



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

# Cost Estimate of Election Campaign Proposal

Publication Date: September 2021

Short Title: Eliminating resource deductions and investment tax incentives for the oil and gas sector

Description: Corporations in the oil and gas sector will no longer be permitted to deduct Canadian development expenses and oil and gas property expenses from taxable income or renounce development expenses to investors via flow through share agreements. 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 January 1, 2022.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		-546	-2,358	-2,830	-2,802	-3,218	-11,754

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: Corporate tax (T2) data was used to estimate the stocks and flows of resource-related expenses by taxable corporations in the oil and gas sector. Resource expenditures were assumed to grow in line with intended capital expenditures on oil, gas and mineral exploration and the EPC baseline projection for investment in intellectual property products.

PBO used 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.

As requested by the party, PBO assumed a general corporate income tax rate of 21%. A behavioural response was not incorporated.

Source of Uncertainty: The main sources of uncertainty relate to projected resource expenditures, investment by the oil and gas sector and the magnitude of behavioural responses.

Data Sources:	Variable	Source
	Development and oil and gas property expenses	T2 corporate income tax return

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Marginal effective tax rate for individuals claiming expenses	SPSD/M <sup>1</sup>
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 and intellectual property products	PBO EPC baseline

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