



Cost Estimate of Full Expensing for Depreciable Property



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Ottawa, Canada
19 June 2019
www.pbo-dpb.gc.ca

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

In response to a request from a member of Parliament, the PBO has prepared a cost estimate of the federal government introducing 100% expensing for assets purchased by a corporation, to match the recent U.S. tax change in the Tax Cuts and Jobs Act (TCJA).

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Executive Summary

A member of Parliament requested that the Parliamentary Budget Officer (PBO) estimate the fiscal cost of 100% expensing for assets purchased by a corporation, to match the recent U.S. tax change in the Tax Cuts and Jobs Act (TCJA).

Summary Table 1 presents the depreciation rates that would be applied for each year that the policy was put in place. Qualified property purchased by a corporation would receive 100% expensing for the first five years. The enhanced depreciation is then phased-out and reduced by 20% per year until 2027.

Summary Table 1

Bonus depreciation on qualified property under the proposed current expensing

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Depreciation rate	100%	100%	100%	100%	100%	80%	60%	40%	20%

Sources: U.S. Congress¹ and the Parliamentary Budget Officer.

Summary Table 2 presents the cost of the measure based on simulations using our T2 Microsimulation model.

CIT revenue forgone represents the direct cost from the introduction of a 100% expensing tax incentive which matches the full expensing provision outlined in the TCJA.

Summary Table 2

Net cost of matching the TCJA provision for full expensing in Canada

(\$ Billions)	2019	2020	2021	2022	2023	Total Cost
Net cost of proposal	8.8	7.6	7.5	7.9	5.0	36.7

Sources: Statistics Canada T2-LEAP database and the Parliamentary Budget Officer.

Summary Table 2 shows that the net cost of full expensing in the first year is approximately \$8.8 billion for corporations and partnerships. By 2023, the total cost over a five-year period is roughly \$36.7 billion. Our analysis suggests that the cost decreases significantly beginning in 2024 as the measure is phased out and the change in tax revenue becomes positive in 2025 compared to the baseline.

1. Introduction

A member of Parliament requested that the Parliamentary Budget Officer (PBO) estimate the fiscal cost of 100% expensing for assets purchased by a business to match the recent U.S. tax change in the Tax Cuts and Jobs Act (TCJA).

Capital expenses and depreciation

Depreciable property is defined as property that wears out or becomes obsolete over time. In 2015, corporations in Canada spent over \$200 billion on new acquisitions of depreciable property. The largest components of depreciable property include buildings, intellectual property and machinery and equipment.

The acquisition of depreciable property is considered a capital expense. This differs from a current expense as the cost of a capital expense is deducted over several years whereas the cost of a current expense can be fully applied against a corporation's taxable income on the year it is purchased.

A current expense is likely to be a recurring expense with a short-term benefit whereas a capital expense should provide a long-term economic benefit for the business. For instance, the purchase of a truck by a corporation is a capital expense. However, the gasoline purchased for the truck is a current expense.

A common accounting principle is the matching of expenses and revenues. Since capital assets can be used over multiple years, instead of expensing the full cost of the purchase in the year of acquisition, the cost is spread over the useful life of each asset. This process is known as depreciation, or equivalently amortization.

The Capital Cost Allowance (CCA) is the yearly deduction that a business can claim on its tax return for the cost of depreciable property. It can be calculated on a declining basis or a variable basis.²

The depreciation rates that can be claimed depend on the type of property and the date of acquisition. A specific rate of CCA applies to each class of property. The depreciation rates for tax purposes often differ from the rates used for accounting purposes and the corporation's financial statements. In most cases, depreciation rates are greater for tax purposes as they are often intended to provide additional tax relief to certain sectors or to provide an additional incentive for corporations to acquire certain types of assets.

Changes to the depreciation rate for tax purposes only change the timing of the deductions. They generally do not affect the total deduction that a corporation can claim over the life of the asset. Thus, introducing a 100%

depreciation rate (i.e. full expensing)³ in the year of purchase of an asset will only reduce the tax payable in the year of acquisition when compared to a baseline where that asset is depreciated over multiple years. In the following years, the tax payable will be higher compared to the baseline since there is no more depreciation left to claim.

Nonetheless, because of the time-value of money, current expensing is preferred by corporations. Indeed, unless using a discount rate of zero, a future tax deduction will always have a lower present value than the same deduction in the current year.

Bonus depreciation under the Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) became public law in the United States.⁴ The bill encompassed a variety of changes; the introduction of bonus depreciation attracted significant attention.

