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Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-29
Short title:	Taxation of large technology companies
Description:	This proposal would introduce a new 3% tax on the income of businesses in certain sectors of the digital economy. This policy would replicate the proposed digital services tax announced by the French government. It would be implemented on 1 April 2020. The tax would target only the following services: targeted advertising services and digital intermediation services. The tax would apply only to businesses with worldwide revenues of at least $1 billion and Canadian revenues of more than $40 million. The new tax would act as a value-added tax.
Operating line(s):	Corporate income tax

Data sources:

Variable	Source
Public company revenues by geographic segment	Capital IQ[1]
T2 income tax return	Statistics Canada
Nominal GDP	World Bank database
Behavioural response adjustment factor	Office for Budget Responsibility, *Economic and fiscal outlook—October 2018*

Estimation and projection method:

The tax base was determined using data from the financial statements of the public companies that meet the criteria set out above. Where the data was not broken down to indicate Canadian revenues, an estimate was made based on the available regional segments and the relative size of the Canadian economy in the relevant segment. The tax base was then projected using the historical average growth rate in the T2 income tax return data for companies in the technology sectors in question. The tax base was also adjusted to account for the behavioural response effect, set at 30%. This assumption is based on the work of the United Kingdom's Office for Budget Responsibility presented in its *Economic and fiscal outlook—October 2018*.

The proposed measure acts as a value-added tax. As a result, the effective tax rate was estimated by taking into account variations in the revenues of the businesses subject to the new tax. The decrease in tax revenue owing to

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variations in business revenues was estimated using the marginal corporate income tax rate. The estimate of total revenues was made by multiplying the resulting effective tax rate by the tax base determined above.

Uncertainty assessment:	The estimate has high uncertainty. The uncertainty derives primarily from the difficulty in accurately estimating the tax base. In addition, data volatility creates much underlying uncertainty in the tax base projection. Furthermore, the proposal's scope depends on companies' worldwide revenues, information which Statistics Canada does not collect. It is also expected that businesses in the targeted sectors will adjust their services and prices in response to the new law. These behavioural changes are difficult to estimate and depend on a strong assumption, which adds uncertainty to the estimate.

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	-	-540	-600	-660	-730	-810	-890	-980	-1,090	-1,200

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