Department of Finance Canada

Ministère des Finances Canada

REPORT ON FEDERAL TAX EXPENDITURES

Concepts, Estimates and Evaluations

2021

Canada

Cette publication est également disponible en français.

Cat. No.: F1-47E-PDF
ISSN: 1495-737X

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Preface

This document reports on the estimated fiscal cost of federal tax expenditures, sets out the approach used in developing these estimates and projections, and provides detailed information on each tax expenditure. The Department of Finance Canada first reported on federal tax expenditures in 1979, and has published estimates of tax expenditures for personal and corporate income taxes as well as for the Goods and Services Tax (GST) since 1994. Over the years, this report has become a key component of the Government's reporting on the federal tax system, and has contributed significantly to the public dialogue on federal tax policies—a role it continues to play today.

This report is intended to facilitate analysis of the tax expenditures and indicate their role within the tax system. Information provided includes a description of each measure and of its objectives, cost estimates and projections (for 2015 to 2022 in this year's report), legal references, historical information, as well as references to key federal government spending programs that are relevant to the policy area of tax expenditure to better inform Canadians and Parliamentarians about related programs. The report will continue to be updated every year, providing a convenient, easily accessible point of reference for information on federal tax expenditures.

Evaluations and analytical papers addressing specific tax measures or aspects of the tax system are published every year as part of this report. This year's edition includes an evaluation of the responsiveness of research and development expenditures to tax incentives, a Gender-based Analysis Plus (GBA+) of the differential impacts of federal personal income tax expenditures by diversity factors other than gender, and a profile of the beneficiaries of the Child Care Expense Deduction.

Finally, in order to provide Canadians and Parliamentarians with a broader perspective on government expenditures, the publication of this report will continue to be coordinated with the tabling of the Main Estimates in the House of Commons by the President of the Treasury Board.

Disclaimer

The descriptions of tax measures contained in this document are intended to provide only a general understanding of how each of the tax measures operates. These descriptions do not replace the relevant legislation or regulations and should not be relied upon by taxpayers in arranging their tax affairs. Taxpayers are invited to contact the Canada Revenue Agency or consult the Agency's website at www.cra-arc.gc.ca for additional information on the administration of the federal tax system.

Introduction

The principal function of the tax system is to raise the revenues necessary to fund government expenditures. The tax system can also be used to achieve public policy objectives through the application of specific measures such as preferential tax rates, exemptions, deductions, deferrals and tax credits. These measures are often described as "tax expenditures" because they are used to achieve a policy objective that deviates from the core function of the tax system, at the cost of lower tax revenues.

Tax expenditure reporting is considered an international best practice to foster government budgetary and fiscal transparency. The International Monetary Fund and the Organisation for Economic Co-operation and Development have both issued guidelines that provide for the annual reporting of the cost of tax expenditures.[1]

This report adopts a broad definition of the concept of tax expenditures and provides information on a wide range of federal tax measures that are considered to depart from a "benchmark" tax structure that is characterized only by the most fundamental aspects of a tax system—for instance, the application of a general tax rate to a broadly defined tax base. This broad approach provides greater transparency by ensuring that information is being disclosed on a wide range of tax measures, including measures that may not be considered tax preferences. In addition to providing information on tax expenditures, this report provides information on a number of measures that may be considered part of the benchmark tax system and that are of particular interest from a tax policy perspective. Overall, this report provides information on some 212 different income tax and GST measures.

This report is divided into four parts:

- Part 1 introduces the concepts of "tax expenditure" and "benchmark tax system", sets out the approach used in estimating and projecting the fiscal cost of federal tax expenditures, and discusses the interpretation of the estimates and projections.
- Part 2 presents the estimates of the fiscal cost of federal tax expenditures for the years 2015 to 2022 and describes changes that have been made to tax expenditures since the last edition.
- Part 3 provides detailed descriptions of the tax expenditures, including their objectives.
- Part 4 presents an evaluation of the responsiveness of research and development expenditures to tax incentives, a GBA+ of the differential impacts of federal personal income tax expenditures by diversity factors other than gender, and a profile of the beneficiaries of the Child Care Expense Deduction.

[1] International Monetary Fund, *Manual on Fiscal Transparency*, Fiscal Affairs Department, 2007; Organisation for Economic Co-operation and Development, *OECD Best Practices for Budget Transparency*, 2002.

Part 1

Tax Expenditures and the Benchmark Tax System: Concepts and Estimation Methodologies

Introduction

Part 1 provides methodological information on the tax expenditures and the calculation of their fiscal cost in order to facilitate the understanding of the estimates presented in Part 2. It is divided into three sections:

- The first section discusses the concepts of "tax expenditure" and "benchmark tax system" and presents the key features of the benchmark tax system that have been retained for the purpose of this report.
- The second section provides methodological information on the calculation of the cost estimates and projections.
- The third section discusses how to interpret the cost estimates and identifies some caveats in that respect.

Tax Expenditures and the Benchmark Tax System

Tax expenditure reporting is considered an international best practice in terms of government budgetary and fiscal transparency, and an increasing number of countries are adopting this practice. The scope and coverage of tax expenditure reporting vary among countries. Some countries provide information only for narrowly defined categories of tax measures, such as "tax preferences" or "tax subsidies". Most countries, however, have adopted the practice of reporting information on a larger number of tax measures that they consider to be departures from a "benchmark" tax system. This practice, which has been retained for the purpose of this report, contributes to transparency by providing an objective basis for selecting which tax measures to include in the report.

The definition of "tax expenditure" thus depends on how the benchmark tax system is defined. This report takes a broad approach in which the benchmark tax structure is characterized by only the most fundamental aspects of the tax system. This approach ensures that information is reported on a wide range of tax measures, including measures that may not be considered tax preferences or substitutes to direct program spending. This approach is also simpler and less subject to interpretation than the alternative approach of defining tax expenditures in reference to a "normative" tax system that is considered optimal from an economic and tax policy perspective.

The following two sections describe the features of the personal and corporate income tax system and of the GST that are considered to be part of the federal benchmark tax system for the purpose of identifying the tax expenditures included in this report. The elements of the benchmark tax system include the benchmark unit of taxation, taxation period, tax base and tax rate structure, among other features. Certain tax arrangements with provincial and territorial governments are also reflected in the benchmark tax system.

Benchmark Tax System for the Personal and Corporate Income Tax

The benchmark for the personal and corporate income tax system, as defined for the purpose of this report, has the following characteristics:

Unit of Taxation

- The benchmark unit of taxation for the personal income tax is the individual or trust, while the benchmark unit of taxation for the corporate income tax is the single corporation as a separate legal entity.[2]
- The possibility for income earned by a trust to flow through to a beneficiary without attracting tax at the trust level is considered to be part of the benchmark income tax system.

[2] For income tax purposes, trusts are deemed to be individuals and are thus subject to tax as individuals. Unless otherwise specified, a reference to personal income taxation encompasses the taxation of trust income.

Taxation Period

- The benchmark taxation period is the calendar year for individuals and trusts and the fiscal period for corporations.[3] Income is taxed as earned, on an accrual basis.
- The possibility for certain trusts and estates to have non-calendar taxation years is considered to be part of the benchmark tax system.
- Under the benchmark, business and capital losses not deducted in the taxation period in which these losses arose can be carried over to prior or subsequent taxation periods in recognition of the cyclical nature of business activity and investment.

Tax Base

- The benchmark personal and corporate income tax base comprises income from most sources, including income from employment, pension income, profits from a business and from investment, capital gains, and government transfers.[4] However, the following are considered not to be income subject to tax under the benchmark tax system:
  - Non-market transfers of money and property between taxpayers, such as gifts, inheritances and spousal and child support payments, since such amounts are generally paid out of income previously subject to tax.
  - The benefits derived from non-market household services, such as those provided by homemakers.
  - Imputed rents on owner-occupied dwellings (i.e., the benefits derived by homeowners from occupying their homes).
- Taxpayers resident in Canada are subject to tax on their worldwide income, while non-residents are taxable in Canada on their income from Canadian sources only.
- Current expenses incurred to earn taxable business or property income are deductible in the year incurred. In contrast, expenses incurred to earn employment income are not deductible. Accounting or financial reserves claimed in respect of contingent liabilities are not deductible.
- The cost of a capital asset that contributes to earnings beyond the year in which the cost is incurred is deductible, once the asset is first used for the purpose of earning business income, at a rate that allocates the cost over the period during which the capital asset contributes to earnings—generally, the useful life of the asset. It is presumed that the capital cost allowance rates that are prescribed in the *Income Tax Regulations* permit the deductibility of the costs of depreciable capital assets over the useful lives of these assets, with the exception of the specific accelerated rates that are applicable to certain classes of assets.
- Losses can be deducted against income, but the excess of losses over income in a given taxation period is not refundable (as noted, unused losses can be carried over to prior or subsequent taxation periods). Losses can be deducted against income from any source, except for capital losses, which are only deductible against capital gains.

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3 A corporation's fiscal period is any period of 53 weeks or less.

4 The benchmark income tax base can be considered a variant of the comprehensive income tax base as was first defined by economists Robert M. Haig and Henry C. Simons. The comprehensive income tax base would require the taxation of real current additions to purchasing power, or real increases in wealth, which would cover worldwide income from all sources—labour income, rents, dividends, interest and capital gains (adjusted for inflation), transfers, imputed rent on owner-occupied dwellings, the imputed value of household services, and gifts and inheritances. A strict application of the Haig-Simons base would make corporate income tax redundant since income earned at the corporate level would be taxed as it accrues to individuals.

Tax Rates and Income Brackets

- The benchmark personal income tax rate and bracket structure is the rate and bracket structure as it exists at any given time. The credit for the Basic Personal Amount is viewed as being part of the existing rate structure, because this credit is universal in its application and effectively provides a zero rate of tax up to an initial level of income. The taxation of most trusts at the top personal income tax rate is intended to limit the use of trusts for tax planning, and is therefore considered to be part of the benchmark.
- The benchmark corporate income tax rate is the statutory general corporate income tax rate in effect at any given time.[5]

Treatment of Inflation

- The benchmark personal and corporate income tax base considers income on a nominal basis. The indexation of the personal income tax brackets and the Basic Personal Amount to inflation is considered to be part of the benchmark.

Avoidance of Double Taxation

- Measures that provide relief from double taxation are considered part of the benchmark income tax system. Examples of relief from double taxation include:
  - Individuals and corporations are taxed separately; however, recognition is given for taxes presumed to have been paid on a corporation's income when it is subsequently distributed and subject to tax at the individual level.
  - Double taxation is also avoided in situations where an amount on which a corporation has paid tax is transferred to another corporation, for instance when a taxable Canadian corporation pays a dividend to another Canadian corporation.
  - Relief from double taxation in the international context is provided in Canada in respect of income from foreign sources earned by Canadians and Canadian corporations.[6]

Taxation of Governments and Governmental Entities

- Constitutional immunity from taxation by virtue of section 125 of the *Constitution Act, 1867* is recognized as part of the benchmark income tax system. Accordingly, neither the federal nor the provincial governments (nor their Crown agents) are liable to taxation by the other.
- Federal Crown corporations and other federal government entities are not subject to federal income tax.
- Arrangements between the federal government and provincial and territorial governments to share tax bases among the two levels of government are reflected in the benchmark tax system.

[5] It represents the statutory rate after the federal abatement and general rate reduction. As such, the benchmark corporate income tax rate has been 15% since 2012.

[6] There are three possible benchmarks for taxing the active business income of foreign affiliates of Canadian corporations: (i) that income could be taxable in Canada as it accrues, with relief provided to the extent foreign taxes were paid on the income, consistent with a pure worldwide taxation approach whereby Canadian resident taxpayers are taxed on their worldwide income as it is earned; (ii) that income could be taxable in Canada at the time it is paid out as a dividend to the Canadian corporation; or (iii) that income could be exempt from tax in Canada, both when that income is earned and at the time it is paid out as a dividend to the Canadian corporation, consistent with a territorial approach whereby only Canadian-source business income is taxed in Canada. The three possible benchmarks would have different implications for measuring tax expenditures—see the description of the measure "Tax treatment of active business income of foreign affiliates of Canadian corporations and deductibility of expenses incurred to invest in foreign affiliates" in Part 3 of this report.

Other Features

- Provisions exist to prevent certain forms of tax planning, such as the use of a holding corporation to defer tax on income from portfolio investment. These provisions are considered to be part of the benchmark as they are intended to improve the functioning of the tax system rather than to achieve other non-tax objectives.
- Non-resident withholding tax is imposed on payments to non-residents at the statutory rate of 25% or at the general rate provided for the particular type of payments under the applicable treaty.[7]
- Branch tax is imposed on the income derived by non-resident corporations from a business carried on in Canada and that is not reinvested in Canada, at the statutory rate of 25% or at the applicable treaty rate.

Benchmark Tax System for the Goods and Services Tax

The benchmark for the GST, as defined for the purpose of this report, has the following characteristics:[8]

Unit of Taxation

- The GST is intended to be borne by final consumers—in general, households.

Taxation Period

- There is no specific benchmark taxation period relevant to the determination of GST liabilities—GST is generally payable when a taxable supply is made or imported and remitted in accordance with the supplier's required filing frequency, whether it be monthly, quarterly or annual.

Tax Base

- The benchmark GST base is consumption broadly defined and comprises all goods and services consumed in Canada. As such, the benchmark for the GST provides that the tax applies on a "destination basis"—that is, at the point of consumption in Canada—and that it applies to goods and services imported into Canada, but not to goods and services exported from Canada.

7 Non-resident withholding tax is often considered to act as a proxy for the income tax that would be payable had the payments been made to Canadian residents; hence the inclusion of this tax in the scope of this report.

8 A number of provinces have replaced their retail sales taxes with the Harmonized Sales Tax (HST). The base of the HST is virtually identical to that of the GST, and the HST is applied at a rate equal to the rate of the GST plus a provincial component that varies by province and is determined by each province. Sections of this report that refer to the GST/HST apply to both the federal and provincial portions of the tax whereas references to the GST apply only to the federal portion.

Multi-Stage System

- The benchmark for the GST provides that the tax is imposed using a multi-stage system under which tax is applied to the sales of goods and services at all stages of the production and marketing chain. At each stage of production, businesses can claim tax credits to recover the GST paid on their business inputs, so that the GST effectively applies only to the value added at each stage. Since the only tax that is not refunded is the tax collected on sales to final consumers, the GST is effectively imposed on final consumption.
- The fact that certain entities, such as governments and non-profit organizations, cannot claim input tax credits to recover the GST paid on inputs used to supply goods and services that are not subject to the GST is also treated as part of the benchmark. This results in the GST being effectively imposed on these entities in respect of the value added at earlier stages in the supply of such goods and services, unless these entities continue to exercise their Crown immunity either through the use of tax exemption certificates or by paying the GST upfront and subsequently claiming a rebate in respect of the GST paid. In certain situations, as described below, such rebates are also considered part of the GST benchmark system.

Tax Rate

- The benchmark rate structure for the GST is the GST rate that applies in any given year (5% since January 1, 2008).

Taxation of Governments and Governmental Entities

- As with the income tax benchmark, constitutional immunity from taxation by virtue of section 125 of the *Constitution Act, 1867* is recognized as part of the benchmark GST system. Accordingly, neither the federal nor the provincial governments (nor their Crown agents) are liable to taxation by the other.
- However, to simplify the operation of the GST for transactions involving governments and their agents, the GST applies to purchases by all federal entities (e.g., federal departments and Crown corporations). Federal Crown corporations are therefore subject to the GST in the same manner as any other business entity; however, the rebating of the GST paid by those entities under a federal remission order is also considered part of the benchmark.
- Furthermore, reciprocal tax agreements signed between the federal government and most provincial and territorial governments are recognized in the GST benchmark system. Under these agreements, governments agree to pay each other's general sales taxes and specific taxes on goods and services under certain circumstances. As a result, many provincial Crown corporations are also subject to the GST in the same manner as business entities. Provincial and territorial governments and certain of their agents identified in the reciprocal tax agreements continue to exercise their Crown immunity from GST, either through the use of exemption certificates or through GST rebates. Rebates claimed as per these agreements are also viewed as part of the GST benchmark system.
- Most supplies made by public service bodies (municipalities, universities and public colleges, schools, and public hospitals) are exempt. That is, supplies such as educational or health services are generally not taxed, but public service bodies cannot claim input tax credits to recover the GST paid on their inputs in the way businesses can. Instead, they are generally entitled to claim full or partial rebates of the GST paid on the inputs used to provide their exempt supplies. The non-taxation of the outputs and the rebates paid to public service bodies are not part of the GST benchmark system.

Main Types of Tax Expenditures

On the basis of the above definition of the benchmark tax system, it is possible to identify eight main types of tax expenditures:

Type of Tax Expenditures	**Examples**
The exemption from tax of certain taxpayers.	Registered charities and non-profit organizations are exempt from income tax. Transportation, communications and iron ore mining corporations are exempt from branch tax.
The exemption from income tax of certain items of income or gains.	Capital gains realized on certain donated assets are not subject to income tax.
The exemption from GST or zero-rating of certain supplies of goods or services.[9]	GST is not charged on basic groceries, health services and financial services.
Tax rates that depart from the benchmark tax rates.	The income of small incorporated businesses is taxed at a preferential tax rate.
Tax credits, rebates and refunds.	A credit can be claimed against income tax payable in respect of above-average medical expenses incurred by individuals. A rebate is available in respect of the GST paid by public sector bodies (e.g., schools, hospitals) on purchases related to their supply of GST-exempt goods and services.
Provisions that permit the transfer of tax attributes among taxpayers or otherwise extend the unit of taxation.	Couples are allowed to split pension income for income tax purposes. Assets can be transferred between spouses or related corporations on a rollover basis.
Provisions that permit the deferral of tax or the depreciation of a capital asset faster than its useful life.	Taxation of contributions to a Registered Retirement Savings Plan and investment income earned within such a plan is deferred until these amounts are withdrawn from the plan. The cost of certain vessels can be depreciated at an accelerated rate.
Recognition is given for income tax purposes to expenses incurred to earn employment income or income that is not subject to income tax, or expenses not incurred to earn income.	Employed artists can deduct certain costs related to their employment. Charitable donations made by corporations are deductible in determining taxable income.

[9] No GST is charged on exempt goods and services, while the GST applies on zero-rated goods and services, but at a zero GST rate. Vendors of zero-rated goods and services are entitled to claim input tax credits to recover the full amount of GST they paid on inputs used to produce zero-rated products; in contrast, vendors of exempt goods and services are not entitled to claim input tax credits to recover the GST they paid on their inputs.

Calculation of the Tax Expenditure Estimates and Projections

The value of a tax expenditure is calculated by estimating the revenues that the federal government forgoes as a result of the measure. This involves comparing the amount of revenues actually collected with the amount of revenues that would be collected in the absence of the measure, accounting for any changes in income-tested entitlements and assuming all else is unchanged. The method used to derive cost projections, as well as the period over which these projections are to be derived, vary depending on how the cost estimates are obtained. The cost of federal tax expenditures is projected up to 2022; as a result of delays in the availability of data, however, some of the values developed for the historical period are also projections.

The following describes how the estimates and projections presented in Part 2 and Part 3 are generally calculated. Specific information on the estimation and projection methods used for each tax expenditure can be found in the descriptions of the tax expenditures presented in Part 3 of this report. The estimation of the value of tax expenditures that are timing preferences, such as tax deferrals and provisions that accelerate the deductibility of capital costs, raises particular issues that are discussed in the annex to this part. The inclusion in the report of items for which estimates and projections are not available reflects the intention to provide information on measures that are part of the tax system even if it is not always possible to determine their fiscal impact.

Personal Income Tax Expenditures

For most income tax expenditures, the forgone revenues are estimated using micro-simulation models that calculate tax revenues and income-tested entitlements (in the case of individuals) with and without a given tax expenditure for each taxpayer. These models generally optimize the tax situation of each taxpayer in the counterfactual scenario where the measure under consideration is not in place by assuming that the taxpayer would use all available deductions or credits to offset a potential increase in taxes payable.

The majority of the personal income tax expenditure estimates are calculated using the Department of Finance Canada's personal income tax micro-simulation model (the T1 model). The micro data used in the T1 model is based on initial assessment data available roughly one year after the close of the respective tax year. Tax expenditure estimates based on the T1 model may be slightly underestimated relative to estimates based on a more mature database, with the degree of underestimation varying by measure.

Each tax expenditure accounts for changes in federal personal income tax as well as changes in income-tested entitlements delivered by the Canada Revenue Agency (e.g., child benefits and the GST/HST Credit). Tax expenditures whose costs cannot be estimated using the T1 model due to the complexity of these measures or the absence of individual tax return data are estimated using supplementary data obtained from the Canada Revenue Agency, Statistics Canada and a number of other sources (e.g., other government departments and industry associations).

There is a two-year lag in the availability of the income tax return data used in the T1 model, and the value of personal income tax expenditures presented in this edition are therefore typically estimated using observed data up to 2018. Projections of personal income tax expenditures for subsequent years are calculated using the T1 model, which projects population, income and tax parameters to future years. Population growth is assumed to follow Statistics Canada's medium-growth population forecast by age, gender and province. Income growth assumptions, which vary by main sources of income, are consistent with the underlying forecasts used in the Department of Finance Canada's 2020 *Fall Economic Statement*.

In addition, the projected costs of personal income tax expenditures account for future changes to tax parameters, such as legislated changes and the indexation of tax parameters. Assumptions related to indexation are consistent with the observed Consumer Price Index and forecasts used in the *Fall Economic Statement*. In many cases, projections derived using the T1 model are also complemented by comprehensive aggregate statistics for the most recent taxation year available.

Due to the COVID-19 pandemic, T1 model projections for the 2020 and 2021 tax years have been completed using a modified approach. In order to recognize that a significant number of individuals lost their jobs or had significantly reduced employment or self-employment income, and were in receipt of Employment Insurance and COVID-19-related relief measures, adjustments and simulations were completed to alter the projected taxfiler population for these tax years based on information from Statistics Canada's Labour Force Survey administrative data on the COVID-related measures and internal projections. These adjustments to the representative taxfilers effectively removed employment and self-employment income from random taxfilers in a way that was broadly consistent with the impacts on the labour force observed from the Labour Force Survey and still consistent with internal projections overall, which reflect the expected macroeconomic effects of the pandemic. Employment Insurance and COVID-19-related benefits were then imputed to these individuals in a way that matched the figures coming from administrative data and internal projections. Other sources of income continue to be projected based on internal projections. These model enhancements, as well as the economic uncertainty created from the pandemic, will create more variance in the estimates than in previous years.

Projections for personal income tax expenditures that are not calculated using the T1 model are either based on forecast changes in underlying economic variables or on historical trends. The projection periods for these tax expenditures will vary depending on the data sources used; exact projection periods are indicated in the descriptions of the tax expenditures found in Part 3.

Personal income tax expenditures accruing to trusts are estimated using a micro-simulation model for trust income taxation, and are projected on the same basis as personal income tax expenditures accruing to individuals or corporate income tax expenditures, depending on the measure. In general, forgone revenues are estimated under the assumption that there is no change in the amounts of trust income that are allocated to beneficiaries. Exceptions to this approach are noted in the methodological information provided in Part 3 of this report. Forgone revenues are also estimated under the assumption that there is no change in the level of unit redemptions by mutual fund trusts. Mutual fund trusts are eligible, upon the redemption of trust units, to a refund of the tax paid at the trust level on taxable capital gains (see the description of the measure "Refundable capital gains tax for investment corporations, mutual fund corporations and mutual fund trusts" in Part 3 of this report for more details). As such, the cost that may be associated with a particular tax expenditure that is of benefit to mutual fund trusts (such as the partial inclusion of capital gains) could ultimately be offset by lower capital gains refunds claimed by mutual fund trusts. This interaction is not accounted for in the estimation model (as each measure is estimated independently); therefore care should be taken in interpreting the estimates.

Corporate Income Tax Expenditures

Similar to personal income tax expenditures, forgone revenues for many corporate income tax expenditures are estimated using the Department of Finance Canada's corporate income tax micro-simulation model (the T2 model). This model simulates changes to corporate income taxes using corporation tax return data for the entire population of tax-filing corporations. The T2 model calculates taxes payable on the basis of adjusted tax provisions, and takes into account the availability of unused tax credits, tax reductions, tax deductions and losses that would be used by corporations to minimize their tax liability. Other corporate income tax expenditures are estimated using supplementary data obtained from the Canada Revenue Agency, Statistics Canada and a number of other sources (e.g., other government departments and industry associations).

The value of corporate income tax expenditures that are calculated using the T2 model must be projected for years beyond 2018. Projections are not derived from the T2 model, but rather are mainly based on the Department of Finance Canada's forecast of total corporate taxable income in the 2020 *Fall Economic Statement*—which would include the projected impact of COVID-19—and on legislative changes to corporate tax parameters. In many cases, preliminary data from the most recent income tax returns are also used to inform the projections. Projections for other corporate income tax expenditures are based on forecast changes in underlying economic variables (again relying on the *Fall Economic Statement*) or on historical trends. The years of the projections are indicated in the descriptions of the tax expenditures found in Part 3.

GST Expenditures

The value of GST expenditures cannot be estimated using a tax micro-simulation model, as sufficient micro-data on the amounts of GST paid on most transactions are unavailable. Rather, the value of most GST rebates is estimated using administrative data obtained from the Canada Revenue Agency, and the value of GST exemptions and zero-rating provisions is estimated using the Department of Finance Canada's Goods and Services Tax Model. This simulation model makes use of product-level and industry-level data from Statistics Canada's Canadian System of National Accounts (more specifically from the Supply and Use Tables and National Income and Expenditure Accounts) to estimate the amount of GST payable on finely defined expenditure categories. The value of other GST expenditures is derived either from administrative data or other supplementary data from a variety of sources (e.g., *Public Accounts of Canada*).

There is a one- to two-year lag in the availability of complete administrative data used to estimate the tax expenditures associated with most GST rebates and certain other measures. Projections for years beyond 2018 are derived from the most recent complete administrative data and forecasts of related economic variables provided in the Department of Finance Canada's 2020 *Fall Economic Statement* or by third parties. As for GST expenditures estimated using the Goods and Services Tax Model, the values shown for 2015 and 2016 for these tax expenditures are based on the most recent Supply and Use Tables (which are available with a three-year lag) and projected for the following years. Projections are derived from forecasts of related economic variables provided in the *Fall Economic Statement* or by third parties which would include the projected impact of COVID-19. In many cases, preliminary aggregate data for 2017 and 2018 are also used to inform the projections.

Interpretation of the Estimates and Projections

A number of caveats apply to the interpretation of the tax expenditure estimates and projections, which reflect the methods and data used to calculate these estimates and projections. These caveats are discussed in the following sections.

Federal-Provincial Interaction

The forgone revenue estimates presented in this report relate to federal revenues only. The federal and provincial tax and benefit systems interact with each other to varying degrees, and as a result changes to tax expenditures in the federal system may have consequences for provincial revenues. Any such provincial revenue effects are not taken into account in this publication. Information on provincial tax expenditures can be obtained by consulting the tax expenditure reports that are produced by certain provinces (see references at the end of this part).

Static Estimates and Projections

The estimates and projections presented in this report represent the amounts by which federal revenues are reduced due to the existence of each tax expenditure, assuming all other factors remain unchanged. More specifically, the estimates and projections reflect the following three assumptions:

Absence of Behavioural Responses

It is assumed that the existence of a tax expenditure does not affect taxpayer behaviour. This omission of behavioural responses in the calculation methodology generates cost estimates and projections that may exceed the revenue gains that would result if a particular provision were eliminated, since in many instances the removal of a tax expenditure would cause taxpayers to change their behaviour to minimize the amount of tax they would have to pay.

The effects of this assumption can be illustrated for the income tax by considering the taxation of capital gains. The cost of the partial inclusion of capital gains is estimated on the basis of the amount of capital gains realized by taxpayers. However, should the inclusion rate for capital gains be increased, it is likely that taxpayers would react by postponing certain transactions on capital assets in order to reduce the burden of the resulting tax increase. This would reduce the expected revenue gains for the government of increasing the inclusion rate, an effect that is not taken into account when estimating this tax expenditure. Thus, the value of the tax expenditure can be considerably different from the estimated revenue gain that the government would project if it were to eliminate the measure.

No Impact on Economic Activity

Similarly, the estimates and projections do not take into account the potential impact of a particular tax expenditure on the overall level of economic activity, and thus on aggregate tax revenues. This could also mean that the estimate of the revenue that is forgone by the government because of a tax expenditure may not correspond to the increase in revenues that would result from repealing the tax expenditure. For example, eliminating a particular tax expenditure may affect the level of consumption or economic activity, which in turn could cause a further change in the amount of tax revenue collected. Eliminating a tax expenditure would also mean that the government would have more funds available to increase spending, reduce taxes or pay down debt—actions that could have additional dynamic effects on the economy and on tax revenues.

Consequential Government Policy Changes

A third reason for differences between the estimates of forgone revenues and the revenue impact of eliminating a tax expenditure is that the former ignore potential transitional provisions and other consequential government policy changes that might accompany the elimination of a particular measure. For example, if the government were to eliminate a particular tax deferral, it could require the deferred amount to be brought into income immediately. Alternatively, it might prohibit new deferrals but allow existing amounts to continue to be deferred, perhaps for a specified period of time.

Independent Estimates and Projections

The amounts by which federal revenues are reduced due to the existence of tax expenditures are estimated independently for each tax expenditure, assuming that all other tax provisions remain unchanged. However, aggregating the cost of individual tax expenditures can provide a biased estimate of the total cost of a particular group of tax expenditures or of all tax expenditures combined, which is another reason why the elimination of a tax expenditure would not necessarily yield the full amount of revenues shown in this report.

The value of a group of tax expenditures may not correspond to the sum of the value of each tax expenditure in that group for two main reasons: the income tax rate structure is progressive, and tax measures interact with one another.

Progressive Income Tax Rates

The combined effect of claiming a number of income tax exemptions and deductions may be to move an individual to a lower tax bracket than would have applied had none of the tax measures existed. To the extent that this occurs, aggregation of the individual estimates may understate the true cost to the federal government of maintaining all tax measures. For example, consider an individual whose taxable income was $1,000 below the level at which he or she would move from the 15% into the 20.5% tax bracket. Imagine that this taxpayer arrives at this level of taxable income by using two tax deductions of $1,000 each (e.g., the deductions for child care expenses and for Registered Retirement Savings Plan contributions). Eliminating either deduction by itself would increase taxable income by $1,000 and the taxpayer's federal tax liability by $150. Eliminating both measures simultaneously, however, would not raise the tax liability by $300 ($150 + $150), but rather by $355 ($150 + $205), given the higher tax rate that would then apply to the second tranche of $1,000 that is added to the individual's income.

While there is only one statutory tax rate for corporations, the preferential tax rate for small businesses creates a de facto progressive tax rate schedule for some corporations. In this way, the above argument is valid for the corporate income tax system as well.

Interaction of Tax Expenditures

Tax expenditures may interact, and some of these interactions may not be reflected when calculating the cost of each tax expenditure separately. Adding the fiscal cost of several tax expenditures without properly adjusting for such interactions may therefore provide an inaccurate measure of the total cost of these tax expenditures.

For instance, there may be interactions between deductions and between non-refundable income tax credits in situations where a taxpayer has more deductions than needed to reduce his or her taxable income to zero or more non-refundable credits than needed to reduce tax payable to zero. As an example, in a situation where a taxpayer has $1,000 in income and claims two deductions of $600 each, eliminating each deduction independently would only increase the taxpayer's taxable income by $400 (since the other $600 deduction would still be claimed), but the combined impact of simultaneously eliminating the two deductions would be to increase taxable income to $1,000. Similarly, some taxpayers may need to use only one of several non-refundable credits available to reduce their tax liability to zero. As a result, in some cases, the revenue gain obtained from eliminating such credits one by one would be zero but their combined effect would be positive.

Another example is the interaction between pension income splitting and the Pension Income Credit, which potentially allows couples that split pension income to increase the combined amount of Pension Income Credit they can claim. For instance, a one-earner couple with total pension income of $60,000 and no other income could split income equally between the two spouses to allow the spouse with no income to claim the full value of the Pension Income Credit. The tax expenditure associated with the increased amount of Pension Income Credit being claimed is captured in the forgone revenue estimates of both pension income splitting and the Pension Income Credit. Therefore, adding the costs of these two tax expenditures would mean counting twice the tax expenditure that is attributable to the interaction between these two measures, resulting in the overestimation of the total cost of these two measures.

A similar example is the interaction between GST exemptions and GST rebates. A number of services that are provided in a non-commercial context are exempt from GST, and institutions that provide these services are generally eligible for rebates on GST paid on their purchases. Although the exemptions and rebates are presented as two different tax expenditures, they are not independent. If one of these exemptions were repealed, the institutions providing the exempt services would begin charging GST on their supplies and receive input tax credits. The institutions would no longer require rebates since the GST paid on their purchases would be relieved by the input tax credits, effectively repealing the related rebate as well. In this report, the value of GST exemptions is calculated as the tax revenues the government would raise by taxing exempt services, net of the input tax credits that providers would then receive. However, the value of GST exemptions does not account for the portion of the GST paid by the providers that would be received as input tax credits should the services become taxable, but that are currently claimed as rebates. The value of GST rebates is presented separately, and should be netted out of the value of GST exemptions in order to obtain a closer approximation of the revenue impact of eliminating these measures.

Changes in the Estimates and Projections

The estimated and projected costs of a tax expenditure may vary from year to year or may be revised in a subsequent edition for any particular year. Variations and revisions may be attributable to a number of factors, including the following:

Legislative Changes

Changes may have been announced to a tax expenditure that increase or reduce its estimated or projected cost. Proposed changes are taken into account for the purpose of estimating the cost of a measure, even if the enacting legislation has not received Royal Assent by the time of production of this report. Information on legislative changes to tax expenditures since the last edition of this report is provided in Part 2, while important historical changes are noted in the descriptions of the tax expenditures in Part 3.

Broad-based changes to the tax system may affect tax expenditure estimates and projections to the extent that these changes modify the effective tax rates otherwise faced by taxpayers under the benchmark tax system, including because the changes would affect the number of individuals who do not pay tax. Specifically, a reduction (increase) in the effective tax rate under the benchmark tax system will generally result in lower (higher) tax expenditure estimates and projections. For instance, many personal income tax expenditures were affected by the reduction in the second personal income tax rate to 20.5% from 22% and the introduction of a personal income tax rate of 33% on taxable income in excess of $200,000 that came into effect in 2016.

Revisions to the Projections

As with any other projections, the projections of tax expenditures are inherently subject to forecast errors as they are based on historical data and expected economic outcomes. As a result, the projected values of tax expenditures may be revised substantially as more recent forecasts and data become available, and actual values may differ significantly from projected values. More important revisions can be expected for tax expenditures that are particularly sensitive to business or market cycles or to other economic parameters that are difficult to forecast.

Changes in Data and Methodology

Revisions to past estimates and projections may reflect the availability of new or improved data as well as changes to the estimation or projection methodology. In particular, updated corporate tax data for historical years may show substantial changes to the tax position of certain corporations due to the impact of loss carrybacks or tax reassessments. Significant changes to the methodology are mentioned in the descriptions of the tax expenditures in Part 3.

Gender-based Analysis Plus

In order to further advance the Government's priorities for gender equality and strengthen the use of GBA+ in decision-making, the Government has committed to better integrate gender into the budget priority-setting process. Through the *Canadian Gender Budgeting Act* of 2018, GBA+ was made part of the federal government's budgetary and financial management processes, requiring that, once a year, the Minister of Finance make available to the public analysis on the impacts in terms of gender and diversity of tax expenditures. While the 2019 and 2020 GBA+ studies analysed the differential impacts of the personal income tax system by gender, this year's study focuses on other diversity factors. It examines whether personal income tax expenditures benefit relatively more taxfilers of specific age groups, family composition, income groups and areas of residence.

