



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

# Costing Note

Requester:	This estimate was prepared at the request of a parliamentarian.													
Publication date:	2020-04-06													
Short title:	Refund of Goods and Services Sales Tax for Small Businesses													
Description:	In response to a request from a parliamentarian, the PBO estimated the cost of introducing a refund of the Goods and Services Sales Tax (GST) collected between July 1, 2019 and December 31, 2019 by Canadian Controlled Private Corporations (CCPCs) eligible for the Small Business Deduction (SMD).													
Data sources:	<table><thead><tr><th><u>Variable</u></th><th><u>Source</u></th></tr></thead><tbody><tr><td>Sales of Goods and Services</td><td>Statistics Canada. Table 33-10-0006-01 Financial and taxation statistics for enterprises, by industry type (x 1,000,000)</td></tr><tr><td>Proportion of corporate revenues represented by CCPCs</td><td>Statistics Canada, T2 Statistics</td></tr><tr><td>GST input tax credits as a share of GST revenues</td><td>Canada Revenue Agency (CRA) GST Statistics</td></tr><tr><td>Effective GST rate</td><td>Statistics Canada. Table 36-10-0478-01 Supply and use tables, detail level, provincial and territorial (x 1,000)</td></tr><tr><td>Projected growth of corporate revenues before tax</td><td>PBO, Scenario Analyst – COVID-19 Pandemic and Oil Price Shocks</td></tr></tbody></table>	<u>Variable</u>	<u>Source</u>	Sales of Goods and Services	Statistics Canada. Table 33-10-0006-01 Financial and taxation statistics for enterprises, by industry type (x 1,000,000)	Proportion of corporate revenues represented by CCPCs	Statistics Canada, T2 Statistics	GST input tax credits as a share of GST revenues	Canada Revenue Agency (CRA) GST Statistics	Effective GST rate	Statistics Canada. Table 36-10-0478-01 Supply and use tables, detail level, provincial and territorial (x 1,000)	Projected growth of corporate revenues before tax	PBO, Scenario Analyst – COVID-19 Pandemic and Oil Price Shocks	
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Estimation and projection method:	<p>The historical tax base was based on sales of goods and services from Statistics Canada, which included the sales from all incorporated enterprises. This tax base was projected using the PBO's projected growth rates of corporate revenues before tax. The projected 2019 value was divided by two to approximate the sales for six months.</p> <p>To estimate the subset tax base of CCPCs eligible for the small business deduction, the PBO calculated the proportion of corporate revenues represented by all CCPCs in 2015. This was used as a proxy of the relative share of goods and services generated from CCPCs eligible for the small business deduction. This proportion was 48.3% and PBO assumed this proportion would remain constant over time.</p> <p>To calculate gross GST revenues, the PBO multiplied this tax base by the estimated effective GST rate of 3.6%. This effective GST rate was calculated by dividing the GST-eligible sales by the total sales for 2016. The PBO estimated the GST-eligible sales by excluding the sales of government and exports, as well as several GST-</p>													

exempt products. The PBO assumed the estimated effective GST rate remained stable over time.

To calculate net GST revenues, we estimated the GST input tax credits that would be applied. The input tax credits were estimated using the average proportion of input credits as a share of GST collected, as reported by CRA in 2015 and 2016 (an average of 82%). This proportion was then multiplied by the gross GST revenues to estimate the value of input tax credits.

Subtracting these values from the gross GST revenues produced the net GST revenues.

The PBO allocated the entire cost for the six months of the 2019 calendar year to the 2019-20 fiscal year.

Aggregate Results: \$6.5 billion in 2019-20

Source of Uncertainty: There is uncertainty in the size of the tax base. This includes the amount of sales of goods and services for which GST is applicable for CCPCs eligible for the small business deduction; the amount of input credits CCPCs eligible for the small business deduction represent; and, the effective GST rate for CCPCs eligible for the small business deduction. The PBO expects the amounts of sales of goods and services for eligible corporations to be overestimated but is not able to determine whether the credits or effective GST rate are over- or under-estimated.

There is uncertainty in the uptake, as there was no information on how this proposal would be implement. The PBO's estimate assumes a 100% take-up rate.

This measure is applicable to historical levels of GST. Therefore, the PBO does not anticipate a behavioural response.

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### Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	6,500	-

**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