Under the TCJA, qualified property acquired and put in service between September 28, 2017 and December 31, 2022, can receive a first-year bonus depreciation of 100%. After 2022, the 100% depreciation is phased down by 20% per calendar year.⁵ Appendix A provides more details as to what is considered qualified property.

We consider qualified property acquired between 2019 and 2023 to be eligible for 100% depreciation in the first year. After 2023, full expensing is phased-out and reduced by 20% per year.

The next section explains the methodology used to perform the costing of 100% depreciation on qualified property. Section 3 details the results.

2. Methodology

2.1 Modelling full expensing

The cost estimate developed by the PBO is based on a microsimulation model of T2 returns. This model utilizes administrative data provided to Statistics Canada by the Canada Revenue Agency (CRA).⁶ The model mimics the tax filing process for each corporation and has the capacity to simulate modifications to tax parameters.

The model uses existing corporate income tax data with 2015 being the most recent tax year available. Simulations were run on tax data from the 2009 to 2015 tax years in order to simulate the enhanced depreciation over a seven-year horizon. The results were then scaled up to 2019 and onwards.

Business investment is usually correlated with GDP. Thus, we can expect the acquisition of depreciable property to increase with economic growth. To account for the increase in investment since 2015 and the forecasted increase over the 2019-2025 horizon, we scaled-up the cost forgone in corporate income taxes by multiplying the cost by GDP growth over that period.

By only scaling up the results by GDP, this implies that the investment profile over 2019 to 2025 would be similar to the historical profile of 2009 to 2015.

Corporations that claim a Capital Cost Allowance (CCA) must fill out schedule 8 of the T2. The schedule details the opening balance, new acquisitions, proceeds of disposition and depreciation amounts for each CCA class of assets. We used this data to compute the simulated depreciation amounts that would be claimed if current expensing was implemented in Canada.

Which CCA classes are eligible?

There are about 20 commonly used CCA classes in Canada which are identified by a number between 1 and 53. The first step was to identify which CCA classes best corresponds to the eligible properties identified in the US TCJA.

Eligible property prescribed by the TCJA in the United States' is mostly tangible property depreciated under the Modified Accelerated Cost Recovery System (MACRS) with a recovery period of 20 years or less. Nearly all assets in the MACRS have recovery periods of 20 years or less. The major exception to this is buildings. Therefore, we have excluded CCA classes 1, 3 and 6 which are mostly composed of buildings.

Table B-1 in Appendix B lists all the classes we have considered eligible for full expensing. It also displays the current depreciation rates in effect and a short description of the types of assets contained within each class.

Data Cleaning

The administrative data provided by the CRA to Statistics Canada is raw tax data and therefore may contain information that was improperly entered. For example, corporations must enter the CCA class number on line 200 of schedule 8, but in many cases, a typed description of the asset was filed (i.e. computer, truck, etc.).

Statistics Canada's Data Stewardship Division cleaned schedule 8 data to ensure that line 200 would consist of only class numbers. As a result, approximately 3% of the total value of new acquisition could not be placed in an existing CCA class due to missing or insufficient information.⁷ We did not include these assets in our simulations.⁸

Another potential source of discrepancies in the data results from the fact that some CCA classes apply only to qualifying property acquired before a certain date. These classes are still included as they may continue to have a balance of undepreciated capital. However, these classes should not contain any new acquisitions. Nevertheless, certain acquisitions were added to these classes by businesses. For example, class 5 applies only to property acquired by 1962, however there have been new acquisitions after this date. We treated these instances as an error and attribute them to a current CCA class that would be the closest match. The amounts incorrectly recorded were not significant in any year.

Running simulations over multiple years

We started with reference year 2009 as the first year that corporations are eligible for full expensing. Schedule 8 does not contain information about the date an asset is acquired or put in service. Thus, we assumed all new acquisitions in the eligible classes listed in a tax return were eligible. We began phasing-out full expensing or the 100% depreciation rate in reference year 2014.

Table 2-1 Full expensing on qualified property under proposed expensing and reference years used for simulation

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Depreciation rate	100%	100%	100%	100%	100%	80%	60%	40%	20%
Reference year used in simulation	2009	2010	2011	2012	2013	2014	2015	-	-

Source: Parliamentary Budget Officer.

Note: Table 2-1 presents the depreciation rates that would be applied for each year if the policy was put in place, as well as the corresponding reference year of actual tax data we used in the simulation. Note that our simulation stops with 2015 tax data, which is the last year of data available.