Additional Resources

For additional information on tax expenditures and the Canadian tax system, readers are invited to consult the following resources:

Department of Finance Canada website: **www.canada.ca/en/department-finance.html**
Tax Policy: **www.canada.ca/en/department-finance/programs/tax-policy.html**
Budgets: **www.canada.ca/en/department-finance/services/publications/federal-budget.html**
Fiscal Reference Tables: **www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables.html**

Canada Revenue Agency website: **www.canada.ca/en/revenue-agency.html**
Tax statistics: **www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics.html**
Tax rates and parameters: **www.canada.ca/en/revenue-agency/services/tax/rates.html**

Statistics Canada website: **www.statcan.gc.ca**

Provincial tax expenditure reports:

Newfoundland and Labrador—*Estimates 2020*, Appendix I
https://www.gov.nl.ca/budget/2020/estimates/

Nova Scotia—*Budget 2020-21*, Estimates and Supplementary Detail
https://beta.novascotia.ca/documents/budget-documents-2020-2021

Quebec—*Tax Expenditures, 2019 edition* (available in French only)
http://www.budget.finances.gouv.qc.ca/budget/outils/depenses-fiscales/index.asp

Ontario—*Taxation Transparency Report, 2020*
https://budget.ontario.ca/2020/transparency.html

Manitoba—*Budget 2020*, Tax and Fee Measures
https://www.gov.mb.ca/budget2020/

Saskatchewan—*2020-21 Provincial Budget*, 2020 Saskatchewan Tax Expenditure Accounts
https://www.saskatchewan.ca/government/budget-planning-and-reporting/budget-2020-21

Alberta—*Budget 2020—2020-23 Fiscal Plan*, Tax Plan
https://www.alberta.ca/tax-plan.aspx

British Columbia—*Budget and Fiscal Plan 2020/21 - 2022/23*, Appendix A1, Tax Expenditures
https://www.bcbudget.gov.bc.ca/2020/

Annex—Estimating the Value of Tax Deferrals, Accelerated Depreciation Provisions and Other Timing Preferences

Certain tax measures defer income taxes from the current taxation year to a later one—for example, by accelerating deductions or by deferring income inclusions. Estimating the cost of tax deferrals presents a number of methodological challenges since, even though the tax is not currently received, it may be collected at some point in the future.

The cost of timing preferences such as these (with the exception of accelerated deductibility provisions—see explanation below) is presented in this report on a nominal cash-flow basis. On that basis, deferred income taxes from current-year activities represent a cost to the government while income taxes on prior-year activities for which the deferral has been completed are a revenue gain. Thus, if the level of activity in question were constant from year to year—that is, in a steady state—the two amounts would cancel each other out and the tax expenditure would be zero. An increase over time in the level of activity would tend to produce a positive tax expenditure, while a decrease would tend to produce a negative tax expenditure.

The cost of timing preferences could also be presented on a net present-value basis to emphasize the cost to the government that relates to the time value of money. There can be a cost to the government and a benefit to the taxpayer when tax deferrals are considered on a present-value basis, even when the cash-flow basis of measurement suggests that, in a steady state, there is no overall cost to the government. Because of the time value of money, a reduction in tax of a given amount today more than offsets a tax increase of the same nominal amount in a future period. This can be demonstrated with a calculation of the value of the implicit interest-free loan that is provided to the taxpayer when taxes are deferred to a later year. For example, if a taxpayer is able to defer $100 in income tax for one year, and the discount rate is 8%, then the present value of the future obligation is $92.59 and the taxpayer has received a benefit of $7.41 in today’s dollars. There is an equivalent implicit interest cost to the government. On a present-value basis, unlike the cash-flow basis, a tax deferral would result in a positive tax expenditure in the steady state. The net present value of the tax expenditure associated with a tax deferral can also be affected by tax rates, for instance when a deduction is accelerated while tax rates are decreasing.

Estimating the net present value of the tax expenditure associated with a tax deferral with a reasonable degree of accuracy is very challenging when activities are not in a steady state and when precise projections cannot be derived over a relatively long horizon. For instance, estimating the net present value of the tax expenditures associated with the accelerated deductibility of capital costs and flow-through share deductions would require estimating future business cycles and economic conditions in the mining and oil and gas sectors, while estimating the net present value of the tax expenditures associated with Registered Pension Plans and Registered Retirement Savings Plans would require robust long-term projections of contributions and withdrawals. Given these challenges, this publication does not report on the present value of tax expenditures associated with tax deferrals.

The following section provides four examples of the calculation of the cost of timing preferences.

Registered Pension Plans, Pooled Registered Pension Plans and Registered Retirement Savings Plans

The cost of Registered Pension Plans, Pooled Registered Pension Plans and Registered Retirement Savings Plans presented in Part 2 and Part 3 is estimated on a cash-flow basis. The net cost of these plans in a given year is the revenue forgone associated with the deductibility of contributions to the plans made during the year and the non-taxation of investment income earned within these plans during the year, minus the taxes collected on withdrawals from these plans made in the year. The cost of these plans on a net present-value basis would be a measure of the net revenue forgone in today's dollars due to the contributions made in a given year, taking into account the fact that the deferred tax will be collected in the future when the contributions and investment income earned on them are withdrawn.

Accelerated Capital Cost Allowance

Where a tax deduction is allowed for the cost of capital investments, the deduction is normally required to be spread over a number of years. This is based on the principle that capital assets are not consumed in the period in which they are acquired, but instead contribute to earnings over several years. Therefore, the deduction is normally allowed at a rate which allocates the cost of the asset over the period that the asset contributes to earnings—the asset's useful life. Allocating the deduction for capital costs over the useful life of assets ensures that the tax system is neutral in its treatment of assets with different useful lives.[10]

For tax purposes, firms calculate their deductions for depreciable capital assets under the rules set out in the *Income Tax Act* and *Income Tax Regulations*. The allowable deduction rates for depreciable capital assets are set out in the capital cost allowance (CCA) system. This system generally allows for a portion of the original capital cost of an asset or group of assets to be deducted each year. In most cases, each successive year, a fixed percentage is applied to the declining balance of undeducted costs remaining. A similar system applies to deductions for intangible expenses in the natural resource sectors that are capital in nature, such as the costs of exploration and development.

The rate at which certain capital costs can be deducted for tax purposes is, in some cases, more rapid than would be permitted under the useful life benchmark. Examples are the provision of accelerated CCA or immediate expensing for certain tangible capital assets (e.g., machinery and equipment used in manufacturing and processing, specified clean energy equipment, Canadian vessels) and of the immediate deduction of certain intangible expenses that are capital in nature in that they contribute to earnings over several years (e.g., advertising costs, expenditures on research and development).

These provisions result in tax deductions that are higher (as compared with the useful life benchmark) in the initial years of the life of an asset and lower in later years. While the total amount deducted over the life of the asset (equal to the original cost) is not affected, the acceleration in the deduction results in a deferral of tax. Given the time value of money, this can be an important financial benefit to firms. Changes in the timing of tax receipts can also have an important impact on the government's fiscal position in the short term.

[10] The determination of the useful life of an asset involves the assessment of a variety of factors, including statistical estimates of the rate of economic depreciation applying to the asset, industry data on the engineering life of the asset and the repairs needed to keep it operating, and the treatment accorded to the asset for financial accounting purposes.

The cost for a given year of the accelerated deductibility of capital costs, measured on a cash-flow basis, equals the revenue forgone as a result of the additional capital costs being deducted in the year relative to the amounts that would have been deducted in absence of the measure. Accelerated deductions imply a larger cost in the early years and a smaller cost in the later years in comparison to the situation with no accelerated deductions. The cash-flow cost for a given year accounts for the fiscal impact of investments made in that year, but also of investments made in earlier years. For that reason, the net cash-flow cost could be positive or negative depending on past, current and projected investments, and is not necessarily equal to the amount of revenue that would be gained in the short run if the accelerated deductibility were to be eliminated for new investments.

The cost of accelerating the deductibility of capital costs, measured on a present-value basis, would reflect the expected stream of deductions in the future in respect of an investment or a group of investments made at a particular time. Under this approach, the tax expenditure would be estimated by comparing the discounted present value of tax payments associated with a given investment or group of investments made at a particular point in time over the life of those investments, with and without the accelerated deduction in place.

More information on the estimation of the tax expenditures associated with the accelerated deductibility of capital costs can be found in the study "Tax Expenditures for Accelerated Deductions of Capital Costs" that was published in the 2012 edition of this report.

Historically, annual tax expenditure estimates were not usually provided for accelerated deductibility provisions because adequate data are not generally available to calculate them with a reasonable degree of accuracy, and because many simplifying assumptions would be required to model the pattern of deductions that would be claimed in the absence of these provisions. However, the 2019 edition of the report presented the combined incremental tax expenditure estimates of the three accelerated capital cost allowance measures announced in the 2018 *Fall Economic Statement* under "Accelerated Investment Incentive". Going forward, tax expenditure estimates will generally be provided for new accelerated deductibility provisions.

Flow-Through Share Deductions

An investor buying a flow-through share, in addition to receiving an equity interest in the issuing corporation, is also entitled to claim deductions on account of Canadian Exploration Expenses, Canadian Development Expenses and Canadian Renewable and Conservation Expenses transferred to the investor by the corporation.[11] On a cash-flow basis, the cost of this tax expenditure, for a given year, is equal to the amount of revenue forgone as a result of the transferred deductions claimed by investors in that year less the estimated incremental revenue gain associated with the zero cost base for flow-through shares sold by investors in that year. The transfer of unused deductions from the issuing corporations to the investors entails a cost to the government when the deductions are claimed by the investors earlier than they would have been claimed by the corporations or where the investors face higher tax rates than the issuing corporations. The fact that flow-through shares are deemed to have a zero cost base for tax purposes means that the gains realized by investors when the shares are sold will be larger than they would otherwise have been, resulting in more taxes being paid on the incremental capital gains.[12] On a present-value basis, the cost of this tax expenditure would be calculated by comparing the discounted present value of the deductions and capital gains, with and without the flow-through mechanism.

[11] For additional information on flow-through shares, see the study "Flow-Through Shares: A Statistical Perspective" published in the 2013 edition of this report.

[12] The incremental portion of the gain is the difference between the zero cost base and the price at which the company would have been able to issue regular common shares.

The estimates and projections of the cost of this tax expenditure presented in this report are on a cash-flow basis and represent an upper-bound of the cost, since it is effectively assumed that the issuing corporations would never have been able to deduct the transferred expenses.[13]

Deductibility of Contributions to a Qualifying Environmental Trust

A qualifying environmental trust is an arm's length trust to which companies operating certain sites like mines and waste disposal sites are required by law to make contributions in order to pre-fund site reclamation costs. Since general income tax rules do not permit a deduction for contingent expenses, a deduction for prepaying such costs would normally only be allowed when the reclamation costs are actually incurred. In the absence of relief, this could give rise to cash-flow issues since no tax recognition would be provided when the contributions are made. Further, since reclamation expenses are normally paid after the closure of a site when it is no longer producing revenues, the company (particularly if it is a single-site company) may not have any taxable income against which to claim the expenses.

In response to these issues, it is possible to deduct a contribution made to a qualifying environmental trust in the year the contribution is made, provided that the contributor is a beneficiary under the trust. Income earned in the trust is subject to tax each year under Part XII.4 of the *Income Tax Act*. The income taxed in the trust is also considered taxable income of the corporation that established it, but the corporation receives a refundable tax credit equal to its share of the tax paid by the trust. The net result is that trust income is effectively taxed at the marginal tax rate applicable to the corporation, rather than the rate applicable to the trust. Amounts withdrawn from the trust to fund reclamation costs—both the original capital and income earned on it—are included in the recipient's income when withdrawn. As a result, the investment income is included in taxable income twice. Typically, however, the recipient will be able to deduct the reclamation costs incurred against the above income inclusion, resulting in no net tax cost at the time of withdrawal.

The inclusion of trust income in taxable income twice—once when earned and a second time when withdrawn—offsets in whole or in part (depending on whether the corporation's discount rate equals or exceeds the net rate of return earned by the capital invested in the trust) the present value benefit to the corporation of bringing forward the deduction for reclamation costs to the time when the funds are first contributed. The nominal value (ignoring the time value of money) of this tax expenditure over the life of a particular project may be negative as a result of the double inclusion in taxable income of the trust earnings. It will tend to be positive, however, if the company is taxable at the time of the contribution to the trust (so that the upfront deduction is available), but not taxable at the time of withdrawal (which could well be the case for a single-mine operation once the mine ceases to operate).

[13] Limited data is available to determine when, if ever, the expenses being flowed through would otherwise have been deducted by the issuing corporations. Available data indicates, for example, that 96% of corporations that flowed through expenses to investors for the 2013 taxation year were not taxable in that year and thus not in a position to immediately deduct the expenses themselves. Many junior exploration corporations in Canada, particularly in the mining sector, never become taxable entities. It is a common business model that once an exploitable resource is found, the resource will be sold to a larger corporation or group with more experience developing and operating extraction projects.

Part 2

Tax Expenditure Estimates and Projections

Introduction

Part 2 presents the estimates of the fiscal cost of federal tax expenditures for the years 2015 to 2022. It presents estimates for a wide range of tax expenditures, measures that are not considered tax expenditures (i.e., measures that are considered part of the benchmark tax system), and refundable tax credits that are classified as transfer payments. To increase transparency in government reporting on support to the fossil fuel sector, a second table grouping tax expenditures that provide such support is also presented. These estimates are followed by a third set of tables that present background statistics on total tax revenues by tax base, as well as some other useful statistics, such as the number of filers and tax paid by income tax bracket. Finally, key changes that have been made to tax expenditures since the last edition are described.

Notes:

The elimination of a tax expenditure would not necessarily yield the full tax revenues shown in the table. See Part 1 of this report for a discussion of the reasons for this.

A structural measure is one whose main objective is internal to the tax system. The classification of a measure as structural or non-structural is not indicative of the relevance and performance of the measure. A measure could pursue both structural and non-structural objectives, in which case it is categorized based on an assessment of whether the structural or non-structural component predominates (see explanation in the introduction to Part 3 of the report).

Amounts under $500,000 are reported as “S” (“small”), amounts between $500,000 and $5 million are rounded to the nearest $1 million, and amounts above $5 million are rounded to the nearest $5 million.

Symbols:

n.a.	No data available to support a meaningful estimate or projection
–	Tax expenditure not in effect
X	Not published for confidentiality reasons
PIT	Personal income tax (excluding trusts)
TRU	Personal income tax with respect to trusts
CIT	Corporate income tax
GST	Goods and Services Tax

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
TAX EXPENDITURES									
ARTS AND CULTURE									
Structural									
Deduction for self-employed artists	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-structural									
Children's Arts Tax Credit (phased out)	PIT	45	25	–	–	–	–	–	–
BUSINESS – FARMING AND FISHING									
Structural									
Cash basis accounting	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deferral of income from destruction of livestock	PIT	1	-1	2	-2	S	n.a.	n.a.	n.a.
	CIT	1	S	3	S	1	n.a.	n.a.	n.a.
Deferral of income from sale of livestock in a region of drought, flood or excessive moisture	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-structural									
Deferral of capital gains through intergenerational rollovers of family farms or fishing businesses	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deferral of income from grain sold through cash purchase tickets	PIT	15	10	-5	-10	-15	-3	n.a.	n.a.
	CIT	20	10	-5	-10	-20	-2	n.a.	n.a.
Exemption for insurers of farming and fishing property (repealed)	CIT	10	10	10	20	–	–	–	–
Patronage dividends paid as shares by agricultural cooperatives	PIT	S	2	2	2	1	1	1	1
	CIT	S	5	4	4	3	3	3	3
Tax treatment of farm savings accounts (AgriInvest and Agri-Québec)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zero-rating of agricultural and fish products and purchases	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BUSINESS – NATURAL RESOURCES									
Non-structural									
Accelerated capital cost allowance for liquefied natural gas facilities (sunset in 2024)	PIT	X	X	X	X	X	X	X	X
	CIT	X	X	X	X	X	X	X	X
Accelerated capital cost allowance for mining and oil sands assets (phased out)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accelerated deductibility of some Canadian Exploration Expenses (phased out)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate Mineral Exploration and Development Tax Credit (phased out)	CIT	15	5	70	80	70	65	65	60

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
BUSINESS – NATURAL RESOURCES *(cont'd)*									
Earned depletion (phased out)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	S	S	S	S	S	S	S	S
Flow-through share deductions	PIT	55	85	120	85	85	75	70	80
	CIT	25	45	45	40	40	40	40	35
Mineral Exploration Tax Credit for flow-through share investors (sunset in 2024)	PIT	25	55	65	50	60	55	55	60
Reclassification of expenses under flow-through shares (phased out)	PIT	-5	-5	-2	-4	-3	-2	-1	-1
	CIT	-1	S	S	-1	S	S	S	S
BUSINESS – RESEARCH AND DEVELOPMENT									
Non-structural									
Expensing of current expenditures on scientific research and experimental development	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Scientific Research and Experimental Development Investment Tax Credit (non-refundable portion for CIT)	PIT	1	S	1	1	1	1	1	1
	CIT	1,390	1,440	1,540	1,405	880	835	850	910
BUSINESS – SMALL BUSINESSES									
Structural									
Small suppliers' threshold	GST	225	225	230	245	250	225	250	275
Non-structural									
Deduction of allowable business investment losses	PIT	35	35	40	35	45	45	45	50
	TRU	S	1	S	1	1	1	1	1
	CIT	15	10	10	5	5	10	10	10
Non-taxation of provincial assistance for venture investments in small businesses	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Preferential tax rate for small businesses	CIT	3,170	3,545	3,800	4,175	5,100	5,370	5,495	6,035
Rollovers of investments in small businesses	PIT	X	25	10	15	10	5	10	10
BUSINESS – OTHER									
Structural									
Deductibility of costs of capital assets and eligibility for investment tax credits before asset is put in use	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deductibility of earthquake reserves	CIT	S	S	S	S	S	1	1	1
Deferral through five-year capital gain reserve	PIT	10	15	25	30	30	25	30	30
	TRU	S	-2	4	5	5	5	5	5
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deferral through rollover of capital gains and capital cost allowance recapture in respect of involuntary dispositions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
BUSINESS – OTHER *(cont'd)*									
Deferral through use of billed-basis accounting by professionals and professional corporations	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exemption from branch tax for transportation, communications, and iron ore mining corporations	CIT	S	S	30	10	15	15	15	15
Exemption from GST for domestic financial services	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expensing of advertising costs	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expensing of incorporation expenses	CIT	–	–	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Holdback on progress payments to contractors	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	50	10	25	50	40	40	45	45
Tax status of certain federal Crown corporations	CIT	X	X	X	X	X	X	X	X
Non-structural									
Accelerated capital cost allowance for manufacturing or processing machinery and equipment (sunset in 2025)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accelerated capital cost allowance for vessels	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accelerated Investment Incentive (sunset in 2027)	PIT CIT	–	–	–	380	3,700	2,425	1,680	1,740
Atlantic Investment Tax Credit (non-refundable portion for CIT)	PIT	10	10	10	10	10	10	10	10
	CIT	260	120	510	245	85	135	95	75
Deferral for asset transfers to a corporation and corporate reorganizations	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deferral through 10-year capital gain reserve	PIT	25	20	30	25	20	10	20	20
Deferral through rollover of capital gains and capital cost allowance recapture in respect of dispositions of land and buildings	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expensing of employee training costs	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Foreign Convention and Tour Incentive Program	GST	20	25	25	5	5	S	2	5
Lifetime Capital Gains Exemption	PIT	1,380	1,500	1,755	1,855	1,615	1,445	1,460	1,530
	TRU	1	–	–	–	–	–	–	–
Non-deductibility of advertising expenses in foreign media	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	S	S	S	S	S	S	S	S
Special tax rate for credit unions (phased out)	CIT	15	10	S	–	–	–	–	–

Table
Estimates and Projections
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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
DONATIONS, GIFTS, CHARITIES AND NON-PROFIT ORGANIZATIONS									
Non-structural									
Additional deduction for gifts of medicine	CIT	S	S	S	S	S	S	S	S
Charitable Donation Tax Credit	PIT	2,645	2,735	2,900	2,980	3,095	3,070	3,205	3,320
	TRU	15	15	35	35	35	35	35	40
Deductibility of charitable donations	CIT	455	445	635	690	715	710	725	795
Deduction for certain contributions by individuals who have taken vows of perpetual poverty	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exemption from GST for certain supplies made by charities and non-profit organizations	GST	1,100	1,205	1,280	1,325	1,395	1,340	1,415	1,495
First-Time Donor's Super Credit (sunset in 2017)	PIT	4	4	4	–	–	–	–	–
Non-taxation of capital gains on donations of cultural property	PIT	10	10	5	5	3	5	5	5
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of capital gains on donations of ecologically sensitive land	PIT	1	3	2	3	2	2	2	3
	TRU	S	S	S	S	S	S	S	S
	CIT	S	S	2	1	1	1	1	1
Non-taxation of capital gains on donations of publicly listed securities	PIT	60	75	95	75	125	90	105	115
	TRU	S	1	1	2	2	2	2	2
	CIT	60	65	105	75	125	100	105	110
Non-taxation of non-profit organizations	PIT CIT	70	65	100	125	90	40	50	75
Non-taxation of registered charities	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Rebate for poppies and wreaths	GST	X	X	X	X	X	X	X	X
Rebate for qualifying non-profit organizations	GST	75	70	75	75	70	65	75	80
Rebate for registered charities	GST	325	310	315	315	310	310	320	335
EDUCATION									
Structural									
Deduction for tuition assistance for adult basic education	PIT	1	2	2	2	2	3	3	2
Education Tax Credit (phasing out)	PIT	760	730	400	325	250	195	115	45
Textbook Tax Credit (phasing out)	PIT	120	115	65	55	40	30	20	5
Tuition Tax Credit	PIT	1,230	1,315	1,455	1,630	1,755	2,010	1,795	1,985
Non-structural									
Exemption from GST for tuition and educational services	GST	740	785	825	880	945	995	1,080	1,155
Exemption of scholarship, fellowship and bursary income	PIT	250	265	365	470	475	485	415	375
Rebate for book purchases made by certain organizations	GST	15	15	15	15	15	15	15	15

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
EDUCATION *(cont'd)*									
Rebate for schools, colleges and universities	GST	725	745	830	885	855	880	920	945
Registered Education Savings Plans	PIT	145	135	110	110	115	95	120	100
Student Loan Interest Credit	PIT	40	40	45	50	50	35	40	45
EMPLOYMENT									
Structural									
Apprentice vehicle mechanics' tools deduction	PIT	3	3	3	3	3	3	3	3
Canada Employment Credit	PIT	2,270	2,295	2,385	2,495	2,575	2,685	2,590	2,665
Child Care Expense Deduction	PIT	1,345	1,295	1,320	1,355	1,380	970	1,135	1,360
Deductibility of certain costs incurred by musicians	PIT	1	1	S	1	1	1	1	1
Deductibility of expenses by employed artists	PIT	S	S	S	S	S	S	S	S
Deduction for tradespeople's tool expenses	PIT	2	2	2	2	2	2	2	2
Deduction of other employment expenses	PIT	930	915	920	910	955	1,050	1,010	1,050
Deduction of union and professional dues	PIT	970	955	975	1,030	1,095	1,045	1,115	1,195
Moving expense deduction	PIT	100	100	110	110	115	120	120	125
Non-taxation of allowances for diplomats and other government employees posted abroad	PIT	25	30	30	35	35	35	n.a.	n.a.
Non-taxation of allowances for members of legislative assemblies and certain municipal officers (repealed)	PIT	20	20	20	20	–	–	–	–
Non-taxation of benefits in respect of home relocation loans (repealed)	PIT	S	S	S	–	–	–	–	–
Non-taxation of certain non-monetary employment benefits	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Rebate to employees and partners	GST	55	55	50	50	50	50	50	55
Non-structural									
Apprenticeship Job Creation Tax Credit	PIT	2	2	2	2	1	1	1	1
	CIT	95	80	90	90	80	75	75	75
Employee benefit plans	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Employee stock option deduction	PIT	685	550	655	770	920	865	935	985
Non-taxation of income earned by military and police deployed to international operational missions	PIT	10	15	40	40	45	30	n.a.	n.a.
Northern Residents Deductions	PIT	180	220	225	230	235	210	235	240
Overseas Employment Tax Credit (phased out)	PIT	25	–	–	–	–	–	–	–

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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
ENVIRONMENT									
Structural									
Deductibility of contributions to a qualifying environmental trust	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	55	60	60	60	55	55	55	55
Non-structural									
Accelerated capital cost allowance for clean energy generation equipment (Class 43.2 sunset in 2024)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accelerated capital cost allowance for zero-emission automotive equipment and vehicles (sunset in 2027)	PIT CIT	–	–	–	–	4	30	35	45
Accelerated deductibility of Canadian Renewable and Conservation Expenses	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public Transit Tax Credit (repealed)	PIT	190	190	105	–	–	–	–	–
FAMILIES AND HOUSEHOLDS									
Structural									
Adoption Expense Tax Credit	PIT	2	2	2	2	2	2	2	2
Canada Caregiver Credit	PIT	–	–	190	210	220	220	220	225
Caregiver Credit (replaced)	PIT	145	145	–	–	–	–	–	–
Eligible Dependant Credit	PIT	870	905	940	980	1,015	1,160	1,105	1,185
Family Caregiver Tax Credit (replaced)	PIT	75	75	–	–	–	–	–	–
Goods and Services Tax/Harmonized Sales Tax Credit	GST	4,315	4,440	4,550	4,650	4,935	10,520	5,080	5,155
Infirm Dependant Credit (replaced)	PIT	5	5	–	–	–	–	–	–
Spouse or Common-Law Partner Credit	PIT	1,440	1,575	1,715	1,740	1,800	1,800	1,890	2,000
Non-structural									
Deferral of capital gains through transfers to a spouse, spousal trust or alter ego trust	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exemption from GST for child care	GST	160	170	185	190	200	140	175	210
Exemption from GST for personal care services	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Family Tax Cut (repealed)	PIT	1,625	–	–	–	–	–	–	–
Inclusion of the Universal Child Care Benefit in the income of an eligible dependant (replaced)	PIT	10	5	–	–	–	–	–	–
Investment Tax Credit for Child Care Spaces (phased out)	PIT	S	S	S	S	S	S	S	S
	CIT	S	S	S	S	S	S	S	S
Non-taxation of up to $10,000 of death benefits	PIT	5	5	5	5	5	10	10	10
Tax treatment of alimony and maintenance payments	PIT	65	95	95	95	110	110	125	130
Zero-rating of feminine hygiene products	GST	15	40	40	40	45	45	45	45

Table
Estimates and Projections
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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
HEALTH									
Structural									
Disability supports deduction	PIT	3	3	3	3	3	3	3	3
Disability Tax Credit	PIT	990	1,030	1,090	1,150	1,200	1,250	1,300	1,350
Medical Expense Tax Credit	PIT	1,370	1,435	1,550	1,645	1,650	1,720	1,820	1,930
Non-structural									
Exemption from GST for health care services	GST	775	840	870	920	965	610	805	995
Exemption from GST for hospital parking	GST	15	15	15	15	15	10	15	20
Home Accessibility Tax Credit	PIT	–	10	15	15	15	15	20	20
Non-taxation of benefits from private health and dental plans	PIT	2,580	2,480	2,840	3,050	3,240	3,425	3,605	3,795
Rebate for hospitals, facility operators and external suppliers	GST	695	630	665	695	740	885	975	975
Rebate for specially equipped motor vehicles	GST	S	S	S	S	S	S	S	S
Registered Disability Savings Plans	PIT	40	50	60	65	60	65	70	80
Surtax on the profits of tobacco manufacturers (phased out)	CIT	X	X	X	–	–	–	–	–
Zero-rating of face masks and face shields	GST	–	–	–	–	–	3	75	20
Zero-rating of medical and assistive devices	GST	400	430	455	475	490	465	495	525
Zero-rating of prescription drugs	GST	810	825	850	880	900	915	940	980
HOUSING									
Structural									
Exemption from GST for sales of used residential housing and other personal-use real property	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-structural									
Exemption from GST for certain residential rent	GST	1,800	1,755	1,740	1,850	1,960	2,160	2,185	2,250
Exemption from GST for short-term accommodation	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
First-Time Home Buyers' Tax Credit	PIT	115	115	110	105	110	110	110	110
Non-taxation of capital gains on principal residences	PIT	6,185	7,815	7,390	5,310	5,540	7,845	7,710	7,760
Rebate for new housing	GST	570	520	510	490	460	485	515	510
Rebate for new residential rental property	GST	140	170	160	165	165	180	195	195

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Estimates and Projections
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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
INCOME SUPPORT									
Non-structural									
Non-taxation of certain veterans' benefits	PIT	230	220	205	200	200	195	185	175
Non-taxation of Guaranteed Income Supplement and Allowance benefits	PIT	155	175	225	225	230	200	180	175
Non-taxation of investment income on certain amounts received as damages in respect of personal injury or death	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of RCMP pensions and other compensation in respect of injury, disability or death	PIT	25	30	35	40	50	50	55	55
Non-taxation of social assistance benefits	PIT	230	240	265	300	330	300	290	280
Non-taxation of workers' compensation benefits	PIT	630	640	675	720	755	770	750	755
INTERGOVERNMENTAL TAX ARRANGEMENTS									
Structural									
Income tax exemption for certain public bodies	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Rebate for municipalities	GST	2,245	2,285	2,515	2,665	2,740	2,810	2,885	2,970
Refunds for Indigenous self-governments	GST	10	5	5	10	5	10	10	10
Non-structural									
Logging Tax Credit	PIT	1	1	1	2	1	1	1	1
	TRU	X	X	X	X	X	X	X	X
	CIT	20	25	50	85	55	55	55	55
INTERNATIONAL									
Structural									
Deductibility of countervailing and anti-dumping duties when paid	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exemption for international shipping and aviation by non-residents	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of certain importations	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of life insurance companies' foreign income	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Travellers' exemption	GST	300	300	305	305	325	80	100	245
Non-structural									
Exemptions from non-resident withholding tax	PIT CIT	5,660	6,200	6,950	8,745	8,130	7,685	8,210	8,775
Tax treatment of active business income of foreign affiliates of Canadian corporations and deductibility of expenses incurred to invest in foreign affiliates	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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Estimates and Projections
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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
RETIREMENT									
Non-structural									
Deferred Profit-Sharing Plans	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Partial inclusion of U.S. Social Security benefits	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension Income Credit	PIT	1,170	1,190	1,195	1,235	1,250	1,250	1,265	1,285
Pension income splitting	PIT	1,165	1,135	1,290	1,380	1,395	1,490	1,625	1,755
Pooled Registered Pension Plans	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Registered Pension Plans	PIT	24,700	26,010	29,295	26,670	31,055	26,410	26,985	28,090
Registered Retirement Savings Plans	PIT	15,195	16,050	17,320	14,585	17,760	15,640	15,375	16,145
Saskatchewan Pension Plan	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SAVINGS AND INVESTMENT									
Structural									
$200 capital gains exemption on foreign exchange transactions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital gains exemption on personal-use property	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax treatment of investment income from life insurance policies	PIT	220	205	225	215	230	215	210	225
Taxation of capital gains upon realization	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-structural									
Labour-Sponsored Venture Capital Corporations Credit	PIT	90	145	150	155	155	155	160	170
Non-taxation of capital dividends	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Partial inclusion of capital gains	PIT	5,730	6,250	9,485	8,700	7,775	7,375	8,310	9,110
	TRU	755	570	830	695	775	740	830	905
	CIT	6,300	6,480	9,615	11,500	9,655	9,460	10,590	11,560
Tax-Free Savings Account	PIT	635	810	1,075	870	1,060	910	935	1,180
SOCIAL									
Non-structural									
Age Credit	PIT	3,170	3,335	3,450	3,625	3,840	3,930	3,955	4,035
Credit for subscriptions to Canadian digital news media	PIT	–	–	–	–	–	25	30	40
Deduction for clergy residence	PIT	90	95	95	95	100	100	100	105
Exemption from GST and rebate for legal aid services	GST	45	45	45	50	50	40	50	55
Exemption from GST for ferry, road and bridge tolls	GST	10	10	10	15	15	10	10	15
Exemption from GST for municipal transit	GST	195	200	210	210	220	135	180	220
Exemption from GST for water, sewage and basic garbage collection services	GST	265	280	300	310	330	335	350	365
Political Contribution Tax Credit	PIT	55	25	25	30	40	25	25	25
Search and Rescue Volunteers Tax Credit	PIT	2	2	2	2	2	2	2	2
Tax-free amount for emergency services volunteers	PIT	3	3	3	3	3	3	3	3
Volunteer Firefighters Tax Credit	PIT	20	20	20	20	15	20	20	20

Table
Estimates and Projections
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		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
SOCIAL *(cont'd)*									
Zero-rating of basic groceries	GST	4,260	4,370	4,540	4,685	4,860	5,355	5,300	5,330
OTHER									
Non-structural									
Non-taxation of personal property of status Indians and Indian bands situated on reserve	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	GST	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TAX MEASURES OTHER THAN TAX EXPENDITURES									
BUSINESS – OTHER									
Structural									
Non-capital loss carry-overs	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	TRU	130	200	370	135	180	200	320	450
	CIT	6,500	7,210	7,250	7,890	6,650	6,655	6,770	7,180
Partial deduction of and partial input tax credits for meals and entertainment	PIT	210	215	210	200	205	130	195	210
	CIT	290	300	315	330	350	210	295	350
	GST	175	180	185	190	175	105	150	175
EMPLOYMENT									
Structural									
Non-taxation of strike pay	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax treatment of Canada Pension Plan and Quebec Pension Plan contributions and benefits	PIT	9,810	9,610	10,075	10,615	11,515	11,215	12,710	14,425
Tax treatment of Employment Insurance and Quebec Parental Insurance Plan premiums and benefits	PIT	4,220	4,215	3,970	4,240	4,315	3,930	4,240	4,535
INTERGOVERNMENTAL TAX ARRANGEMENTS									
Structural									
Non-taxation of lottery and gambling winnings	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Quebec Abatement	PIT	4,380	4,420	4,745	5,130	5,380	5,330	5,575	5,855
	TRU	60	60	95	70	85	90	95	95
Transfer of income tax points to provinces	PIT	22,060	21,265	22,895	24,425	25,185	25,295	26,445	27,865
	TRU	540	615	830	525	940	800	835	880
	CIT	2,850	3,000	3,320	3,650	3,835	3,740	3,830	4,275
INTERNATIONAL									
Structural									
Foreign tax credit for individuals	PIT	1,445	1,590	1,650	1,825	1,835	1,785	1,850	1,890
	TRU	50	55	45	40	50	50	50	50
SAVINGS AND INVESTMENT									
Structural									
Capital loss carry-overs	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	TRU	1,140	940	1,240	715	790	945	1,040	1,145
	CIT	820	630	585	785	585	670	675	715

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
SAVINGS AND INVESTMENT *(cont'd)*									
Deduction of interest and carrying charges incurred to earn investment income	PIT	1,385	1,455	1,630	1,855	1,905	1,865	1,980	2,050
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend gross-up and tax credit	PIT	5,780	4,475	5,395	4,925	4,795	4,510	4,810	5,060
	TRU	450	225	235	275	225	170	205	230
Investment corporation deduction	CIT	S	S	S	S	S	S	S	S
Refundable capital gains tax for investment corporations, mutual fund corporations and mutual fund trusts	TRU	2,400	3,355	4,480	2,400	4,890	3,910	4,305	4,735
	CIT	1,025	925	1,535	1,120	1,165	1,180	1,220	1,280
OTHER									
Structural									
Credit for the Basic Personal Amount	PIT	33,345	33,910	35,050	36,440	37,705	43,315	43,575	45,965
Non-taxation of payments to Canadian Armed Forces members and veterans in respect of pain and suffering	PIT	155	170	345	345	375	520	385	330
Refundable taxes on investment income of private corporations	CIT	-380	-1,240	-1,840	-2,415	-2,800	-2,800	-2,880	-3,065
Special tax computation for certain retroactive lump-sum payments	PIT	1	1	1	1	1	1	1	1
REFUNDABLE TAX CREDITS CLASSIFIED AS TRANSFER PAYMENTS									
10% Temporary Wage Subsidy for Employers	PIT CIT	–	–	–	–	–	2,505	–	–
Atlantic Investment Tax Credit (refundable portion)	CIT	20	20	20	25	25	25	25	30
Canada Child Tax Benefit (replaced)	PIT	10,510	3,240	–	–	–	–	–	–
Canada Child Benefit	PIT	–	16,860	23,420	23,900	24,300	27,300	25,600	26,000
Quarterly payments for families with young children entitled to the Canada Child Benefit (2021) – Children's Benefits	PIT	–	–	–	–	–	575	1,765	–
Canada Emergency Rent Subsidy and Lockdown Support	PIT CIT	–	–	–	–	–	2,180	4,305	–
Canada Emergency Wage Subsidy	PIT CIT	–	–	–	–	–	68,750	28,890	–
Canada Training Credit	PIT	–	–	–	–	–	145	180	205
Canadian Film or Video Production Tax Credit	CIT	260	270	300	265	290	220	265	310
Canadian Journalism Labour Tax Credit	PIT	–	–	–	–	n.a.	n.a.	n.a.	n.a.
	CIT	–	–	–	–	90	80	90	90
Children's Fitness Tax Credit (phased out)	PIT	210	145	–	–	–	–	–	–

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
REFUNDABLE TAX CREDITS CLASSIFIED AS TRANSFER PAYMENTS *(cont'd)*									
Film or Video Production Services Tax Credit	CIT	155	220	275	315	315	235	285	335
Refundable Medical Expense Supplement	PIT	150	155	155	165	165	150	165	170
Scientific Research and Experimental Development Investment Tax Credit (refundable portion)	CIT	1,285	1,280	1,300	1,400	1,745	1,555	1,650	1,735
Teacher and Early Childhood Educator School Supply Tax Credit	PIT	–	3	4	5	5	5	5	5
Working Income Tax Benefit (replaced)	PIT	1,160	1,185	1,160	1,105	–	–	–	–
Canada Workers Benefit	PIT	–	–	–	–	1,995	1,605	2,085	2,080

Tax Expenditures Supporting the Fossil Fuel Sector

Canada has routinely published estimates of its tax expenditures for over two decades, including those that favour the fossil fuel sector. In certain cases, a measure may be available to both fossil fuel producers and non-fossil fuel producers (for example, a measure benefitting the mining sector could benefit coal production, in addition to all other types of minerals and metals). In order to increase transparency, beginning in 2019, the report presents a separate table focused on tax expenditures that support the fossil fuel sector.

