

# Cost estimate of Election Campaign Proposal

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Publication date:	2019-09-25	
Short title:	Corporate income tax rate increase	
Description:	Raising the general corporate income tax (CIT) rate to 21% from 15%. The tax rate increase will be administered by decreasing the general tax reduction to 7% from 13%. The small business tax rate will be held at 9%. The intended date of implementation is January 1 <sup>st</sup> , 2020.	
Operating line(s):	Corporate Income Tax	
Data sources:	<u>Variable</u>	<u>Source</u>
	Corporate Income Tax Revenues	T2-LEAP, Statistics Canada, CRA
	Personal Income Tax Revenues	27.1 SPSPD/M <sup>1</sup>
	Nominal GDP	PBO EPC Baseline
	Corporate Profits before Tax	PBO EPC Baseline
Estimation and projection method:	<p>The cost estimate is based on a microsimulation model of T2 returns using administrative data provided to Statistics Canada by the Canada Revenue Agency (CRA). This database is called the T2-LEAP.</p> <p>The general corporate income tax rate was raised to 21% from 15% by reducing the general tax reduction to 7% from 13%. The reduction did not apply to income eligible for the small business deduction, Canadian manufacturing and processing income, generation of electrical energy for sale or the production of steam for sale, and investment income subject to the refundable tax provisions. In addition, the new depreciation rules introduced in the Fall Economic Statement 2018 and Budget 2019 were not considered.</p> <p>Simulations were run on 2015 tax data. CIT revenues generally increase in line with economic activity. To account for the increase since 2015, we scaled-up the cost estimates by the actual growth rate of corporate profits before tax until 2018, and by the PBO's growth forecast for the remainder for CIT revenues. The personal income tax offset was scaled by nominal GDP.</p> <p>The dividend gross-up and tax credit rates were adjusted for each year to maintain integration between personal and corporate income taxes.</p>	
Uncertainty assessment:	<p>The estimate has high uncertainty. The estimate was based on 2015 tax data which may not be representative of the future investment behavior of firms. Moreover, the new rules introduced in the Fall Economic Statement 2018 and Budget 2019 surrounding the Accelerated Capital Cost Allowance (ACCA)</p>	

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<sup>1</sup> This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSPD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.

program were not incorporated. Including the ACCA measures would likely result in revenues being lower through 2024 and higher thereafter. The estimate was predicated on PBO's published economic and fiscal baseline for electoral proposal costing (EPC) where upside and downside outcomes are equally likely. No behavioral effects were considered.

### Cost of proposed measure

\$ millions	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027	2027 - 2028	2028 - 2029
Total Cost	-3,098	-12,677	-13,720	-14,384	-14,810	-15,192	-15,546	-15,891	-16,277	-16,730

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost