

Cost Estimate of Election Campaign Proposal

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Short title: Increased investment in tax compliance and enforcement

Description: Increase the amount of money provided to the Canada Revenue Agency to augment tax compliance and enforcement efforts for the Goods and Services Tax, taxation of multinational firms, taxation of large corporations and international taxation. This, in turn, will result in additional tax revenue.

Operating line(s): Personal Income Tax
Corporate Income Tax
Goods and Services Tax
Direct Program Expenses

Data sources:	<u>Variable</u>	<u>Source</u>
	Planned additional spending on tax compliance and enforcement	Provided by requestor
	Rates of return for additional spending on tax compliance and enforcement	Budgets 2015 to 2019 Canada Revenue Agency data request
	Phase-in rates for implementing new compliance and enforcement spending, along with corresponding revenue increases	Budgets 2015 to 2019
	Attrition rates for revenues realised from new tax compliance and enforcement measures	Office for Budgetary Responsibility

Estimation and projection method: The requesting party identified a set spending envelope for additional tax compliance and enforcement.

The corresponding revenue increase was estimated based on confidential data provided by the Canada Revenue Agency. The calculated revenue yield was adjusted downward to reflect declining returns to investment presented in Budgets 2015 to 2019.

The timing of the revenue flows was attenuated by the historical reported lag between new spending on compliance and enforcement efforts, as well as the time required for revenue increases to achieve an apex.

Finally, the revenue flows were reduced based on attrition rates published by the Office for Budgetary Responsibility for low/medium risk measures. This attrition rate was applied from the second year of the proposal onward, building cumulatively over the projection horizon.

This cost estimate does not reflect consequential revenue increases for provincial governments that occupy the same tax base.

Uncertainty
assessment:

The estimate has moderate uncertainty. The estimate implicitly assumes that historical relationships of expenses and revenues continue to hold. As well, previous federal budgets present the data in an uneven manner (for example, differing time profiles, gross and net figures), which does require some interpolation. That said, the confidential data provided by the Canada Revenue Agency does largely corroborate the public information. The estimate is also sensitive to the PBO's economic outlook, as economic growth will directly influence the base of taxable income. A behavioural response is expected and incorporated through the revenue attrition assumption.

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	-	-85	-413	-387	-363	-340	-318	-297	-277	-258

Supplementary information

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Gross Expenses	-	50	100	100	100	100	100	100	100	100
Gross Revenue	-	-135	-513	-487	-463	-440	-418	-397	-377	-358

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