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# IN BRIEF

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## Northern Residents Face High Cost of Living

Established in 1991, the Northern Residents Deductions (NRD) are tax credits intended to alleviate the high cost of residency and of travel faced by northern residents relative to their southern counterparts. Although the NRD have recently been increased, the Legislative Assembly of Nunavut has argued that this increase does not keep step with inflation.<sup>(1)</sup> However, in northern Canada, inflation is officially measured only for the cities of Yellowknife and Whitehorse, making adjustments of the NRD for the region as a whole problematic.

This paper uses a new methodology to demonstrate that it can cost up to 33% more to live in northern communities than elsewhere in Canada. It also estimates the cost of adjusting the NRD to reflect actual increases in inflation.

### WHAT IS THE COST OF LIVING?

*Cost of living* refers to the monetary cost of sustaining a given standard of living in a specific time and place. A *cost-of-living index* measures price changes experienced by consumers to maintain this standard of living over time. The cost of living can be computed for an individual if complete details about his or her consumption habits are known. It is extremely difficult to do this for a large number of people, however, and for this reason there are no consistent measures of the cost of living across Canada. Thus published price indexes, such as the Consumer Price Index, are based on a “basket of goods and services” concept rather than the cost-of-living concept. The basket of goods and services method uses the prices of a standardized set of goods and services to estimate the cost of living.

The fact that inflation is tracked by Statistics Canada in only two northern cities precludes an in-depth analysis of the cost-of-living differences between northern communities and the rest of Canada. However, some research organizations specialize in measuring cost-of-living differences among cities for

employee relocation purposes. For example, the Economic Research Institute (ERI), based in Redmond, Wa., publishes city profiles for North America in its annual *Geographic Reference Report*<sup>(2)</sup>. Their estimates provide the basis for the approach taken in this paper.

The ERI cost-of-living estimates, based on different baskets of goods and services, include two northern Canadian cities: Yellowknife and Whitehorse. Using their figures and accounting for inflation, Table 1 shows that in 2006 it cost \$15,740 in Yellowknife and Whitehorse to buy a typical basket of goods and services for which the average cost in Canada was \$11,835; by this measure the cost of living in these northern cities was 33% higher than the Canadian average. This gap tends to hold as the value of the baskets of goods and services increases (from \$25,876 to \$77,839).

**Table 1 – Cost of Living Comparisons:  
Yellowknife, Whitehorse and Canada, 2006**

	Cost of goods and services (\$)			
	Basket A	Basket B	Basket C	Basket D
Canada	11,835	25,876	52,022	77,839
Yellowknife	15,740	33,121	68,148	101,969
Whitehorse	15,740	33,121	66,588	99,633
	Cost-of-living differential with Canada (%)			
Yellowknife	+33	+28	+31	+31
Whitehorse	+33	+28	+28	+28

Source: Economic Research Institute, *Geographic Reference Report*, 2006. Estimates and table prepared by Emmanuel Preville, Library of Parliament.

## THE NORTHERN RESIDENT TAX DEDUCTIONS

As of 1 January 2008, the Northern Residents Deductions (NRD) provide a residency deduction of up to \$16.50 a day or \$6,022.50 annually (an increase of 10% from previous years,<sup>(3)</sup> and a deduction for taxable travel benefits received from employment. Aside from the recent increase, the NRD had not been increased in two decades.

The total annual cost of the NRD is \$145 million. It is estimated that the recent 10% increase in the residency portion of the NRD will reduce federal revenues by an additional \$10 million for 2008–2009 and in 2009–2010.

Inflation has increased at an average annual rate of approximately 1.9% in both Yellowknife and Whitehorse since 1991. The cumulative increase over the 1991–2006 period was around 30%. If the NRD had been increased to match this cumulative increase, the residency deduction would have reached \$19.50 a day (\$7,117.50 per year) by 2008.<sup>(4)</sup>

It is estimated that such an adjustment to the NRD would reduce federal revenues by a further \$20 million in each of 2008–2009 and 2009–2010, bringing the total annual cost of the measure to \$165 million. Since the NRD is a non-refundable tax credit (no payments are made to individuals), it is unclear how much this initiative would contribute to closing the gap in the cost of living between northern communities and the rest of Canada. Undoubtedly, providing additional tax relief to individuals generally increases disposable income, but its impact on consumption and prices is difficult to measure.

## CONCLUSION

On average, it costs more to live in Yellowknife and Whitehorse than elsewhere in Canada. However, since 1991, average prices of goods and services have risen more slowly in Yellowknife and Whitehorse than in the country as a whole. Increasing the NRD so that it reflects actual increases in inflation since 1991 would reduce annual federal revenues by \$20 million for 2008–2009 and 2009–2010. Further research could be conducted to estimate the quantitative impact of increasing the NRD on cost-of-living disparities between the North and the rest of Canada.

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- (1) Legislative Assembly of Nunavut, 4<sup>th</sup> Session, 2<sup>nd</sup> Assembly, *Hansard*, 8 November 2007, 2560–2564.
  - (2) Economic Research Institute (ERI), Geographic Reference Report: Cost, Salaries, Wages and Human Resource Statistics – U.S., Canada. <http://www.eri.com/index.cfm?fuseaction=GeoReport.Main>.
  - (3) Department of Finance Canada, *Budget Plan 2008*, 26 February 2008, p. 160.
  - (4) This is the author's calculation, based on the federal government's estimate of a 10% increase.