



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

Cost Estimate of Election Campaign Proposal

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Short Title: Eliminate certain expense deductions 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. This proposal will be effective September 30, 2021.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
	Total cost		-540	-1,315	-1,903	-2,352	-2,696

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 until 2021 and remain constant thereafter. As requested by the party, PBO assumed a general corporate income tax rate of 18% and a personal income tax rate of 35% in the highest bracket.

Source of Uncertainty: The main sources of uncertainty relate to projected resource expenditures and the magnitude of behavioural responses.

Data Sources:	Variable	Source
	Development and oil and gas property expenses	2019 T2 corporate tax filings
	Marginal effective tax rate for individuals claiming expenses	SPSD/M ¹
	Capital expenditures	Statistics Canada

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¹ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSSD/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.