In 2009, we started with the actual opening balances of undepreciated capital costs reported by corporations in their schedule 8 on line 201. These balances will continue to be depreciated under the rates in effect for each CCA class. We then applied a 100% depreciation rate on the new acquisitions (line 203) and added this amount to the capital cost allowance computed on the undepreciated capital cost to obtain a simulated value for line 217.

For each business, the sum across all CCA classes of our simulated line 217 was then reported on line 403 of schedule 1. The increase in line 403 would lower the net income of the corporation which is reported on line 300 of schedule 200. This will in turn reduce the Part 1 tax computed on line 700 of schedule 200. Hence, a loss of tax revenues for the federal government in that year.

For each firm we simulated the new closing balances of undepreciated capital cost by CCA class (line 220 of schedule 8) and carried over these simulated values as the opening balance for the next year. For example, our closing balance in 2009 becomes the opening balance in 2010 and so on.

When running the baseline of our model (simulating the tax filing process using the actual values and parameters), we can't perfectly replicate the actual results observed. This comes from two possible sources:

- i. some errors in the data which might not have been corrected yet (for example a line in the tax return should contain the product of 100\$ by 10% = 10\$, but there is a typo in the result entered and we see \$11 instead);
- ii. the corporation makes a choice that does not minimize taxable income for all tax years (for example, it incurs a loss that could be carried back to a previous year, but chooses not to).

An important caveat of running the simulations over multiple years is that errors in our model or from data clean up can compound as we run the

simulation over multiple years and can therefore carry over into the simulations of future years. However, the differences in our model baseline and the actuals are relatively small (less than 0.1% for federal tax), so this should not have a significant impact over the simulation horizon.

2.2 Key Assumptions

Static estimate

PBO's costing of current expensing is a static estimate. This means we did not consider the possible behavioral effects which may result from the introduction of 100% depreciation.

Setting depreciation rates higher than the rates specified by accounting rules (otherwise known as bonus or accelerated depreciation) became a popular tool for spurring economic growth beginning in the 1940s in the United States during World War II⁹. At the time, it was theorized that increasing investment in building and machinery was a fundamental determinant of growth¹⁰. Accelerated depreciation continues to be widely utilized with the intent of increasing investments. However, despite its popularity, the effectiveness of these measures remains unclear and the debate ongoing.

Studies that find accelerated depreciation to have a positive impact have a few common elements. The first is that of the corporations that experience a positive impact from the tax incentives, taxable corporations are more likely to benefit¹¹. Historically, accelerated depreciation was introduced during periods of economic downturn. Since corporations in a loss position are less likely to respond to this type of stimulus, the anticipated gains from the tax incentives are reduced. Additionally, investments which benefit from accelerated depreciation are targeted towards assets with long depreciation periods¹². This is at odds with most depreciation programs that are largely focused on equipment and machinery with short depreciation periods.

Another consideration is intertemporal shifting, that is the shifting of investments between periods to receive higher benefits now. The current debate centers around whether the higher investment realized in periods of accelerated depreciation is the displacement of future investment to today, or net new investment resulting from the tax incentives. There is an expansive debate in literature over this. House & Shapiro (2008), Eichfelder et al (2014), and Zwick and Mahon (2014) indicate that the increase in investment is at least partially the result of the shifting of investment between periods. Maffini et al (2016) examine a permanent tax change to rule out intertemporal shifting and find that firms are also increasing investment and not simply bringing forward investment to capture tax benefits.

Given a lack of consensus on the impact of accelerated depreciation, this report excludes these behavioral effects. As a result, there is some downside risk to our estimate. If investment increases above the currently forecasted levels, then the cost in terms of foregone tax revenue will be higher. However, an increase in investment could potentially increase GDP growth and in turn result in higher tax revenues received in future years.¹³

With full expensing, it is expected that some corporations will have a higher amount of after-tax income from which they can distribute dividends. It is therefore possible that dividend payments will increase. Therefore, the upside risk to our estimate is that an increase in dividend payments would increase personal income tax revenues.

Corporations use all depreciation available

When corporations file their CCA claim for the current year (line 217 of schedule 8), they are not required to claim the full amount they are entitled to. This means a corporation can depreciate a property more slowly and carry-forward the undepreciated capital cost to future years.

In our simulations, we assumed corporations would claim the maximum amount of depreciation available. If this puts corporations in a loss-making position, they will carry forward those losses to future years or carry it back to the previous three years, where applicable.

