

# Cost Estimate of Election Campaign Proposal

---

Publication date: 2019-09-25

Short title: Eliminating the Canadian Development Expense Tax Deduction for Oil, Gas and Mining Corporations

Description: This measure will eliminate the Canadian Development Expense (CDE) tax deduction for oil, gas and mining corporations. This tax deduction will still exist for renewable energy projects.

Operating line(s): Corporate Income Taxes, Personal Income Taxes

Data sources:	<u>Variable</u>	<u>Source</u>
	Corporate Income Tax (CIT) Revenues	T2-LEAP, Statistics Canada, CRA
	Personal Income Tax (PIT) Revenues	27.1 SPSPD/M <sup>1</sup> Finance Canada, Tax Expenditure Report 2013
	Energy Price Index	PBO EPC Baseline

Estimation and projection method: This measure has an implementation date of January 1<sup>st</sup>, 2020. The cost estimate of the CIT impact is based on a model of T2 returns using administrative data provided to Statistics Canada by the Canada Revenue Agency. Simulations were run using 2009-2015 tax data. Claims associated with renewable energy projects were subtracted.

The net cost of this measure was calculated by multiplying CDE claims by the effective tax rate and the percentage of taxable firms. The percentage of taxable firms used considers that some corporates that previously were not profitable may become profitable for tax purposes with elimination of the CDE deduction. The PBO EPC Baseline Energy Index and Metal Index were used to forecast future CDE claims.

With the elimination of the CDE, firms will no longer be able to renounce their CDE expenses to personal investors using flow-through shares (FTS). FTS issued prior to January 1<sup>st</sup>, 2020 are assumed to be grandfathered and will be fully renounced to investors within a 2-year period. The cost estimate of the PIT impact is calculated using 27.1 SPSPD/M. The additional revenue from capital gains associated with the zero-cost base for FTS was calculated and subtracted. The PBO EPC Baseline energy index and metal index were used to forecast future claims.

---

<sup>1</sup> This analysis is based, in part, 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.

This estimate also accounted for the interaction with an increased corporate income tax rate from 15% to 21% on large firms.

Uncertainty  
assessment:

The estimate has high uncertainty. The inherent volatility associated with natural resources industries makes it difficult to project future trends. Therefore, the cost estimate is very sensitive to the economic outlook. For the PIT portion of the estimate, the proportion of CDE deductions to total deductions under CDE and CEE was based on the 2013 Tax Expenditure Report published by the Department of Finance and is assumed to be constant over time. Behavioral effects, such as a decrease in investment, were not considered. The accelerated measures under the FES 2018 were not 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	-614	-2,467	-2,517	-2,567	-2,617	-2,668	-2,720	-2,773	-2,828	-2,883

## 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	Corporations will not be able to claim CDE.	Corporate income tax	-460	-1,850	-1,886	-1,923	-1,961	-1,999	-2,038	-2,078	-2,119	-2,160
Interaction effects	Interaction with an increased 21% CIT rate on large firms	Corporate income tax	-153	-615	-627	-640	-652	-665	-678	-691	-705	-718
Cost - PIT	Corporations will not be able to renounce CDE to personal investors.	Personal income tax	-	-1	-3	-4	-4	-4	-4	-4	-4	-4
Total cost			-614	-2,467	-2,517	-2,567	-2,617	-2,668	-2,720	-2,773	-2,828	-2,883

### 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