The data in the following table presents information about the revenue forgone for fossil fuel production or exploration, for each tax expenditure that provides support specifically to that sector. For example, "Flow-through share deductions" are an authorized tax shelter arrangement that can be used by corporations in the mining, oil and gas or renewable energy sectors. The revenue forgone presented in the table below for "Flow-through share deductions for oil and gas and coal mining" represents a subset of the amounts listed in the main table, and represents only the portion that can be attributed to fossil fuel exploration and development. In contrast, "Reclassification of expenses under flow-through shares", which is a measure that has been phased out, was only available to corporations in the oil and gas sector. The amounts presented below in this case are the same as those presented in the main table. By construction, it would therefore not be accurate to sum the amounts presented below with those presented in the main table, as these are duplicative.

Table
Estimates and Projections
millions of dollars

		Estimates				Projections			
		2015	2016	2017	2018	2019	2020	2021	2022
TAX EXPENDITURES									
FOSSIL FUEL SECTOR									
Non-structural									
Accelerated capital cost allowance for liquefied natural gas facilities (sunset in 2024)[1]	PIT	X	X	X	X	X	X	X	X
	CIT	X	X	X	X	X	X	X	X
Accelerated capital cost allowance for coal mining and oil sands assets (phase-out for oil sands announced in Budget 2007 and phase-out for mining announced in Budget 2013)[1]	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accelerated deductibility of some pre-production development expenses of oil sands mines (phase-out announced in Budget 2011), pre-production development expenses of coal mines (phase-out announced in Budget 2013), and for oil and gas discovery wells (phase-out announced in Budget 2017)[1]	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Earned depletion for oil and gas and coal mining (phase-out announced in 1987)[2]	PIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	S	S	S	S	S	S	S	S
Flow-through share deductions for oil and gas and coal mining	PIT	20	15	20	10	5	4	3	3
	CIT	15	15	15	10	10	10	5	5
Reclassification of expenses under flow-through shares (phase-out announced in Budget 2017)[3]	PIT	-5	-5	-2	-4	-3	-2	-1	-1
	CIT	-1	S	S	-1	S	S	S	S
Atlantic Investment Tax Credit for oil and gas and coal mining (non-refundable portion for CIT, phase-out of fossil fuel portion announced in Budget 2012)[4]	PIT	0	0	0	0	0	0	0	0
	CIT	X	X	X	X	X	X	X	X

[1] For more information on the costing of accelerated deductions and the difficulties in providing accurate estimates, see the annex to Part 1.
[2] While corporations have not been able to add expenditures to the earned depletion base since 1989, expenses incurred prior to that year could be pooled and carried forward indefinitely, as is generally the case for depreciable capital expenses.
[3] A negative number represents an increase in revenue. While this measure currently results in an increase in government revenues, it has previously resulted in a cost to government, consistent with the intent of the measure to provide a preference to the oil and gas sector. For more information on the costing of accelerated deductions, see the annex to Part 1.
[4] Unused credits accumulated prior to the complete phase-out of the measure in 2014 can be carried forward indefinitely.

Background Statistics

Federal Revenues, Fiscal Year 2019–2020

	Revenues (billions of dollars)	Share of total revenues (%)	Share of gross domestic product (%)
Personal income taxes	167.6	50.1	7.3
Corporate income taxes	50.1	15.0	2.2
Non-resident withholding taxes	9.5	2.8	0.4
Goods and Services Tax	42.3	12.7	1.8
Other excise duties and taxes and customs import duties	11.6	3.5	0.5
Total tax revenues	281.1	84.1	12.2
Non-tax revenues	53.2	15.9	2.3
Total revenues	334.3	100.0	14.5

Notes: Non-tax revenues include revenues from consolidated Crown corporations, net income from enterprise Crown corporations, returns on investments, foreign exchange revenues, proceeds from the sales of goods and services, proceeds from the pollution pricing framework, and Employment Insurance premium revenues. Totals may not add due to rounding.
Source: Department of Finance Canada, 2020 *Fall Economic Statement*.

Federal Personal Income Tax Brackets and Rates, Taxfilers and Taxes Paid, 2018

	Tax Brackets		Taxfilers		Taxes Paid	
	Income range	Rate	Number (millions)	Share (%)	Amount (billions of dollars)	Share (%)
First bracket	Under $46,605	15%	8.8	31	17.2	11
Second bracket	$46,605 - $93,208	20.5%	7.1	25	52.1	35
Third bracket	$93,208 - $144,489	26%	1.6	6	27.6	18
Fourth bracket	$144,489 - $205,842	29%	0.5	2	13.7	9
Fifth bracket	Over $205,482	33%	0.4	1	38.8	26
Taxable filers			18.4	65	149.3	100
Non-taxable filers			10.0	35		
All taxfilers			28.4	100		

Notes: These statistics are presented on a public accounts basis and calculated using the T1 microdata from individual tax returns for the 2018 taxation year provided by the Canada Revenue Agency. Taxes paid reflect the total amount of net federal tax reported on line 420 of the Income Tax and Benefit Return less the Quebec Abatement. Totals may not add due to rounding.
Source: T1 Income Tax and Benefit Return micro data.

Federal Corporate Taxable Income, Number of Corporations and Taxes Paid (Corporations With Positive Taxable Income), 2018

	Taxable Income		Corporations Reporting Income		Taxes Paid	
	Amount (billions of dollars)	Share (%)	Number (thousands)	Share (%)	Amount (billions of dollars)	Share (%)
Canadian-controlled private corporations	**196.9**	**52**	**994.7**	**98**	**26.2**	**51**
Business income taxed at the preferential tax rate for small businesses	85.4	23	802.3	79		
Other business income taxed at the general rate	78.9	21	124.8	12		
Other income	32.6	9	340.2	33		
Other corporations	**179.4**	**48**	**21.2**	**2**	**25**	**49**
Business income taxed at the general rate	175	47	21	2		
Other income	4.3	1	10.4	1		
Total	**376.3**	**100**	**1,015.8**	**100**	**51.3**	**100**

Notes: The sum of the number of corporations reporting each type of income does not add up to the total number of corporations, as a corporation may report income of more than one type. Totals may not add due to rounding.
Source: T2 Corporation Income Tax Return (Corporation Tax Processing System) data.

Changes to Tax Expenditures Since the 2020 Edition

New tax measures were introduced and others modified since the last edition of this report. Changes affecting tax expenditures in this report are described below. As this report considers tax expenditures as of December 31, 2020, changes announced in Budget 2021 are not listed below or taken into account in the estimates and projections.

Personal Income Tax

Goods and Services Tax/Harmonized Sales Tax Credit

As part of the Government of Canada's *COVID-19 Economic Response Plan*, a one-time special supplemental payment under the GST/HST Credit was made beginning April 9, 2020. This top-up payment doubled the 2019-20 GST/HST Credit amounts and paid out the resulting difference in an individual's benefit entitlement as a lump sum.

Canada Child Benefit

As part of the Government's *COVID-19 Economic Response Plan*, an additional one-time Canada Child Benefit payment of up to $300 per child was provided to eligible families on May 20, 2020.

Quarterly Payments for Families with Young Children

As part of the Government's *COVID-19 Economic Response Plan*, the Government proposed in the 2020 *Fall Economic Statement* to provide temporary support for families with children under the age of 6 in 2021. This temporary support would automatically be delivered to families entitled to the Canada Child Benefit with adjusted family net income at or below $120,000 as a tax-free payment of $300 per child under the age of 6 in each of the months of January, April, July, and October 2021. Families entitled to the Canada Child Benefit with adjusted family net income above $120,000 would receive a tax-free payment of $150 per child under the age of 6 in each of those months. This temporary assistance would benefit about 1.6 million families in respect of about 2.1 million children, and would cost about $2.4 billion in 2021.

Impact of additional support measures for students

In April 2020, the Government introduced additional support measures for post-secondary students impacted by COVID-19. This included making the following changes to the Canada Student Loans Program:

- Broadening eligibility for student financial assistance by removing the expected student's and spouse's contributions in 2020-21;
- Raising the maximum weekly amount that can be provided to a student in 2020-21 from $210 to $350; and
- Doubling the Canada Student Grants for all eligible full-time students to up to $6,000 and up to $3,600 for part-time students in 2020-21, and doubling Canada Student Grants for Students with Permanent Disabilities and Students with Dependents.

Furthermore, the Government suspended repayments on all Canada Student Loans and Canada Apprentice Loans from March 30 to September 30, 2020, with no federal interest accruing during this period, and announced in the 2020 *Fall Economic Statement* the intention to eliminate the interest on the federal portion of Canada Student Loans and Canada Apprentice Loans for 2021-22.

These changes are expected to affect the estimated tax expenditures for the exemption of scholarship, fellowship, and bursary income and the Student Loan Interest Tax Credit. Increased availability of Canada Student Grants is expected to increase the estimated tax expenditure associated with the exemption of scholarship, fellowship, and bursary income, under which such grants are generally exempt from income tax. The suspension of interest payments will also, in the short run, lower the estimated cost of the Student Loan Interest Tax Credit.

Employee Stock Options

As part of the Government's ongoing effort to improve the fairness of the tax system, the 2020 *Fall Economic Statement* proposed the following changes to the employee stock option tax rules:

- A $200,000 annual limit will apply on employee stock option grants that can qualify for the employee stock option deduction. This limit will be based on the fair market value of the shares underlying the options, at the time the options are granted.
- Employee stock options granted by Canadian-controlled private corporations (CCPCs) and by non-CCPC employers with annual gross revenues of $500 million or less will not be subject to the new limit.

The new rules will apply to employee stock options granted on or after July 1, 2021.

Deduction of Other Employment Expenses

Home Office Expense Deduction

The 2020 *Fall Economic Statement* announced that the Canada Revenue Agency will allow employees working from home in 2020 due to COVID-19 with modest expenses to claim up to $400, based on the amount of time working from home, without the need to track detailed expenses.

Income Tax Expenditures Available to Trusts

As part of the Government's efforts to enhance the reporting on federal tax expenditures, this edition includes information on personal income tax expenditures that are available to trusts. Trusts are deemed to be individuals for income tax purposes; as such, absent a specific disposition to the contrary, trusts can benefit from the personal income tax expenditures that are available to natural persons. Descriptions of tax expenditures in Part 3 of this report have been modified to identify the tax expenditures that are available to trusts and to describe, where relevant, the rules that are of specific application to trusts. New estimates of the value of trust tax expenditures are also presented in Part 2 and Part 3 of the report, when the necessary data is available to support such an estimation. With a few exceptions, these new estimates represent amounts that were not included in the estimates published in editions prior to the 2020 report. Details on the methodologies used to derive these new estimates can be found in Part 1 of the report, as well as in the relevant descriptions in Part 3.

Corporate Income Tax

Expanding Tax Support for Business Investment in Zero-Emission Vehicles

On March 2, 2020, the Government proposed a 100% tax write-off for business investments in a variety of other zero-emission automotive equipment and vehicles. Eligible equipment and vehicles include fully electric or hydrogen powered off-road, rail, aerial or marine automotive equipment and vehicles that are acquired on or after March 2, 2020 and that become available for use before 2028, subject to a phase-out for equipment and vehicles that become available for use after 2023. Additionally, as of March 2, 2020, the Government proposed to expand the 100% write-off for on-road zero-emission vehicles to include eligible vehicles that have been previously used.

Relief for flow-through share issuers during COVID-19

On July 10, 2020, the Government proposed to support junior mining exploration and other flow-through issuers during the pandemic by extending by 12 months the period to incur eligible flow-through share expenses under the general rule and the look-back rule. The Government also proposed to apply Part XII.6 tax as if expenditures were incurred up to one year earlier than the date they were actually incurred. If amounts are not actually expended by the end of 2021 (where the agreement was entered into in 2019) or 2022 (where the agreement was entered into in 2020), the additional 10% tax under Part XII.6 would apply and the tax payable by investors would be adjusted accordingly. The 12-month extension would apply to agreements entered into on or after March 1, 2018 and before 2021, when using the general rule. The 12-month extension would apply to agreements entered into in 2019 or 2020 when using the look-back rule. The relief in respect of Part XII.6 tax would apply to agreements entered into in 2019 or 2020.

10% Temporary Wage Subsidy for Employers

On March 18, 2020, the Government introduced the 10% Temporary Wage Subsidy for Employers. The Temporary Wage Subsidy was a 3-month measure that allowed eligible small employers to reduce the amount of payroll income tax deductions they need to remit to the Canada Revenue Agency. The subsidy was equal to 10% of the remuneration paid from March 18 to June 19, 2020, up to $1,375 for each eligible employee, and $25,000 per employer.

Canada Emergency Wage Subsidy

On March 27, 2020, as part of the Canada's *COVID-19 Economic Response Plan*, the Government introduced the Canada Emergency Wage Subsidy (CEWS).

An employer's entitlement to the CEWS is based on 4-week claim periods. For Periods 1 to 4 (March 15 to July 4, 2020), the CEWS provided a subsidy of 75% of eligible remuneration paid by a qualifying eligible employer to each eligible employee, up to a maximum of $847 per week. The subsidy was available to employers that experienced a drop of at least 15% of their revenue in Period 1 (March 15 to April 11, 2020) and a revenue drop of at least 30% in subsequent periods.

As of the start of Period 5 (July 5, 2020), the CEWS for active employees consists of two parts:

- A base subsidy available to all eligible employers that are experiencing a decline in revenues, with the subsidy amount varying depending on the scale of revenue decline; and
- A top-up subsidy of up to an additional 25% for those employers that have been most adversely affected by the COVID-19 crisis.

The maximum base CEWS rate is defined for each period and is provided to employers with a revenue drop of 50% or more, and the rate decreases gradually for employers with a year-over-year monthly revenue drop of less than 50%. The top-up CEWS is available to employers that have experienced a year-over-year monthly revenue drop (prior to September 27, 2020, a three-month average revenue drop) of more than 50%, up to a maximum top-up CEWS rate of 25%, which is attained at a 70% revenue drop or more. For Periods 11-13 (December 20, 2020 to March 13, 2021), the maximum top-up CEWS rate is 35%. Both the base CEWS rate and the top-up CEWS rate apply to remuneration of up to $1,129 per week. A separate CEWS rate structure applies to furloughed employees.

The Government has extended the CEWS until June 2021.

Canada Emergency Rent Subsidy and Lockdown Support

On October 9, 2020, as part of Canada's *COVID-19 Economic Response Plan*, the Government announced the introduction of the Canada Emergency Rent Subsidy (CERS). The CERS provides support for businesses and other organizations that have suffered a decline in revenues through a subsidy on certain rent- and mortgage-related costs. The measure came into effect on September 27, 2020, and will be available until June 2021.

In alignment with the Canada Emergency Wage Subsidy program, eligible entities include individuals, taxable corporations and trusts, partnerships consisting of eligible entities, non-profit organizations and registered charities. For the first 24 weeks of the program, eligible entities that experience a decline in revenues of 70% or more can receive a maximum subsidy of 65% of their eligible costs; this declines to a 40% subsidy for those with a revenue drop of 50%, with the subsidy rate gradually falling to zero for those that have not experienced a decline in revenues. Eligible costs are capped at $75,000 per location and subject to an overall cap of $300,000 across all locations, shared among affiliated entities.

Additionally, entities eligible for the CERS with locations that have been significantly affected by a public health order may be eligible for the Lockdown Support. This additional support is equal to 25% of eligible costs. Together with the CERS, the Lockdown Support brings the combined maximum subsidy rate to 90%. The Lockdown Support is subject to the $75,000 cap on eligible costs per location, but not the overall cap of $300,000.

Eligible costs under these measures consist of rent, property taxes, property insurance, and interest on commercial mortgages entered into for the purpose of purchasing real property, less any subleasing revenues.

Agricultural Cooperatives: Income Tax Deferral for Patronage Dividends Paid in Shares

The 2020 *Fall Economic Statement* proposed an extension of the income tax deferral for patronage dividends paid in shares by agricultural cooperatives to its members. The tax deferral, which will apply in respect of eligible shares issued before 2026, is intended to help agricultural cooperatives raise the capital needed to grow.

Goods and Services Tax

Non-taxation of certain importations

Canada—United States—Mexico Agreement

Under Canada's de minimis threshold, goods that are valued at not more than $20 and sent from other countries by mail or courier to recipients in Canada are generally relieved of the GST. As part of the Canada—United States—Mexico Agreement, Canada committed to increase its de minimis threshold in respect of taxes from $20 to $40 for courier imports from Mexico or the United States. This relief was implemented through an amendment to the GST legislation as part of the Canada—United States—Mexico Agreement Implementation Act and applies as of July 1, 2020.

Non-taxation of goods imported for emergency use

As part of the Government's *COVID-19 Economic Response Plan*, certain medical goods imported for emergency use by, or on behalf of, certain health-related entities, including hospitals, first-response organizations, and care homes, do not attract GST upon importation. These include personal protective equipment such as masks and gloves. This is a temporary measure to deal with the COVID-19 crisis.

GST/HST Relief on Face Masks and Face Shields

In order to support public health during the COVID-19 pandemic, the Government has proposed as part of the 2020 *Fall Economic Statement* to temporarily relieve (i.e., zero rate) supplies of certain face masks and face shields from the GST/HST.

Part 3

Descriptions of Tax Expenditures

Introduction

This part presents detailed information on the tax expenditures presented in this report, a list of which can be found in the "List of Tax Expenditures" section appearing at the end of the report. The following information is provided for each tax expenditure:

Description

A short description is provided of the key design features of the tax expenditure, as applicable on December 31, 2020 (unless otherwise noted).

Type of tax

Whether a measure is a tax expenditure under the personal income tax, the corporate income tax and/or the GST.

Beneficiaries

Indicates the group of taxpayers (e.g., families, seniors, small businesses) benefiting from the tax expenditure.

Type of measure

One of the following types of measures is attributed to the tax expenditure:

Exemption: The non-taxation of certain taxpayers, income or gains.

Exemption and zero-rating under the GST: No GST is charged on exempt goods and services, while the GST applies on zero-rated goods and services, but at a zero GST rate. Vendors of zero-rated goods and services are entitled to claim input tax credits to recover the full amount of GST they paid on inputs used to produce zero-rated products; in contrast, vendors of exempt goods and services are not entitled to claim input tax credits to recover the GST they paid on their inputs. A number of GST expenditures are not exemptions or zero-rating provisions from a legal perspective, yet have the effect of not imposing the GST on certain goods and services (e.g., travellers' exemption, small suppliers' threshold). These measures are classified as "other".

Deduction: An amount subtracted from total income in determining net income, or from net income in determining taxable income.

Deemed remittance: A measure that deems a certain amount to be tax already remitted by the taxpayer.

Credit (refundable, non-refundable): An amount subtracted from tax payable. A credit is refundable when any excess of the credit over the amount of tax payable is refunded to the taxpayer.

Rebate and refund: An amount of tax paid that is refunded to the taxpayer.

Preferential tax rate: A tax rate that is lower than the general benchmark rate.

Surtax: A tax that is imposed in addition to the basic tax payable.

Timing preference: A measure that permits the deferral of tax relative to the benchmark tax treatment, for instance by delaying the time income or gains are brought into income, or by accelerating the use of deductions.

Legal reference

Indicates the legal provisions that relate to the tax expenditure. Only the main acting provision is generally indicated, but more than one provision may be indicated when a tax expenditure results from the interaction of multiple key provisions.

Implementation and recent history

Indicates the date or year the tax expenditure was implemented and became effective. Key recent developments are also reported.

Objective

Indicates the objective(s) being pursued by the tax expenditure, as officially stated by the Government when the tax expenditure was introduced or subsequently. When no official statement could be found, the objective currently pursued by the tax expenditure is indicated, as can be determined from the design and effects of the tax expenditure.

For presentation purposes, objectives have been classified in the following standard categories:

Objectives that are internal to the tax system:

- To reduce administration or compliance costs
- To provide relief for special circumstances
- To assess tax liability over a multi-year period
- To prevent double taxation
- To recognize non-discretionary expenses (ability to pay)
- To recognize expenses incurred to earn employment income
- To recognize education costs
- To promote the fairness of the tax system
- To ensure a neutral tax treatment across similar situations
- To implement intergovernmental tax arrangements
- To implement a judicial decision

Other objectives:

- To extend or modify the unit of taxation
- To provide income support or tax relief
- To encourage savings
- To encourage or attract investment
- To encourage investment in education
- To encourage employment
- To support competitiveness
- To support business activity
- To achieve an economic objective - other
- To achieve a social objective

Category

The category indicates whether the measure is structural or non-structural. A structural tax measure is one whose main objective is internal to the tax system (see above list under "Objective"). When a measure pursues both structural and non-structural objectives, it is categorized based on an assessment of whether the structural or non-structural component predominates; for instance, the Home Accessibility Tax Credit supports independent living and as such is classified as non-structural, even though this credit also provides tax recognition for some non-discretionary expenses, which is a structural objective. The classification of a tax expenditure as structural or non-structural is not indicative of the relevance and performance of the measure.

Refundable tax credits (with the exception of the GST/HST Credit) are treated as direct spending for government accounting purposes, and for that reason are assigned to a separate category.

Reason why this measure is not part of benchmark tax system

Indicates the manner(s) in which the tax expenditure is departing from the benchmark tax system (see the section "Main Types of Tax Expenditures" in Part 1 of the report). Measures that are part of the benchmark tax system are indicated as such.

Subject

Tax expenditures are classified based on their subject matter. This classification is provided solely for presentational purposes and is not intended to reflect underlying policy considerations. The following subjects have been identified:

Arts and culture	Families and households
Business - farming and fishing	Health
Business - natural resources	Housing
Business - research and development	Income support
Business - small businesses	Intergovernmental tax arrangements
Business - other	International
Donations, gifts, charities and non-profit organizations	Retirement
Education	Savings and investment
Employment	Social
Environment	Other

Canadian Classification of Functions of Government 2014 code

The Canadian Classification of Functions of Government (CCOFOG) is a classification used by Statistics Canada in reporting government finance, fiscal and public sector statistics. This classification is a variant of the international functional expenditure classification standard that was developed by the Organisation for Economic Co-operation and Development to facilitate international comparisons. The full 2014 CCOFOG can be accessed on the Statistics Canada website at www.statcan.gc.ca.

Other relevant government programs

This provides background information on spending programs of the federal government that are relevant to the policy area of the tax expenditure. Additional information on these programs can be found in the table at the end of Part 3 and in the Departmental Plans and Departmental Results Reports of the relevant departments and agencies.[1]

Source of data

Indicates the source of the data used in calculating the cost estimates and projections for the tax expenditure.

[1] These documents can be accessed on the Government of Canada website (www.canada.ca) under "Government-wide reporting on spending and operations". Departmental Plans were entitled "Reports on Plans and Priorities" prior to the 2017–18 release. Departmental Results Reports were entitled "Departmental Performance Reports" prior to the 2016–17 release.

Estimation method

Provides a short description of the method used to calculate the cost estimates for the tax expenditure. For additional details, see the section "Calculation of the Tax Expenditure Estimates and Projections" in Part 1 of the report.

Projection method

Provides a short description of the method used to calculate the cost projections for the tax expenditure. For additional details, see the section "Calculation of the Tax Expenditure Estimates and Projections" in Part 1 of the report.

Number of beneficiaries

Provides information (when available) on the number of individuals, families, corporations or other organizations that benefit from the tax expenditure. A taxpayer benefits from a measure when the measure reduces his or her net tax payable. Some taxpayers are not taxable and may not get any tax relief from a given measure even though, for instance, they claim a particular deduction or credit on their tax returns. In some cases, in lieu of information on the number of beneficiaries, information on the number of claimants or other information providing some indication of the number of potential beneficiaries is provided.

Cost information

Cost estimates and projections for the tax expenditure, when available, are copied from the table in Part 2 for convenience. Additional details are also provided for some measures.

Cost estimates and projections are presented on a calendar year basis. The fiscal period of a corporation may overlap more than one calendar year; when this is the case, the value of a tax expenditure is allocated to the calendar year in which the corporation's fiscal period ends.

Totals may not add due to rounding.

Notes:

Amounts under $500,000 are reported as "S" ("small"), amounts between $500,000 and $5 million are rounded to the nearest $1 million and amounts above $5 million are rounded to the nearest $5 million.

n.a.	No data available to support a meaningful estimate or projection
n/a	Not applicable
–	Tax expenditure not in effect
X	Not published for confidentiality reasons
P	Projection

10% Temporary Wage Subsidy for Employers

Description	The 10% Temporary Wage Subsidy for Employers was a 3-month measure providing a subsidy equal to 10% of the remuneration paid from March 18 to June 19, 2020, up to $1,375 for each eligible employee. The maximum total was $25,000 per eligible employer, which included corporations eligible for the small business deduction, individuals (excluding trusts), partnerships, non-profit organizations and charities. Eligible employers were able to directly access the subsidy by reducing their remittances of income tax withheld on their employees' remuneration.
Tax	Personal and corporate income tax
Beneficiaries	Businesses, indviduals and other organizations
Type of measure	Deemed remittance
Legal reference	*Income Tax Act*, section 153
Implementation and recent history	• As part of the Canada's *COVID-19 Economic Response Plan*, this measure was implemented as of March 18, 2020 and expired on June 19, 2020.
Objective – category	To encourage employment To support business activity
Objective	This measure was intended to support businesses and other organizations that are affected by the pandemic through a subsidy on wages and salaries.
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs relevant to supporting individuals and businesses during the COVID-19 crisis, as part of the Canada's *COVID-19 Economic Response Plan*. The Canada Emergency Busines Account and programs within the mandate of Innovation, Science and Economic Development Canada also support businesses and other organizations that are affected by the COVID-19 pandemic. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return T4 Statement of Remuneration Paid T5013 Statement of Partnership Income
Estimation method	Micro-simulation model
Projection method	After the expiration of the measure, the cost of this measure is projected to become negative. As the subsidy is considered government assistance and will be taxed accordingly, it is expected to increase the taxable income or reduce the losses of claimants. This will have the effect of reducing the use of loss carry-forwards in coming years.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal and corporate income tax	–	–	–	–	–	2,505	–	–

$200 capital gains exemption on foreign exchange transactions

Description	The first $200 of net capital gains of an individual on foreign exchange transactions is exempt from tax.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsections 39(1.1) and (2)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • Technical legislative changes to move the $200 exception for individuals from subsection 39(2) into subsection 39(1.1) were adopted on June 26, 2013.
Objective – category	To reduce administration or compliance costs
Objective	This measure was introduced to minimize record keeping and simplify administration with respect to modest foreign exchange transactions.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Accelerated capital cost allowance for clean energy generation equipment

Description	Specified clean energy generation equipment that generates electricity and/or heat from renewable energy sources (e.g., wind, solar, small hydro) and from waste (e.g., wood waste, landfill gas) or by making efficient use of fossil fuels (e.g., high efficiency cogeneration) and that is acquired by a taxpayer after February 21, 1994 can be depreciated on a declining-balance basis at an accelerated capital cost allowance (CCA) rate of 30% (Class 43.1). If acquired after February 22, 2005 and before 2025, such equipment can be depreciated on a declining-balance basis at an accelerated CCA rate of 50% (Class 43.2). The eligibility criteria for these two classes are generally the same, except that cogeneration systems that use fossil fuels must meet a higher efficiency standard for Class 43.2 than for Class 43.1, electric vehicle charging stations must meet a higher power threshold and electrical energy storage equipment must be connected to an electricity generation system that is eligible for Class 43.2. The 2018 *Fall Economic Statement* announced that Class 43.1 and 43.2 property acquired after November 20, 2018 and put in use before 2024 would be eligible for immediate expensing, with a phase-out for property put in use after 2023 (75% deduction in 2024 and 2025, and 55% deduction in 2026 and 2027). Without Class 43.1 and Class 43.2, depending on their nature or use, many of these assets would be depreciated at lower rates of 4%, 8% or 20%. A related measure addresses specified intangible start-up costs of clean energy projects (see the measure "Accelerated deductibility of Canadian Renewable and Conservation Expenses").
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses using clean or efficient energy generation equipment
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, subsections 1100(2) and 1104(4), Classes 43.1 and Class 43.2 of Schedule II
Implementation and recent history	• The predecessor Class 34, introduced in 1976, provided an accelerated CCA rate of 50% on a straight-line basis for a range of energy generation and conservation equipment. • Class 43.1 was introduced in Budget 1994, effective for assets acquired after February 21, 1994. • Class 43.2 was introduced in Budget 2005, effective for assets acquired after February 22, 2005 and before 2012. Budget 2007 extended the eligibility for Class 43.2 to assets acquired before 2020. • The range of assets covered by these CCA classes has been expanded several times. Most recently, Budget 2018 extended the eligibility for Class 43.2 to property acquired before 2025. • The 2018 *Fall Economic Statement* announced immediate expensing of specified clean energy equipment included in Class 43.1 and 43.2 acquired after November 20, 2018 and put in use before 2024. This measure would be graduallly phased out starting in 2024, and would no longer be in effect for investments put in use after 2027.
Objective – category	To encourage or attract investment
Objective	This measure encourages businesses to invest in specified clean energy generation and energy efficiency equipment (*Technical Guide to Class 43.1 and 43.2*, Natural Ressources Canada, 2013).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Environment Business – other
CCOFOG 2014 code	70435 - Economic affairs - Fuel and energy - Electricity 70439 - Economic affairs - Fuel and energy - Fuel and energy not elsewhere classified

Other relevant government programs	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada and Natural Resources Canada also support environment-related objectives. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on acquisitions by unincorporated businesses of specified clean energy generation equipment is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure. For the estimation method for the incremental cost of the changes announced in the 2018 *Fall Economic Statement*, see the Accelerated Investment Incentive.
Projection method	No projection is available.
Number of beneficiaries	About 650 businesses made additions to Classes 43.1 and 43.2 in 2018. No data is available for unincorporated businesses.

Accelerated capital cost allowance for liquefied natural gas facilities

Description	An accelerated capital cost allowance (CCA) is available for certain property acquired for use in facilities in Canada that liquefy natural gas. The accelerated CCA takes the form of an additional 22% allowance that, combined with the regular CCA rate of 8%, brings the CCA rate up to 30% for liquefaction equipment used in Canada in connection with natural gas liquefaction. A second additional allowance equivalent to 4% brings the CCA rate up to 10% from 6% for non-residential buildings that are part of facilities that are used to liquefy natural gas. These additional allowances may only be claimed against income of the taxpayer that is attributable to the liquefaction of natural gas at the facility.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the natural gas liquefaction industry
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, paragraphs 1100(1)(a.3) and (yb), subsection 1101(4i) and paragraph (b) of Class 47 of Schedule II
Implementation and recent history	• Introduced in 2015 (Prime Minister of Canada news release, February 19, 2015). Effective for capital assets acquired after February 19, 2015 and before 2025.
Objective – category	To encourage or attract investment
Objective	This measure is intended to encourage investment in facilities that liquefy natural gas to supply emerging international and domestic markets (Prime Minister of Canada news release, February 19, 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business - natural resources
CCOFOG 2014 code	70455 - Economic affairs - Transport - Pipeline and other transport
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on investment in liquefied natural gas facilities by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Estimates are not presented due to confidentiality restrictions.
Projection method	Projections are not presented due to confidentiality restrictions.
Number of beneficiaries	A small number of corporations (fewer than 20) made additions to the relevant CCA classes each year. No data is available for unincorporated businesses.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	X	X	X	X	X	X	X	X
Corporate income tax	X	X	X	X	X	X	X	X

Accelerated capital cost allowance for manufacturing or processing machinery and equipment

Description	Machinery and equipment acquired by a taxpayer after March 18, 2007 and before 2016 and that is primarily for use in Canada for the manufacturing or processing of goods for sale or lease can be depreciated on a straight-line basis at an accelerated capital cost allowance (CCA) rate of 50% (Class 29 of Schedule II to the *Income Tax Regulations*). Machinery and equipment acquired after 2015 is depreciable on a declining-balance basis at an accelerated CCA rate of 50% (Class 53). The 2018 *Fall Economic Statement* announced that property in Class 53 acquired after November 20, 2018 and put in use before 2024 would be eligible for immediate expensing, with a phase-out for property put in use after 2023 (75% deduction in 2024 and 2025, and 55% deduction in 2026 and 2027). Machinery and equipment acquired outside of these periods is included in Class 43 and qualifies for a CCA rate of 30% calculated on a declining-balance basis.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the manufacturing and processing industry
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, paragraph 1100(1)(ta), subsections 1100(2) and 1104(4), and Classes 29 and 53 of Schedule II
Implementation and recent history	• The accelerated CCA provided at a rate of 50% on a straight-line basis was introduced in Budget 2007, effective for eligible manufacturing and processing machinery and equipment acquired on or after March 19, 2007. • Extended in Budgets 2008, 2009, 2011 and 2013. • Budget 2015 introduced the 50% accelerated CCA on a declining-balance basis, effective for eligible assets acquired after 2015 and before 2026. • The 2018 *Fall Economic Statement* announced immediate expensing of machinery and equipment used for the manufacturing or processing of goods included in Class 53 that is put in use before 2024. This measure would be graduallly phased out starting in 2024, and would no longer be in effect for investments put in use after 2027.
Objective – category	To encourage or attract investment
Objective	This temporary measure provides an incentive for manufacturing and processing businesses to accelerate or increase capital investment (Budget 2008). Providing this incentive for an extended period of time helps to provide businesses with planning certainty for larger projects where the investment may not be completed until several years after the investment decision is made and for longer-term investments with multiple phases (Budget 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on acquisitions by unincorporated businesses of manufacturing or processing machinery and equipment is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure. For the estimation method for the incremental cost of the changes announced in the 2018 *Fall Economic Statement*, see the Accelerated Investment Incentive.
Projection method	No projection is available.
Number of beneficiaries	About 15,700 corporations made additions to the relevant CCA class in 2018. No data is available for unincorporated businesses.

