

# Cost Estimate of Election Campaign Proposal

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Publication date:	2019-09-25	
Short title:	Eliminating Corporate Meals and Entertainment Expense Tax Deductions	
Description:	<p>Eliminating corporate meals and entertainment expense tax deductions for all Canadian corporations. Self-employed individuals and individuals operating businesses as a sole proprietorship or partnership will not be affected by this policy and, therefore, can still claim these deductions.</p> <p>Eliminating this tax deductions also disqualifies corporations to claim the GST paid on these expenses as an input tax credit.</p> <p>The policy's implementation date would be October 21, 2019.</p>	
Operating line(s):	Corporate Income Tax, GST	
Data sources:	Aggregate deduction claimed for meals and entertainment expense:	Statistic Canada T2 return
	Number of corporations claiming these deductions:	Statistic Canada T2 return
Estimation and projection method:	<p>To project the future cost of this policy, PBO used historical data from 2006 to 2015 on the average deduction for meals and entertainment expense claimed per corporation as well as the number of corporations claiming these deductions. The historical growth rate of both variables was used to project their future growth.</p> <p>PBO took into account the fact that some corporations would become profitable if the deduction is eliminated. Not doing so would have led to lower revenue estimates.</p> <p>An average effective tax rate was first constructed using a tax rate of 15% on large firms and of 9% on small and medium firms.</p> <p>A 5% GST rate was applied on all deductions claimed to estimate the full revenue impact associated with this policy, since corporations can currently claim this amount as an input tax credit.</p> <p>This estimate also accounted for the interaction with an increased corporate income tax rate from 15% to 21% on large firms.</p>	
Uncertainty assessment:	<p>The estimate has moderate uncertainty. The data used is reliable, as it comes directly from T2 returns. It is reasonable to assume that the trends observed between 2006 and 2015 can be projected forward. However, the average tax rate for all Canadian corporations was used, which may not be accurate since</p>	

small and medium corporations may be more likely to claim meals and entertainment expenses deductions and they are taxed at a lower rate. This can lead to an overestimation of tax revenues. Moreover, corporate profit is cyclical in nature, and this cyclicity will not be captured by our estimate. This means that events such as recession or a period of strong economic growth could have an effect but is not captured in our projected estimate. No behavioral response is expected.

## 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	-292	-715	-735	-755	-776	-797	-819	-842	-865	-888

## Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Cost (CIT)	The impact of the policy on Corporate Income Tax	Corporate Income Tax	-163	-398	-409	-420	-432	-444	-456	-468	-481	-495
Interaction effects	Interaction with an increased CIT rate of 21% on large firms	Corporate Income tax	-54	-132	-136	-140	-144	-148	-152	-156	-160	-164
Cost (GST)	The impact of the policy on the Goods and Services tax	Goods and Services Tax	-76	-185	-190	-195	-200	-206	-211	-217	-223	-229
Total cost			-292	-715	-735	-755	-776	-797	-819	-842	-865	-888

### 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