Losses: carry-back and carry-forward

According to the data, it appears that corporations do not always minimize taxable income in all years. For instance, some corporations have a pool of unused non-capital losses which they could carry-back as they have been profitable in the past three years.¹⁴ Thus, we would expect them to use the carry-back right away and get a refund on some of the taxes previously paid. This is especially true since losses carried forward are not indexed and thus lose value over time. There are a few potential explanations for this, including the different responses of financial markets to restated previous after-tax profits compared to otherwise higher future results.

Despite this behavior, we assume that firms will use all available prior losses to reduce their taxable income. This ensures consistency in how firms behave and choose to apply new losses resulting from full expensing.¹⁵

However, the amount of losses can be greater than a firm's taxable income over the past three years. This results in corporations carrying forward the new losses incurred. This pool of unused losses represents a liability for the government since corporations can use them at any point to reduce tax payable otherwise. There is however a limit of 20 years over which losses can be carried forward to a future tax year. After 20 years, the losses expire.

3. Results

Table 3-1 presents the results of our simulations. Corporate income tax (CIT) revenue forgone represents the direct cost from the introduction of a 100% expensing tax incentive which matches the full expensing provision outlined in TCJA.

Table 3-1 Net cost of matching the TCJA provision for full expensing in Canada

(\$ Billions)	2019	2020	2021	2022	2023	Total Cost
Net cost of proposal	8.8	7.6	7.5	7.9	5.0	36.7

Sources: Statistics Canada T2-LEAP database and the Parliamentary Budget Officer.

Table 3-1 shows that the net cost of full expensing in the first year is approximately \$8.8 billion for corporations and partnerships. By 2023, the total cost over a five-year period is roughly \$36.7 billion. Our analysis suggests that the cost decreases significantly beginning in 2024 as the measure is phased out and the change in tax revenue becomes positive in 2025 compared to the baseline¹⁶. Additionally, replicating full expensing in Canada would generate for the federal government a future liability of \$164 billion in the form of additional unused losses accumulated over the five-years. Under the current Canadian tax system these losses can be used at any point over the next 20 years to reduce tax payable.

As discussed in section 2, these cost estimates do not consider behavioural changes.

Appendix A: Qualified Property under the TCJA

A property is considered qualified for bonus depreciation if it is either:

1. Tangible property depreciated under the Modified Accelerated Cost Recovery System (MACRS) with a recovery period of 20 years or less;
2. Computer software as defined in, and depreciated under §167(f)(1)¹⁷;
3. Water utility property as defined in § 168(e)(5) and depreciated under § 168;
4. Qualified improvement property defined in § 168(K)(3), depreciated under MACRS and acquired after September 27, 2018 and placed in service before January 1, 2018;
5. Qualified film, television and live theatrical productions, as defined in §§ 181(d) and (e)¹⁸

Another key factor is that the 100% deduction applies to both new qualifying property as well as newly purchased used qualifying equipment. However, used property must satisfy the following conditions:

- The taxpayer or its predecessor didn't use the property at any time before acquiring it.
- The taxpayer didn't acquire the property from a related party.
- The taxpayer didn't acquire the property from a component member of a controlled group of corporations.
- The taxpayer's basis of the used property is not figured in whole or in part by reference to the adjusted basis of the property in the hands of the seller or transferor.
- The taxpayer's basis of the used property is not figured under the provision for deciding basis of property acquired from a decedent.

Appendix B: Eligible Classes

<u>CCA Class</u>	<u>Description of CCA Class¹⁹</u>
7	Class 7 has a CCA rate of 15% and includes marine vessels such as a canoe or rowboat.
8	Class 8 has a CCA rate of 20% and includes equipment, furniture and other depreciable property not included in any other class.
9	Class 9 has a CCA rate of 25% and includes aircrafts.
10	Class 10 has a CCA rate of 30% and includes general-purpose electronic data process equipment and motor vehicles.
10.1	Class 10.1 has a CCA rate of 30% and includes property that would otherwise be included in class 10 that is a passenger vehicle costing over \$30,000.
11	Class 11 has a CCA rate of 35% and includes electrical advertising signs acquired before 1976.
12	Class 12 has a CCA rate of 100% and includes property such as tools that cost less than \$500, china, linen, cash registers and computer software which is not a systems software.
13	Class 13 is depreciated on a straight-line basis and includes property that is a leasehold interest.
14	Class 14 is depreciated on a straight-line basis and includes patents, franchises, concessions or licences for a limited period.
14.1	Class 14.1 has a CCA rate of 5% and includes goodwill that is acquired after 2016.
15	Class 15 is depreciated on a straight-line basis and includes property that was acquired for cutting and removing merchantable timber or a timber resource property.
16	Class 16 has a CCA rate of 40% and includes taxis, vehicles for daily car rental business, coin operated video games or pinball machines.
17	Class 17 has a CCA rate of 8% and includes telephone, telegraph, data communication switching equipment, radiocommunication equipment, sidewalks, airplane runway and parking areas.
18	Class 18 has a CCA rate of 60% and includes motion picture films acquired before 1976.
19	Class 19 has a CCA rate of 50% or 20% and includes property otherwise included in class 8. The CCA rate depends on the property.

