

Note • Budget 2023

Elimination of dividend deductions from income tax for financial institutions



Published on June 15, 2023

Budget 2023 introduced a new amendment to the *Income Tax Act* that would eliminate the deduction of dividends received on shares that are “mark-to-market” property held by financial institutions. As a result, dividends received after 2023 will be considered regular business income.

5-Year Costⁱ

\$ millions

Fiscal year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Total cost	0	-851	-877	-904	-932	-3,563

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).

Estimation and Projection Method

The historical total business income from dividends received from “mark-to-market” property shares held by financial institutions was estimated using a combination of data collected from public financial statements and aggregated tax data. The estimated tax base was projected using PBO’s projected growth for nominal GDP. To account for possible behavioral responses of affected corporations, an attrition rate was applied to the estimated tax base.

Sources of Uncertainty

The main sources of uncertainty relate to the projection of business income related to dividends and the magnitude of the behavioural response.

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Data Sources

Estimated Tax Base

Finance Canada, Consolidated financial statements

Nominal GDP Growth

PBO Economic Model

Attrition rate

Office for Budget Responsibility, PBO

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LEG-2324-008-S_e

ⁱ In Budget 2023, Finance's cost estimate for this new measure was offset by an adjustment totaling \$585 million for *Funds Previously Provisioned in the Fiscal Framework*. The adjustment relates to [a measure in Budget 2022](#) that also targeted the dividend income of some Canadian financial institutions. Since PBO did not cost that measure, our estimate does not consider its effect. Nevertheless, our estimate considers the interaction of this new measure with the additional tax on banks and life insurers also announced in Budget 2022.