

Legislative Costing Note

Publication Date: 2022-02-01

Short Title: Small Business Air Quality Improvement Tax Credit

Description: Pursuant to [Bill C-8](#), the Small Business Air Quality Improvement Tax Credit would provide a 25% refundable tax credit for installation or upgrade of ventilation and air filtration systems.

Eligible claimants are sole proprietors and Canadian Controlled Private Corporations (CCPCs) with less than \$15 million in taxable capital (or partnerships, where one of the partners is an eligible claimant). Entities can claim up to \$10,000 in eligible expenses for each location, up to a maximum of \$50,000.

The temporary tax credit would be available for qualifying expenditures made between September 1, 2021 and December 31, 2022.

Data Sources:	Variable	Source
	Value of eligible expenditures by firms	Statistics Canada; Input-Output Tables
	Forecast growth in eligible expenditures by firms	PBO Economic Model
	Share of eligible expenditures made by eligible firms	Statistics Canada
	Timing of T2 Filings	Statistics Canada

Estimation and Projection Method: Using Statistics Canada's Input-Output Tables for 2018, PBO constructed the tax base for eligible expenditures. This included both the value of relevant products, as well as estimated wages and salaries and commensurate mark-ups for the non-residential building construction sector. The base was then projected over the subsequent 8-years using the annualized growth rate for business machinery and equipment investment from the PBO's Economic Model.

Overall projected expenditures were then reduced to reflect the pool of eligible claimants using the proportion of all annual capital cost allowance claims made by CCPCs reported by Statistics Canada.

Given the variable year-ends of T2 filers, the timing of cost recognition was proportionately adjusted by the existing year-end of historical monthly filings.

The estimate does not include an adjustment for the claim cap for the number of locations. The aggregate evidence from the Canada Emergency Rent Subsidy Program indicates that

the average number of locations per claim was roughly 1.5 (and hence well below the 5-location cap).

A behavioural response for this measure was not included.

Sources of Uncertainty: There are several sources of uncertainty associated with this cost estimate.

The base of eligible expenditures may over- (or under-) estimate actual spending. Related to this is the pool of eligible claimants. Specifically, PBO relied on data regarding the share of capital cost allowance claims made by CCPCs. Given the \$15 million taxable capital cap, this would tend to over-estimate the eligible group. However, this is offset by not including capital spending by sole proprietors.

There is also some evidence that temporary investment tax credits induce intertemporal shifting in planned expenditures (that is, firms will bring forward planned spending to benefit from the credit, but overall spend the same amount). This would increase the overall cost of the credit.

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Cost of proposed measure (\$ millions)

2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	5-Year Total
25	110	30	-	-	165

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.

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