

Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-25	
Short title:	Eliminating tax deductions for coal mining exploration	
Description:	This proposal would remove tax deductions for expenses related to coal mining exploration activities under the Canadian Exploration Expense (CEE) tax provision.	
Operating line(s):	Corporate Income Tax Personal Income Tax	
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 SPSP/M
	BCPIE, Coal Price Index	PBO EPC Baseline
Estimation and projection method:	<p>Historical data covering 2009 to 2015 from the T2-LEAP tax return database was used to obtain total claims for coal mining corporations under CEE. Claims from coal mining support services firms and firms investing in coal mining corporations were included using the proportion of claims under the coal mining NAICS to total claims under CEE. Firms investing in renewable energy were removed from the total. The total amount claimed was then adjusted by the number of taxable firms, which includes firms that would become profitable with the removal of CEE deductions; 44.90% of firms were taxable under this definition. The average effective tax rate was assumed to be 13.47%. PBO projections for nominal GDP growth was used to project the amounts that would be claimed in the future.</p> <p>Eliminating CEE for coal mining exploration also impacts individual investors via flow-through shares. SPSP/M was used to calculate total deductions claimed by investors purchasing and holding flow-through shares. Government revenues on capital gains were removed. An average tax rate of 29.33% was used. PBO projections for nominal GDP growth was used to project the amounts that would be claimed in the future.</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 high uncertainty. T2 Tax data for coal mining firms claiming CEE deductions was volatile over the observed period, and historical data may not be fully representative of the future behaviour of firms. Additional uncertainty stems from the self-reporting of firms as coal mining corporations. The proportion of coal mining firms in the identified NAICS was assumed to hold throughout the projected period. The cost estimate is also very sensitive to the long-term economic outlook.</p>	

For the PIT portion of the estimate, the timing at which deductions are claimed and shares are sold is not known. The proportion of CEE deductions to total deductions under CDE and CEE was based on a 2013 Department of Finance report and is assumed to be constant over time. Behavioural effects, such as a decrease in investment, were not considered.

Finally, the accelerated measures described in the 2018 Fall Economic Statement 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
Eliminating tax deductions for coal mining exploration	-1	-2	-2	-3	-3	-3	-3	-3	-3	-3
Interaction effects	<i>small</i>									
Total cost	-1	-3	-3	-3	-3	-3	-3	-3	-4	-4

Notes:

CIT and PIT estimates are unable to be separated in this measure as PIT revenues are small in each fiscal year.

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