21	Class 21 has a CCA rate of 50% and includes property that would otherwise be included in class 8 or 19 that was acquired between 1963 and 1967.
22	Class 22 has a CCA rate of 50% and includes power operated moveable equipment acquired between 1964 and 1988.
23	Class 23 has a CCA rate of 100% and includes property related to leaseholds only with respect to Expo 86 and the 1967 World Exhibition.
25	Class 25 has a CCA rate of 100% and does not include property acquired after 1973.
26	Class 26 has a CCA rate of 5% and includes catalysts and deuterium enriched water acquired after 1979.
27	Class 27 is depreciated on a straight-line basis and includes pollution control equipment. It does not include property acquired after 1988.
28	Class 28 has a CCA rate of 30% and includes mining equipment. It does not include property acquired after 1987.
29	Class 29 includes eligible machinery and equipment (M&E) that was acquired after March 2007 and before 2016 that would otherwise be included in class 43. This class was created to allow for an accelerated depreciation of M&E, providing CCA rates of 25%, 50% and 25% in years 1-3.
30	Class 30 has a CCA rate of 40% and includes telecommunication spacecrafts that were designed to orbit the earth and equipment designed to augment the channel capacity of a television receiver.
34	Class 34 has a CCA rate of 50% and includes energy efficient equipment.
35	Class 35 has a CCA rate of 7% and includes railway cars.
38	Class 38 has a CCA rate of 30% and includes power operated and moveable equipment.
39	Class 39 has a CCA rate of 25% and includes M&E acquired after 1987 and before 1992.
40	Class 40 has a CCA rate of 30% and includes a powered industrial lift truck. It does not include property acquired after 1989.
41	Class 41 has a CCA rate of 25% and includes mining related M&E, gas or oil well equipment and heavy oil processing equipment.
41.1	Class 41.1 has a CCA rate of 25% and includes certain oil sands property acquired after March 18, 2007.
41.2	Class 41.2 has a CCA rate of 25% and includes mining property acquired after March 20, 2013, other than eligible mine development property.

42	Class 42 has a CCA rate of 12% and includes fibre optic cables and wire and cables used for telephone or data communication acquired after February 23, 2005.
43	Class 43 has a CCA rate of 30% and includes eligible M&E used primarily to manufacture and process goods for sale or lease, not included in class 29 or 53.
43.1	Class 43.1 has a CCA rate of 30% and includes property acquired after February 21, 1994 for clean energy generation and energy conservation equipment.
43.2	Class 43.2 has a CCA rate of 50% and includes property for clean energy generation and energy conservation equipment. It includes all equipment described in class 43.1, however requires a higher efficiency standard for cogeneration systems that use fossil fuels.
44	Class 44 has a CCA rate of 25% and includes patents and rights to use patented information.
45	Class 45 has a CCA rate of 45% and includes general purpose electronic data processing equipment and systems software for the equipment that would otherwise be included in class 8. This class includes to equipment acquired after March 22, 2004 and before March 19, 2007.
46	Class 46 has a CCA rate of 30% and includes data network infrastructure equipment and systems software that would otherwise be included in class 8. This class applies to equipment acquired after March 22, 2004.
47	Class 47 has a CCA rate of 8% and includes transmission and distribution equipment and structures of a distributor of electrical energy acquired after February 23, 2005. It also has a CCA rate of 30% for liquefied natural gas acquired after February 19, 2015 and before 2025.
48	Class 48 has a CCA rate of 15% and includes combustion turbines acquired after February 23, 2005.
50	Class 50 has a CCA rate of 55% and includes general purpose electronic data processing equipment and systems software for the equipment. This class applies to equipment acquired after March 18, 2007.
52	Class 52 has a CCA rate of 100% and includes general purpose electronic data processing equipment and system software for that equipment. This class applies to equipment acquired after January 27, 2009 and before February 2011.
53	Class 53 has a CCA rate of 50% and includes eligible M&E acquired after 2015 and before 2026 that is not included in class 29.

