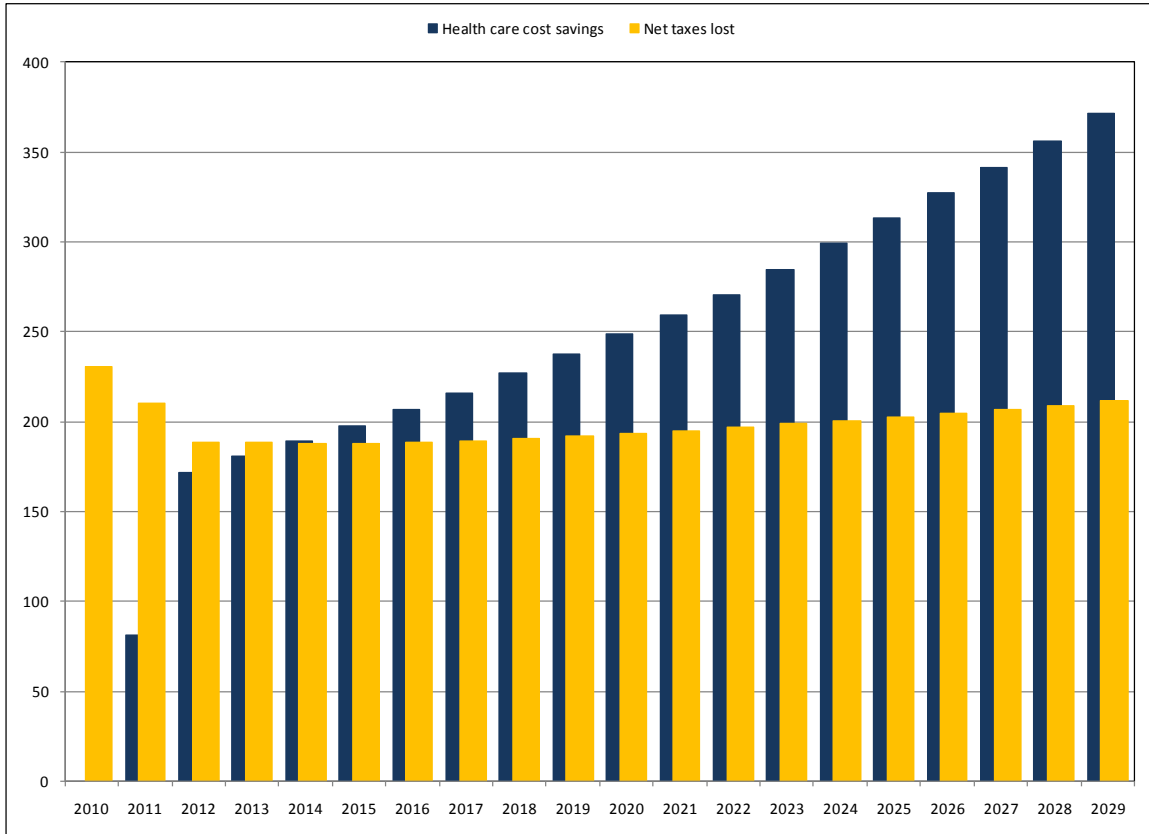
Source: C4SE

The cumulative net benefit of a fitness tax credit in British Columbia over this period is:

- \$560 million if only the federal government participates;
- \$250 million if only the British Columbia government participates; and
- \$810 million if both the federal and British Columbia governments participate.

Exhibit BC-2 illustrates the annual health care cost savings and net taxes lost over the period from 2010 to 2029 for the alternative which includes both federal and British Columbia government participation in the Fitness Tax Credit. The health care cost savings can be expected to continue to increase each year beyond 2029 as the higher rates of physical activity induced by the tax credit across time have an ever increasing cumulative impact on the physical fitness and health of Canadians at all age levels.

**Exhibit BC-2**  
**Health Care Cost Savings and Net Tax Losses by Year in B.C. from 2010 to 2029**  
**Both Federal and B.C. Fitness Tax Credit Participation**  
**Millions of Dollars**



Source: C4SE