

# Costing 2018 Fall Economic Statement and Off-Cycle Measures

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Publication date :	2019-01-17	
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Short title:	Mineral Exploration Tax Credit (METC)	
Description:	A reduction in personal income tax for individuals who invest in flow-through shares, equal to 15% of specified mineral exploration expenses incurred in Canada and transferred to holders of the shares. The deductibility of flow-through expenses from personal income is reduced by the amount of the credit in the following year. This credit has been extended for five years.	
Operating line(s):	Personal income tax (PIT)	
Source Data:	T2038 tax file	CRA
	METC filers, % by tax bracket	Department of Finance and SPSPD/M
	Commodities prices	PBO economic model
	Nominal GDP	PBO economic model
	Planned exploration plus deposit appraisal expenditures	Natural Resources Canada's Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures
Estimation and projection method:	<p>The tax base is determined by growing historical flow-through mining expenditures by planned exploration plus deposit appraisal expenditures for the first year of the outlook and by nominal GDP over the remainder of the outlook. This is adjusted by the historical relationship between expenditures and commodities price movements if significant price shocks have occurred since the survey.</p> <p>The reduction in personal income tax receipts is determined by applying the credit rate of 15%. The increase in personal income tax receipts resulting from limiting the following year's deductibility of expenses by the amount of the credit is calculated using the average marginal tax rate of claimants, equal to roughly 29%.</p>	
Uncertainty assessment:	<p>The cost estimate has high uncertainty. The mechanics of the model are well-defined, and the universe of administration data is available to determine historical costs precisely. However, flow-through mining expenditures are volatile and often double or half year-to-year, resulting in a doubling or halving of the cost estimate. The survey outlook is only weakly correlated with actual spending. Exploration expenditures are highly sensitive to commodities' prices and the broader economic environment. As the credit has been available in the past and is consistently extended year-to-year, it is assumed that mining companies have fully absorbed this expectation and there will be no change in exploration activity in response to the extension.</p>	

### Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost		90	70	75	75	80

## Supplementary information

	Description	Operating line	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost	METC tax credit	Personal income tax (PIT)	-	96	99	103	107	110
Cost recovery	Reduction in deductibility for following year	Personal income tax (PIT)	-	-7	-27	-28	-29	-30
<b>Total cost after recovery</b>			<b>-</b>	<b>90</b>	<b>70</b>	<b>75</b>	<b>75</b>	<b>80</b>

### 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