OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Cost estimate of Election Campaign Proposal

Publication date:	2019-09-25
Short title:	Corporate Income Tax on E-commerce companies
Description:	Imposing corporate income taxes on E-commerce companies.
Operating line(s):	Corporate Income Tax (CIT)

Data sources:

Variable	Source
Estimated Tax Loss (Quebec)	Tax Havens: Tax Fairness Action Plan
Sales tax collection statistics at border	Copenhagen Economics: E-commerce Imports into Canada
Operating Profit Margins	Statistics Canada
CIT data	T2 Corporate Income Tax Returns - Statistics Canada
Corporate profits before tax	PBO
Company Data	Capital IQ[1]
GDP of various countries	World Bank

Estimation and projection method:

The cost estimate was based, in part, on the methodology of the Tax Fairness Action Plan report, which estimated the amount of tax loss for Quebec attributable to E-commerce in 2017. The estimate included sales tax loss from the purchase of intangible digital services previously not subject to tax (for example, video streaming services), as well as taxes that were not collected by the Canadian Border Services Agency (CBSA) on tangible products.

The estimate of Quebec's tax loss for intangible and tangible goods and services was adjusted to represent a cost estimate for all of Canada, based on Quebec's share of E-commerce in the Canadian economy. The cost estimate also accounted for the difference in Quebec's sales tax (QST) and the GST.

The above methods were completed separately for tangible and intangible products. The total amount of tangibles crossing the border was calculated, since the Tax Fairness Action Plan only captured the estimated tax loss at the border. From Copenhagen Economics, the share of tangibles already taxed was used to determine the total amount of sales tax that is collected and that should be collected at the border.

From the estimated total sales tax, Canadian earned revenues were calculated. The share of companies that earn more than $6 million in revenue in Canada

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was calculated using micro data from Capital IQ, which was applied to the aggregate revenue figure.

Operating profit margins were applied to the estimated revenues to calculate the tax base and effective CIT rates were then applied to the tax base for tangibles and intangibles separately. The relative weights of tangible and intangible sub-categories were taken into account in the calculation. All companies were assumed to be not reporting CIT currently because no publicly available data would enable us to differentiate them.

The estimated tax revenue was projected by PBO's projection of growth in corporate profits before tax.

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. There is some uncertainty in the modelling approach and data quality as figures are estimated from external data (Quebec's Tax Fairness Action Plan) and survey-based data. There is no volatility in the model, although the results are sensitive to CIT rates, operating profit margins, and the E-commerce economy. There is no behavioural response included in the estimation and all E-commerce companies are assumed to fully comply with the policy.

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
CIT on E-commerce companies	-45	-181	-192	-200	-206	-212	-217	-222	-227	-233
Interaction effects	-18	-77	-81	-85	-87	-89	-91	-93	-96	-98
Total cost	-63	-258	-273	-285	-293	-301	-308	-315	-323	-331

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