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

Cost Estimate of Election Campaign Proposal

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Short Title: Removing the Accelerated Investment Incentive for the oil and gas sector

Description: Capital investment by corporations in the oil and gas sector will be subject to the Capital Cost Allowance (CCA) half-year rule and will no longer qualify for the enhanced first-year allowance. This proposal will be effective October 1, 2021.

Cost of Proposed Measure:

$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost	-46	-352	-838	-628	-132	-1,996

Notes:
· Estimates are presented on an accrual basis as would appear in the budget and public accounts.
· A positive number implies a reduction in the budgetary balance (lower revenues or higher spending). A negative number implies an increase in the budgetary balance (higher revenues or lower spending).
· "-" = PBO does not expect a financial cost.

Estimation and projection method: PBO used corporate tax (T2) data to estimate capital investment by CCA class by corporations in the oil and gas sector. Future investments were projected based on Statistics Canada's Capital and Repair Expenditures Survey and the EPC baseline projection for investment in non-residential construction. PBO calculated the change in federal corporate tax payable from the difference in their annual depreciation schedule due to imposing the half-year rule and removing the enhanced first-year allowance. A behavioural response was not incorporated.

Source of Uncertainty: The main sources of uncertainty relate to projected investment by the oil and gas sector and the magnitude of a behavioural response.

Data Sources:

Variable	Source
Acquisition and depreciation of capital property	T2 corporate income tax return
Capital expenditures, oil and gas extraction industry	Statistics Canada
Investment in non-residential construction	PBO EPC baseline