Accelerated capital cost allowance for mining and oil sands assets

Description	In addition to the regular capital cost allowance (CCA) deduction of 25% per year (Class 41), for assets used in mining, an accelerated CCA has been provided for assets acquired for use in new mines, including oil sands mines, and major mine expansions (i.e., expansions that increase the capacity of a mine by at least 25%). The additional allowance allows the taxpayer to deduct up to 100% of the remaining cost of the eligible assets in computing income for a taxation year, not exceeding the taxpayer's income for the year from the mine (calculated after deducting the regular CCA). This measure is being phased out and will no longer be available after 2020.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the mining and oil and gas industry
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, subsection 1100(1) and Classes 41, 41.1 and 41.2 of Schedule II
Implementation and recent history	• Introduced in Budget 1971, effective 1972. • Extended in Budget 1996 to in-situ oil sands projects (that is, projects that use oil wells rather than open-pit mining techniques to extract bitumen). This change ensured that both types of oil sands projects are accorded the same CCA treatment. Budget 1996 also extended the accelerated CCA to expenditures on eligible assets acquired in a taxation year for use in a mine or oil sands project, to the extent that the cost of those assets exceeds 5% of the gross revenue for the year from the mine or project. • Budget 2007 announced the phase-out over the 2011-2015 period of the accelerated CCA for oil sands projects. • Budget 2013 announced the phase-out over the 2017-2020 period of the accelerated CCA for all other mining projects.
Objective – category	To encourage or attract investment
Objective	This measure was introduced to maintain an incentive for mining investment while eliminating the three-year exemption for corporate profits that was previously provided for new mines, which was considered in many circumstances to be too generous (*Proposals for Tax Reform*, 1969).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business - natural resources
CCOFOG 2014 code	70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels 7043 - Economic affairs - Fuel and energy
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on Class 41 expenditures by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	A small number of corporations (fewer than 20) made additions to the relevant CCA class each year. No data is available for unincorporated businesses.

Accelerated capital cost allowance for vessels

Description	New vessels (including furniture, fittings, radio communication equipment and other equipment) that are constructed and registered in Canada and that were not used for any purpose whatsoever before acquisition by their owners can be depreciated at a maximum capital cost allowance (CCA) rate of 33⅓% on a straight-line basis. Vessels that do not qualify for this treatment are depreciable at a CCA rate of 15% on a declining-balance basis.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, paragraph 1100(1)(v)
Implementation and recent history	• Introduced in 1967 (Order in Council P.C. 1967-1668). Effective for assets acquired on or after March 23, 1967.
Objective – category	To encourage or attract investment
Objective	This measure encourages investment in new vessels built and registered in Canada.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on acquisitions of vessels by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	About 40 corporations made additions to the relevant CCA class in 2018. No data is available for unincorporated businesses.

Accelerated capital cost allowance for zero-emission automotive equipment and vehicles

Description	Zero-emission automotive equipment and vehicles purchased by businesses are deductible at a rate of 100% in the year they are put in use. Eligible on-road zero-emission vehicles include electric battery, plug-in hybrid (with a battery capacity of at least 7 kWh) or hydrogen fuel cell vehicles, including light-, medium- and heavy-duty vehicles. Other types of eligible zero-emission automotive equipment and vehicles include off-road, rail, aerial and marine automotive equipment and vehicles that are fully electric or powered by hydrogen. For new on-road zero-emission vehicles this measure applies to eligible vehicles acquired on or after March 19, 2019 and that become available for use before 2028. In the case of used on-road zero-emission vehicles and other types of zero-emission automotive equipment and vehicles, this measure applies to eligible equipment or vehicles acquired on or after March 2, 2020 and that become available for use before 2028. The measure is subject to a phase-out for equipment and vehicles that become available for use after 2023 (75% deduction in 2024 and 2025, and 55% deduction in 2026 and 2027).
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Regulations*, subsection 1100(2) and Classes 54, 55, and 56 of Schedule II
Implementation and recent history	• Introduced in Budget 2019, applicable to eligible zero-emission vehicles acquired on or after March 19, 2019 and that become available for use before 2028. • On March 2, 2020, the measure was proposed to be expanded to include used on-road zero-emission vehicles and other types of zero-emission automotive equipment and vehicles acquired on or after March 2, 2020 and that become available for use before 2028.
Objective – category	To achieve a social objective To encourage or attract investment
Objective	This temporary measure was introduced to encourage businesses to convert to zero-emission fleets (Budget 2019). The measure was proposed to be expanded to encourage businesses, including in sectors like mining, transportation, and agriculture, to take advantage of opportunities to upgrade to newer, cleaner technologies (Prime Minister of Canada news release, March 2, 2020).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Environment Business – other
CCOFOG 2014 code	70539 - Environmental protection - Pollution abatement 70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada, Transport Canada and Natural Resources Canada also support environment-related objectives. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	External data
Estimation method	Micro-simulation model
Projection method	Forecasted sales of zero-emission vehicles.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal and corporate income tax								
On-road zero-emission vehicles	–	–	–	–	4	20	20	30
Other types of zero-emission automotive equipment and vehicles	–	–	–	–	–	15	15	10
Total – personal and corporate income tax	–	–	–	–	4	30	35	45

Accelerated deductibility of Canadian Renewable and Conservation Expenses

Description	Canadian Renewable and Conservation Expenses (CRCE) can be deducted in full in the year incurred even though some of these expenses are capital in nature. CRCE generally includes intangible start-up costs of renewable energy and energy efficiency projects for which at least 50% of the cost of depreciable assets can reasonably be expected to be property that is eligible for accelerated capital cost allowance (CCA) under CCA Class 43.1 or Class 43.2. CRCE also include expenses such as the cost of engineering and feasibility studies, which may be considered analogous to exploration expenses incurred by firms in the non-renewable resource sector. As a type of Canadian Exploration Expense, CRCE can be carried forward indefinitely or transferred to flow-through share investors. For more information, see the related measures "Accelerated capital cost allowance for clean energy generation equipment" and "Flow-through share deductions".
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses using clean or efficient energy generation equipment
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 66.1(6) *Income Tax Regulations*, section 1219
Implementation and recent history	• Introduced in Budget 1996. Effective for expenditures incurred after December 5, 1996. • CRCE treatment has been expanded several times as a result of the broadening of the range of assets covered by CCA classes 43.1 and 43.2. Budget 2017 announced the inclusion of a broader range of geothermal energy projects and equipment.
Objective – category	To encourage or attract investment
Objective	This measure encourages investments in clean energy generation and energy conservation projects (*Technical Guide to Canadian Renewable and Conservation Expenses*, Natural Resources Canada, 2012).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Environment Business – other
CCOFOG 2014 code	70435 - Economic affairs - Fuel and energy - Electricity 70439 - Economic affairs - Fuel and energy - Fuel and energy not elsewhere classified
Other relevant government programs	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada and Natural Resources Canada also support environment-related objectives. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on CRCE incurred by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	About 100 corporations incurred Canadian Renewable and Conservation Expenses in 2018. No data is available for unincorporated businesses.

Accelerated deductibility of some Canadian Exploration Expenses

Description	Canadian Exploration Expenses (CEE) are deductible at a rate of 100% in the year incurred. CEE includes certain intangible costs incurred to determine the existence, location, extent or quality of a crude oil or natural gas reservoir or of a mineral resource not previously known to exist. For the mining sector (including oil sands mines), CEE have also included intangible pre-production development expenses—costs incurred for the purpose of bringing a new mine into production in reasonable commercial quantities. However, the eligibility of these latter expenses will be phased out by 2018. Exploration expenses are undertaken to create an asset (the reserves discovered), and as with generally accepted accounting tax principles, the benchmark tax treatment would be to capitalize and amortize the expenses of successful exploration over the life of the asset. Unsuccessful efforts that do not result in an exploitable asset could be expensed. In practice, it is often not possible to determine whether or not exploration spending has been successful in the year when the expenses are incurred, since it is often several years afterwards before decisions on production are made.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the mining and oil and gas industry
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 66.1
Implementation and recent history	• Budget 1974 introduced CEE as a category distinct from Canadian Development Expenses (CDE). • Budget 1978 expanded coverage to include certain expenditures relating to the development of a new mine. • Budget 2011 announced the phasing out by 2016 of the eligibility for CEE of pre-production development expenses for oil sands mines. • Budget 2013 announced the phasing out by 2018 of the eligibility for CEE of pre-production development expenses for all other mines. • Budget 2017 announced that expenses incurred after 2018 that are associated with oil and gas discovery wells will be treated as CDE, rather than as CEE, unless and until they are deemed unsuccessful.
Objective – category	To encourage or attract investment
Objective	This measure recognizes the challenges facing mining and oil and gas companies—a low probability of success, large capital requirements and long timeframes before reporting positive cash flow—as they explore for resources (Budget 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business - natural resources
CCOFOG 2014 code	70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels 70432 - Economic affairs - Fuel and energy - Petroleum and natural gas
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on CEE incurred by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.

Number of beneficiaries	About 1830 corporations made Canadian Exploration Expenses in 2018. No data is available for unincorporated businesses.

Accelerated Investment Incentive

Description	The Accelerated Investment Incentive provides an enhanced first-year allowance for capital property that is subject to the capital cost allowance (CCA) rules, as well as Canadian oil and gas property and Canadian development expenses, with limited restrictions. The Accelerated Investment Incentive does not apply to property in Classes 53 (manufacturing and processing machinery and equipment), 43.1 and 43.2 (clean energy equipment), which are eligible for full expensing. Eligible property generally subject to the half-year rule qualifies for an enhanced CCA equal to three times the normal first-year allowance, and property not generally subject to the half-year rule qualifies for an enhanced CCA equal to one-and-a-half times the normal first-year allowance. The Accelerated Investment Incentive is available for property acquired after November 20, 2018 and that becomes available for use before 2028, subject to a phase-out for property that becomes available for use after 2023. For eligible property that would normally be subject to the half-year rule (or an equivalent rule) and that becomes available for use during the 2024-2027 phase-out period, the Accelerated Investment Incentive effectively suspends the half-year rule (and equivalent rules), providing such property with an enhanced allowance equal to two times the normal first-year allowance. For eligible property that would not normally be subject to the half-year rule (or an equivalent rule) and that becomes available for use during the 2024-2027 phase-out period, the enhanced allowance is equal to one-and-a-quarter times the normal first-year allowance.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 66.2(2)(d), definition of accelerated Canadian development expense in subsection 66.2(5), paragraph 66.4(2)(c), definition of accelerated Canadian oil and gas property expense in subsection 66.4(5) *Income Tax Regulations*, subparagraphs 1100(1)(b)(i) and (c)(i), subparagraph 1100(1)(v)(iv), subsections 1100(2), subsection 1104(4), paragraphs 1(a) and 2(a) of Schedule IV, section 2 and paragraph 3(a) of Schedules V and VI
Implementation and recent history	• Introduced in the 2018 *Fall Economic Statement*.
Objective – category	To encourage or attract investment
Objective	This temporary measure provides an incentive for businesses to accelerate or increase capital investment.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, Innovation, Science and Economic Development Canada, Business Development Bank of Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return T5013 Statement of Partnership Income
Estimation method	T2 micro-simulation model, T5013 micro-simulation model, and Aggregate investment data from T1 Income Tax and Benefit Return. The incremental cost of the changes announced in the 2018 *Fall Economic Statement* to the Accelerated capital cost allowance for manufacturing or processing machinery and equipment and to the Accelerated capital cost allowance for clean energy generation equipment is included in the cost of the Accelerated Investment Incentive.
Projection method	The cost of this measure is projected to decline over time considering that additional allowances claimed in early years will be offset by lower allowances in future years. This effect is partly offset by the projected growth in business investment.

Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Total – personal and corporate income tax	–	–	–	380	3,700	2,425	1,680	1,740

Additional deduction for gifts of medicine

Description	Corporations that donated medicines from their inventory to an eligible charity could claim an additional deduction equal to the lesser of: • 50% of the amount by which the fair market value of the donated medicine exceeds its cost; and • the cost of the medicine. An eligible charity is a registered charity that meets the conditions prescribed by regulation. In particular, the registered charity was required to: • deliver the medicine received outside Canada; • act in a manner consistent with the principles and objectives of the *Guidelines for Drug Donations* issued by the World Health Organization; • have expertise in delivering medicines to the developing world; and • implement appropriate policies and practices with respect to the delivery of international development assistance. Budget 2017 announced the elimination of the deduction, effective for gifts made on or after March 22, 2017. Unused deductions may continue to be carried forward for up to five years.
Tax	Corporate income tax
Beneficiaries	Corporate donors
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 110.1(1)(a.1)
Implementation and recent history	• Introduced in Budget 2007. Effective for gifts made on or after March 19, 2007. • Amended in Budget 2008 to ensure that the charities to which the medicines are donated have appropriate oversight and accountability practices. • Budget 2017 announced the elimination of the measure, effective for gifts made on or after March 22, 2017.
Objective – category	To achieve a social objective
Objective	This measure provides an incentive for corporations to donate medicines for use in international programs for the distribution of medicines (Budget 2007).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is not incurred to earn income. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	70711 - Health - Medical products, appliances, and equipment - Pharmaceutical products
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	T2 Corporation Income Tax Return
Estimation method	T2 micro-simulation model
Projection method	The tax expenditure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	n/a

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	S	S	S	S	S	S	S	S

Adoption Expense Tax Credit

Description	Adoptive parents can claim the Adoption Expense Tax Credit in respect of the cost of adopting a child under the age of 18. The non-refundable credit is calculated by applying the lowest personal income tax rate to eligible adoption expenses, which are capped at $16,563 per child (2020, indexed to inflation). Eligible adoption expenses cover a range of expenses, including adoption agency fees, legal expenses, and travel and living expenses for themselves and the child, but do not include any expenses for which the adoptive parent has been or is entitled to be reimbursed. Eligible adoption expenses may be incurred for domestic adoptions or for a child adopted from outside of Canada. They must also have been incurred during the "adoption period", as defined in the legislation. Parents are able to claim the credit in the taxation year in which the adoption is finalized. The two adoptive parents can split the amount if the total combined claim for eligible expenses for each child is not more than the amount before the split.
Tax	Personal income tax
Beneficiaries	Adoptive parents
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.01
Implementation and recent history	• Introduced in Budget 2005. Effective for the 2005 and subsequent taxation years. • Budget 2013 extended the adoption period to allow for the eligibility of additional adoption-related expenses (e.g., fees for a mandatory home study and adoption courses). • Budget 2014 increased the maximum eligible expenses claimable to $15,000.
Objective – category	To recognize non-discretionary expenses (ability to pay) To achieve a social objective
Objective	This measure provides tax recognition to parents for costs that are unique to the decision to adopt a child (Budget 2005).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1,600 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	2	2	2	2	2	2	2	2

Age Credit

Description	The Age Credit is provided to individuals aged 65 and over. The value of the credit is calculated by applying the lowest personal income tax rate to the annually indexed credit amount ($7,637 for 2020). The credit is income-tested—the credit amount is reduced by 15% of net income in excess of an annually indexed threshold amount ($38,508 for 2020). The credit is completely phased out at an income level of $89,422 in 2020. Any unused portion of the credit may be transferred to a spouse or common-law partner.
Tax	Personal income tax
Beneficiaries	Seniors
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118(2)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, effective for the 1988 and subsequent taxation years, to replace the previous age exemption. • The 2006 Tax Fairness Plan increased the Age Credit amount by $1,000 to $5,066 effective for the 2006 taxation year. • Budget 2009 increased the Age Credit amount by $1,000 to $6,408 (indexed thereafter).
Objective – category	To provide income support or tax relief To achieve a social objective
Objective	This measure was introduced to reduce the tax burden borne by elderly Canadians (Budget 1972; Budget 2009).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Social Retirement
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 6.1 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	3,170	3,335	3,450	3,625	3,840	3,930	3,955	4,035

Apprentice vehicle mechanics’ tools deduction

Description	Registered apprentice vehicle mechanics may deduct, in computing their employment income subject to income tax, the extraordinary portion of the cost of new tools they purchase in the taxation year or in the last three months of the previous taxation year if the apprentice is in his or her first year. The extraordinary tool costs are those that exceed either the combined value of the deduction for tradespeople’s tool expenses ($500) and the Canada Employment Credit ($1,245 in 2020) or 5% of the taxpayer’s income, whichever is greater.
Tax	Personal income tax
Beneficiaries	Apprentice vehicle mechanics
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 8(1)(r) and subsection 8(6)
Implementation and recent history	• Introduced in Budget 2001. Effective for tools acquired after 2001. • In Budget 2007, the threshold for recognition of tool costs was integrated with the new deduction for tradespeople’s tool expenses and Canada Employment Credit.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure recognizes that apprentice vehicle mechanics have reduced ability to pay tax relative to other taxpayers with the same income due to the extraordinary portion of the cost of new tools they have to provide as a condition of their employment (Budget 2001; Budget 2007).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment Education
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T777 Statement of Employment Expenses
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 6,500 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	3	3	3	3	3	3	3	3

Apprenticeship Job Creation Tax Credit

Description	Employers can claim a 10% non-refundable tax credit in respect of wages paid to qualifying apprentices in the first two years of their contract, to a maximum of $2,000 per apprentice per year. A qualifying apprentice is defined as someone working in a prescribed trade in the first two years of their apprenticeship contract. This contract must be registered with the federal government or a provincial or territorial government under an apprenticeship program designed to certify or license individuals in the trade. Prescribed trades include the trades currently listed as Red Seal Trades. Unused credits can be carried back 3 years or forward 20 years to reduce taxes payable in those years.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 127
Implementation and recent history	• Introduced in Budget 2006. Effective in respect of salaries and wages paid to qualifying apprentices on or after May 2, 2006.
Objective – category	To encourage employment
Objective	This measure encourages employers to hire new apprentices and to support apprentices in their training (Budget 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual amounts earned and claimed by employers. The estimates do not cover investment tax credits claimed by trusts.
Projection method	Personal income tax: The tax expenditure is projected based on historical growth. Corporate income tax: The tax expenditure is projected to grow in line with total employment.
Number of beneficiaries	About 800 individuals and 13,000 corporations claimed this credit in 2018. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	2	2	2	2	1	1	1	1
Corporate income tax								
Earned and claimed in current year	70	60	60	60	60	50	55	55
Claimed in current year but earned in prior years	20	20	25	25	20	15	15	15
Earned in current year but carried back to prior years	5	5	4	4	4	4	4	4
Total – corporate income tax	95	80	90	90	80	75	75	75
Total	95	85	90	90	85	75	75	80

Atlantic Investment Tax Credit

Description	A 10% credit is available for qualifying acquisitions of new buildings, machinery and equipment and prescribed energy and conservation property used primarily in qualified activities in the Atlantic provinces, the Gaspé Peninsula and their associated offshore regions. Qualified activities include farming, fishing, logging, manufacturing and processing, the storing of grain, the harvesting of peat, and the production or processing of electrical energy or steam. Unused credits can be carried back 3 years or forward 20 years to reduce taxes payable in those years. Where the credit exceeds the amount of tax payable in a year, 40% of the credit is refundable for small Canadian-controlled private corporations and individuals.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the Atlantic provinces and the Gaspé region
Type of measure	Credit, refundable and non-refundable
Legal reference	*Income Tax Act*, section 127
Implementation and recent history	• Introduced in Budget 1977. • Budget 2012 announced the reduction of the credit rate from 10% to 5% for assets for use in oil and gas and mining activities acquired in 2014 and 2015. The tax credit ceases to be available for such assets acquired after 2015.
Objective – category	To encourage or attract investment
Objective	This measure promotes economic development of the Atlantic provinces and the Gaspé region (Budget 1977).
Category	Non-structural tax measure and refundable tax credit
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues. The portion of this measure that is refundable is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual amounts earned and claimed by businesses. The estimates do not cover investment tax credits claimed by trusts.
Projection method	Personal income tax: The cost of this measure is projected based on historical growth. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product. The projected cost of the non-refundable portion of this measure is reduced in 2019 and 2020 by the introduction of the Accelerated Investment Incentive, full expensing for manufacturing or processing machinery and equipment, and full expensing for clean energy generation equipment, which will reduce corporate taxable income.
Number of beneficiaries	About 4,700 individuals and 6,300 corporations claimed this credit in 2018. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	10	10	10	10	10	10	10	10
Corporate income tax								
Non-refundable portion								
Earned and claimed in current year	140	40	45	50	20	20	20	25
Claimed in current year but earned in prior years	90	50	450	195	55	105	65	40
Earned in current year but carried back to prior years	30	25	10	5	10	10	10	10
Total – non-refundable portion	260	120	510	245	85	135	95	75
Refundable portion	20	20	20	25	25	25	25	30
Total – corporate income tax	280	140	530	270	110	160	120	100
Total	290	150	540	280	120	170	130	115

Canada Caregiver Credit

Description	The Canada Caregiver Credit consolidated and replaced the previous system of caregiver credits (including the Caregiver Credit, Infirm Dependant Credit and Family Caregiver Tax Credit). In 2020, the amount of the credit is: • $7,276 in respect of infirm dependants who are parents/grandparents, brothers/sisters, aunts/uncles, nieces/nephews, adult children of the claimant or of the claimant's spouse or common-law partner; • $2,273 in respect of an infirm dependent spouse or common-law partner in respect of whom the individual claims the spouse or common-law partner amount, an infirm dependant for whom the individual claims an eligible dependant credit, or an infirm child who is under the age of 18 years at the end of the tax year. In cases where an individual claims a spouse or common-law partner amount or an eligible dependant amount in respect of an infirm family member, the individual must claim the Canada Caregiver Credit at the lesser amount ($2,273). Where this results in less tax relief than would be available if the higher amount ($7,276) were claimed, an additional amount will be provided to offset this difference. The value of the non-refundable credit is calculated by applying the lowest personal income tax rate to the credit amount per eligible dependant. The credit is reduced dollar-for-dollar by the dependant's net income above $17,085 (in 2020) and is fully phased out when the dependant's income reaches $24,361 (in 2019). Both the credit amount and the income threshold at which the credit starts to be reduced are indexed to inflation. The dependant is not required to live with the caregiver in order for the caregiver to claim the new credit and no credit is available in respect of non-infirm seniors who reside with their adult children.
Tax	Personal income tax
Beneficiaries	Caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(d)
Implementation and recent history	• Introduced in 2017, effective for the 2017 and subsequent taxation years.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes that individuals providing care for infirm family members have reduced ability to pay tax compared to other taxpayers with similar income (Budget 2017).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households Health
CCOFOG 2014 code	71049 - Social protection - Family and children 71011 - Social protection - Sickness and disability - Sickness 71012 - Social protection - Sickness and disability – Disability
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return and information from Statistics Canada's *Canadian Survey on Disability* and *General Social Survey*
Estimation method	T1 micro-simulation model; estimates for the value of this measure, as well as for the number of individuals with infirm dependants not living in the individual's home and the number of individuals living with non-infirm seniors, were derived using the Statistics Canada survey results.
Projection method	T1 micro-simulation model

Number of beneficiaries	In total, about 504,000 were entitled to an amount for the Canada Caregiver Credit for 2018. This includes about 190,000 who were caring for an infirm spouse or common-law partner, 41,000 who were caring for an eligible dependant, 151,000 individuals who claimed the credit in respect of an infirm dependant age 18 or older, and 122,000 individuals who claimed the credit in respect of an infirm child under 18 years of age. The total number of individuals entitled to an amount for the Canada Caregiver Credit exceeds the total number of individuals claiming an amount because some individuals may not be able to claim an amount in respect of an infirm spouse or common-law partner or eligible dependant after an income test on the dependant's net income is applied.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	–	–	190	210	220	220	220	225

Canada Child Benefit

Description	For the 2020-21 benefit year, the Canada Child Benefit provides a maximum benefit of $6,765 per child under the age of 6 and $5,708 per child aged 6 through 17. The Canada Child Benefit is income-tested based on adjusted family net income with the benefit phase-out rate depending on the number of children. On the portion of adjusted family net income between $31,711 and $68,708, the benefit is phased out at a rate of 7% for a one-child family, 13.5% for a two-child family, 19% for a three-child family and 23% for larger families. Where adjusted family net income exceeds $68,708, remaining benefits are phased out at rates of 3.2% for a one-child family, 5.7% for a two-child family, 8% for a three-child family and 9.5% for larger families, on the portion of income above $68,708. Indexation to inflation of the maximum benefit amounts and phase-out thresholds began as of the 2018-19 benefit year. The Child Disability Benefit is an additional amount provided to families caring for a child eligible for the Disability Tax Credit. For the 2020-21 benefit year, the Child Disability Benefit provides up to $2,886 in benefits per eligible child. The phase-out of this additional amount generally aligns with the Canada Child Benefit. It is phased out at a rate of 3.2% for families with one eligible child and 5.7% for families with more than one eligible child, on adjusted family net income in excess of $68,708. This additional amount, which is included in Canada Child Benefit payments made to eligible families, is also indexed to inflation as of the 2018-19 benefit year. Canada Child Benefit payments are made monthly and are non-taxable. The payment cycle runs from July to June.
Tax	Personal income tax
Beneficiaries	Families with minor children
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.6
Implementation and recent history	• The Child Tax Benefit (the precursor to the Canada Child Tax Benefit) was introduced in Budget 1992 and replaced, effective January 1993, the former refundable child tax credit, family allowance and non-refundable tax credit. • The Canada Child Tax Benefit and National Child Benefit supplement were introduced in 1998. The Child Disability Benefit was introduced in 2003. • The Canada Child Benefit was introduced in Budget 2016 and replaced the Canada Child Tax Benefit, including the National Child Benefit supplement, and the Universal Child Care Benefit. Payments of the Canada Child Benefit began in July 2016. • The 2017 *Fall Economic Statement* introduced the indexation to inflation of the maximum benefit amounts and phase-out thresholds for the Canada Child Benefit as of the 2018-19 benefit year, rather than as of the 2020-21 benefit year as was legislated. The Child Disability Benefit is also indexed to inflation as of the 2018-19 benefit year. • Budget 2018 granted retroactive eligibility for the Canada Child Tax Benefit, the National Child Benefit supplement and the Universal Child Care Benefit to foreign-born individuals who are Indians under the *Indian Act* who reside legally in Canada but are neither Canadian citizens nor permanent residents, where all other eligibility requirements are met, from the 2005 taxation year to June 30, 2016. • *Budget Implementation Act, 2018, No. 2* clarified that an individual caring for a child under a kinship care program is eligible for the Canada Child Benefit in respect of that child, regardless of whether they receive financial assistance from a government under such a program (provided all other eligibility requirements are met). • As part of the Government of Canada's *COVID-19 Economic Response Plan*, an additional Canada Child Benefit payment of up to $300 per child was provided to eligible families on May 20, 2020. • As part of the Government of Canada's *COVID-19 Economic Response Plan*, the Government proposed in the 2020 *Fall Economic Statement*, to provide quarterly payments in 2021 to families entitled to the Canada Child Benefit with children under the age of 6. Payments would total up to $1,200 per child under the age of 6 for those with adjusted family net income equal to or less than $120,000, and up to $600 per child under the age of 6 for those with adjusted family net income above $120,000. These payments would be delivered quarterly in January, April, July and October 2021.
Objective – category	To recognize non-discretionary expenses (ability to pay) To achieve a social objective
Objective	This measure gives families more money to help with the high cost of raising their children.

Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	*Public Accounts of Canada* T1 Income Tax and Benefit Return
Estimation method	This measure is presented on a fiscal year basis as reported in the *Public Accounts of Canada* (e.g., the amount for 2013 corresponds to the expenditure reported for the 2013–14 fiscal year).
Projection method	Projections of the value of this measure are calculated based on projected inflation and growth in family income and population.
Number of beneficiaries	It is estimated that about 3.5 million families will receive the Canada Child Benefit in 2020.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Canada Child Tax Benefit – Children's Benefits	10,510	3,240	–	–	–	–	–	–
Canada Child Benefit – Children's Benefits	–	16,860	23,420	23,900	24,300	27,300	25,600	26,000
Quarterly payments for families with young children entitled to the Canada Child Benefit (2021) – Children's Benefits	–	–	–	–	–	575	1,765	–

Note: The COVID-19 Special Payment (May 2020) is included in the estimates for the Canada Child Benefit – Children's Benefits.

Canada Emergency Rent Subsidy and Lockdown Support

Description	The Canada Emergency Rent Subsidy (CERS) provides support for businesses and other organizations that have suffered a decline in revenues through a subsidy on certain rent- and mortgage-related costs. Eligible entities are eligible individuals, taxable corporations and trusts, partnerships consisting of eligible entities, non-profit organizations, registered charities and other prescribed entities. The measure came into effect on September 27, 2020 and will be available until June 2021. For the first 24 weeks of the program, eligible entities that experience a decline in revenues of 70% or more can receive the maximum subsidy rate of 65% of their eligible costs; this declines to a 40% subsidy for those with a revenue drop of 50%, with the subsidy rate gradually falling to zero for those that have not experienced a decline in revenues. Eligible costs are capped at $75,000 per location and a maximum of $300,000 among affiliated entities. Additionally, entities with locations that have been significantly affected by a public health order are eligible for the Lockdown Support equal to 25% of eligible costs. The Lockdown Support is subject to a $75,000 cap on eligible costs per location, but not the cap of $300,000 among affiliated entities.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses, individuals and other organizations
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, sections 125.7 and 164
Implementation and recent history	• As part of the Canada's *COVID-19 Economic Response Plan*, this measure was implemented as of September 27, 2020 and will be available until June 2021. On November 5, 2020, details for September 27, 2020 to December 19, 2020 were announced. • In the 2020 *Fall Economic Statement*, on November 30, 2020, the Government announced details for the CERS program for December 20, 2020 to March 13, 2021.
Objective – category	To encourage employment To support business activity
Objective	This measure is intended to support businesses and other organizations that are affected by the COVID-19 pandemic through a subsidy on certain rent- and mortgage-related costs. The top-up is intended to provide direct financial support to businesses that are significantly affected by local public health restrictions.
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs relevant to supporting individuals and businesses during the COVID-19 crisis, as part of the Canada's *COVID-19 Economic Response Plan*. Specifically, the Canada Emergency Rent Subsidy was introduced as a successor to the Canada Emergency Commercial Rent Assistance program administered by the Canada Mortgage and Housing Agency. The Canada Emergency Busines Account and programs within the mandate of Innovation, Science and Economic Development Canada also support businesses and other organizations that are affected by the COVID-19 pandemic. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	T2 micro-simulation model
Projection method	After the expiration of the measure, the cost of this measure is projected to become negative. As the subsidy is considered government assistance and will be taxed accordingly, it is expected to increase the taxable income or reduce the losses of claimants. This will have the effect of reducing the use of loss carry-forwards in coming years.
Number of beneficiaries	It is estimated that about 90,000 businesses and other organizations received the Canada Emergency Rent Subsidy and Lockdown Support in 2020.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Canada Emergency Rent Subsidy and Lockdown Support	–	–	–	–	–	2,180	4,305	–

Note: The figures in the table correspond to the fiscal impact of the measure as published in the 2020 *Fall Economic Statement* and reflect the parameters of the program as of that time.

Canada Emergency Wage Subsidy

Description	The Canada Emergency Wage Subsidy (CEWS) provides eligible employers with a wage subsidy for eligible remuneration paid to employees in respect of a claim period. The level of subsidy an employer may receive is based on the decline in revenue of the employer during the reference period. For claim periods 1 to 4 (March 15 to July 4, 2020): • The employer must meet a minimum of 15% (period 1) or 30% (periods 2 to 4) revenue drop to qualify for the subsidy; and • The subsidy rate is 75% of eligible employee's remuneration, up to a maximum of $847/week per eligible employee. For subsequent periods, the CEWS for active employees consists of two parts: • A base subsidy available to all eligible employers that are experiencing a decline in revenues, with the subsidy amount varying depending on the scale of revenue decline; • A top-up subsidy of up to an additional 25% for those employers that have been most adversely affected by the COVID-19 crisis. • A separate rate structure applies to furloughed employees. For periods 11 to 13 (December 20, 2020 to March 13, 2021), the maximum top-up CEWS rate is 35%.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses, individuals and other organizations
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, sections 125.7 and 164
Implementation and recent history	• As part of the Canada's *COVID-19 Economic Response Plan*, the CEWS was introduced on March 27, 2020, for an initial 12-week period from March 15 to June 6, 2020. • On May 15, 2020, the Government extended the CEWS by an additional 12 weeks to August 29, 2020 and extended eligibility to the CEWS to certain types of organizations. • On July 17, 2020, the Government announced the extension and redesign of the CEWS until December 19, 2020, providing details of the program until November 21, 2020. • On October 9, 2020, the Government confirmed that the CEWS will be extended until June 2021, and announced the details of the program until December 19, 2020 and other enhancements. • In the 2020 *Fall Economic Statement*, on November 30, 2020, the Government announced the details of the program until March 13, 2021, including the increase to the maximum top-up rate.
Objective – category	To encourage employment To support business activity
Objective	This measure was put in place to help prevent job losses and encourage employers to quickly rehire workers previously laid off as a result of COVID-19.
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified 71059 - Social Protection - Unemployment
Other relevant government programs	Programs relevant to supporting individuals and businesses during the COVID-19 crisis, as part of the Canada's *COVID-19 Economic Response Plan*. The Canada Emergency Busines Account and programs within the mandate of Innovation, Science and Economic Development Canada also support businesses and other organizations that are affected by the COVID-19 pandemic. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T4 Summary of Remuneration Paid T2 Corporation Income Tax Return

Estimation method	T2 micro-simulation model
Projection method	After the expiration of the measure, the cost of this measure is projected to become negative. As the subsidy is considered government assistance and will be taxed accordingly, it is expected to increase the taxable income or reduce the losses of claimants. This will have the effect of reducing the use of loss carry-forwards in coming years.
Number of beneficiaries	It is estimated that about 385,000 employers received the Canada Emergency Wage Subsidy in 2020.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal and corporate income tax	–	–	–	–	–	68,750	28,890	–

Note: The figures in the table correspond to the fiscal impact of the measure as published in the 2020 *Fall Economic Statement* and reflect the parameters of the program as of that time.

