

# Cost Estimate of Election Campaign Proposal

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Publication date:	2019-10-11
Short title:	Eliminating the Accelerated Investment Incentive for Corporations in the Oil and Gas sectors
Description:	The Fall Economic Statement (FES) 2018 introduced the Accelerated Investment Incentive which suspended the half-year rule and prescribed a rate of 1.5 times the net addition for eligible Capital Cost Allowance (CCA) classes in the first year. In addition, specified eligible classes had received 100% expensing. The proposal eliminates this incentive for corporations invested in the oil and gas sectors. The incentive will remain for all other corporations.
Operating line(s):	Corporate Income Taxes
Data sources:	Corporate Income Tax Revenues: T2 Returns, Statistics Canada, CRA Energy Price Index: PBO EPC Baseline
Estimation and projection method:	<p>The cost estimate is based on a microsimulation model of T2 returns using administrative data provided to Statistics Canada by the Canada Revenue Agency (CRA).</p> <p>Simulations were run on 2015 tax data. CIT revenues generally increase in line with economic activity. To account for the increase since 2015, we scaled-up the cost estimates by the actual growth rate of the Canadian Energy sector until 2018, and by the PBO's growth forecast for the remainder.</p> <p>This proposal will suspend the accelerated investment incentive for industries primary invested in oil and gas. These industries were identified through self-reported NAICs codes on the tax filings. In addition, corporations in the oil and gas sectors were identified as those which invested in CCA class 41, 41.1 and 49.</p> <p>The proposed policy will be implemented on October 22, 2019 and will come into effect immediately. Due to previously submitted policies, the PBO included the interaction effects from the proposed change to the CIT statutory rate from 15 to 18%.</p>
Uncertainty assessment:	<p>The estimate has high uncertainty. The estimate was based on 2015 tax data which may not be representative of the future investment behavior of firms. The inherent volatility associated with the oil and gas industries makes it difficult to project future trends. This is a static estimate therefore, the PBO did not consider potential behavioral effects which may result from this proposal. It is assumed corporations use all depreciation available in the current year.</p>

### 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
Total cost	-298	-611	-473	-371	-202	110	74	47	126	387

### Supplementary information

	Description	Operating line	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Cost	Cost of Measure	Corporate Income Taxes	-256	-524	-406	-318	-173	95	63	40	108	331
Interaction Effects	Cost from Increased CIT Rate	Corporate Income Taxes	-43	-87	-68	-53	-29	16	11	7	18	55

#### 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