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Notes

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- ¹ <https://www.congress.gov/bill/115th-congress/house-bill/1>
- ² “Capital property includes any depreciable property that is eligible or would be eligible for CCA deduction for income tax purposes and any property, other than depreciable property, which, if you disposed of it, would result in a capital gain or capital loss for income tax purposes.”
https://www.canada.ca/en/revenue-agency/services/tax/businesses/definitions-letter-business.html#Cptl_prprty
- ³ Current expensing, 100% expensing and 100% bonus depreciation (also sometimes referred to as first year bonus depreciation) all have the same meaning: the corporation can deduct the full cost (100%) of a depreciable property in the year it is acquired, instead of spreading that cost over multiple years.
- ⁴ <https://www.congress.gov/bill/115th-congress/house-bill/1/actions>
- ⁵ There are certain exceptions where the bonus depreciation phase-out is delayed one year and therefore continues until 2023. Properties with longer production periods (such as an airplane for example) will have an additional year added to each of the above timeframes, i.e. 100% bonus depreciation from 9/28/2017 to 12/31/2023.
- ⁶ This model was developed in house by staff of the Office of the PBO. More details on this model are presented in our 2017 report “Corporate Tax Model” available at: <https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Corporate%20Tax%20Model/Corporate%20Tax%20Model%20EN.pdf>
- ⁷ This percentage of unknown new acquisitions varies slightly by year, from a low of 0.01% in 2009 to a high of 0.34% in 2015.
- ⁸ We ran additional simulations in which we considered these unknown assets as eligible to 100% depreciation. The result is an increase of the total cost for the federal government of about \$268 million over the five years (or an annual increase of roughly \$54 million).
- ⁹ Brazell et al. (1989).
- ¹⁰ Domar (1953), Margalioth (2007), Brazell et al. (1989), and Solow (1956 – the Solow Growth Model).
- ¹¹ Zwick and Mahon (2017), Ohrn (2018), Maffini et al (2016).
- ¹² Eichfelder & Schneider (2014), House and Shapiro (2008), Zwick and Mahon (2017).
- ¹³ A recent study by the US Joint Committee on Taxation (JCT) has estimated that the TCJA would increase US GDP by 0.7% (including both the current expensing provisions as well as significant CIT and PIT rates decrease). Over a 10-year horizon, they estimate it would generate additional tax revenues of \$451 billion, which is not nearly enough to offset the direct cost of \$1,456

billion over the same period. The report doesn't provide a breakdown between the effect of current expensing and the CIT and PIT rates decrease, but it is likely that the rates decrease is causing most of the increase in GDP.

- ¹⁴ It can be seen in the data that about 9 % of firms maintain a portion of their unused losses despite having positive taxable income available in the past three years.
- ¹⁵ To ensure consistency in firms' decision when applying back unused losses, we assume that in both the alternate and baseline scenarios corporations optimize and use all unused losses when possible. Thus, the cost of the measure is calculated as the difference in tax receipts between the baseline scenario (with no current expensing, but optimal use of losses) and the alternate scenario (with current expensing and optimal use of losses).
- ¹⁶ We did not present in table 3-1 the cost for 2024 and 2025 due to insufficient data on partnerships. Indeed, while we have seven years of data on corporate income tax returns (T2), we only have five years of data on partnerships information returns (T5013). Partnerships make up, on average, 30% of the total cost in our simulations, whereas corporations makeup approximately 70% of the cost. Running the simulations only on corporations for 2024 and 2025, we found that in the first year of phase out (2024), the cost was less than a third of the previous year and by the second year of the phase out (2025), there was a positive tax revenue impact compared to the baseline where eligible assets would still be depreciated.
- ¹⁷ In this list, all references to specific sections are pertaining to the *U.S. Code: Title 26. INTERNAL REVENUE CODE.*
- ¹⁸ There are certain exclusions from bonus depreciation which include: Electrical energy, water or sewage disposal services, Gas or steam through a local distribution system or Transportation of gas or steam by pipeline. Excludes any property used in a trade or business that has had floor-plan financing indebtedness if the floor-plan financing interest was taken into account under § 163(j)(1)(C).
- ¹⁹ The class descriptions are taken from *Preparing Your Corporate Tax Returns*, 2018 Edition. Wolters Kluwer.