Canada Employment Credit

Description	Taxpayers with employment income may qualify for the Canada Employment Credit. The value of the credit is calculated by applying the lowest personal income tax rate to the lesser of $1,245 (in 2020) and the individual's employment income for the year. The maximum amount is indexed to inflation.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118(10)
Implementation and recent history	• Introduced in Budget 2006. Effective July 1, 2006. The maximum amount in 2006 was $500, doubling to $1,000 on January 1, 2007.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides general tax recognition of work-related expenses (Budget 2006).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 18.5 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	2,270	2,295	2,385	2,495	2,575	2,685	2,590	2,665

Canada Training Credit

Description	Qualifying workers between the ages of 25 and 64 will accumulate a credit balance of $250 per year, up to a lifetime limit of $5,000. The credit balance can then be used to refund up to half the costs of taking a qualifying course or training program. In order to accumulate a Canada Training Credit balance in 2020, a worker must have earnings of $10,100 or more (including maternity or parental leave benefits) and must have net income below the upper limit of the third federal tax bracket ($150,473 in 2020).
Tax	Personal income tax
Beneficiaries	IIndividuals between the ages of 26 and 65
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.91
Implementation and recent history	• Introduced in Budget 2019. The annual accumulation to the notional account became effective in respect of the 2019 taxation year, and the credit will be available to be claimed for expenses in respect of the 2020 taxation year.
Objective – category	To encourage investment in education
Objective	This measure was introduced to address barriers to professional development for working Canadians (Budget 2019).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment Education
CCOFOG 2014 code	70959 - Education - Education not definable by level 70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	The Canada Training Credit was introduced alongside a new Employment Insurance Training Support Benefit, intended to help workers replace any income forgone during training periods. Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	n/a
Projection method	Eligibility to accumulate a Canada Training Credit balance was simulated based on taxfiler data linked across years. Claim amounts were simulated based on Tuition Tax Credit claims, subject to this accumulated balance, with credit balances adjusted accordingly.
Number of beneficiaries	It is estimated that approximately 600,000 individuals will claim this credit each year beginning in 2020.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	–	–	–	–	–	145	180	205

Canada Workers Benefit / Working Income Tax Benefit

Description	The Canada Workers Benefit (CWB) is a refundable tax credit that supplements the earnings of low-income workers. It is generally available to individuals 19 years of age and older not attending school full-time. The refundable credit is equal to 26% of each dollar of earned income in excess of $3,000 to a maximum credit of $1,381 for single individuals without dependants and $2,379 for families (couples and single parents) in 2020. The CWB is phased out at a rate of 12% of each dollar of adjusted net income above thresholds of $13,064 for single individuals without dependants and $17,348 for families in 2020. An additional CWB supplement of up to $713 in 2020 is provided to persons eligible for both the CWB and the Disability Tax Credit. The CWB supplement is phased out at a rate of 12% of each dollar of adjusted net income above a threshold of $24,569 for single individuals without dependants and $37,176 for families in 2020. Maximum benefit amounts and phase-out thresholds are indexed annually for inflation. Advance payment of up to 50% of the estimated CWB and CWB supplement may be available to eligible individuals upon application. Provincial and territorial governments can propose specific changes to the design of the CWB, subject to certain conditions, including cost neutrality. Quebec, Alberta and Nunavut have jurisdiction-specific CWB designs in 2020.
Tax	Personal income tax
Beneficiaries	Low-income employees and self-employed individuals
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.7
Implementation and recent history	• Introduced in Budget 2007. Effective for the 2007 and subsequent taxation years (2008 and subsequent taxation years in respect of advance payments). • Enhanced in Budget 2009 for the 2009 and subsequent taxation years. • Budget 2018 introduced the new Canada Workers Benefit, which replaced the WITB in 2019.
Objective – category	To encourage employment To provide income support or tax relief
Objective	This measure, like the WITB before it, makes work more rewarding and attractive for low income-earning Canadians already in the workforce, and encourages other Canadians to enter the workforce. The CWB also provides important income support to low-income working Canadians. (Budget 2007; Budget 2009; Budget 2018)
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment Income support
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	The value of this measure corresponds to the amounts claimed as credits, as reported in administrative data.
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1.4 million individuals received this benefit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Working Income Tax Benefit – personal income tax	1,160	1,185	1,160	1,105	–	–	–	–
Canada Workers Benefit – personal income tax	–	–	–	–	1,995	1,605	2,085	2,080

Canadian Film or Video Production Tax Credit

Description	Qualified corporations can claim a 25% refundable tax credit in respect of salaries and wages of an eligible Canadian film or video production. The maximum amount of Canadian labour cost qualifying for the credit is 60% of the total cost of a film or video production. The Canadian Audio-Visual Certification Office of the Department of Canadian Heritage is responsible for certifying productions that are eligible for the credit.
Tax	Corporate income tax
Beneficiaries	Corporations in the film and video production industry
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 125.4
Implementation and recent history	• Introduced in Budget 1995 at a rate of 25% of the cost of eligible salaries and wages incurred after 1994 and up to a maximum of 12% of the total cost of production. It replaced the film tax shelter mechanism for certified Canadian films in place prior to 1995. • The maximum amount of the credit was increased to 15% of total production cost for productions, effective for expenditures incurred on or after November 14, 2003. • Talk shows were made eligible for the Canadian Film or Video Production Tax Credit by removing the reference to "talk shows" from the definition of "excluded production" for the purposes of the credit. This change applies to productions for which the principal photography starts after February 16, 2016.
Objective – category	To achieve a social objective To support business activity
Objective	This measure encourages Canadian programming and the development of an active domestic independent production sector (Canadian Heritage news release, December 12, 1995).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Arts and culture
CCOFOG 2014 code	70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual amounts earned and claimed by businesses.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 1,500 corporations received this benefit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	260	270	300	265	290	220	265	310

Canadian Journalism Labour Tax Credit

Description	A 25% refundable tax credit is provided on salary or wages paid to eligible newsroom employees of qualifying Canadian journalism organizations. This credit allows qualifying organizations to claim up to $55,000 in labour costs per eligible newsroom employee per year, for a maximum credit of $13,750 per employee. The credit applies to salary or wages earned in respect of a period on or after January 1, 2019.
Tax	Personal (trusts only) and corporate income tax
Beneficiaries	Qualified Canadian journalism orgranizations
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 125.6
Implementation and recent history	• Introduced in Budget 2019, applicable to salary or wages earned in respect of a period on or after January 1, 2019.
Objective – category	To achieve a social objective To support business activity
Objective	This measure supports Canadian journalism, recognizing that a strong and independent news media is crucial to a well-functioning democracy (Budget 2019).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Social Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Canadian Heritage also support the journalism industry. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Tax data do not currently exist. Estimates are based on Statistics Canada labour statistics by industry and occupation.
Estimation method	Estimates are based on potential salaries and wages eligible for the credit multiplied by the credit rate.
Projection method	Same as estimation method. Growth in eligible salaries and wages is not expected to change significantly in the short term.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	–	–	–	–	n.a.	n.a.	n.a.	n.a.
Corporate income tax	–	–	–	–	90	80	90	90

Capital gains exemption on personal-use property

Description	Personal-use property is held primarily for the use and enjoyment of the owner rather than as an investment. In calculating the capital gain on personal-use property, both the proceeds of disposition and the adjusted cost base of the property are deemed to be no less than the greater of $1,000 and the actual proceeds of disposition or adjusted cost base, as appropriate. Consequently, no capital gain is recognized if the proceeds of disposition are $1,000 or less. If the proceeds exceed $1,000, the owner of the property could realize a capital gain if the proceeds exceed the cost of the property; however, the capital gain is reduced in situations where the adjusted cost base of the property, as it would be determined in the absence of this measure, is actually less than $1,000. Personal-use property of a corporation is property owned mainly for the personal use or enjoyment of an individual who is related to the corporation.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Exemption
Legal reference	*Income Tax Act*, section 46
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • Budget 2000 introduced rules that prevent the $1,000 deemed adjusted cost base and deemed proceeds of disposition for personal-use property from applying if the property is acquired after February 27, 2000 as part of an arrangement or scheme in which the property is donated as a charitable gift.
Objective – category	To reduce administration or compliance costs
Objective	This measure was introduced to minimize record keeping and simplify administration with respect to the purchase and disposal of personal-use items (*Summary of 1971 Tax Reform Legislation*, 1971).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Capital loss carry-overs

Description	Net capital losses may be carried back three years and forward indefinitely to offset capital gains of other years. Notwithstanding these rules, net capital losses realized in the year in which a taxpayer dies may be deductible against all forms of income for that taxation year and the immediately preceding year. Unused net capital losses from prior years carried forward to the year of death may also be deductible against all forms of income for that taxation year and the immediately preceding year.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate investors
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 111(1) and 111(2)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • Budget 1983 extended the carry-back for capital losses from one year to three years.
Objective – category	To assess tax liability over a multi-year period
Objective	This measure supports investors by reducing the risk associated with investment (Budget 1983).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: T1 and T3 micro-simulation models. For individuals, the estimate for a given year represents the tax relief associated with the carry-forward to that year of losses incurred in prior years and the deductibility of losses in the year of death of a taxpayer. Data on losses carried back to a previous year is not available. For trusts, the estimate for a given year represents the tax relief associated with the carry-forward to that year of losses incurred in prior years, as well as the carry-back to that year of losses incurred in subsequent years. Data on amounts carried back are preliminary. Corporate income tax: The estimate for a given year represents the tax relief associated with both the carry-forward to that year of losses incurred in prior years and the carry-back to previous years of losses incurred in that year. The estimate is equal to the amount of losses carried over multiplied by the tax rate applicable in the year in which the losses are applied.
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals. Corporate income tax: The value of this measure is projected to grow in line with corporate taxable income.
Number of beneficiaries	About 524,000 individuals, 4,700 trusts and 54,400 corporations made use of this measure in 2018 (not counting individuals that carried back losses only).

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals – carried back	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Individuals – applied to current year	425	435	550	445	390	330	435	465
Trusts	1,140	940	1,240	715	790	945	1,040	1,145
Total – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax								
Carried back	325	260	170	355	175	265	260	260
Applied to current year	495	370	415	430	410	405	415	455
Total – corporate income tax	820	630	585	785	585	670	675	715
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Caregiver Credit

Description	The Caregiver Credit was replaced with the Canada Caregiver Credit in 2017. The Caregiver Credit provided tax relief to individuals providing in-home care to a parent or grandparent 65 years of age or over or an infirm adult dependent relative, including a child or grandchild, a brother, a sister, an aunt, an uncle, a niece or a nephew. The value of the non-refundable credit was calculated by applying the lowest personal income tax rate to the credit amount per eligible dependant ($4,668 in 2016). The credit was reduced when the dependant's net income exceeded $15,940 and was fully phased out when the dependant's income reached $20,608. Both the credit amount and the income threshold at which the credit started to be reduced were indexed to inflation
Tax	Personal income tax
Beneficiaries	Caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(c.1)
Implementation and recent history	• Introduced in 1998. Effective for the 1998 and subsequent taxation years. Repealed in Budget 2017 as of the 2017 taxation year.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes that individuals providing in-home care for elderly or infirm family members have reduced ability to pay tax compared to other taxpayers with similar income (Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households Health
CCOFOG 2014 code	71049 - Social protection - Family and children 71011 - Social protection - Sickness and disability - Sickness 71012 - Social protection - Sickness and disability – Disability
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 257,000 individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	145	145	–	–	–	–	–	–

Cash basis accounting

Description	Under the benchmark tax system, income is taxable when it accrues, and expenses are deductible in the period when the related revenue is reported. Individuals and corporations engaged in farming and fishing activities may elect to include revenues when received, rather than when earned, and deduct expenses when paid rather than when the related revenue is reported. This measure allows farmers and fishers to better match cash receipts with cash expenses, and may enable them to defer paying tax on income realized but not yet received. Cash basis accounting may result in non-capital losses that are not reflective of the actual losses that would have been created under an accrual system of accounting. This happens because income and expenses are not necessarily matched under the cash basis system. As a result of loss carry-forward and carry-back limitations (i.e., 20 years forward and 3 years back), farming businesses under the cash-based system may not be able to use these losses to reduce taxable income in some instances. A mandatory inventory adjustment and optional inventory adjustment are provided for farming businesses, which act to lessen this outcome.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Farming and fishing businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 28
Implementation and recent history	• Prior to 1948, cash basis accounting was an acceptable method for determining business income for tax purposes. Amendments to the *Income Tax Act* in 1948 introduced the concept of profit and the use of accrual accounting, but at the same time preserved the ability of taxpayers who had been using cash basis accounting to continue to use that method. • In 1955, a provision specifically allowing farmers to use cash basis accounting was introduced. • In 1958, the provision preserving the ability for other taxpayers to continue to use cash basis accounting was repealed. • The optional inventory adjustment was implemented in Budget 1973, effective for the 1972 and subsequent taxation years. • In 1980, cash basis accounting was confirmed for fishers on a retroactive basis to 1972. • The mandatory inventory adjustment was introduced following the 1987 Tax Reform (Department of Finance Canada news release 88-89, June 30, 1988), effective for fiscal years commencing after 1988. • In 1996, a provision was introduced to prevent prepaid expenses (other than for inventory) relating to a taxation year at least two years after the year of payment from reducing cash basis income in the year of payment. This provision was effective for amounts paid after April 26, 1995.
Objective – category	To provide relief for special circumstances To reduce administration or compliance costs
Objective	This measure recognizes that requiring all farmers and fishers to adopt the accrual method of income reporting could result in accounting and liquidity problems (*Report of the Royal Commission on Taxation*, vol. 4, 1966; *Proposals for Tax Reform*, 1969).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is a departure from the accrual basis of taxation.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.

Number of beneficiaries	No data is available.

Charitable Donation Tax Credit

Description	The Charitable Donation Tax Credit is a non-refundable tax credit on donations to registered charities, registered Canadian amateur athletic associations and other qualified donees. In 2020, the formula for determining the credit for individuals is linked to the lowest, second-highest and highest federal tax rates. The credit rate is 15% on the first \$200 of total annual gifts and 29% on total annual gifts over \$200, with the exception of donors with taxable income exceeding \$214,368 who may claim a 33% tax credit on the portion of total annual donations over \$200 made from taxable income greater than \$214,368 In general, the credit may be claimed on donations totalling up to 75% of an individual's net income (up to 100% of net income for donations of ecologically sensitive land and cultural property or in certain other circumstances) and may be carried forward for up to 5 years (up to 10 years for donations of ecologically sensitive land).
Tax	Personal income tax (including trusts)
Beneficiaries	Individual donors
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.1 and subsections 248(30) to (41)
Implementation and recent history	• Introduced in 1917 as a deduction "for amounts paid during the year to the Patriotic and Red Cross Funds, and other patriotic and war funds approved by the Minister." • The general income limit on donations was increased in several stages from 10% in 1970 to 75% in 1997. • In 1988, the deduction for donations made by individuals was converted to a two-tier tax credit as part of the 1987 Tax Reform. • Budget 1994 reduced the threshold to which the higher rate applies from \$250 to \$200. • Budget 1995 eliminated the net income limit for donations of ecologically sensitive land eligible for the tax credit. • In Budget 2014, the carry-forward period for donations of ecologically sensitive land was extended from 5 to 10 years. • In 2016, the Government amended the Charitable Donation Tax Credit to allow donors with taxable income that is subject to the 33% marginal tax rate to also claim a 33% tax credit on the portion of donations (greater than \$200) made from that income. Any donations that exceed the amount of a donor's taxable income that is subject to the 33% marginal tax rate will be subject to the 29% credit rate. This change is effective for the 2016 and subsequent taxation years. • Budget 2019 added registered journalism organizations as a new category of tax-exempt "qualified donee" as referred to in the *Income Tax Act*. To be a registered journalism organization, an organization must apply to the Canada Revenue Agency and meet certain criteria, including being a Qualified Canadian Journalism Organization having purposes exclusively related to journalism. These organizations are not permitted to distribute their profits, if any, or allow their income to be available for the personal benefit of certain individuals connected with the organization.
Objective – category	To achieve a social objective
Objective	This measure is designed to support the important work of the charitable sector in meeting the needs of Canadians (*Report of the Royal Commission on Taxation*, vol. 3, 1966; 1987 Tax Reform).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.

Source of data	T1 Income Tax and Benefit Return T3 Trust Income Tax and Information Return Canadian Cultural Property Export Review Board Environment and Climate Change Canada
Estimation method	The value of this measure in respect of donations other than cultural property and ecologically sensitive land by individuals is estimated using the T1 micro-simulation model. The value of this measure in respect of donations of cultural property is calculated by multiplying an estimate of donations made in the year by the 29% credit rate. The value of this measure in respect of donations of ecologically sensitive land is estimated by multiplying total donations by the 29% credit rate. The value of this measure in respect of donations by trusts is estimated using the T3 micro-simulation model. No breakdown is available of the tax expenditure accruing to trusts by type of donations.
Projection method	Projections for individuals are obtained using the T1 micro-simulation model in the case of donations other than cultural property and ecologically sensitive land. Projections in respect of donations of cultural property and ecologically sensitive land are made based on the historical trend in the number and value of donations; in particular, projections in respect of cultural property are made based on an average of past donations. Projections for trusts are based on projected growth for individuals.
Number of beneficiaries	About 5.2 million individuals and 3,000 trusts claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Donations by individuals by type of donations								
Publicly listed securities	190	240	315	270	410	300	340	390
Ecologically sensitive land	5	10	5	10	5	10	10	10
Cultural property	25	25	20	15	10	15	20	20
Other	2,425	2,455	2,560	2,685	2,670	2,745	2,835	2,900
Subtotal – donations by individuals	2,645	2,735	2,900	2,980	3,095	3,070	3,205	3,320
Donations by trusts	15	15	35	35	35	35	35	40
Total – personal income tax	2,660	2,750	2,935	3,015	3,130	3,105	3,240	3,355

Child Care Expense Deduction

Description	Child care expenses incurred for the purpose of earning business or employment income, taking an occupational training course, pursuing education or carrying on research for which a grant is received are deductible from income, up to a limit. The deduction may not exceed the lesser of (i) the total of the maximum dollar limits for all children ($8,000 per child under age 7, $5,000 per child between 7 and 16 years of age and infirm dependent children over age 16, and $11,000 for a child eligible for the Disability Tax Credit, regardless of their age), (ii) two-thirds of earned income for the year (not applicable to single-parent students), and (iii) the actual amount of child care expenses incurred. The spouse with the lower income must generally claim the deduction. However, the higher-income parent may claim a deduction if the lower-income parent is infirm, confined to a bed or a wheelchair, in prison or a similar situation for at least two weeks, attending a designated educational institution, or living apart due to a breakdown in the relationship for a period of at least 90 days during the year.
Tax	Personal income tax
Beneficiaries	Families with children
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 63
Implementation and recent history	• Announced in Budget 1971. Legislation introduced in 1972 and effective for the 1972 and subsequent taxation years. • Budget 1988 eliminated the overall maximum limit of $8,000 per taxpayer for child care expenses. • Budget 1996 increased the age limit for children from 14 to 16 years. • Maximum dollar amounts increased by $1,000, effective for the 2015 taxation year (Prime Minister of Canada news release, October 30, 2014).
Objective – category	To recognize expenses incurred to earn employment income To recognize education costs
Objective	This provision recognizes the child care costs incurred by single parents and two-earner families in the course of earning employment income, pursuing education or performing research (Budget 1992; Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income. Expenses incurred to earn business income are generally deductible under the benchmark tax system; however, child care expenses may also have an element of personal consumption, hence the classification of this measure as a tax expenditure.
Subject	Employment Education Families and households
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70989 - Education - Education not elsewhere classified 71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1.4 million individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,345	1,295	1,320	1,355	1,380	970	1,135	1,360

Children's Arts Tax Credit

Description	Parents could claim a non-refundable tax credit at the lowest personal income tax rate on eligible fees for the enrolment of a child under the age of 16 in an eligible program of artistic, cultural, recreational or developmental activity. The credit could be claimed by either parent. If a child qualified for the Disability Tax Credit, the age limit was raised to under 18 years of age and an additional $500 amount could be claimed, subject to the parents spending a minimum of $100 on registration or membership fees for an eligible program of artistic, cultural, recreational or developmental activity. As well, the requirements for an eligible activity were relaxed to cover a broader range of programs more suited to the challenges experienced by these children. Budget 2016 announced the phase-out of this measure by 2017 (see details below).
Tax	Personal income tax
Beneficiaries	Families with minor children
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.031 *Income Tax Regulations*, section 9401
Implementation and recent history	• Introduced in Budget 2011. Effective for the 2011 and subsequent taxation years ($500 maximum amount per child for eligible fees). • Budget 2016 reduced the maximum amount of eligible fees to $250, effective for the 2016 taxation year, and eliminated the credit effective for the 2017 taxation year.
Objective – category	To achieve a social objective
Objective	This measure better recognized the costs associated with children's artistic, cultural, recreational and developmental activities (Budget 2011).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure was transferable between spouses or common-law partners.
Subject	Arts and culture
CCOFOG 2014 code	70869 - Recreation, culture, and religion - Recreation, culture, and religion not elsewhere classified
Other relevant government programs	Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 631,000 individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	45	25	–	–	–	–	–	–

Children's Fitness Tax Credit

Description	Parents could claim a refundable tax credit at the lowest personal income tax rate on eligible fees for the enrolment of a child under the age of 16 years in an eligible program of physical activity. The credit could be claimed by either parent. If a child qualified for the Disability Tax Credit, the age limit was raised to under 18 years of age and an additional $500 amount could be claimed, subject to the parents spending a minimum of $100 on registration or membership fees for an eligible program of physical activity. As well, the requirements for an eligible activity were relaxed to cover a broader range of programs more suited to the challenges experienced by these children. Budget 2016 announced the phase-out of this measure by 2017 (see details below).
Tax	Personal income tax
Beneficiaries	Families with minor children
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.8 *Income Tax Regulations*, section 9400
Implementation and recent history	• Introduced in Budget 2006 as a non-refundable tax credit. Effective for the 2007 and subsequent taxation years ($500 maximum amount per child for eligible fees). • Guidelines were released in 2006 on the credit and enhancement of the credit for children with disabilities (Department of Finance Canada news release 2006-084, December 19, 2006). • The maximum amount of the credit was doubled to $1,000, effective for the 2014 taxation year, and the credit was made refundable, effective for the 2015 taxation year (Prime Minister of Canada news release, October 9, 2014). • Budget 2016 reduced the maximum amount of eligible fees to $500, effective for the 2016 taxation year, and eliminated the credit effective for the 2017 taxation year.
Objective – category	To achieve a social objective
Objective	This measure promoted physical fitness among children (Budget 2006).
Category	Non-structural tax measure and refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure was classified as a transfer payment for government accounting purposes, and therefore was not considered to be a tax expenditure.
Subject	Health
CCOFOG 2014 code	70761 - Health - Health not elsewhere classified - Health prevention programs (collective)
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 1.7 million individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	210	145	–	–	–	–	–	–

Corporate Mineral Exploration and Development Tax Credit

Description	A 10% non-refundable credit was available to corporations in respect of expenditures incurred in Canada for grassroots exploration and pre-production mine development in relation to the mining of diamonds, base and precious metals as well as industrial minerals that become base or precious metals through refining. Budget 2012 announced the phase-out of this credit to make the tax system more neutral between mining and other industries and, as a result, this credit does not apply after 2015. However, unused credits can be pooled and carried forward, and the use of previously earned credits will continue beyond 2015.
Tax	Corporate income tax
Beneficiaries	Corporations in the mining industry
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 127(9), paragraph (a.3) of definition of "investment tax credit"
Implementation and recent history	• Introduced in Budget 2003. The credit applied at a rate of 5% in 2003, 7% in 2004 and 10% as of 2005. • Budget 2012 announced the phase-out of this credit. In the case of exploration expenditures, the credit rate was reduced to 5% for expenses incurred in 2013 and is not available for expenses incurred after 2013. In the case of pre-production development expenditures, the credit rate was reduced to 7% for expenses incurred in 2014, 4% for expenses incurred in 2015, and is not available for expenses incurred after 2015.
Objective – category	To encourage or attract investment
Objective	This measure was introduced to improve the international competitiveness of the resource sector and promote the efficient development of Canada's natural resource base (*Improving the Income Taxation of the Resource Sector in Canada*, March 3, 2003).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Business - natural resources
CCOFOG 2014 code	70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The cost of this measure in a year is calculated using data on actual credits claimed in the year. The cost in the initial year is partially offset in the following year as the corporation's cumulative Canadian Exploration Expense account is then reduced by the credit claimed the year before.
Projection method	Projections are based on current market conditions.
Number of beneficiaries	A small number of corporations (fewer than 20) claim this credit each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	15	5	70	80	70	65	65	60

Credit for subscriptions to Canadian digital news media

Description	A temporary, non-refundable 15% tax credit on amounts paid by individuals for eligible digital news subscriptions. The credit allows individuals to claim up to $500 in costs paid towards eligible digital subscriptions (or the stand-alone cost of the digital subscription in cases of combined digital and newsprint subscriptions) in a taxation year, for a maximum of $75 annually. Eligible subscriptions are those that entitle a taxpayer to access content provided in a digital form by a Qualified Canadian Journalism Organiation (QCJO) that is primariliy engaged in the production of written content. A subscription with a QCJO carrying on a broadcasting undertaking (as defined in the *Broadcasting Act*) will not qualify for this credit.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.02
Implementation and recent history	• Introduced in Budget 2019, effective in respect of eligible amounts paid after 2019 and before 2025.
Objective – category	To achieve a social objective To support business activity
Objective	Recognizing that a strong and independent news media is crucial to a well-functioning democracy, this measure supports Canadian digital news media organizations in achieving a more financially sustainable business model (2018 *Fall Economic Statement*).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Social Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	Based on internal projections of growth in this sector.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	–	–	–	–	–	25	30	40

Credit for the Basic Personal Amount

Description	Individual taxpayers can claim a non-refundable credit in respect of the Basic Personal Amount. The value of the credit is calculated by applying the lowest personal income tax rate (15% in 2020) to the Basic Personal Amount. The credit amount is indexed to inflation. The Government has tabled a Notice of Ways and Means Motion to introduce an income-tested supplement to the Basic Personal Amount as of 2020, which will be gradually increased in steps exceeding inflation each year until 2023, at which time the maximum credit amount will be $15,000. Based on the proposed amendments, the maximum credit amount for 2020 would be $13,229, with the fully reduced amount being $12,298
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(c)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, effective for the 1988 and subsequent taxation years, to replace the previous basic personal exemption. • Between 1998 and 2009, the Basic Personal Amount was periodically increased. • In December 2019, the Government announced its intention to increase the Basic Personal Amount to $15,000 by 2023. The increase will be gradually implemented from 2020 to 2023 through annual increases in excess of inflation. The new, increased portion of the credit will be subject to an income test beginning at a level of individual net income equal to the fourth federal tax bracket threshold ($150,473 in 2020), and be fully phased out by the fifth federal bracket threshold ($214,368 in 2020).
Objective – category	To promote the fairness of the tax system
Objective	This measure contributes to tax fairness by ensuring that no tax is paid on a basic amount of income (*Report of the Royal Commission on Taxation*, vol. 3, 1966; Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Other
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 28.3 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	33,345	33,910	35,050	36,440	37,705	43,315	43,575	45,965

Deductibility of certain costs incurred by musicians

Description	Employed musicians can deduct amounts from their employment income for the expenses they incur for the maintenance, rental and insurance of musical instruments they are required to provide as a term of their employment. The measure also provides for the deduction of capital cost allowance in respect of these instruments.
Tax	Personal income tax
Beneficiaries	Employed musicians
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 8(1)(p)
Implementation and recent history	• Introduced in 1987 as part of the 1987 Tax Reform. Effective for the 1988 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income
Objective	The deductibility of certain expenses incurred by artists and musicians recognizes that these expenses are necessary to carry on employment in those fields (*Musical Instruments: Income Tax Reform*, 1987).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment Arts and culture
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T777 Statement of Employment Expenses
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 4,400 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1	1	S	1	1	1	1	1

Deductibility of charitable donations

Description	Donations made by corporations to registered charities are deductible in computing taxable income within certain limits. In general, a deduction may be claimed on donations totalling up to 75% of a corporation's taxable income. The limit is increased by 25% of the amount of taxable capital gains arising from donations of appreciated capital property and 25% of any capital cost allowance recapture arising from donations of depreciable capital property. The net income restriction does not apply to certain gifts of cultural property or ecologically sensitive land. Donations in excess of the particular limit applied may be carried forward up to 5 years with the exception of gifts of ecologically sensitive land, which may be carried forward up to 10 years.
Tax	Corporate income tax
Beneficiaries	Corporate donors
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 110.1
Implementation and recent history	• Budget 1930 introduced the deductibility of donations to any church, university, college, school or hospital in Canada amounting to no greater than 10% of a taxpayer's net income. By 1933, the deduction applied to donations made to charities. • Budget 1997 increased the deduction limit to 75% of a corporation's net income, reduced to 25% the portion of taxable capital gains arising from the donations of appreciated capital property that can be added to the deduction limit, and added to the deduction limit 25% of recaptured capital cost allowance amounts.
Objective – category	To achieve a social objective
Objective	This measure is designed to support the important work of the charitable sector in meeting the needs of Canadians (*Report of the Royal Commission on Taxation*, vol. 3, 1966).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is not incurred to earn income. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	T2 Corporation Income Tax Return
Estimation method	T2 micro-simulation model
Projection method	The cost of this measure is projected to grow in line with corporate taxable income.
Number of beneficiaries	This measure provided tax relief to about 98,400 corporations in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
By type of donations								
Ecologically sensitive land	1	1	1	10	2	4	4	4
Cultural property	20	3	5	5	4	5	5	5
Other	435	440	625	680	710	700	715	790
Total – corporate income tax	455	445	635	690	715	710	725	795

Deductibility of contributions to a qualifying environmental trust

Description	Contributions to a qualifying environmental trust are deductible in computing the contributor's income in the years the contributions are made, provided that the contributor is a beneficiary under the trust. Amounts withdrawn from the trust to fund reclamation costs are included in the recipient's income when withdrawn; however, there is typically no net tax cost at the time of withdrawal since the recipient will be able to deduct the reclamation costs incurred against the above income inclusion. This measure is intended to improve the cash flow of taxpayers at the time the contributions to a qualifying environmental trust are made. It also ensures that companies, such as single-mine companies, which might not have had sufficient taxable income against which to deduct actual reclamation expenses when these expenses were incurred (for the most part at the end of the life of a mine or after its closure), obtain some tax relief for these expenses. Additional details on this measure can be found in the Annex to Part 1 of this report.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses contributing to a qualifying environmental trust
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 20(1)(ss)
Implementation and recent history	• Introduced in Budget 1994. Effective for contributions to eligible mine reclamation trusts for taxation years ending after of February 22, 1994. • Budget 1997 extended this measure to similar trusts established for waste disposal sites and quarries for the extraction of aggregate and similar substances, effective for taxation years ending after February 18, 1997. • Budget 2011 further extended this measure to include trusts established for pipeline reclamation, effective for taxation years ending after 2012.
Objective – category	To provide relief for special circumstances
Objective	This measure assists firms that are required to make contributions to a qualifying environmental trust set up for the purpose of funding reclamation costs (Budget 1997).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition in respect of a contingent expense, resulting in a deferral of tax.
Subject	Environment
CCOFOG 2014 code	70549 - Environmental protection - Protection of biodiversity and landscape
Other relevant government programs	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada and Natural Resources Canada also support environment-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on contributions to qualifying environmental trusts by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: No estimate is available. Corporate income tax: The cost of this measure is based on net contributions (total contributions minus funds withdrawn) to qualifying environmental trusts.
Projection method	Personal income tax: No projection is available. Corporate income tax: Projections are based on current market conditions and the anticipated impact that National Energy Board pipeline regulations will have on the use of qualifying environmental trusts.
Number of beneficiaries	A small number of corporations/partnerships (fewer than 50) claimed this deduction in 2018. No data is available for unincorporated businesses.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	55	60	60	60	55	55	55	55
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Deductibility of costs of capital assets and eligibility for investment tax credits before asset is put in use

Description	Corporations may claim capital cost allowance and investment tax credits on depreciable assets at the earlier of the time that is the end of the taxation year in which the asset is available for use or the second taxation year following its year of acquisition.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 13(27) and 127(11.2)
Implementation and recent history	• Introduced in 1990, applicable to property acquired after 1989.
Objective – category	To reduce administration or compliance costs
Objective	This measure facilitates the application and administration of the capital cost allowances regime and investment tax credits by limiting the period between the acquisition of a capital asset and the time the cost of the asset is recognized for tax purposes.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deductibility of countervailing and anti-dumping duties when paid

Description	In accordance with rules established by the World Trade Organization, countries may impose countervailing and anti-dumping duties to offset the injurious effects of imports that are subsidized or dumped. Countervailing and anti-dumping duties paid by Canadian businesses in order to export their products are deductible in computing income subject to tax in the year that the duties are paid, even if the payment is based on a preliminary finding. By contrast, under general income tax rules, since the amount payable may be subsequently adjusted under the trade remedy process, the liability would be considered contingent and no deduction would be allowed until the final determination of the amount of the liability. Under the measure, any refunds or additional amounts (e.g., interest) received as a result of the final determination of the liability must be included in income when received.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses that pay a countervailing or anti-dumping duty
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 20(1)(vv)
Implementation and recent history	• Introduced in Budget 1998. Effective for duties that became payable and are paid after February 23, 1998.
Objective – category	To provide relief for special circumstances
Objective	This measure recognizes that businesses that pay countervailing and anti-dumping duties are required to pay amounts that are not under their control and that, although these amounts may be subsequently refunded in whole or in part, this process can take several years (Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition in respect of a contingent expense, resulting in a deferral of tax.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deductibility of earthquake reserves

Description	Federally regulated property and casualty insurance companies can deduct, for income tax purposes, earthquake premium reserves which are set aside pursuant to guidelines established by the Office of the Superintendent of Financial Institutions. These reserves represent a surplus appropriation, and would not otherwise be deductible under the benchmark system.
Tax	Corporate income tax
Beneficiaries	Property and casualty insurers
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 20(7)(c) *Income Tax Regulations*, the description of L in subsection 1400(3)
Implementation and recent history	• Introduced in Budget 1998. Effective for the 1998 and subsequent taxation years.
Objective – category	To provide relief for special circumstances
Objective	This measure helps ensure that federally regulated property and casualty insurance companies have sufficient financial capacity to pay insured earthquake losses when they occur (Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition in respect of a contingent expense, resulting in a deferral of tax.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Data on earthquake premium reserves is provided by the Office of the Superintendent of Financial Institutions.
Estimation method	This tax expenditure is estimated by taking the annual net change in total earthquake premium reserves and multiplying that change by the statutory corporate income tax rate for the year. The net change, and not the amount of the reserve, is of importance because the deduction is effectively applied on a net basis (the taxpayer includes in income the reserve from the previous year, and deducts from income the reserve for the current year).
Projection method	Earthquake premium reserves are projected to grow at the compound annual growth rate observed over the last eight years.
Number of beneficiaries	About 20 corporations claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Corporate income tax	S	S	S	S	S	1	1	1

