

Note • Motion M-92

Applying the Canada Recovery Dividend to Fossil Fuel Companies



Published on October 26, 2023

Motion M-92, *Climate Crisis and Affordability*, introduced by Member of Parliament Mike Morrice, proposes to immediately extend the Canada Recovery Dividend to include fossil fuel companies operating in Canada. The Canada Recovery Dividend applied on banking and life insurance groups is a one-time tax calculated as 15 per cent of the average Canadian-based taxable income over 2020 and 2021 in excess of \$1 billion.

As per the intention of the Motion, it is assumed that the one-time tax will be levied on taxable income above \$1 billion that is earned by a fossil fuel company for the 2022 taxation year. The tax will be paid in equal installments over the subsequent five years. PBO estimates that this measure will generate \$4.2 billion in revenue from 2023-24 to 2027-28.

5-Year Cost

\$ millions

Fiscal year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Total cost	-833	-833	-833	-833	-833	-4,165

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

The fossil fuel sector is defined as corporations operating in the Oil, Gas and Consumable Fuels industry as per Capital IQ. The corporations are from groups 211, 221, 324 and 486 of the North American Industry Classification System.

Earnings before taxes (EBT) for large companies in the fossil fuel sector in Canada were obtained from Capital IQ. Taxable income was estimated from EBT by applying an adjustment factor to convert accounting profits into taxable income. The adjustment factor

was calculated as the ratio of the total EBT from profitable oil and gas sector companies on Capital IQ compared to the total taxable income in the same sector from Statistics Canada's Financial Taxation and Statistics for Enterprises (FTSE) in the same year. Since taxable income for 2022 is not yet available, the adjustment factor is calculated as an average of recent applicable years.

The revenue impact of applying the Canada Recovery Dividend to corporations in the fossil fuel sector was estimated by subtracting \$1 billion from the taxable income of each company and applying a 15 per cent tax rate to remaining income. Estimated tax payable was divided in equal installments over the five-year projection period. It is assumed that corporations pay their first installment before the end of the 2023-24 fiscal year.

Sources of Uncertainty

The main source of uncertainty relates to the estimation of taxable incomes, particularly the adjustment factor between EBT and taxable income. The adjustment factor is highly volatile over different years, and there may be definition differences between the industry classifications of some companies on Capital IQ compared to Statistics Canada. This measure is estimated to impact only seven corporations in 2022, so it was not possible to use the T2 corporate income tax database due to confidentiality provisions. Additional tax planning by affected corporations could reduce the revenue derived from this policy measure.

Note prepared by

[Matt Dong](#), Analyst

Prepared under the direction of

[Tim Scholz](#), Acting Director, Economic Analysis

Data Sources

Earnings Before Taxes (EBT) for Fossil Fuel Companies
Capital IQ Pro

Taxable Income of Fossil Fuel Companies (Industry Level)

[Statistics Canada Table 33-10-0500-01](#)

