

# Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-25	
Short title:	Eliminating the Accelerated Capital Cost Allowance (ACCA) for the Liquefied Natural Gas (LNG) industry	
Description:	This measure will remove the ACCA for class 47 and class 1 bringing the CCA rates to 8% and 6%, respectively.	
Operating line(s):	Corporate Income Taxes	
Data sources:	<u>Variable</u>	<u>Source</u>
	Corporate Income Tax Revenues	T2-LEAP, Statistics Canada, CRA
	Nominal GDP	PBO EPC Baseline
	Non-residential investment construction	PBO EPC Baseline
	Investment in machinery and equipment	PBO EPC Baseline
Estimation and projection method:	<p>The cost estimate is based on a model of T2 returns using administrative data provided to Statistics Canada by the Canada Revenue Agency (CRA).</p> <p>Under the ACCA, eligible depreciable property under class 47 had a CCA rate of 8% plus an additional 22% allowance on eligible liquefaction activities. Non-residential buildings at a facility that liquefies natural gas had a CCA rate of 6% plus an additional 4% under the ACCA in Class 1.</p> <p>The ACCA for class 1 and 47, with respect to the LNG industry, was set to expire in 2025. Under the current proposal, these rates are reverted to 8% and 6%, respectively, effective January 1<sup>st</sup>, 2020.</p> <p>Simulations were run using 2015 tax data. It is assumed, on average, approximately 70% of firms have taxable income after the credit is removed and an effective tax rate of 13.84%. The ACCA can only be claimed against income that is attributable to the facility that the cost is incurred. It was assumed that the credit can be fully applied against a firms' taxable income.</p> <p>To account for the increase in investment since 2015, the cost estimates were scaled-up by growth in machinery and equipment and non-residential buildings until 2018, and by the PBO's Election Proposal Costing (EPC) Baseline for 2019 to 2029.</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. The estimate is based on historical data which may not be representative of the future investment behaviour of firms. Due to insufficient data to uniquely identify LNG corporations in class 1, the subset of firms that had previously invested in class 47 was used. This may</p>	

lead to an overestimation of projected tax revenue. No behavioral effects were 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 the Accelerated Capital Cost Allowance for the LNG industry	- 33	- 144	- 189	- 216	- 234	- 245	- 162	101	93	86
Interaction effects	- 10	- 43	- 56	- 64	- 69	- 73	- 48	30	28	25
<b>Total cost</b>	<b>- 43</b>	<b>- 187</b>	<b>- 245</b>	<b>- 281</b>	<b>- 303</b>	<b>- 317</b>	<b>- 210</b>	<b>131</b>	<b>121</b>	<b>111</b>

**Note:**

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