Deductibility of expenses by employed artists

Description	Employed artists are allowed to deduct amounts paid in the year to earn income from their artistic activities up to the lesser of $1,000 or 20% of their income derived from employment in the arts. An amount deductible in a year under this measure is reduced by motor vehicle expenses and musical instrument costs that are also deducted against the taxpayer's income from the same artistic activity for the year.
Tax	Personal income tax
Beneficiaries	Employed artists
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 8(1)(q)
Implementation and recent history	• Introduced on May 16, 1990 (Government response to the *Report of the Standing Committee on Communications and Culture Respecting the Status of the Artist*). Effective for amounts paid after 1990.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides greater certainty to employed artists with respect to the tax treatment of their professional expenses (Government response to the *Report of the Standing Committee on Communications and Culture Respecting the Status of the Artist*, 1990).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment Arts and culture
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T777 Statement of Employment Expenses
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1,200 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	S	S	S	S	S	S	S	S

Deduction for certain contributions by individuals who have taken vows of perpetual poverty

Description	Individuals who have taken a vow of perpetual poverty as a member of a religious order may claim a deduction in a year in which they are a member of that religious order for the amount of earned income and pension benefits assigned and paid in the year to the order.
Tax	Personal income tax
Beneficiaries	Individuals who have taken vows of perpetual poverty as members of a religious order
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsection 110(2)
Implementation and recent history	• Introduced in 1949. Effective for the 1949 and subsequent taxation years.
Objective – category	To achieve a social objective To provide relief for special circumstances
Objective	This measure recognizes the special situations of members of religious orders who make vows of poverty and assign all of their income to the religious order.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	70849 - Recreation, culture, and religion - Religious and other community services
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	No reliable data is available for this measure. As such, estimates and projections are no longer presented.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deduction for clergy residence

Description	A member of the clergy who is supplied living accommodation by their employer, or receives a housing allowance, may claim an offsetting deduction to the extent that this benefit is included in their income for the year. When no allowance is received nor living accommodation provided, a calculated deduction for rent and utilities is provided. The taxpayer must be in charge of or administer a diocese, parish or congregation, or be engaged exclusively in full-time administrative service by appointment of a religious order or denomination. The amount deducted cannot exceed the taxpayer's income from the office or employment, and is equal to the total amount included in the taxpayer's income as a taxable benefit because of the housing accommodation or allowance. In general, if the taxpayer owns or rents the accommodation, the amount that may be deducted is restricted to the lesser of two amounts: (1) the greater of $1,000 multiplied by the number of months (up to 10 months) in the year during which the taxpayer qualified as a member of the clergy and one-third of the taxpayer's remuneration from the office or employment; and (2) the amount, if any, by which rent paid (or the fair market value of the accommodation) exceeds the total deducted by the taxpayer in connection with the residence from income earned from the office or employment or a business.
Tax	Personal income tax
Beneficiaries	Members of the clergy or of a religious order, regular ministers of a religious denomination
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 8(1)(c)
Implementation and recent history	• Introduced in Budget 1949. Effective for the 1948 and subsequent taxation years. • In 2001, the amount of the deduction when the living accommodation is rented or owned by the clergy was limited to the least of three amounts: the clergy person's total remuneration from employment for the year; one-third of that remuneration or $10,000, whichever is greater; and the fair rental value of the residence (reduced by other amounts deducted in connection with the same residence).
Objective – category	To achieve a social objective
Objective	This measure recognizes the special nature of the contributions and circumstances of members of the clergy (Budget, March 1949).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Social
CCOFOG 2014 code	70849 - Recreation, culture, and religion - Religious and other community services
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 27,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	90	95	95	95	100	100	100	105

Deduction for self-employed artists

Description	Artists who are self-employed and who create paintings, prints, etchings, drawings, sculptures or similar works of art (but not including those in the business of reproducing works of art) may elect to value their inventory at nil, effectively allowing them to deduct the costs of creating a work of art in the year the costs are incurred rather than in the year the work of art is sold.
Tax	Personal income tax
Beneficiaries	Self-employed artists
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 10(6)
Implementation and recent history	• Introduced in Budget 1985. Effective for the 1985 and subsequent taxation years.
Objective – category	To provide relief for special circumstances
Objective	The special treatment of costs incurred by artists recognizes artists' problems in valuing their works of art on hand, attributing costs to particular works and carrying inventories over long periods of time (Budget 1985).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Arts and culture
CCOFOG 2014 code	70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deduction for tradespeople's tool expenses

Description	A tradesperson can claim a deduction of up to $500 of the total cost of eligible new tools acquired in a taxation year as a condition of employment that exceeds the amount of the Canada Employment Credit ($1,245 in 2020). The total cost of eligible new tools cannot exceed the total of the employment income earned as a tradesperson and apprenticeship grants received to acquire the tools, which are required to be included in income.
Tax	Personal income tax
Beneficiaries	Tradespeople
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 8(1)(s)
Implementation and recent history	• Introduced in Budget 2006. Effective in respect of eligible new tools acquired on or after May 2, 2006.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides tax recognition for the extraordinary cost of tools that tradespeople must provide as a condition of employment (Budget 2006).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T777 Statement of Employment Expenses
fEstimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 22,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	2	2	2	2	2	2	2	2

Deduction for tuition assistance for adult basic education

Description	A student can claim a deduction for the amount of tuition assistance received for adult basic education when the tuition assistance has been included in the student's income and the student does not qualify for the Tuition Tax Credit. In order to be eligible, the tuition assistance must be received under a program established under Part II of the *Employment Insurance Act*, a program established under the authority of the *Department of Employment and Social Development Act*, a similar program (in certain circumstances) or a prescribed program.
Tax	Personal income tax
Beneficiaries	Students
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 110(1)(g)
Implementation and recent history	• Introduced in Budget 2001. Effective retroactively to the 1997 and subsequent taxation years.
Objective – category	To recognize education costs
Objective	This measure provides assistance to adults undertaking basic education courses as part of a government training program (Budget 2001).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Education
CCOFOG 2014 code	70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T4E Statement of Employment Insurance and Other Benefits
Estimation method	The value of this measure is calculated by multiplying total non-taxable tuition assistance by an assumed marginal tax rate.
Projection method	The value of this measure is projected based on historical growth.
Number of beneficiaries	About 3,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	1	2	2	2	2	3	3	2

Deduction of allowable business investment losses

Description	Capital losses arising from the disposition of shares and debt instruments are generally deductible only against capital gains. However, one-half of the capital loss from a deemed disposition of bad debts or shares of a bankrupt small business corporation or from a disposition to an arm's length person of shares or debts of a small business corporation (known as an "allowable business investment loss") may be used to offset other income. Unused allowable business investment losses may be carried back three years and forward 10 years. After 10 years, the loss reverts to an ordinary capital loss and may be carried forward indefinitely. Allowable business investment losses are reduced if the Lifetime Capital Gains Exemption has been claimed in prior years (to the extent that allowable business investment losses have not already been reduced by those exemptions). The amount of the reduction depends on the inclusion rate of capital gains. The amount by which a taxpayer's allowable business investment loss is reduced under this provision is treated as a capital loss for the year in which it arose, and may be carried back three years and forward indefinitely to offset capital gains of other years.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate investors
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraph 38(c) and paragraph 39(1)(c)
Implementation and recent history	• Introduced in Budget 1978 (November 16, 1978). Effective for the 1978 and subsequent taxation years.
Objective – category	To encourage or attract investment
Objective	This measure recognizes that small businesses often have difficulty obtaining adequate financing, and provides special assistance for risky investments in such businesses (Budget 1985; Budget 2004).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deduction of capital losses otherwise than against capital gains.
Subject	Business - small businesses Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	The value of this tax expenditure corresponds to the tax relief provided by permitting allowable business investment losses to be deducted from other income in the year they arise. The tax expenditure is overstated since it is assumed that the losses would not have been otherwise deducted against capital gains. Personal income tax: T1and T3 micro-simulation models Corporate income tax: T2 micro-simulation model
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals. Corporate income tax: Projections are based on the average cost of the previous three years, projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 7,300 individuals, fewer than 100 trusts and 1,540 corporations claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	35	35	40	35	45	45	45	50
Trusts	S	1	S	1	1	1	1	1
Total – personal income tax	35	35	40	35	45	45	45	50
Corporate income tax	15	10	10	5	5	10	10	10
Total	50	45	50	40	55	55	55	60

Deduction of interest and carrying charges incurred to earn investment income

Description	Interest and other carrying charges incurred to earn investment income are deductible under certain conditions. Carrying charges generally include fees, other than commissions, paid for advice sought by a taxpayer on buying or selling specific securities, or for the administration or the management of securities of the taxpayer. The management of securities includes the custody of securities, the maintenance of accounting records, and the collection and remittance of income. Carrying charges also include certain legal fees incurred in relation to the establishment or collection of support payments from a current or former spouse or common-law partner, or from the natural parent of the taxpayer's child.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Deduction
Legal reference	*Income Tax Act*, paragraphs 20(1)(c) and (bb)
Implementation and recent history	• Interest on borrowed funds used to earn income was made deductible in 1923, and investment counselling fees in 1951. Interest incurred by corporations to buy shares of other corporations was made deductible in 1972. • Budget 1996 introduced amendments to ensure that fees to establish child support amounts remained deductible. • Budget 2013 removed the deduction in respect of safety deposit box charges for taxation years that began on or after March 21, 2013.
Objective – category	To recognize expenses incurred to earn business or property income
Objective	This measure recognizes that carrying charges are incurred for the purpose of earning income.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: No data is available.
Estimation method	Personal income tax: T1 micro-simulation model Corporate income tax: No estimate is available.
Projection method	Personal income tax: T1 micro-simulation model Corporate income tax: No projection is available.
Number of beneficiaries	About 2 million individuals claimed this deduction in 2018. No data is available for corporations.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax (excluding trusts)	1,385	1,455	1,630	1,855	1,905	1,865	1,980	2,050
Corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Deduction of other employment expenses

Description	Under certain conditions, an employee can deduct a number of specific employment expenses in computing income, such as automobile expenses, the cost of meals and lodging for certain transport employees, and legal expenses paid to collect salary.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 8
Implementation and recent history	• Expenses of railway employees, sales expenses and transport employees' expenses were made deductible in Budget 1948, effective for the 1949 and subsequent taxation years. • Travel expenses, motor vehicle travel expenses, and dues and other expenses of performing duties were made deductible in Budget 1951, effective for the 1951 and subsequent taxation years. • Teachers' exchange fund contributions were made deductible in Budget 1957, effective for the 1956 and subsequent taxation years. • Legal expenses of employees were made deductible in Budget 1961, effective for the 1961 and subsequent taxation years. • Aircraft costs were made deductible in Budget 1979, effective for the 1980 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides tax recognition for certain expenses incurred for the purpose of earning employment income.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 772,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	930	915	920	910	955	1,050	1,010	1,050

Deduction of union and professional dues

Description	A deduction is available in respect of annual union, professional or like dues paid in the year by an employee (or paid by the employer and included in the employee's income) in the course of employment. The deduction does not apply to the extent the employee is, or is entitled to be, reimbursed by the employer.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Deduction
Legal reference	*Income Tax Act*, subparagraphs 8(1)(i)(i) and (iv)-(vii)
Implementation and recent history	• Introduced in Budget 1951. Effective for the 1951 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides tax recognition for mandatory employment-related expenses.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 5.9 million individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	970	955	975	1,030	1,095	1,045	1,115	1,195

Deferral for asset transfers to a corporation and corporate reorganizations

Description	Transfers of assets to a taxable Canadian corporation for consideration that includes at least one share of the corporation may be made on a tax-deferred basis. The tax deferral, which is on an elective basis, includes accrued capital gains and recapture of excess capital cost allowance deductions that would otherwise be realized on a taxable transfer. In general, the deferral results in the transferor having an accrued gain in respect of the share(s) acquired from the corporation and the corporation having deferred tax consequences in respect of the acquired property. Shareholders of a taxable Canadian corporation as well as the corporation itself are also permitted tax deferrals under certain corporate reorganization rules in which corporate assets are transferred. These reorganization rules include amalgamations, windings up and so-called “corporate butterflies”.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Timing preference
Legal reference	*Income Tax Act*, sections 55, 85, 87 and 88
Implementation and recent history	• These measures were introduced at various times (1948 for rules related to the recapture of excess capital cost allowance, 1958 for amalgamations, 1972 for capital gains on a transfer of an asset to a corporation and for a corporate winding-up, and 1980 for corporate butterflies).
Objective – category	To extend or modify the unit of taxation To support business activity
Objective	These measures facilitate tax-deferred transfers of assets used in business to a corporation and the reorganization of the corporation itself.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extends the unit of taxation. This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral of capital gains through intergenerational rollovers of family farms or fishing businesses

Description	Sales or gifts of assets to children, grandchildren or great-grandchildren typically give rise to taxable capital gains to the extent that the fair market value exceeds the adjusted cost base of the property. However, capital gains realized by an individual on intergenerational transfers of certain types of farm or fishing property (i.e., land and depreciable property including buildings) and shares in a family farm or fishing corporation or interests in a family farm or fishing partnership, may be deferred in certain circumstances until the property is disposed of in an arm's length transaction, if the farm or fishing property continues to be used principally in a farming or fishing business.
Tax	Personal income tax
Beneficiaries	Farming and fishing businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 70(9) to (9.31) and 73(3) to (4.1)
Implementation and recent history	• Implemented in Budget 1973. Effective for the 1972 and subsequent taxation years. • Budget 2001 ensured that the existing intergenerational tax-deferred rollover for farm property is available for transfers of commercial woodlots after December 10, 2001, where they are operated in accordance with a prescribed forest management plan. • Budget 2006 extended this measure to include qualified fishing property effective May 2, 2006. • Budget 2014 extended the measure to generally treat a taxpayer's combined farming and fishing business the same as separate farming and fishing businesses conducted by the same taxpayer, applicable to dispositions and transfers that occur in the 2014 and subsequent taxation years.
Objective – category	To achieve an economic objective – other
Objective	This measure allows for continuity in the management of family farms or family fishing businesses in Canada by permitting property used principally in a family farming or fishing business to pass from generation to generation on a tax-deferred basis (Budget 1973; Budget 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes. This measure extends the unit of taxation.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting – Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral of capital gains through transfers to a spouse, spousal trust or alter ego trust

Description	When a property is transferred to another person, capital gains are generally considered to be realized at the time of the transfer on the basis of the fair market value of the property at that time. However, if an individual transfers capital property to a spouse, spousal trust or alter ego trust (i.e., a trust for the benefit of the transferor), the capital property is deemed to have been disposed of by the individual at its adjusted cost base (or at the undepreciated capital cost in the case of depreciable property), and to have been acquired by the spouse or trust for an amount equal to those deemed amounts. This treatment effectively provides a deferral of the taxable capital gain until the disposition of the property by the spouse or trust, or until the transferee or relevant trust beneficiary dies.
Tax	Personal income tax
Beneficiaries	Individuals, their spouses and common-law partners
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 70(6) and section 73
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • Extended in 2001 to transfers to alter ego trusts (Department of Finance Canada news release 1999-112, December 17, 1999).
Objective – category	To extend or modify the unit of taxation
Objective	This measure recognizes that it is not always appropriate to treat a transfer of assets between spouses (or to a trust for one's own benefit or for the benefit of a spouse) as a disposition for income tax purposes, and therefore allows families flexibility in structuring their total assets (Budget 1971).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes. This measure extends the unit of taxation.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral of income from destruction of livestock

Description	A taxpayer may defer to the following taxation year, in part or in full, the income received in compensation for the forced destruction of livestock under statutory authority.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Farming businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 80.3
Implementation and recent history	• Introduced in Budget 1976. Effective for the 1976 and subsequent taxation years.
Objective – category	To provide relief for special circumstances
Objective	This measure was introduced to allow farmers adequate time to replace their herds, destroyed under statutory authority, without imposing a tax burden in the year of livestock destruction (Budget 1976).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting – Agriculture
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Table 32-10-0106-01
Estimation method	Personal income tax (unincorporated farms): The value of this measure is calculated as the total deferred income in a given year minus the total amount deferred from the year before, multiplied by the share of farm income accruing to unincorporated farms and the average marginal tax rate applicable to farm income. The breakdown of the estimates between individuals and trusts is not available. Corporate income tax (incorporated farms): A similar methodology is used except that the average tax rate used is the estimated average tax rate applicable to meals and entertainment expenses.
Projection method	Projections for 2020 through 2022 are not provided as the value of this measure cannot be reliably forecast for these years.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1	-1	2	-2	S	n.a.	n.a.	n.a.
Corporate income tax	1	S	3	S	1	n.a.	n.a.	n.a.
Total	2	-1	4	-2	1	n.a.	n.a.	n.a.

Deferral of income from grain sold through cash purchase tickets

Description	Farmers may make deliveries of grain to a grain elevator and receive payment in the form of a cash purchase ticket. If a cash purchase ticket is issued upon the delivery to an elevator of certain listed grains and the holder of the cash purchase ticket is entitled to payment after the end of the taxation year in which the grain is delivered, then the taxpayer may exclude the amount stated on the cash purchase ticket from income for the taxation year in which the grain was delivered, and instead include it in income for the immediately following taxation year.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Farming businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 76(4) and (5)
Implementation and recent history	• Introduced in Budget 1974. Effective for the 1973 and subsequent taxation years. • Consequential amendments to this measure due to the elimination of the Canadian Wheat Board were made in 2012 (first Budget 2012 implementation bill). These amendments removed the previous geographical restriction for the measure and extended it to farmers of the listed grains anywhere in Canada. • Budget 2017 launched a consultation on the ongoing utility of this measure. On November 6, 2017, the Government announced that the income deferral provided under this measure would be maintained.
Objective – category	To achieve an economic objective - other
Objective	By permitting the deferred reporting of income on grain sales, this measure facilitates the orderly delivery of grain to elevators, which helps meet Canada's grain export commitments (Budget May 1974).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting – Agriculture
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Table 32-10-0046-01
Estimation method	Personal income tax (unincorporated farms): The value of this measure is calculated as the total deferred income from cash purchase tickets in a given year minus the total income from exchanging cash purchase tickets for their cash value, multiplied by the share of farm income accruing to unincorporated farms and the average marginal tax rate applicable to farm income. The breakdown of the estimates between individuals and trusts is not available. Corporate income tax (incorporated farms): A similar methodology is used except that the average tax rate used is the estimated average tax rate applicable to meals and entertainment expenses.
Projection method	The projection for 2020 uses data available for the first two quarters of the calendar year. Projections for 2021 and 2022 are not provided as the value of this measure cannot be reliably forecast for these years.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	15	10	-5	-10	-15	-3	n.a.	n.a.
Corporate income tax	20	10	-5	-10	-20	-2	n.a.	n.a.
Total	35	20	-10	-20	-35	-5	n.a.	n.a.

Deferral of income from sale of livestock in a region of drought, flood or excessive moisture

Description	Farmers may defer recognition of a portion of the income received on the sale of breeding livestock (breeding animals and breeding bees) in prescribed regions affected by drought, flood or excessive moisture. Such deferred income must be recognized in the first taxation year beginning after the region ceases to be a prescribed region.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Farming businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 80.3 *Income Tax Regulations*, sections 7305 and 7305.02
Implementation and recent history	• Introduced in 1988 in respect of farmers forced to sell breeding livestock due to drought conditions (Department of Finance Canada news release 88-155, December 12, 1988). Effective for the 1988 and subsequent taxation years. • Expanded in March 2009 to apply to farmers carrying on business in a region of flood or excessive moisture (Department of Finance Canada news release 2009-024, March 5, 2009). Effective for the 2008 and subsequent taxation years. • Budget 2014 extended the measure to bees, and to all types of horses that are over 12 months of age, that are kept for breeding. Effective for the 2014 and subsequent taxation years.
Objective – category	To provide relief for special circumstances
Objective	This measure allows farmers to use the proceeds from the forced sale of livestock due to drought, flood or excessive moisture conditions to fund the acquisition of replacement livestock (Department of Finance Canada news release 88-155, December 12, 1988; Department of Finance Canada news release 2009-024, March 5, 2009; Budget 2014).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting – Agriculture
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral through 10-year capital gain reserve

Description	If the proceeds derived from the sale of a farm or fishing property or small business shares to a child, grandchild or great-grandchild are not all receivable in the year of sale, recognition of a portion of the capital gain realized may be deferred until the year in which the proceeds become receivable. However, a minimum of 10% of the gain must be brought into income per year, creating a maximum 10-year reserve period. This contrasts with the treatment of capital property generally, where the maximum reserve period is five years (see measure "Deferral through five-year capital gain reserve").
Tax	Personal income tax
Beneficiaries	Farming and fishing businesses, individual investors
Type of measure	Timing preference
Legal reference	*Income Tax Act,* subsection 40(1.1)
Implementation and recent history	• Budget 1981 proposed the elimination of capital gain reserves; however, this original proposal was later modified to allow a five-year reserve generally and to introduce the 10-year capital gain reserve for a transfer to a child (Department of Finance Canada news release 81-126). Effective for dispositions of property occurring after November 12, 1981. • Budget 2006 extended the scope of the measure to include fishing property. • Budget 2014 introduced simplifying rules for farmers carrying on farming and fishing businesses in combination.
Objective – category	To achieve an economic objective – other
Objective	This measure eases the intergenerational transfer of farm or fishing property sold to a child (Explanatory Notes for *Act to Amend the Income Tax Act*, December 1982; Budget 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing Business - small businesses
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting 70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model. The value of this tax expenditure corresponds to the difference between the amount of tax that would have been payable if capital gain reserves were fully included in income in the year of disposition of the asset and the amount of tax that is payable as reserve amounts are included in income over time.
Projection method	T1 micro-simulation model
Number of beneficiaries	About 8,600 individuals claimed a 10-year capital gain reserve in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
By type of property								
Farm and fishing property	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Small business shares	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total – personal income tax	25	20	30	25	20	10	20	20

Deferral through five-year capital gain reserve

Description	In some cases, a taxpayer may receive portions of the payment from the sale of a capital property over a number of years. Under those circumstances, realization of a portion of the capital gain may be deferred until the year in which the proceeds are received. A minimum of 20% of the gain must be brought into income per year, creating a maximum five-year deferral period.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 40(1)
Implementation and recent history	• Budget 1981 proposed the elimination of capital gain reserves; however, this original proposal was later modified with the introduction of the five-year capital gain reserve (Department of Finance Canada news release 81-126). Effective for dispositions of property occurring after November 12, 1981.
Objective – category	To assess tax liability over a multi-year period
Objective	This measure, while limiting tax deferral opportunities, recognizes that where capital gain proceeds are receivable over time, fully taxing gains in the year of sale could result in significant liquidity problems for taxpayers (Explanatory Notes for *Act to Amend the Income Tax Act*, December 1982).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: No data is available.
Estimation method	The value of this tax expenditure corresponds to the difference between the amount of tax that would have been payable if capital gain reserves were fully included in income in the year of disposition of the asset and the amount of tax that is payable as reserve amounts are included in income over time. Personal income tax: T1 and T3 micro-simulation models Corporate income tax: No estimate is available.
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals. Corporate income tax: No projection is available.
Number of beneficiaries	About 8,400 individuals and 1,000 trusts claimed a five-year capital gain reserve in 2018. No data is available for corporations.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	10	15	25	30	30	25	30	30
Trusts	S	-2	4	5	5	5	5	5
Total – personal income tax	10	15	30	35	35	30	35	35
Corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Deferral through rollover of capital gains and capital cost allowance recapture in respect of dispositions of land and buildings

Description	Capital gains and capital cost allowance recapture resulting from the voluntary disposition of land and buildings by businesses may be deferred if replacement properties are purchased within a specified time period (e.g., a business changing location). The rollover is generally not available for properties used to generate rental income.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 13(4) and 44(1)
Implementation and recent history	• The deferral of capital cost allowance recapture was introduced in 1955. Effective for the 1954 and subsequent taxation years. • The capital gains deferral was introduced in Budget 1971. Effective for the 1972 and subsequent taxation years.
Objective – category	To support business activity
Objective	This measure supports businesses by permitting the deferral of capital gains and capital cost allowance recapture that are incidental to an active business.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral through rollover of capital gains and capital cost allowance recapture in respect of involuntary dispositions

Description	Capital gains and capital cost allowance recapture resulting from an involuntary disposition (e.g., insurance proceeds received for an asset destroyed in a fire) may be deferred if the funds are reinvested in a replacement asset within a specified period. The capital gain and capital cost allowance recapture are taxable upon disposition of the replacement property.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 13(4) and 44(1)
Implementation and recent history	• The deferral of capital cost allowance recapture was introduced in 1955. Effective for the 1954 and subsequent taxation years. • The deferral of capital gains was introduced in Budget 1971. Effective for the 1972 and subsequent taxation years.
Objective – category	To provide relief for special circumstances
Objective	Rollover provisions are provided in some situations in which it would be unfair to collect capital gains tax even though the taxpayer has sold or otherwise disposed of an asset at a profit (*Proposals for Tax Reform*, 1969).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferral through use of billed-basis accounting by professionals and professional corporations

Description	In computing income for tax purposes, individuals and corporations carrying on the practice of certain professions (i.e., accounting, legal, medical doctor, dental, chiropractic or veterinary professional practice) could either use an accrual accounting method by default, or elect to use a billed-basis accounting method. Under the default accrual method, expenses were required to be matched with their associated revenues. Under the elective billed-basis method, the expenses relating to work in progress could be deducted as incurred even though the associated revenues were not brought into income until either the revenues were billed and became receivable or were paid. This treatment gave rise to a deferral of tax. Budget 2017 announced the phase-out of this measure.
Tax	Personal and corporate income tax
Beneficiaries	Individuals and corporations carrying on certain professional practices
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 34
Implementation and recent history	• Introduced in Budget 1971. Effective for fiscal years ending after December 31, 1971. • Budget 2017 eliminated the ability for designated professionals to elect to use billed-basis accounting, effective for taxation years that begin on or after March 22, 2017. A five-year transitional period to phase in the inclusion of work in progress into income was also introduced.
Objective – category	To reduce administration or compliance costs
Objective	This measure recognizes the inherent difficulty in valuing unbilled time and work in progress (*Summary of 1971 Tax Reform Legislation*, 1971).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Deferred Profit-Sharing Plans

Description	A Deferred Profit-Sharing Plan (DPSP) is an arrangement under which an employer contributes profits from their business to a trust for the benefit of a designated group of employees. Employers may make tax-deductible contributions to a DPSP on behalf of their employees. The contributions are not immediately taxed in the hands of the employee, and the investment income is not taxed as it is earned. Withdrawals are included in the income of the employee for tax purposes. Employer contributions are limited to 18% of an employee's earnings up to one-half of the defined contribution Registered Pension Plan (RPP) dollar limit for the year ($13,915 for 2020). Total contributions to a DPSP and a defined contribution RPP are limited to 18% of an employee's earnings up to a specified dollar amount ($27,830 for 2020).
Tax	Personal income tax
Beneficiaries	Employees with a Deferred Profit-Sharing Plan
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 147
Implementation and recent history	• In 1961, amendments were introduced to provide that an employee would not be subject to income tax on amounts contributed to a profit-sharing plan on their behalf by their employer until actually received as proceeds from the plan. • In 1989, a number of amendments to the DPSP tax rules were introduced that, among other changes, increased the limit on deductible employer contributions and prohibited employee contributions (*Saving for Retirement: A Guide to the Tax Legislation and Regulations,* Department of Finance Canada, 1989).
Objective – category	To encourage savings To achieve an economic objective – other
Objective	The tax treatment of these plans encourages additional retirement savings, and fosters co-operation between employers and their workers by encouraging employees to participate in their employer's business (Budget 1960).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Retirement Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Disability supports deduction

Description	Attendant care as well as certain other disability supports expenses incurred to carry on a business or for education or employment purposes are deductible from income unless they have been reimbursed by a non-taxable payment (e.g., insurance payment). Generally, the deduction is limited to the lesser of the amounts paid for eligible expenses and the taxpayer's earned income. Students are additionally entitled to claim the deduction against up to $15,000 of non-earned income, subject to the length of their educational program. Individuals do not have to be eligible for the Disability Tax Credit in order to claim the deduction, although other criteria may apply for eligibility of certain types of disability supports. Expenses claimed under the disability supports deduction cannot be claimed under the Medical Expense Tax Credit.
Tax	Personal income tax
Beneficiaries	Individuals with disabilities
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 64
Implementation and recent history	• Introduced in Budget 2004, effective for the 2004 and subsequent taxation years, replacing the previous attendant care deduction.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes the costs incurred by taxpayers with disabilities for disability supports required to enable them to earn business or employment income or to attend school (Budget 1989; Budget 2000; Budget 2004).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income. This measure provides tax recognition for an expense that is incurred for education purposes.
Subject	Health Employment Education
CCOFOG 2014 code	71012 - Social protection - Sickness and disability – Disability 70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70989 - Education - Education not elsewhere classified
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 2,900 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	3	3	3	3	3	3	3	3

Disability Tax Credit

Description	The Disability Tax Credit provides tax relief for non-itemizable disability-related costs in respect of an eligible individual that has been certified by a qualified medical practitioner as having a severe and prolonged disability. The value of the non-refundable credit is calculated by applying the lowest personal income tax rate to the disability credit amount ($8,576 in 2020). The credit amount is indexed to inflation and can be transferred to a supporting spouse, parent, grandparent, child, grandchild, brother, sister, aunt, uncle, nephew or niece of the individual. Families caring for eligible children with severe and prolonged impairments may claim an additional amount as a supplement to the credit. The value of the supplement is calculated by applying the lowest personal income tax rate to the supplement amount ($5,003 in 2020) and is reduced dollar-for-dollar by the amount of child care or attendant care expenses in excess of $2,930 (for 2020) that is claimed under the child care expense deduction, the disability supports deduction, or the Medical Expense Tax Credit. Both the expense threshold and the supplement amount are indexed to inflation.
Tax	Personal income tax
Beneficiaries	Individuals with disabilities, caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118.3(1)
Implementation and recent history	• Introduced in 1944 as a $480 deduction for blind persons. • Expanded in 1985 to individuals with severe disabilities. • Replaced by a non-refundable tax credit as part of the 1987 Tax Reform. • Introduction in 2000 of the supplement for children. • Budget 2005 extended eligibility to individuals who face multiple restrictions that together have a substantial impact on their everyday lives and to more individuals requiring extensive life-sustaining therapy on an ongoing basis. • Budget 2017 expanded the list of medical practitioners that can certify eligibility for the Disability Tax Credit to include nurse practitioners, effective for certifications made on or after March 22, 2017.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure improves tax fairness by recognizing the effect of a severe and prolonged disability on an individual's ability to pay tax (Budget 1997; Budget 2005).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. This measure extends the unit of taxation.
Subject	Health
CCOFOG 2014 code	71012 - Social protection - Sickness and disability – Disability
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	In total, 1.2 million individuals claimed an amount for the Disability Tax Credit for 2018. This includes about 770,000 eligible persons who claimed all or some portion of the credit for themselves, 150,000 individuals who claimed all or some portion of the credit on behalf of an eligible spouse or common-law partner, 260,000 individuals who claimed all or some portion of the credit transferred from an eligible person (such as a parent for a minor child), and 30,000 individuals who claimed all or some portion of the credit for themselves and on behalf of another eligible person. This data reflects revisions to the model used to estimate tax expenditures.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	990	1,030	1,090	1,150	1,200	1,250	1,300	1,350

Dividend gross-up and tax credit

Description	Income earned by corporations is subject to corporate income tax and, on distribution as dividends to individuals, personal income tax. The result is that dividends received by Canadian taxpayers are taxed at both the corporate and the personal levels. The Dividend Tax Credit (DTC), provided within the personal income tax system, is intended to compensate a taxable individual for corporate income taxes that are presumed to have been paid. The DTC is generally meant to ensure that income earned by a corporation and paid out to an individual as a dividend will be subject to the same amount of tax as income earned directly by the individual. The DTC mechanism calculates a proxy for pre-tax corporate profits and then provides a tax credit to individuals in recognition of corporate-level tax. Under this approach, an individual is first required to include the grossed-up amount of taxable dividends (i.e., the proxy for pre-tax profits) in income. Using the grossed-up amount, the tax system in effect treats the individual as having directly earned the amount that the corporation is presumed to have earned in order to pay the dividend. The DTC then compensates the individual for the amount of corporate-level tax presumed to have been paid on the grossed-up amount. The tax system has two DTC rates and gross-up factors to recognize the two different corporate income tax rates that generally apply to corporations. The enhanced DTC (15.0198% in 2020) and gross-up (38% in 2020) are applied to dividends distributed to an individual from corporate income taxed at the general corporate tax rate (eligible dividends). The ordinary DTC (9.0301% in 2020) and gross-up (15% in 2020) are applied to dividends distributed to an individual from corporate income not taxed at the general corporate tax rate (ineligible dividends). The same gross-up and tax credit mechanism applies to trusts in respect of the taxable dividends retained and taxed within the trusts.
Tax	Personal income tax (including trusts)
Beneficiaries	Individual investors
Type of measure	Other; credit, non-refundable
Legal reference	*Income Tax Act*, sections 82 and 121
Implementation and recent history	• Introduction of a DTC in 1949, followed by an increase of the tax credit in 1953. • The 1971 Tax Reform introduced the gross-up factor and adjustments to the DTC effective for the 1972 and subsequent taxation years. • Budgets 1977 and 1986 as well as the 1987 Tax Reform announced changes to the gross-up and DTC. • Budget 2006 established, for dividends paid after 2005, a new gross-up factor and an enhanced DTC rate for eligible dividends. • Budget 2008 adjusted the enhanced DTC and gross-up factor to reflect the scheduled federal general corporate income tax rate reductions that were announced in the 2007 Economic Statement. • Budget 2013 adjusted the gross-up factor and DTC rate applicable to non-eligible dividends to ensure the appropriate tax treatment of such dividends. • Budget 2015 adjusted the gross-up factor and DTC rate applicable to non-eligible dividends in conjunction with reductions in the preferential income tax rate for small businesses. • Budget 2016 announced that the gross-up factor and DTC rate applicable to non-eligible dividends would remain at 17% and 10.5% respectively after 2016. • The 2017 *Fall Economic Statement* adjusted the gross-up factor and DTC rate applicable to non-eligible dividends in conjunction with reductions in the preferential income tax rate for small businesses.
Objective – category	To prevent double taxation
Objective	These measures contribute to the integration of the corporate and personal income tax systems.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Savings and investment

CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T1 Income Tax and Benefit Return T3 Trust Income Tax and Information Return
Estimation method	T1 micro-simulation model T3 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 3.8 million individuals claimed this credit in 2018, while about 32,000 trusts are projected to benefit from it.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax								
Individuals	5,780	4,475	5,395	4,925	4,795	4,510	4,810	5,060
Trusts	450	225	235	275	225	170	205	230
Total – personal income tax	6,230	4,700	5,630	5,200	5,020	4,680	5,015	5,290

