

Costing 2018 Fall Economic Statement and Off-Cycle Measures

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| Short title: | Immediate Expensing for Clean Energy Equipment |
| Description: | An immediate expensing of cost for eligible clean energy equipment acquired after November 20, 2018 and implemented prior to 2024 ¹ . Eligible property will face a gradual phase out of the accelerated depreciation between 2024 and 2027 inclusive. |
| Operating line(s): | Corporate Income Taxes |
| Source Data: | Canada Revenue Agency data from T2 and T5013 Tax Forms ² |
| Estimation and projection method: | <p>The Parliamentary Budget Officer uses tax return data between 2011-2015. These figures are grown annually at the 2014-2015 growth rate of 6% to project future acquisitions. On the forecasted acquisitions, we apply the specified expensing rates listed in the FES³. Thus, clean energy equipment acquired after November 20, 2018 and implemented by 2024 has full expensing in the implementation year.</p> <p>For acquisitions in 2024, the balance after the first year is depreciable at the 50% capital cost allowance (CCA) rate. For acquisitions between 2025 to 2027 inclusive, any remaining balance belongs to class 43.1. Beginning in 2028, the full expensing proposal expires, and all acquisitions are subject to the half year rule and class 43.1.</p> <p>After determining the total depreciable amounts per year, we calculate the impact that the full expensing proposal has on corporate income tax revenues. We consider the federal tax rate of 15% and multiply the change in depreciation by the specified tax rate. Lastly, we calculate the total cost based on a fiscal year cycle.</p> |
| Uncertainty Assessment: | The uncertainty of the cost estimate is high as it relies on a historical regression of the response of investment to the cost of capital. We use aggregate data of new acquisitions for firms and partnerships and estimate the total taxable partnerships based on the acquisition behaviour of corporations. Furthermore, acquisitions in clean energy equipment have significant annual variation which is driven by a small number of partnerships. We do not consider behavioural effects which may impact the new acquisitions of clean energy equipment. Additionally, our analysis considers only taxable firms and assumes full expensing in the implementation year for all firms with positive |

¹ Classes 43.1 and 43.2 are in place for qualified clean energy property. Class 43.2 was introduced in 2005 and extended to 2025 in Budget 2018. Qualified property in class 43.2 requires a higher efficiency standard and receives a capital cost allowance (CCA) rate of 50% whereas 43.1 has a CCA rate of 30%.

² Data received from Finance Canada.

³ The FES describes the CCA rate to be 100% in 2018 to 2023, 75% in 2024 to 2025 and 55% in 2026 to 2027, inclusive.

taxable income. The increased revenue is then subject to the federal tax rate which may overestimate the effective tax rate in the industry of clean energy.

Cost of proposed measure

| \$ millions | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|-------------|---------|---------|---------|---------|---------|---------|
| Total cost | 57 | 203 | 114 | 71 | 50 | 15 |

Notes : Total cost refers to the estimated corporate income tax revenue forgone.

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.