



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

Cost Estimate of Election Campaign Proposal

Publication Date: September 2021

Short Title: Raising the capital gains inclusion rate to 75%

Description: This proposal will raise the portion of capital gains that are included in taxable income on corporations and individuals from 50% to 75%. The rate change will be applied to capital gains realized on or after September 21, 2021.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		-4,692	-9,286	-9,775	-10,238	-10,711	-44,702

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: The T2 corporate income tax database from 2017 was used to compute the impact of the proposed change on corporate income tax revenues. Capital gains growth was projected using asset growth forecasts in the EPC baseline and public data from Statistics Canada and Finance Canada. PBO assumes an 18% general corporate income tax rate, based on a related proposal. SPSPD/M¹ was used to compute the impact of this proposal on personal income tax revenues. A behavioural response was incorporated based on an assumed elasticity of taxable income for high-income earners of 0.38.

Source of Uncertainty: The main sources of uncertainty relate to projected capital gains and the magnitude of the behavioural response.

Data Sources:	Variable	Source
	Personal capital gains	SPSPD/M
	Corporate capital gains	2017 T2 corporate income tax return
	Corporate capital losses	2017 T2 corporate income tax return
	Household assets	PBO EPC baseline
	Taxable capital gains	Statistics Canada, Finance Canada
	Capital gains in trusts	Finance Canada – Tax Expenditures and Evaluations 2022

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¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSPD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.