Earned depletion

Description	The earned depletion deduction supplemented the deduction for actual costs incurred with an extra deduction of up to 33$^1/_3$% of certain exploration and development expenses. This measure was phased out as part of the 1987 Tax Reform and, accordingly, new expenditures cannot be added to the earned depletion base after 1989. As in the case of Canadian Exploration Expenses and Canadian Development Expenses, earned depletion could be pooled and any remaining balance could be carried forward indefinitely for use in later years. As a result, deductions can still be made on the basis of existing unused depletion pools. The deduction for earned depletion is generally limited to 25% of the corporation's annual resource profits, although mining exploration depletion can be deducted against non-resource income.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the mining and oil and gas industry
Type of measure	Other
Legal reference	*Income Tax Regulations*, section 1201
Implementation and recent history	• Introduced in Budget 1971. • Phased out as part of the 1987 Tax Reform.
Objective – category	To encourage or attract investment
Objective	This measure was designed to encourage corporations to undertake exploration and development of natural resources (*Proposals for Tax Reform*, 1969; *Summary of 1971 Tax Reform Legislation*; Budget, May 6, 1974; Budget, November 18, 1974).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permitted the deduction of an amount that exceeded the expense actually incurred to earn income.
Subject	Business - natural resources
CCOFOG 2014 code	70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels 70431 - Economic affairs - Fuel and energy - Coal and other solid mineral fuels 70432 - Economic affairs - Fuel and energy - Petroleum and natural gas
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on earned depletion balances of unincorporated businesses is not available, but such balances are not expected to be significant. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: No estimate is available. Corporate income tax: The cost of this measure is equal to the amount of earned depletion claimed, multiplied by the general corporate income tax rate.
Projection method	Personal income tax: No projection is available. Corporate income tax: Projections are based on current market conditions.
Number of beneficiaries	A small number of corporations (fewer than 20) claimed this deduction in 2018. No data is available for unincorporated businesses.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	S	S	S	S	S	S	S	S
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Education Tax Credit

Description	A student could claim a non-refundable tax credit at the lowest personal income tax rate on an amount of $400 per month of study for full-time students and $120 per month of study for part-time students. The credit had to be claimed on the tax return of the student. If the student did not need to use all of the credit, the unused amount could be transferred to a supporting individual or carried forward to a subsequent taxation year. Budget 2016 announced the elimination of this measure as of 2017. Amounts carried forward from prior years may still be claimed.
Tax	Personal income tax
Beneficiaries	Students and individuals supporting them
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118.6(2)
Implementation and recent history	• Introduced as a deduction in Budget 1972. Effective for the 1972 and subsequent taxation years. • Replaced by a non-refundable tax credit and made transferable to spouses, parents or grandparents as part of the 1987 Tax Reform. • Budget 1997 introduced a provision allowing unused education amounts to be carried forward for use in a subsequent year. • The October 2000 Economic Statement and Budget Update announced the doubling of the amounts used to calculate the Education Tax Credit to $400 per month of full-time study and $120 per month of part-time study. • Budget 2011 reduced the 13-week minimum duration requirement applying to studies undertaken by Canadians at foreign universities to three consecutive weeks. • Budget 2016 announced the elimination of this measure as of 2017.
Objective – category	To recognize education costs
Objective	This measure provided students with assistance by recognizing non-tuition costs associated with full- and part-time education (Budget 1972).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. This measure extended the unit of taxation. The tax benefit from this measure could be obtained in a taxation year other than the year during which it accrued.
Subject	Education
CCOFOG 2014 code	70939 - Education - College education 70949 - Education - University education
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 2.3 million individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	760	730	400	325	250	195	115	45

Eligible Dependant Credit

Description	A taxpayer that does not have a spouse or common-law partner (or that is not living with, supporting, or being supported by their spouse or common-law partner) may claim a non-refundable credit in respect of a co-habiting and dependent parent or grandparent, or of a co-habiting child, grandchild, brother or sister who is either under the age of 18 or is wholly dependent due to physical or mental infirmity. The value of the credit is calculated by applying the lowest personal income tax rate to the eligible dependant amount. The credit amount is reduced dollar-for-dollar by the net income of the dependant. The credit may only be claimed once by the same household, and only one individual may claim the credit in respect of the same dependant in a given year. The Government has tabled a Notice of Ways and Means Motion to introduce an income-tested supplement to the Eligible Dependant Credit as of 2020, which is proposed to be gradually increased in steps exceeding inflation each year until 2023, at which time the maximum credit amount will be $15,000. Based on the proposed amendments, the maximum credit amount for 2020 would be $13,229, with the fully reduced amount being $12,298.
Tax	Personal income tax
Beneficiaries	Individuals with eligible dependants
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(b)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, to replace the previous exemption. Effective for the 1988 and subsequent taxation years. • Until 2007, the Eligible Dependant Credit amount was less than the Basic Personal Amount, and was reduced dollar-for-dollar by the net income of the dependant in excess of the income threshold applicable for the taxation year. • Budget 2007 introduced two changes to this credit: (i) the credit amount was set equal to the Basic Personal Amount; and (ii) the income threshold was eliminated, resulting in the credit amount being reduced dollar-for-dollar by the net income of the dependant. These changes became effective in 2007. • In December, 2019, the Government announced its intention to increase the Eligible Dependant Credit to $15,000 by 2023. The proposed increase would be gradually implemented from 2020 to 2023 through annual increases in excess of inflation. The new, increased portion of the credit would be subject to an income test beginning at a level of individual net income equal to the fourth federal tax bracket threshold ($150,473 in 2020), and would be fully phased out by the fifth federal bracket threshold ($214,368 in 2020).
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes that a taxpayer without a spouse or common-law partner who is supporting a dependent young child, parent or grandparent or other dependent relative due to mental or physical infirmity has a reduced ability to pay tax relative to a taxpayer with the same income and no such dependant (*Report of the Royal Commission on Taxation*, vol. 3, 1966).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households Health
CCOFOG 2014 code	71049 - Social protection - Family and children 71012 - Social protection - Sickness and disability - Disability
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return

Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 985,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	870	905	940	980	1,015	1,160	1,105	1,185

Employee benefit plans

Description	Employers may make contributions to an employee benefit plan on behalf of their employees. The employee is not required to include in income the contributions to the plan or the investment income earned within the plan until amounts are received. Employers may not deduct these contributions to the plan until the contributions are distributed to the employees. As such, relative to the situation where the employee would have paid income tax on the amount of deferred salary, the government incurs a tax expenditure on the amount, in the form of a deferral of tax, to the extent that the employee's personal income tax rate exceeds the corporate income tax rate. Investment income earned in an employee benefit plan is taxed in the hands of the plan or, if it is paid out, in the hands of the employer or employee. The preferential tax treatment under an employee benefit plan is available only in certain circumstances, for instance, where the main purpose of the plan is not the deferral of tax or where an employee is not yet able to exercise their right to any income under the plan. In addition, certain leaves of absence or sabbatical plans under which employees may be entitled to defer salaries, as well as salary deferral plans established for professional athletes playing for a team that participates in a league with regularly scheduled games, may be treated as employee benefit plans. Provided certain conditions are met by the plans or arrangements, these amounts are not subject to tax until received by the employee.
Tax	Personal income tax
Beneficiaries	Employees with an employee benefit plan
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 6(1)(g), section 32.1 and subsection 248(1), definition of "employee benefit plan" *Income Tax Act*, subsection 248(1), definition of "salary deferral arrangement" *Income Tax Regulations*, section 6801
Implementation and recent history	• Introduced in Budget 1979. Effective for the 1980 and subsequent taxation years. • Rules were introduced in 1986 (Budget 1986; Department of Finance Canada news release 86-131, July 28, 1986) to prevent the deferral of tax on salary income other than in certain specific circumstances such as leaves of absence and sabbatical plans.
Objective – category	To achieve a social objective To encourage employment
Objective	This measure improves access to employee benefit plans and accommodates extended leaves of a sabbatical nature within the employment relationship (Budget 1979; Budget 1986).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Employee stock option deduction

Description	When individuals acquire company shares under an employee stock option plan, they are deemed to have received a taxable benefit from employment equal to the difference between the fair market value of the shares at the time they are acquired and the amount paid to acquire them. Provided certain conditions are met, individuals may deduct one-half of the employment benefit earned on employee stock options from income for tax purposes, thereby benefiting from the same effective tax rate that investors receive on capital gains.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Deduction
Legal reference	*Income Tax Act*, subsections 7(1) and (1.1) and paragraphs 110(1)(d) and (d.1)
Implementation and recent history	• Introduced in Budget 1977 for employee stock options granted by Canadian-controlled private corporations (CCPCs). Effective April 1, 1977. • Extended in Budget 1984 to employee stock options granted by corporations other than CCPCs, effective February 15, 1984. • Budget 2010 eliminated the ability for both the employee and the employer to claim a deduction in relation to the same employment benefit under certain arrangements where employees surrendered their stock options to the employer in exchange for cash payments or other benefits. • The 2020 *Fall Economic Statement* proposed that a $200,000 annual limit (based on the fair market value of the shares underlying the options) will apply on employee stock option grants that can qualify for the employee stock option deduction, effective for employee stock options granted after June 2021. Employers that satisfy certain conditions will not be subject to new limit.
Objective – category	To achieve an economic objective - other To support competitiveness
Objective	This measure assists businesses in their efforts to attract and retain highly skilled employees and encourages employee participation in the ownership of the employer's business to promote increased productivity (Budget 1977; Budget 1984).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 33,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	685	550	655	770	920	865	935	985

Exemption for insurers of farming and fishing property

Description	Insurers of farming and fishing property could benefit from a tax exemption provided they did not engage in any business other than insurance. The proportion of an insurer's taxable income for a taxation year that was exempt was determined based on the proportion that the insurer's gross premium income (net of reinsurance ceded) earned for the year from the insurance of property used in farming or fishing or residences of farmers or fishers was of the insurer's total gross premium income (net of reinsurance ceded) for the year: • If the proportion was 90% or more, all of the insurer's taxable income was exempt from tax; • If the proportion was less than 90% but not less than 25%, only that proportion of the insurer's taxable income was exempt from tax; • If the proportion was less than 25% but not less than 20%, one half of that proportion of the insurer's taxable income was exempt from tax; • If the proportion was less than 20%, no exemption was available.
Tax	Corporate income tax
Beneficiaries	Insurers of farming and fishing property
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 149(1)(t) and subsections 149(4.1) to (4.3) *Income Tax Regulations*, subsection 4802(2)
Implementation and recent history	• Introduced in 1954, the original provision exempted all of an insurer's taxable income from tax if the proportion of its gross premium income (net of reinsurance ceded) from the insurance of property used in farming or fishing or residences of farmers or fishers was more than 50%. • This measure was amended in 1989, with the effect that if the proportion was between 25% and 90%, only that proportion of the insurer's taxable income became exempt from tax. • Amendments in 1996 introduced the remaining elements that, together, constitute the rules currently in effect. • Budget 2017 announced the elimination of this measure, effective for taxation years that begin after 2018.
Objective – category	To achieve an economic objective - other
Objective	This exemption encourages insurers to provide insurance service in all rural districts (1945 Royal Commission on Co-operatives).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base. This measure exempts from tax certain taxpayers.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting – Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The tax expenditure is estimated by multiplying the eligible amount of exempt income with the tax rate for each claimant.
Projection method	The cost of this tax expenditure is fairly stable; as such no growth is assumed over the projection period.
Number of beneficiaries	This measure provided tax relief to about 25 corporations in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	10	10	10	20	–	–	–	–

Exemption for international shipping and aviation by non-residents

Description	Income earned in Canada by a non-resident person from international shipping or the operation of an aircraft in international traffic is exempt from Canadian income tax if the country where the non-resident person resides grants substantially similar relief to a Canadian resident. This exemption is consistent with international practice and with the Model Tax Convention developed by the Organisation for Economic Co-operation and Development, and is supported by similar provisions in Canada's bilateral tax treaties.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Non-resident businesses
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 81(1)(c)
Implementation and recent history	• Introduced in 1926 for income of a non-resident person from the operation of a ship in international traffic. • Extended in 1945 to income of a non-resident person from the operation of an aircraft in international traffic.
Objective – category	To prevent double taxation
Objective	This measure is provided to prevent international double taxation.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Exemption from branch tax for transportation, communications, and iron ore mining corporations

Description	A statutory 25% tax, known as the "branch tax", is imposed on a non-resident corporation's after-tax income from carrying on business in Canada, to the extent this income is not reinvested in Canada. The statutory tax rate is generally reduced by Canada's bilateral tax treaties to 5%, 10% or 15% depending on the treaty. These treaties also generally restrict the scope of the branch tax to non-resident corporations which are carrying on business in Canada through a permanent establishment. A non-resident corporation the principal business of which is the transportation of persons or goods, communications, or mining iron ore in Canada, as well as registered charities and other corporations that are exempt from income tax, are exempt from the branch tax.
Tax	Corporate income tax
Beneficiaries	Non-resident corporations
Type of measure	Exemption
Legal reference	*Income Tax Act,* Part XIV, subsection 219(2)
Implementation and recent history	• Introduced in Budget 1960, concurrently with the introduction of the branch tax. Effective for the 1961 and subsequent taxation years. • Iron ore mining corporations were added to the list of exemptions in 1962. • The exemption for insurance companies (in effect since 1961) was repealed in 1969. • The exemption for corporations incorporated before July 1, 1867 (in effect since 1961) was repealed in 1972. • The exemption for banks (in effect since 1961) was repealed in 2001.
Objective – category	To provide relief for special circumstances
Objective	This measure recognizes that certain foreign companies sometimes have no real alternative to the branch office form of organization when operating in other jurisdictions (Budget 1960; Budget 1962).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax certain taxpayers.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The cost of this tax expenditure is calculated by multiplying the income of the branch exempt from branch tax by the applicable statutory or treaty tax rate.
Projection method	This tax expenditure is projected to grow in line with nominal gross domestic product. The base year for the projections is the average of the previous five years.
Number of beneficiaries	This measure provides tax relief to a small number of non-residents (fewer than 20) each year. No data is available for other non-residents who are exempt under this provision but do not file a Canadian income tax return.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	S	S	30	10	15	15	15	15

Exemption from GST and rebate for legal aid services

Description	GST is relieved in respect of legal aid services in two ways: • legal aid services delivered directly by a province or a provincial agency are exempt; and • legal aid services provided by private practitioners to a legal aid plan administrator are taxable. However, the person responsible for the legal aid plan is entitled to a rebate of 100% of any tax paid on the supply. This eases the compliance burden for private practitioners.
Tax	Goods and Services Tax
Beneficiaries	Governments, individuals using provincial legal aid plans
Type of measure	Exemption; rebate
Legal reference	Part V of Schedule V to the *Excise Tax Act* (exemption) *Excise Tax Act*, section 258 (rebate)
Implementation and recent history	• These measures have been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	These measures ensure that the introduction of the GST resulted in no increase in the tax borne by consumers of these services (*Report on the Technical Paper on the Goods and Services Tax*, November 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions and rebates are deviations from a broadly defined value-added tax base.
Subject	Social
CCOFOG 2014 code	70169 - General public services - General public services not elsewhere classified
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, legal aid plan expenditures and Supply and Use Tables
Estimation method	The value of the exemption is calculated by multiplying the estimated value of services provided by public legal aid agencies by the GST rate. This corresponds to the forgone GST on all exempt legal aid services—including on the imputed value of unpriced or subsidized services paid indirectly with government funding. From this is subtracted an estimate of the input tax credits that would be allowed if these services were taxable. The value of the rebate is calculated by multiplying an estimate of fees paid by legal aid plans to private sector lawyers by the GST rate.
Projection method	The cost of this measure is projected to grow in line with household final consumption expenditure of services other than services related to dwelling and property.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	45	45	45	50	50	40	50	55

Exemption from GST for certain residential rent

Description	Rentals of a residential complex (such as a house) or a residential unit (such as an apartment) for a period of at least one month are exempt from GST.
Tax	Goods and Services Tax
Beneficiaries	Tenants of long-term residential housing
Type of measure	Exemption
Legal reference	Section 6 of Part I of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure is intended to preserve the affordability of housing (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	1,800	1,755	1,740	1,850	1,960	2,160	2,185	2,250

Note: The cost information includes the tax expenditure associated with the exemption from GST for short-term accommodation, as the data cannot be separated from residential rent. The cost information is predominantly related to residential rent.

Exemption from GST for certain supplies made by charities and non-profit organizations

Description	Most supplies made by charities are exempt from GST. Many supplies made by non-profit organizations are also exempt, including: supplies made for no consideration; supplies of food and lodging made for the relief of poverty or distress; subsidized home-care services; meals on wheels; recreational programs established for children, individuals with a disability and disadvantaged individuals; memberships in organizations providing no significant benefit to individual members; and trade union and mandatory professional dues.
Tax	Goods and Services Tax
Beneficiaries	Consumers of supplies made by charities and non-profit organizations
Type of measure	Exemption
Legal reference	Part V.1 of Schedule V to the *Excise Tax Act* Part VI of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • This measure is periodically amended in accordance with its objectives and to preserve the integrity of the tax system. Most recently, Budget 2016 clarified that GST/HST generally applies to supplies of purely cosmetic procedures (e.g., liposuction, botulinum toxin injections) provided by all suppliers, including registered charities.
Objective – category	To achieve a social objective To reduce administration or compliance costs
Objective	This measure recognizes the important role of charities and non-profit organizations in Canadian society (*Goods and Services Tax*, December 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	1,100	1,205	1,280	1,325	1,395	1,340	1,415	1,495

Exemption from GST for child care

Description	Child care services provided for periods of less than 24 hours to children 14 years of age or under are generally exempt from GST.
Tax	Goods and Services Tax
Beneficiaries	Families with minor children
Type of measure	Exemption
Legal reference	Section 1 of Part IV of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure helps preserve the affordability of child care services.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	160	170	185	190	200	140	175	210

Exemption from GST for domestic financial services

Description	Under the GST, there is no tax charged on the supply of financial services. However, financial service providers such as financial institutions are not allowed to claim input tax credits in respect of GST costs incurred on inputs used in providing those services. As a result, consumers of financial services (e.g., depositors and borrowers) are not directly subject to tax, and financial institutions that make exempt supplies of financial services are effectively treated as final consumers.
Tax	Goods and Services Tax
Beneficiaries	Consumers of financial services
Type of measure	Exemption
Legal reference	Part VII of Schedule V to the *Excise Tax Act* *Excise Tax Act*, section 123(1), definition of "financial service"
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • Amended in December 2009 to confirm that certain investment management, facilitatory and credit management services are not eligible for the exemption (Department of Finance Canada news release 2009-115, December 14, 2009).
Objective – category	Other
Objective	This measure is in recognition of the fact that, since the price of a financial service is often implicit and difficult to determine (e.g., the price of deposit-taking services that is reflected in the interest paid to depositors, the price of lending services that is included in the interest paid by borrowers), taxing financial services in a consistent and equitable manner is challenging (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Exemption from GST for ferry, road and bridge tolls

Description	Ferry services and road and bridge tolls are generally exempt from GST. The exemption does not include international ferry services, which are zero-rated, consistent with other international transportation services.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Exemption
Legal reference	Part VIII of Schedule V and section 14 of Part VII of Schedule VI to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure ensures that the use of Canada's highway systems and related infrastructure will not be subject to tax (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Social
CCOFOG 2014 code	70451 - Economic affairs - Transport - Road transport
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	10	10	10	15	15	10	10	15

Exemption from GST for health care services

Description	Basic health care services are exempt under the GST, including: • services provided by physicians, dentists and certain other health care practitioners whose profession is regulated by the governments of at least five provinces; • services covered by a provincial health insurance plan; and • institutional health care services provided in a health care facility, including accommodation, meals provided with accommodation, rentals of medical equipment to patients or residents of the facility, and a number of other supplies.
Tax	Goods and Services Tax
Beneficiaries	Individuals with medical conditions
Type of measure	Exemption
Legal reference	Part II of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • The list of exempt services is periodically amended. Most recently, Budget 2014 announced the addition of acupuncturists and naturopathic doctors to the list of health care practitioners whose professional services are exempt from the GST. • Budget 2013 clarified that the GST applies to reports, examinations and other services that are not performed for the purpose of the protection, maintenance or restoration of the health of a person or for palliative care.
Objective – category	To achieve a social objective
Objective	This measure recognizes that most health services are provided by the public sector in a non-commercial context.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	7072 - Health - Outpatient services 7073 - Health - Hospital services
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model. The value of this tax expenditure corresponds to the forgone GST on health services—excluding on the imputed value of unpriced or subsidized services paid for indirectly with government funding—less the input tax credits that would be allowed if these services were taxable.
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	775	840	870	920	965	610	805	995

Note: The cost information includes the tax expenditure associated with the exemption from GST for personal care services, as the data cannot be separated from health care services. The cost information is predominantly related to health care expenditures.

Exemption from GST for hospital parking

Description	The supply of parking at a public hospital is generally exempt from GST when made by a charity, a non-profit organization, a hospital or another public sector body to persons such as patients, visitors and volunteers.
Tax	Goods and Services Tax
Beneficiaries	Consumers of hospital parking intended for patients, visitors and volunteers
Type of measure	Exemption
Legal reference	Section 7 of Part V.1 of Schedule V to the *Excise Tax Act* Section 25.1 of Part VI of Schedule V to the *Excise Tax Act*
Implementation and recent history	• The exemption of hospital parking supplies made by charities has been in effect since March 22, 2013. • The exemption of hospital parking supplies made by other public sector bodies was introduced on January 24, 2014, effective after that date (Department of Finance Canada news release).
Objective – category	To achieve a social objective
Objective	This measure helps reduce the cost of hospital parking for patients and visitors (Department of Finance Canada news release 2014-009, January 24, 2014).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	70739 - Health - Hospital services - Hospital services not elsewhere classified
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	15	15	15	15	15	10	15	20

Exemption from GST for municipal transit

Description	Municipal transit services are exempt from GST. Specifically, no tax applies on fares charged by transit systems operated by a local authority or government, or by a government-funded non-profit organization. A municipal transit service is defined as a public passenger transportation service provided by a transit authority whose services are all or substantially all within a particular municipality and its surrounding areas.
Tax	Goods and Services Tax
Beneficiaries	Users of municipal transit
Type of measure	Exemption
Legal reference	Section 24 of Part VI of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This exemption is consistent with the treatment of standard municipal services (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Social
CCOFOG 2014 code	70456 - Economic affairs - Transport - Public Transit
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	195	200	210	210	220	135	180	220

Exemption from GST for personal care services

Description	Certain personal care services are exempt under the GST. The exemption covers the following services when provided at the establishment of the supplier: • supplies of care, supervision and a place of residence to children, underprivileged individuals or individuals with a disability (e.g., group homes); and • supplies of care and supervision to an individual with limited physical or mental capacity for self-supervision and self-care due to an infirmity or disability (e.g., respite care).
Tax	Goods and Services Tax
Beneficiaries	Children, individuals with disabilities, disadvantaged individuals and caregivers
Type of measure	Exemption
Legal reference	Sections 2 and 3 of Part IV of Schedule V to the *Excise Tax Act*
Implementation and recent history	• The exemption in respect of care and a place of residence has been in effect since the inception of the GST in 1991. • The exemption in respect of respite care was announced in Budget 1998, applicable after February 24, 1998.
Objective – category	To achieve a social objective
Objective	This measure helps preserve the affordability of personal care services.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Families and households Health Social
CCOFOG 2014 code	71049 - Social protection - Family and children 71012 - Social protection - Sickness and disability - Disability 71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: Data for personal care services cannot be separated from data for certain exempt health care services (e.g., nursing homes); therefore, the tax expenditure associated with the exemption from GST for personal care services is combined with the tax expenditure associated with the exemption from GST for health care services (see measure "Exemption from GST for health care services").

Exemption from GST for sales of used residential housing and other personal-use real property

Description	Generally, the GST applies to newly constructed residential housing and residential trailer parks when they are first sold or leased for residential purposes. Subsequent sales of used residential housing or used residential trailer parks are tax-exempt. In addition, most sales of other personal-use real property, such as vacant land, are tax-exempt when sold by individuals. This exemption is consistent with the tax treatment of personal-use property and services not supplied in the course of commercial activities. The sale of farmland to a family member who is acquiring the property for personal use is also tax-exempt.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Exemption
Legal reference	Sections 2-5.3 and 9-12 of Part I of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To reduce administration or compliance costs To achieve an economic objective - other
Objective	This measure is intended to preserve the affordability of housing while ensuring that the tax regime is not overly complex (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Exemption from GST for short-term accommodation

Description	Short-term accommodation is exempt from GST where the charge for the accommodation is not more than $20 per day.
Tax	Goods and Services Tax
Beneficiaries	Individuals occupying low-cost short-term accommodation
Type of measure	Exemption
Legal reference	Paragraph 6(b) of Part I of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure is intended to preserve the affordability of low-cost temporary accommodation offered by the private sector (*Goods and Services Tax*, December 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: Data for short-term accommodation cannot be separated from data for certain exempt residential rent; therefore, the tax expenditure associated with the exemption from GST for short-term accommodation is combined with the tax expenditure associated with the exemption from GST for certain residential rent (see measure "Exemption from GST for certain residential rent").

Exemption from GST for tuition and educational services

Description	Most educational services are exempt from GST, including: • courses provided primarily for elementary or secondary school students; • courses leading to credits towards a diploma or degree awarded by a recognized school authority, university or college; and • certain other types of training for a trade or vocation. Certain ancillary supplies are also exempt, such as most meal plans at a university or college and supplies by school authorities of a service of transporting students to or from school.
Tax	Goods and Services Tax
Beneficiaries	Students
Type of measure	Exemption
Legal reference	Part III of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure recognizes that most education services are provided by the public sector in a non-commercial context.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Education
CCOFOG 2014 code	70929 - Education - Primary and Secondary education 70939 - Education - College education 70949 - Education - University education 70969 - Education - Subsidiary services to education
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model. The value of this tax expenditure corresponds to the forgone GST on all education services less the input tax credits that would be allowed if these services were taxable.
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	740	785	825	880	945	995	1,080	1,155

Exemption from GST for water, sewage and basic garbage collection services

Description	Water and sewage services are exempt from GST when the supplies are made by a municipality or organization designated to be a municipality for the purpose of making these supplies. Basic garbage collection services are exempt from GST when the supplies are made by or on behalf of a government or municipality to a recipient who has no option but to receive the service.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Exemption
Legal reference	Sections 21 and 22 of Part VI of Schedule V to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	Water, sewage and garbage collection are integral to the role of local governments (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST exemptions are deviations from a broadly defined value-added tax base.
Subject	Social
CCOFOG 2014 code	70639 - Housing and community amenities - Water supply 70519 - Environmental protection - Waste management
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	265	280	300	310	330	335	350	365

Exemption of scholarship, fellowship and bursary income

Description	A student can claim a full exemption for scholarship, fellowship and bursary income received in connection with the student's enrolment in an elementary or secondary school educational program or a program in respect of which the student is defined as a "qualifying student". A $500 tax exemption is available for scholarship, fellowship and bursary income that does not qualify for the full exemption.
Tax	Personal income tax
Beneficiaries	Students
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 56(1)(n) and subsection 56(3)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • Budget 2000 increased the tax exemption for scholarship, fellowship and bursary income to $3,000 from $500. • Budget 2006 removed the $3,000 limit to establish a full exemption for post-secondary scholarship, fellowship and bursary income. • Budget 2007 extended the tax exemption to scholarship, fellowship and bursary income received by elementary and secondary school students.
Objective – category	To encourage investment in education
Objective	This measure encourages Canadians to experience exceptional education opportunities by providing additional tax assistance to students (*Summary of 1971 Tax Reform Legislation*, 1971).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Education
CCOFOG 2014 code	70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T4A Statement of Pension, Retirement, Annuity, and Other Income
Estimation method	The value of this measure is calculated by multiplying the total non-taxable scholarship amount by an assumed marginal tax rate.
Projection method	The value of this measure is projected based on historical growth.
Number of beneficiaries	About 1,300,000 individuals received a scholarship, fellowship or bursary in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	250	265	365	470	475	485	415	375

Exemptions from non-resident withholding tax

Description	Non-resident withholding tax is imposed on the gross amount of certain payments made by Canadians to non-residents. These amounts include interest, dividends, rents, royalties, management fees, pension benefits, annuities, estate or trust income, and payments for film or video acting services. Non-resident withholding tax is imposed at the statutory rate of 25%; however, this rate can be reduced by the effect of the provisions of a bilateral tax treaty. The *Income Tax Act* exempts certain payments from non-resident withholding tax on a unilateral basis. Exemptions may also be available under certain bilateral tax treaties.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Non-residents
Type of measure	Exemption; preferential tax rate
Legal reference	*Income Tax Act*, Part XIII, section 212
Implementation and recent history	• Non-resident withholding tax was introduced in 1933, applicable to certain dividend, interest and royalty payments to non-residents at a rate of 5%. The withholding tax was modified on several occasions over the years. In particular, the rate was increased to 15% in 1942 and to 25% in 1972. The base was also extended to other types of payments, including pension benefits, annuities and management fees. • Exemptions or reduced withholding tax rates have been introduced at various times, both in the *Income Tax Act* and in most bilateral tax treaties. A statutory exemption for interest payments made to arm's length non-resident lenders came into effect in 2008, and the Canada-U.S. tax treaty was amended to bilaterally exempt most cross-border interest payments, effective 2008.
Objective – category	To encourage or attract investment To support competitiveness
Objective	Exemptions from non-resident withholding tax are intended to enhance the competitiveness of Canadian businesses by lowering the cost of accessing capital and other business inputs from abroad.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from non-resident withholding tax certain payments that are included in the benchmark base for this tax.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	NR4 Statement of Amounts Paid or Credited to Non-Residents of Canada
Estimation method	The cost of this tax expenditure is estimated by multiplying observed payments by the benchmark tax rate (25% or the general tax rate for the relevant type of income set out in the applicable tax treaty) and deducting from this amount any withholding tax collected on the payments.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
By type of payments								
Dividends	3,475	3,600	4,310	5,645	5,160	4,875	5,210	5,565
Interest	1,115	1,390	1,340	1,495	1,465	1,385	1,480	1,585
Rents and royalties	640	700	660	750	730	690	735	790
Management fees	430	510	640	855	775	735	785	835
Total – personal and corporate income tax	5,660	6,200	6,950	8,745	8,130	7,685	8,210	8,775

Expensing of advertising costs

Description	Advertising expenses are deductible in computing business income in the year they are incurred, even though some of these expenses provide a benefit in the future. Under the benchmark tax system, the expenses would be amortized over the benefit period. Certain restrictions regarding advertising expenses in foreign media apply (see the measure “Non-deductibility of advertising expenses in foreign media”).
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 18(1)(a)
Implementation and recent history	• This measure has been in effect since 1917.
Objective – category	To reduce administration or compliance costs
Objective	This measure reduces administration costs for the Canada Revenue Agency and compliance costs for taxpayers.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Expensing of current expenditures on scientific research and experimental development

Description	Eligible current expenditures on scientific research and experimental development (SR&ED) performed in Canada may be fully deducted in the year they are incurred. These expenditures give rise to new knowledge, technology and other intangible assets that are expected to generate benefits over multiple years. Under the benchmark tax system, such expenditures would be capitalized and depreciated over the time period the assets created are expected to generate revenues. A similar measure was formerly available in respect of capital expenditures on SR&ED (see measure "Expensing of purchases of capital equipment used for scientific research and experimental development"). A tax credit is also available in respect of these expenses (see measure "Scientific Research and Experimental Development Investment Tax Credit").
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses conducting eligible scientific research and experimental development
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 37
Implementation and recent history	• Introduced in 1944.
Objective – category	To encourage or attract investment
Objective	This measure is intended to encourage the performance of scientific research and experimental development in Canada by the private sector and to assist small businesses to perform scientific research and experimental development (Budget 1996).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business - research and development
CCOFOG 2014 code	7048 - Economic affairs - R&D Economic affairs
Other relevant government programs	Programs within the mandates of Innovation, Science and Economic Development Canada, the National Research Council Canada and the federal granting councils also support research and development. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	The calculation of the cost of this tax expenditure would require information on the intangible assets created through expenditures on SR&ED. Such information is not available. Information on current SR&ED expenditures by unincorporated businesses is also not available.
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	About 17,600 corporations incurred eligible expenditures in 2018. No data is available for unincorporated businesses.

