

Legislative Costing Note

Announcement date:	2020-03-27	
Publication date:	2020-04-28	
Short title:	Deferral of Sales Tax Remittance and Customs Duty Payments until June	
Description:	<p>Businesses, including self-employed individuals, can defer until June 30, 2020 payments of the Goods and services tax (GST)/Harmonized sales tax (HST), as well as customs duty owing on their imports.</p> <p>Any GST/HST payment that becomes owing from March 27 until the end of May can be deferred until the end of June. For GST and customs duty payments for imported goods, deferral includes amounts owing for March, April and May.</p>	
Data sources:	<p><u>Variables</u></p> <p>GST revenue</p> <p>Custom import duties revenue</p> <p>Value of net tax by sector</p> <p>GST/HST revenue</p> <p>GST Credit to persons</p> <p>Custom import duties revenue</p> <p>Interest and penalties (CRA and CBSA²)</p> <p>Doubtful accounts expense</p> <p>Imports of goods and services</p> <p>3-Month Treasury Bill Tender</p> <p>Forecast of Imports, GST revenue and 3-Month Treasury Bill Tender</p>	<p><u>Source</u></p> <p>Finance Canada Fiscal Monitor</p> <p>Finance Canada Fiscal Monitor</p> <p>CRA¹ GST/HST Statistics</p> <p>Public Accounts of Canada, Volume II</p> <p>Public Accounts of Canada, Volume II</p> <p>Public Accounts of Canada, Volume II</p> <p>Public Accounts of Canada, Volume II</p> <p>CRA Annual Report to Parliament</p> <p>Statistics Canada Table 36-10-0104</p> <p>Bank of Canada</p> <p>PBO's Scenario Analysis Update: COVID-19 Pandemic and Oil Price Shocks (April 30)</p>
Estimation and projection method:	<p>Since the measure only defers payment of taxes and duties, no revenue should be lost for the government. However, it will need to borrow to continue paying for program expenses in the meantime. To estimate the cost of borrowing, PBO first estimated for each month between March and June, the amount of GST/HST and import duties that would have normally been paid.</p> <p><u>GST/HST</u>: The average monthly percentages of quarterly net GST revenue (based on the last five years of historical data from the Fiscal Monitor) for the months of</p>	

¹ Canada Revenue Agency

² Canada Border Services Agency

March to May are multiplied by PBO's forecast of net GST revenue for 2020Q1 and 2020Q2. This result is then increased by the share of net HST revenue in total GST/HST revenue from CRA's GST/HST statistics for 2016 (the latest year available) to obtain net GST/HST revenue. Net GST/HST revenue is then increased by the ratio of positive net tax sectors to total net tax, to account for refunds still being claimed. GST credits to persons are also added to the amount to borrow.

Custom import duties: Quarterly import duties are forecasted by multiplying PBO's forecast of imports of goods and services for 2020Q1 and 2020Q2 by the average share of duties on the value of imports for years 2015 to 2019. The average monthly percentage of quarterly import duties (based on the last five years of historical data from the Fiscal Monitor) for the months of March to May is multiplied by the estimated quarterly import duties for 2020Q1 and 2020Q2.

Cost of borrowing: PBO used its own projection of 3-month treasury bill to calculate the interest paid on amounts borrowed each month from the last day of the month to June 30, 2020.

Forgone interest and penalties: PBO calculated CRA's average annual interest and penalties on GST/HST and other duties as a share of these same annual revenue and CBSA's average annual interest and penalties on all tax revenue as a share of tax revenue³. These annual shares were then divided by four (since the deferral is for three months) and multiplied by the balance of payments deferred. The balance of payment owed to each agency was allocated based on their average share of net GST/HST revenue based on data from the Public Accounts for fiscal years 2014-15 to 2018-19.

Defaults on deferred payments: CRA always faces some risk of default on any balance due. By allowing taxpayers with a balance owing to pay that balance later, CRA is facing an increased risk of these taxpayers going bankrupt between now and the extended deadline for payment. Using historical data on doubtful accounts and comparing the trend around the financial crisis of 2008-09 with the trend after the crisis, PBO estimated the incremental rate of default that could result from postponing payments. This incremental rate of default was then multiplied by the estimated value of deferred payments. This implicitly assumes that the CBSA faces the same default rate as the CRA.

Aggregate Results:

PBO estimates a total of \$12.3 billion in tax payments (GST/HST and custom import duties) will be deferred between March 27 and June 30, 2020. The cost of borrowing for the government to avoid cash-flow issues during this period is estimated at \$3.9 million. By extending the payment deadlines, PBO estimates the government will forgo a total of \$27.1 million in interest and penalties for late payment. Finally, by extending the payment deadline, PBO estimates the government could lose an additional \$61.0 million because of increased defaults. The total cost of the measure is thus estimated at \$92.0 million.

Sources of Uncertainty:

The value of payments deferred relies on PBO's forecast of imports and net GST revenue for 2020-21. If the economy is even weaker than expected, GST/HST payments and custom import duties could be lower than anticipated.

³ The average is based on the five latest fiscal years of available data in the Public Accounts of Canada: 2014-15 to 2018-19. CBSA financial statements do not provide a breakdown of interest and penalties by type of tax collected.

It was assumed that all corporations and self-employed individuals would defer their payments until the extended deadline. Some GST/HST filers receive a refund because the value of their input tax credits is greater than the amount of GST/HST collected on their sales. The CRA will continue to process the refunds if they are filed electronically and do not require client contact or additional review. However, because of lack of publicly available data on the share of filers receiving refunds, the PBO had to rely on the net tax paid by sector (some sectors always have a negative balance). Thus, the value of GST/HST payments deferred is likely underestimated, but it is not possible to determine by which magnitude.

It was assumed that the expense for doubtful accounts for GST/HST will increase by the same magnitude than in the financial crisis of 2008-09. Each additional increase of 0.1 percentage point in the default rate increases the cost of default by about \$11 million.

Revenu Québec is responsible for the collection of GST in the province of Quebec. They have announced the same deferral of payments until June 30, 2020 and they will also continue processing refunds. Thus, we assumed all GST revenue collected in Quebec would also be deferred. It was also assumed that Revenu Québec faces the same default rate as the CRA.

Prepared by:

Govindadeva Bernier

Cost of proposed measure

\$ millions	2019-2020	2020-2021
Cost of borrowing	-	3.9
Forgone interest and penalties	-	27.1
Defaults on deferred payments	-	61.0
Total cost	-	92.0

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