

Legislative Costing Note

Announcement date:	2020-03-18 (Canada's COVID-19 Economic Response Plan)	
Publication date:	2020-04-09	
Short title:	Extended deadlines to file income tax returns and pay income taxes	
Description:	<p>For individuals, the deadline to file a tax return will be deferred until June 1, 2020. For corporations that would have a filing due date between March 18 and June 1, 2020, the filing due date will be deferred until June 1, 2020. For trusts with a tax year end date of December 31, 2019, the filing due date will be deferred until May 1, 2020. For trusts that would have a filing due date in April or May, the filing due date will be deferred until June 1, 2020.</p> <p>For these taxpayers (individuals, corporations and trusts), the payment of any income tax balance due or tax installments after March 18 will be deferred until September 1, 2020. No interest or penalties will accrue on these amounts.</p>	
Data sources:	<u>Variables</u>	<u>Source</u>
	CIT and PIT revenue ¹	Finance Canada Fiscal Monitor
	Self-employment (SE) income	T1 Final Statistics
	Net federal and provincial tax	T1 Final Statistics
	CPP contributions on SE	T1 Final Statistics
	Federal and provincial tax payable	T2 Corporate Statistical Tables
	Federal and provincial tax payable	Trusts Statistical Tables
	Late filers and average penalty	T1 Filing Compliance
	Balance owing	Individual income tax return statistics for the 2019 and 2020 tax-filing seasons
	Interest and penalties	Public Accounts of Canada, Volume II
	Doubtful accounts expense	CRA ² Annual Report to Parliament
	Gross domestic product (GDP) at market prices	Statistics Canada Table 36-10-0104
	3-Month Treasury Bill Tender	Bank of Canada
	Forecast of GDP, CIT revenue and 3-Month Treasury Bill Tender	PBO's Scenario Analysis: COVID-19 Pandemic and Oil Price Shocks

¹ CIT: Corporate income tax; PIT: Personal income tax.

² Canada Revenue Agency

Estimation and projection method:

Since the measure only defers filing and payment of taxes, no tax revenue should be lost for the government. However, it will need to borrow to continue paying for program expenses in the meantime. To estimate the cost of borrowing, PBO first estimated for each month between March and August, the amount of tax revenue that would have normally been paid.

CIT: The average monthly percentages of annual CIT revenue (based on the last five years of historical data from the Fiscal Monitor) for the months of March to August were multiplied by PBO's forecast of CIT revenue for 2020. This represents tax installments and balance due that would have been paid each month by corporations.

PIT (self-employed): PIT payable on self-employment income for 2020 is estimated based on the T1 Final Statistics for years 2015 to 2017 and PBO's forecast of nominal GDP. One quarter of that amount was allocated to the tax installment that would have been due on June 15.

PIT (balance due): Using the individual income tax return statistics for the 2019 and 2020 tax filing seasons, PBO estimated the balance due on returns processed between May and September.

Trusts: PBO grew the last data point on tax payable (tax year 2016) by the average annual growth rate of tax payable of tax years 2014 to 2016 to obtain the balance due for tax year 2019. While trusts are supposed to pay quarterly installments of tax due, PBO assumes the complete balance would have been paid by March 31 without the extension.

Cost of borrowing: PBO used its own projection of 3-month treasury bill to calculate the interest paid on amounts borrowed each month from the last day of the month to September 1, 2020.

Forgone interest and penalties: Forgone interest on PIT balance due was calculated on the estimated balance due for each month applying the CRA's prescribed interest rate of 6%. Forgone penalties on PIT balance due were calculated using filing compliance data for 2017 and assuming the same share of late returns filed. Forgone interest and penalties on CIT balance due and installments were assumed to represent the same share of total interest and penalties than the estimated PIT share.

Defaults on deferred payments: CRA always faces some risk of default on tax balance due. By allowing taxpayers with a balance owing to pay that balance later, CRA is facing an increased risk of these taxpayers going bankrupt between now and the extended deadline for payment. Using historical data on doubtful accounts

and comparing the trend around the financial crisis of 2008-09 with the trend after the crisis, PBO estimated the incremental rate of default that could result from postponing payments. This incremental rate of default was then multiplied by the estimated value of deferred payments.

Aggregate Results:

PBO estimates a total of \$63.7 billion in tax payments (balance due and tax installments) will be deferred between March 18 and September 1, 2020. The cost of borrowing for the government to avoid cash-flow issues during this period is estimated at \$56.1 million. By extending the filing and payment deadlines, PBO estimates the government will forgo a total of \$241.8 million in interest and penalties for late filing and late payment. Finally, by extending the payment deadline, PBO estimates the government could lose an additional \$381.1 million because of increased defaults. The total cost of the measure is thus estimated at \$679.0 million.

Sources of Uncertainty:

Historical data for monthly shares of annual CIT payments (tax installments and balance due) are stable over the last five years. However, there is limited publicly available historical data on PIT balance due. Thus, it was assumed to follow a similar trend as in the 2019 tax filing season (for 2018 tax returns).

It was assumed that the number of late filers facing penalties and interests for T1 returns will be the same as in 2018 (for 2017 tax returns). There is no publicly available data on the prevalence of late filing and late payment for T2 corporate returns.

The value of payments deferred also relies on PBO's forecast of nominal GDP for 2020-21. If the economy is even weaker than expected, CIT payments could be lower than anticipated.

It was assumed that all corporations and self-employed individuals would defer their payments until the extended deadline. However, it was assumed that a portion (25%) of individuals with a balance owing would nonetheless file and pay by the original deadline of April 30, 2020. Assuming all individuals with a balance owing were to defer payment, the cost of borrowing would increase by \$8 million.

It was assumed that the expense for doubtful accounts for corporations will increase by the same magnitude than in the financial crisis of 2007-08, and by a larger magnitude for individuals. Each additional increase of 0.1 percentage point in the default rate increases the cost of default by about \$65 million.

Prepared by:

Govindadeva Bernier

Cost of proposed measure

\$ millions	2019-2020	2020-2021
Cost of borrowing	-	56.1
Forgone interest and penalties	-	241.8
Defaults on deferred payments	-	381.1
Total cost	-	679.0

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