Expensing of employee training costs

Description	Expenditures that are incurred for employee training for the benefit of the employer are fully deductible by businesses. Expenditures on training improve the quality of human capital and provide benefits to the business in both the current year and future years similar to an acquisition of physical capital. Under the benchmark tax system, a portion of these costs would be capitalized and depreciated over the period of time over which they are expected to generate revenues for the business.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 18(1)(a)
Implementation and recent history	• This measure has been in effect since 1917.
Objective – category	To encourage employment
Objective	This measure encourages employers to invest in employee training by increasing the after-tax returns on such investment.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Expensing of incorporation expenses

Description	The first $3,000 of incorporation expenses is fully deductible in the first year after incorporation. Under the benchmark tax system, these costs would be capitalized and depreciated over the period of time during which the expenditures contribute to the earning of income.
Tax	Corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, paragraph 20(1)(b)
Implementation and recent history	• These expenses were previously deducted under the Eligible Capital Property regime. Budget 2016 announced that the Eligible Capital Property regime would be replaced with a new class of depreciable property to which the capital cost allowance rules would apply. However, Budget 2016 also announced that effective January 1, 2017, the first $3,000 of incorporation expenses would be fully deductible rather than being added to the new capital cost allowance class.
Objective – category	To reduce administration or compliance costs
Objective	This measure reduces administration costs for the Canada Revenue Agency and compliance costs for taxpayers.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available – see the Annex to Part 1 for an explanation as to why estimates are not available for this measure.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Family Caregiver Tax Credit

Description	The Family Caregiver Tax Credit was replaced with the Canada Caregiver Credit in 2017. The Family Caregiver Tax Credit provided tax relief to caregivers of dependants with a mental or physical infirmity, including spouses or common-law partners and minor children. In its last year, 2016, the value of the credit was calculated by applying the lowest personal income tax rate to the credit amount of $2,121. The credit amount was indexed to inflation and could be claimed under one of the following dependency-related credits: Spouse or Common-Law Partner Credit, Eligible Dependant Credit, Caregiver Credit and Child Tax Credit (these last two credits were repealed as of the 2017 and 2015 taxation years respectively). With the exception of a dependant who was a minor child of the claimant, the amount was reduced dollar-for-dollar by the dependant's net income above a certain threshold.
Tax	Personal income tax
Beneficiaries	Caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118(1)
Implementation and recent history	• Introduced in Budget 2011. Effective for the 2012 and subsequent taxation years. • Budget 2017 announced the repeal of the credit for the 2017 and subsequent taxation years.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes the sacrifices that many Canadians make to care for their children, spouses, parents and other family members with infirmities (Budget 2011).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households Health
CCOFOG 2014 code	71049 - Social protection - Family and children 71011 - Social protection - Sickness and disability - Sickness 71012 - Social protection - Sickness and disability - Disability
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 394,000 individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	75	75	–	–	–	–	–	–

Family Tax Cut

Description	The Family Tax Cut was a non-refundable credit that allowed, in effect, a higher-income spouse or common-law partner to transfer up to $50,000 of taxable income to a spouse or common-law partner in a lower tax bracket. The credit provided up to $2,000 in tax relief to couples with children under the age of 18. The value of the credit was calculated on the basis of the difference in the higher-income spouse or common-law partner's federal tax payable before and after the notional transfer of income. Either spouse or common-law partner could claim the credit. This credit was repealed as of the 2016 taxation year.
Tax	Personal income tax
Beneficiaries	Couples with children
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 119.1
Implementation and recent history	• Introduced in 2014 (Prime Minister of Canada news release, October 30, 2014). Effective for the 2014 and subsequent taxation years. • Budget 2016 eliminated income splitting for couples with children under the age of 18 for the 2016 and subsequent taxation years.
Objective – category	To provide income support or tax relief To extend or modify the unit of taxation
Objective	This measure eliminated or significantly reduced the difference in federal tax payable by a one-earner couple relative to a two-earner couple with a similar family income (Prime Minister of Canada news release, October 30, 2014).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extended the unit of taxation.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 1.7 million couples claimed this credit in 2015.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,625	–	–	–	–	–	–	–

Film or Video Production Services Tax Credit

Description	Corporations can claim a 16% refundable tax credit in respect of salaries and wages paid to Canadian residents for film or video production services provided in Canada in respect of accredited productions that do not have sufficient Canadian content to qualify for the Canadian Film or Video Production Tax Credit. The Canadian Audio-Visual Certification Office of the Department of Canadian Heritage is responsible for certifying productions that are eligible for the credit.
Tax	Corporate income tax
Beneficiaries	Corporations in the film and video production industry
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 125.5
Implementation and recent history	• Introduced at a rate of 11% in 1997, to coincide with the elimination of film production services tax shelters (Department of Finance Canada news release, July 30, 1997). • The credit rate was increased to 16% in Budget 2003, for expenditures incurred after February 18, 2003.
Objective – category	To support business activity To support competitiveness
Objective	The Film or Video Production Services Tax Credit makes Canada a more attractive place for film production by complementing the existing Canadian Film or Video Production Tax Credit and by allowing a greater range of productions (usually foreign-owned) to qualify for assistance (Department of Finance Canada news release, July 30, 1997).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Arts and culture
CCOFOG 2014 code	70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual amounts earned and claimed by businesses.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 530 corporations received this benefit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	155	220	275	315	315	235	285	335

First-Time Donor's Super Credit

Description	The First-Time Donor's Super Credit provided a temporary, non-refundable tax credit of 25% in addition to the Charitable Donation Tax Credit. The First-Time Donor's Super Credit applied on up to $1,000 in cash donations, provided that neither the taxpayer nor their spouse had claimed the Charitable Donation Tax Credit after 2007. Contributions eligible for the credit must have been made in respect of any one taxation year from 2013 to 2017.
Tax	Personal income tax
Beneficiaries	Individual first-time donors
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsections 118.1(3.1) and (3.2)
Implementation and recent history	• Introduced in Budget 2013. Effective for gifts made on or after March 21, 2013, that are claimed in any one taxation year from 2013 to 2017. • As announced in Budget 2017, the credit expired in 2017 as planned.
Objective – category	To achieve a social objective
Objective	This measure encourages charitable giving by new donors (Budget 2013).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 19,000 individuals claimed this credit in 2017.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	4	4	4	–	–	–	–	–

First-Time Home Buyers' Tax Credit

Description	First-time home buyers who acquire a qualifying home after January 27, 2009 can obtain up to $750 in tax relief by claiming the First-Time Home Buyers' Tax Credit. The value of this non-refundable credit is calculated by multiplying the credit amount of $5,000 by the lowest personal income tax rate (15% in 2020). Any unused portion of the credit may be claimed by an individual's spouse or common-law partner. An individual is considered to be a first-time home buyer if neither the individual nor the individual's spouse or common-law partner owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years. A qualifying home is one that is generally considered to be a housing unit that an individual or an individual's spouse or common-law partner intends to occupy as a principal residence no later than one year after its acquisition. The First-Time Home Buyers' Tax Credit is also available for certain acquisitions of a home by or for the benefit of an individual who is eligible for the Disability Tax Credit, even if the first-time home buyer condition is not met.
Tax	Personal income tax
Beneficiaries	Individual first-time home buyers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.05
Implementation and recent history	• Introduced in Budget 2009. Effective for the 2009 and subsequent taxation years.
Objective – category	To achieve a social objective
Objective	This measure assists first-time home buyers with the cost associated with the purchase of a home (Budget 2009).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 182,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	115	115	110	105	110	110	110	110

Flow-through share deductions

Description	Flow-through shares are an authorized tax shelter arrangement that allows a corporation to transfer certain unused tax deductions to equity investors. An investor buying a flow-through share, in addition to receiving an equity interest in the issuing corporation, is entitled to claim deductions on account of Canadian Exploration Expenses (100% immediate deduction, including for Canadian Renewable and Conservation Expenses) and Canadian Development Expenses (deductible at 30% per year) transferred to the investor by the corporation. Investors are willing to pay more for such shares than for regular equity because of the flow-through tax deductions. Flow-through shares are typically issued by corporations which are not yet profitable and therefore not able to immediately use the deductions themselves. It facilitates the raising of capital by allowing such firms to sell their equity at a premium. A flow-through share is deemed to have a zero cost base for income tax purposes, based on the fact that the shareholder will have claimed a flow-through deduction as high as the full cost of the share. As a result of the zero cost base, the gain realized on the sale of the share will be equal to the share's full value at the time of sale rather than the change in its value since the time of acquisition.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Investors in flow-through shares and businesses in the oil and gas, mining and renewable energy sectors
Type of measure	Other
Legal reference	*Income Tax Act*, subsections 66(12.6) and 66(12.62)
Implementation and recent history	• Flow-through share deductions have existed in various forms since the 1950s. • The current flow-through share regime was introduced in Budget 1986 and implemented on March 1, 1986. • In response to COVID-19, on July 10, 2020 the Government proposed to extend by 12 months the period to incur eligible flow-through share expenses under the general and look-back rules for agreements entered into during a specified and limited time period. The Government also proposed to apply Part XII.6 tax as if expenditures were incurred up to one year prior to the date they were actually incurred.
Objective – category	To encourage or attract investment
Objective	This measure assists corporations in the oil and gas, mining and renewable energy sectors to raise capital for eligible exploration, development and project start-up expenses by issuing their shares (*Improving the Income Taxation of the Resource Sector in Canada*, 2003).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extends the unit of taxation.
Subject	Business - natural resources
CCOFOG 2014 code	70432 - Economic affairs - Fuel and energy - Petroleum and natural gas 70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels 70435 - Economic affairs - Fuel and energy - Electricity 70439 - Economic affairs - Fuel and energy - Fuel and energy not elsewhere classified
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return
Estimation method	See the Annex to Part 1 of this report for an explanation of the method used to estimate the value of this measure. The breakdown of the estimates between individuals and trusts is not available.
Projection method	Projections are based on current market conditions.

Number of beneficiaries	This measure provided tax relief to about 48,000 individuals and 350 corporations in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	55	85	120	85	85	75	70	80
Corporate income tax	25	45	45	40	40	40	40	35
Total	80	130	170	125	125	115	110	115

Foreign Convention and Tour Incentive Program

Description	The Foreign Convention and Tour Incentive Program provides rebates of the GST paid in respect of: • certain property and services used in the course of a foreign convention (generally defined as a convention where at least 75% of participants are non-residents and the sponsor is a non-resident) held in Canada; and • the use of a convention site and related convention supplies acquired by non-resident exhibitors in respect of a foreign or Canadian convention held in Canada. • A rebate for the accommodation portion of a tour package supplied to a non-resident was also provided, but was repealed in Budget 2017.
Tax	Goods and Services Tax
Beneficiaries	Non-residents that are individuals, suppliers of tour packages, exhibitors in respect of conventions held in Canada, and sponsors and participants of foreign conventions held in Canada
Type of measure	Rebate
Legal reference	*Excise Tax Act*, sections 252.1, 252.3 and 252.4
Implementation and recent history	• The Foreign Convention and Tour Incentive Program was introduced in Budget 2007 and became effective on April 1, 2007. • This program replaced the former Visitors' Rebate Program, which had been in effect since the inception of the GST in 1991. Under the former program, non-residents visiting Canada were entitled to a rebate for the GST paid on most goods purchased for export and on short-term accommodation (whether or not provided as part of a tour package). Rebates were also provided for eligible conference-related expenses for conferences attended by non-residents. • Budget 2017 announced the repeal of the rebate in respect of the accommodation portion of a tour package supplied to a non-resident. The repeal generally applies in respect of supplies of tour packages or accommodations made after March 22, 2017. As a transitional measure, the rebate was available in respect of supplies made after March 22, 2017 but before January 1, 2018 if all of the consideration for the supply was paid before January 1, 2018.
Objective – category	To support business activity To support competitiveness
Objective	This measure promotes Canada as a destination of choice for group travel (Budget 2007).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Business – other
CCOFOG 2014 code	70473 - Economic affairs - Other industries - Tourism
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	GST106 - Information on Claims Paid or Credited for Foreign Conventions and Tour Packages GST115 - GST/HST Rebate Application for Tour Packages GST386 - Rebate Application for Conventions
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with non-merchandise travel exports.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	20	25	25	5	5	S	2	5

Foreign tax credit for individuals

Description	Individuals who are residents of Canada and who paid income tax to a foreign government may be eligible to claim a foreign tax credit, which provides a tax credit against Canadian income tax payable for income taxes paid to a foreign government up to a limit of the Canadian tax on that income. In addition, the foreign tax credit claimed in respect of tax paid on income from a foreign property cannot exceed 15% of the net income from that property. This credit is also available to trusts in respect of the foreign income of a trust that is retained and taxed within the trust.
Tax	Personal income tax (including trusts)
Beneficiaries	Individuals and trusts with foreign income
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 126
Implementation and recent history	• This measure has been in place since 1927.
Objective – category	To prevent double taxation
Objective	This measure ensures that foreign income is not subject to double taxation (June 1987 Tax Reform White Paper).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	International
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T1 Income Tax and Benefit Return T3 Trust Income Tax and Information Return
Estimation method	T1 and T3 micro-simulation models
Projection method	T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals.
Number of beneficiaries	About 1.6 million individuals and 11,000 trusts claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	1,445	1,590	1,650	1,825	1,835	1,785	1,850	1,890
Trusts	50	55	45	40	50	50	50	50
Total – personal income tax	1,495	1,645	1,695	1,865	1,880	1,835	1,900	1,935

Goods and Services Tax/Harmonized Sales Tax Credit

Description	A refundable income tax credit (now known as the GST/HST Credit) was established at the time of the introduction of the GST to ensure that low-income families would be better off under the new sales tax regime than under the former federal sales tax. The amount of the credit depends on family composition and income. Specifically, for the period from July 2020 to June 2021, based on net family income reported for the 2019 taxation year: • an adult receives a basic adult credit of $296 per year; • families with children aged 18 and under receive a basic child credit of $155 per year for each child; • single parents can claim, in lieu of the basic child credit, the full basic adult credit of $296 per year for one dependent child; • single parents are eligible for an additional credit of $155 per year in addition to their basic credit, child credits and full basic adult credit for the first dependent child; and • single adults without children are eligible for an additional credit of up to $155 per year (depending on income) in addition to their basic credit. The value of the credit is reduced for individuals and families with annual incomes over $38,507. Both the credit amounts and the income threshold are adjusted annually for inflation.
Tax	Income tax, in respect of Goods and Services Tax
Beneficiaries	Households
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.5
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • As part of the Government of Canada's *COVID-19 Economic Response Plan*, an one-time special supplemental payment under the GST/HST Credit was made beginning April 9, 2020. This top-up payment doubled the 2019-20 GST/HST Credit amounts and paid out the resulting difference in an individual's benefit entitlement as a lump sum.
Objective – category	To promote the fairness of the tax system To provide income support or tax relief
Objective	This measure alleviates the regressive features of consumption taxation.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households
CCOFOG 2014 code	71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	*Public Accounts of Canada*
Estimation method	The cost of this measure is calculated from source data.
Projection method	T1 micro-simulation model
Number of beneficiaries	About 10.5 million individuals receive this benefit each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	4,315	4,440	4,550	4,650	4,935	10,520	5,080	5,155

Holdback on progress payments to contractors

Description	Contractors in the construction industry are typically given progress payments as construction proceeds. However, a portion of these progress payments can be held back by the client until the entire project is completed. Under this measure, amounts held back are considered not to be receivable when earned (as would be the case under the benchmark tax structure), but only when the project to which they apply is certified as complete, and these amounts are not deductible by the client and not brought into the income of the contractor until that time. In contrast, progress payments not held back are deductible by the client as incurred, and brought into the income of the contractor as earned.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Construction contractors
Type of measure	Other
Legal reference	*Income Tax Act*, paragraph 12(1)(b)
Implementation and recent history	• This tax expenditure is the result of an interpretation of the *Income Tax Act* that has been effective since the early 1970s.
Objective – category	To provide relief for special circumstances
Objective	This measure is intended to alleviate potential cash-flow difficulties for construction contractors.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data on holdbacks payable and receivable by unincorporated businesses is not available. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: No estimate is available. Corporate income tax: T2 micro-simulation model This tax expenditure may be positive or negative, depending on the tax rates applicable to contractors and clients and on whether holdbacks receivable exceed or are smaller than holdbacks payable. Total holdbacks receivable may not equal total holdbacks payable when related amounts receivable and payable are not assigned to the same calendar year (because the taxation years of contractors and clients end in different calendar years) or because no data is available in respect of amounts receivable and payable by unincorporated businesses.
Projection method	Personal income tax: No projection is available. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 6,550 corporations claimed this deduction in 2018. No data is available for unincorporated businesses.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	50	10	25	50	40	40	45	45
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Home Accessibility Tax Credit

Description	The Home Accessibility Tax Credit provides a non-refundable tax credit of 15% on up to $10,000 of eligible home renovation or alteration expenses per calendar year in respect of a qualifying individual, to a maximum of $10,000 per eligible dwelling. Qualifying individuals are persons with disabilities who are eligible for the Disability Tax Credit and seniors (65 years of age or older). Qualifying individuals, as well as eligible family members who are supporting the qualifying individual, may claim eligible expenses in respect of an eligible dwelling. The eligible dwelling must be the principal residence of the qualifying individual at any time during the taxation year. The dwelling must also be owned by the qualifying individual, their spouse or common-law partner, or an eligible family member in respect of the qualifying individual with whom the qualifying individual ordinarily inhabits that dwelling. Eligible expenses are home renovation or alteration expenses to the eligible dwelling incurred in order to allow the qualifying individual to gain access to the dwelling, allow the qualifying individual to be more mobile or functional within the dwelling, or reduce the risk of harm to the qualifying individual within the dwelling or in gaining access to the dwelling. Improvements must also be of an enduring nature and be integral to the eligible dwelling. Examples of eligible expenditures include costs associated with the purchase and installation of wheelchair ramps, walk-in bathtubs, wheel-in showers and grab bars.
Tax	Personal income tax
Beneficiaries	Seniors and persons with disabilities
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.041
Implementation and recent history	• Introduced in Budget 2015. Effective for eligible expenditures for work performed and paid for or goods acquired on or after January 1, 2016.
Objective – category	To achieve a social objective To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes the particular impact that the costs of improving the safety, accessibility and functionality of a dwelling can have for seniors and persons with disabilities, and the additional benefits of independent living (Budget 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. This measure extends the unit of taxation.
Subject	Health Housing
CCOFOG 2014 code	70769 - Health - Health not elsewhere classified 71069 - Social protection - Housing
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	n/a
Projection method	Projections reflect the estimates presented in Budget 2015. The cost of this measure is projected to grow with the eligible population and inflation, as forecasted in the T1 micro-simulation model.
Number of beneficiaries	About 26,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	–	10	15	15	15	15	20	20

Inclusion of the Universal Child Care Benefit in the income of an eligible dependant

Description	The Universal Child Care Benefit (UCCB) provided families with $160 per month for each child under the age of 6 and $60 per month for children aged 6 through 17. In two-parent families, the UCCB was included in the income of the lower-income spouse or common-law partner. A single parent had the option of including the aggregate UCCB amount received in his or her income or in the income of the dependant for whom the Eligible Dependant Credit was claimed. In most cases, the dependant was not subject to tax. If a single parent was unable to claim the Eligible Dependant Credit, he or she had the option of including the aggregate UCCB amount in the income of one of the children for whom the UCCB was paid. The UCCB was replaced by the Canada Child Benefit in July 2016.
Tax	Personal income tax
Beneficiaries	Single-parents with minor children
Type of measure	Other
Legal reference	*Income Tax Act*, subsection 56(6.1)
Implementation and recent history	• The UCCB was introduced in Budget 2006 as a monthly $100 benefit for each child under the age of 6. For a single-parent family, the UCCB was generally included in the single parent's income and taxed at his or her marginal tax rate for the 2006 to 2009 taxation years. • Inclusion of the UCCB in the eligible dependant's income was introduced in Budget 2010, effective for the 2010 and subsequent taxation years. • Effective January 1, 2015, the UCCB was increased to $160 per month for children under the age of 6, and the new benefit of $60 per month for children aged 6 through 17 was introduced (Prime Minister of Canada news release, October 30, 2014). • The Canada Child Benefit was introduced in Budget 2016 and replaced the Canada Child Tax Benefit, including the National Child Benefit supplement, and the Universal Child Care Benefit. Payments of the Canada Child Benefit began in July 2016.
Objective – category	To provide income support or tax relief To ensure a neutral tax treatment across similar situations
Objective	This measure was intended to give single parents comparable tax treatment on the same UCCB amounts as single-earner two-parent families with the same income (Budget 2010).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extended the unit of taxation.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 302,000 individuals designated this amount to a dependant in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	10	5	–	–	–	–	–	–

Income tax exemption for certain public bodies

Description	The *Income Tax Act* contains special rules that exempt from federal income tax the income of municipalities, public bodies performing a function of government in Canada, entities that are substantially owned by a provincial Crown (or owned by municipalities or public bodies performing a function of government in Canada) and the wholly-owned subsidiaries of such entities, where such entities are eligible for the exemption under the *Act*. In the absence of these special rules, these entities could be subject to federal income tax, because constitutional immunity from federal income taxation does not extend to these entities (except where they act as agent of a province).
Tax	Corporate income tax
Beneficiaries	Certain provincial, municipal and Indigenous public bodies and their entities
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraphs 149(1)(c) and (d) to (d.6)
Implementation and recent history	• This measure has been in effect since the inception of the federal income tax in 1917.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure extends exemption from federal taxation to certain public bodies.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax certain taxpayers.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Infirm Dependant Credit

Description	The Infirm Dependant Credit was replaced with the Canada Caregiver Credit in 2017. The Infirm Dependant Credit provided tax relief to individuals providing support to an infirm adult relative. The credit could be claimed by taxpayers supporting a child or grandchild, a spouse or common-law partner's child or grandchild, parent, grandparent, brother, sister, aunt, uncle, niece or nephew who was 18 years of age or over and dependent due to a mental or physical infirmity. The amount the supporting relative could claim depended on the net income of the dependant. The value of the credit was calculated by applying the lowest personal income tax rate to an amount of $6,788 (in 2016). The value of the Infirm Dependant Credit was reduced dollar-for-dollar when the dependant's net income exceeded $6,807 (in 2016). Both the credit amount and income threshold were indexed to inflation.
Tax	Personal income tax
Beneficiaries	Caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(d)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, effective for the 1988 and subsequent taxation years, to replace the previous deduction from income. • Budget 2011 increased the amount of the Infirm Dependant Credit by $2,000 (indexed to inflation), through the introduction of the Family Caregiver Tax Credit. • Indexation was introduced for this credit for the 1996 and subsequent taxation years. • Budget 2017 announced the repeal of the credit for the 2017 and subsequent taxation years.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes that a taxpayer supporting an adult dependant who is physically or mentally infirm has a reduced ability to pay tax relative to a taxpayer with the same income and no such dependant (*Report of the Royal Commission on Taxation*, vol. 3, 1966).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households Health
CCOFOG 2014 code	71049 - Social protection - Family and children 71012 - Social protection - Sickness and disability - Disability
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 21,000 individuals claimed this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	5	5	–	–	–	–	–	–

Investment corporation deduction

Description	An investment corporation is a Canadian public corporation whose activities are limited to owning portfolio investments, whose revenues must be substantially from Canadian sources, and that is required to distribute substantially all of its income (other than net taxable capital gains) in the form of dividends to shareholders in the taxation year in which the income is earned. An investment corporation is permitted to deduct from its tax otherwise payable an amount equal to 20% of its taxable income minus taxed capital gains. This special deduction achieves a degree of integration between the personal and corporate income tax systems.
Tax	Corporate income tax
Beneficiaries	Investment corporations
Type of measure	Preferential tax rate
Legal reference	*Income Tax Act*, subsection 130(1)
Implementation and recent history	• Introduced in 1946. • The deduction rate was initially set at 15% and has changed several times since then. Most recently, the deduction rate was set at 20% (up from 16⅔%) for years commencing after June 30, 1988.
Objective – category	To prevent double taxation To encourage or attract investment
Objective	This measure encourages investment in Canada rather than abroad by achieving a degree of integration between the personal and corporate tax systems so that investment in Canadian properties is taxed at a lower rate than investment abroad (Budget 1960).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Savings and investment
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T2 Corporation Income Tax Return
Estimation method	The cost of this measure corresponds to the amount reported on line 620 of form 200 of the T2 Corporation Income Tax Return.
Projection method	The cost of this measure would be expected to be fairly stable; as such no growth is assumed over the projection period.
Number of beneficiaries	No corporations claimed this deduction in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	S	S	S	S	S	S	S	S

Investment Tax Credit for Child Care Spaces

Description	Certain expenditures incurred by eligible businesses in order to create new child care spaces in a new or existing licensed child care facility were eligible for a non-refundable investment tax credit of 25%, to a maximum credit of $10,000 per child care space created. Eligible expenditures included the cost or incremental cost of the building in which the child care facility is located, as well as the cost of furniture, appliances, computer equipment, audio-visual equipment, playground structures and playground equipment. Initial start-up costs such as landscaping costs for the children's playground, architect's fees, building permit costs and costs to acquire children's educational materials were also eligible. Unused credits could be carried back 3 years or forward 20 years to reduce taxes payable in those years. Budget 2017 announced the phase-out of this measure. Unused deductions may continue to be carried forward for up to 20 years.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses that create child care spaces
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 127
Implementation and recent history	• Introduced in Budget 2007, effective for eligible expenditures incurred on or after March 19, 2007. • Budget 2017 announced the elimination of the measure for eligible expenditures made on or after March 22, 2017. The credit remains available in respect of eligible expenditures incurred before 2020 pursuant to a written agreement entered into before March 22, 2017.
Objective – category	To achieve a social objective
Objective	This measure encourages businesses to create licensed child care spaces for the children of their employees and, potentially, for children in the surrounding community (Budget 2007).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure could be obtained in a taxation year other than the year during which it accrued.
Subject	Families and households Business – other
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual amounts earned and claimed by businesses. The estimates do not cover investment tax credits claimed by trusts.
Projection method	Personal income tax: The cost of this measure is projected based on historical growth. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	A small number of individuals (fewer than 100) and corporations (fewer than 20) claim this credit each year. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	S	S	S	S	S	S	S	S
Corporate income tax	S	S	S	S	S	S	S	S
Total	S	S	S	S	S	S	S	S

Labour-Sponsored Venture Capital Corporations Credit

Description	Labour-Sponsored Venture Capital Corporations (LSVCCs) are investment funds, sponsored by unions or other labour organizations, that make venture capital investments in small and medium-sized businesses. A tax credit is provided to individuals for the acquisition of shares of LSVCCs, up to an annual eligible share purchase limit of $5,000.
Tax	Personal income tax
Beneficiaries	Individual investors
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 127.4 *Income Tax Regulations*, section 6701
Implementation and recent history	• Implemented in Budget 1985. Effective for shares purchased by individuals after May 23, 1985. The rate of the tax credit was set at 20%, up to an annual eligible share purchase limit of $3,500 (maximum annual credit of $750). • Budget 1992 increased the annual eligible share purchase limit to $5,000 (for a maximum federal credit of $1,000). • Budget 1996 reduced the tax credit rate to 15% from 20%, and the annual eligible share purchase limit to $3,500 from $5,000 (for a maximum federal credit of $525). • For the 1998 and subsequent taxation years, the annual eligible share purchase limit was increased to $5,000 from $3,500 (for a maximum federal credit of $750) (Department of Finance Canada news release 1998-086, August 31, 1998). • Budget 2013 announced the reduction of the tax credit rate from 15% to 10% for the 2015 taxation year and to 5% for the 2016 taxation year, and the elimination of the tax credit for the 2017 and subsequent taxation years. • Budget 2016 restored the tax credit to 15% for provincially registered LSVCCs for the 2016 and subsequent taxation years.
Objective – category	To achieve an economic objective - other
Objective	This measure was introduced to foster entrepreneurship by encouraging investment by individuals in labour-sponsored venture capital organizations, set up to maintain or create jobs and stimulate the economy (Budget 1985).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	Projections for this measure are based on expected LSVCC share purchases. The projections reflect policy changes and observed historical growth.
Number of beneficiaries	About 347,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	90	145	150	155	155	155	160	170

Lifetime Capital Gains Exemption

Description	The Lifetime Capital Gains Exemption (LCGE) provides a tax exemption in computing taxable income in respect of capital gains realized by individuals on the disposition of qualified farm or fishing property and qualified small business shares. As only half of capital gains are included in income for income tax purposes, a $1 capital gains exemption under the LCGE translates into an effective reduction in taxable income of 50 cents. An individual may shelter capital gains realized on the disposition of qualified small business shares up to a lifetime limit of $883,384 in 2020, which is indexed to inflation. In the case of capital gains realized on the disposition of qualified farm or fishing property made after April 20, 2015, the lifetime capital gains limit is the greater of $1 million and the indexed lifetime limit for qualified small business shares. Before 2016, a spousal or common-law partner trust could claim the LCGE in the year the spouse or common-law partner beneficiary died, to the extent of the remaining exemption of the deceased beneficiary. For deaths occurring after 2015, capital gains realized by a spousal or joint spousal trust are deemed to have been made payable to the beneficiary.
Tax	Personal income tax
Beneficiaries	Individual owners of incorporated small businesses or incorporated or unincorporated farming and fishing businesses
Type of measure	Exemption
Legal reference	*Income Tax Act,* section 110.6
Implementation and recent history	• Introduced in Budget 1985. The $500,000 LCGE on qualified farm property was effective starting in 1985. The $500,000 LCGE on other capital gains, including small business corporation shares, was phased in between 1985 and 1990. • The 1987 Tax Reform capped the LCGE for capital gains other than gains on qualified farm property and small business corporation shares at $100,000 in 1988. • Budget 1992 excluded real property (except real property used in an active business) from the $100,000 LCGE on other capital gains. • Budget 1994 eliminated the $100,000 LCGE on other capital gains. • Budget 2006 extended the $500,000 LCGE to include qualified fishing property, effective May 2, 2006. • Budget 2007 increased the LCGE limit to $750,000, effective March 19, 2007. • Budget 2013 increased the LCGE limit to $800,000 for 2014, and indexed the LCGE limit to inflation effective for 2015 and subsequent years. • Budget 2014 eliminated the LCGE for spousal and common-law partner trusts, effective for the 2016 taxation year. • Budget 2015 increased the LCGE limit for qualified farm or fishing property to $1 million, effective April 21, 2015. For taxation years after 2015, the LCGE for qualified farm or fishing property will be maintained at $1 million until the indexed LCGE applicable to capital gains realized on the disposition of qualified small business shares exceeds $1 million. At that time, the same LCGE limit, indexed to inflation, will apply to the three types of property.
Objective – category	To encourage or attract investment To encourage savings To achieve an economic objective - other
Objective	This measure was introduced to bolster risk taking and investment in small businesses, to provide an incentive to invest in the development of productive farm and fishing businesses, and to help small business owners and farm and fishing business owners better ensure their financial security for retirement (Budget 1985; The Lifetime Capital Gains Exemption: An Evaluation, Department of Finance Canada, 1995; Budget 2006; Budget 2007).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.

Subject	Business - farming and fishing Business - small businesses
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting 70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T3 Trust Income Tax and Information Return
Estimation method	T1 and T3 micro-simulation models
Projection method	T1 micro-simulation model
Number of beneficiaries	About 61,500 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Individuals, by type of property								
Small business shares	760	805	990	1,075	995	890	895	930
Farm and fishing property	615	695	765	780	620	560	565	600
Trusts	1	–	–	–	–	–	–	–
Total – personal income tax	1,380	1,500	1,755	1,855	1,615	1,445	1,460	1,530

Logging Tax Credit

Description	The Logging Tax Credit reduces federal income taxes payable by businesses by the lesser of two-thirds of any tax on income from logging operations paid to a province and 6⅔% of net income from logging operations in that province. Two provinces currently impose logging taxes that are prescribed by regulation for the purpose of this credit—British Columbia and Quebec.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses in the forest industry
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 127
Implementation and recent history	• Introduced in Budget 1962. Effective for taxation years commencing after 1961. • The Budget 1962 announcement followed discussions with provinces concerning the impact of provincial logging taxes on forest sector businesses. Budget 1962 expressed the hope that provinces imposing a logging tax would provide a provincial income tax credit equal to one-third of the logging tax. Both British Columbia and Quebec currently provide a partial credit against provincial income tax in respect of their logging tax.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure, along with parallel credits provided by provinces that impose logging taxes, is intended to provide relief to the forest industry for provincial logging taxes (Budget 1962).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	70422 - Economic affairs - Agriculture, forestry, fishing, and hunting – Forestry
Other relevant government programs	n/a
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: T1 and T3 micro-simulation models Corporate income tax: T2 data on actual credits used in a year
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 600 individuals and 800 corporations claimed this credit in 2018. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	1	1	1	2	1	1	1	1
Trusts	X	X	X	X	X	X	X	X
Total – personal income tax	1	1	1	2	1	1	1	1
Corporate income tax	20	25	50	85	55	55	55	55
Total	20	25	55	85	55	55	55	55

Medical Expense Tax Credit

Description	The Medical Expense Tax Credit provides tax relief for qualifying above-average medical or disability-related expenses incurred by individuals on behalf of themselves, a spouse or a common-law partner, or a dependent relative. The value of the credit is calculated by applying the lowest personal income tax rate to the amount of qualifying medical expenses in excess of the lesser of 3% of net income and $2,397 (in 2020, indexed to inflation). The credit can be claimed in respect of expenses paid in any period of 12 consecutive months that ends in the taxation year in which the claim is made. Medical expense claims made on behalf of a spouse or common-law partner or minor children may be pooled with the medical expenses of the taxpayer, subject to the minimum expense threshold. There is no upper limit on the amount that can be claimed, except for certain specific expenses. For medical expenses paid on behalf of dependent relatives other than minor children, caregivers are able to claim qualifying medical expenses that exceed the lesser of 3% of the dependant's net income and $2,397 (in 2020, indexed to inflation). For purposes of the credit, a dependant is defined as a child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew who is dependent on the taxpayer for support.
Tax	Personal income tax
Beneficiaries	Individuals, caregivers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.2 *Income Tax Regulations*, section 5700
Implementation and recent history	• Introduced as the Medical Expense Deduction in Budget 1942, and replaced by a non-refundable credit as part of the 1987 Tax Reform, applicable to the 1988 and subsequent taxation years. • The maximum eligible amount that can be claimed on behalf of dependent relatives other than minor children was eliminated in Budget 2011 for the 2011 and subsequent taxation years in order to allow caregivers to receive full tax recognition for eligible medical expenses. • Budget 2017 clarified the application of the Medical Expense Tax Credit so that individuals who require medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals on account of medical infertility, effective for the 2017 and subsequent taxation years. • The list of expenses eligible for this credit is regularly reviewed and expanded in light of new technologies and other disability-specific or medically-related developments.
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes the effect of above-average medical and disability-related expenses on the ability of an individual to pay income tax (Budget 1942; Budget 1997; Budget 2005).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Health
CCOFOG 2014 code	7071 - Health - Medical products, appliances, and equipment 7072 - Health - Outpatient services 7073 - Health - Hospital services
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 5.2 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,370	1,435	1,550	1,645	1,650	1,720	1,820	1,930

Mineral Exploration Tax Credit for Flow-Through Share Investors

Description	Flow-through shares facilitate the financing of exploration by allowing companies to transfer unused tax deductions to investors. In addition to claiming regular flow-through deductions, individuals (other than trusts) who invest in flow-through shares of a corporation can claim a 15% non-refundable tax credit in respect of specified mineral exploration expenses incurred by the corporation and transferred to the individual under a flow-through share agreement. Expenses eligible for the credit are specified surface grassroots exploration expenses (i.e., seeking new resources away from an existing mine site) in respect of a mineral resource (other than a coal or oil sands deposit) in Canada. A "look-back" rule allows corporations to raise funds by issuing flow-through shares in one calendar year and spending the funds in the following calendar year, while allowing the investor to claim the flow-through deduction and the Mineral Exploration Tax Credit in the year the share investment is made. See the description of the measure "Flow-through share deductions" for additional information about flow-through shares.
Tax	Personal income tax
Beneficiaries	Individual investors (other than trusts) in flow-through shares
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 127(9), paragraph (a.2) of definition of "investment tax credit" and definition of "flow-through mining expenditure"
Implementation and recent history	• Introduced as part of the October 2000 Economic Statement and Budget Update. Effective in respect of expenditures incurred after October 17, 2000 and before 2004. • This measure has been extended on a number of occasions. Most recently, as part of the 2018 *Fall Economic Statement*, the Government announced its intention to extend the credit for an additional 5 years, until March 31, 2024.
Objective – category	To encourage or attract investment
Objective	This measure helps junior exploration companies raise capital by providing an incentive to investors in flow-through shares issued to finance mineral exploration (Budget 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Business - natural resources
CCOFOG 2014 code	70441 - Economic affairs - Mining, manufacturing, and construction - Mining of mineral resources other than mineral fuels
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	The cost of this measure in a year is calculated by multiplying the estimated Canadian Exploration Expenses eligible for the credit by the credit rate (i.e., 15%). The cost in the initial year is partially offset in the following year as the investor's cumulative Canadian Exploration Expenses account is then reduced by the credit claimed the year before.
Projection method	Projections are based on current market conditions.
Number of beneficiaries	About 300 companies issued flow-through shares and almost 10,000 individuals claimed the credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	25	55	65	50	60	55	55	60

Moving expense deduction

Description	If a move is an "eligible relocation", the related "eligible moving expenses" are deductible in computing employment or self-employment income earned at the new location. Eligible moving expenses include travel costs, the costs of transporting or storing household effects, meals and temporary accommodation and the cost of selling a former residence. Eligible moving expenses may also be deducted from a student's taxable income from scholarships, bursaries and research grants if the expenses are incurred to begin full-time attendance at a post-secondary educational institution. Among other things, to be an "eligible relocation" requires that a taxpayer move at least 40 kilometres closer to the new place of employment or study. Most moving expense reimbursements provided by employers are not included in income; however, to the extent that certain employer-provided reimbursements are included in income, the moving expense deduction is allowed to the same extent as permitted for self-paid expenses.
Tax	Personal income tax
Beneficiaries	Employees and self-employed individuals, students
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 62 and the definition "eligible relocation" in subsection 248(1)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income To recognize education costs
Objective	This measure recognizes the expenses involved in moving to a new job or educational institution, and thus facilitates labour mobility by allowing taxpayers greater flexibility in pursuing new employment and business opportunities anywhere in Canada (Budget 1971; Budget 1998).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is incurred to earn employment income. This measure provides tax recognition for an expense that is incurred for education purposes. Expenses incurred to earn business income are generally deductible under the benchmark tax system; however, moving expenses may also have an element of personal consumption, hence the classification of this measure as a tax expenditure.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 97,000 individuals claimed this deduction in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	100	100	110	110	115	120	120	125

Non-capital loss carry-overs

Description	Non-capital losses, including farm and fishing non-capital losses, may be carried back or forward and deducted against all sources of income. For losses incurred in or after 2006, the carry-back period is three years and the carry-forward period 20 years.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 111(1)
Implementation and recent history	• The ability to carry forward non-capital losses was introduced in 1942 and the ability to carry back non-capital losses was introduced in 1944. • Budget 2006 extended the carry-forward period to 20 years from 10 years for non-capital losses arising in and after 2006.
Objective – category	To assess tax liability over a multi-year period
Objective	This measure supports businesses and investors by reducing the risk associated with investment, and provides tax relief for cyclical businesses (Budget 1983; Budget 2004; Budget 2006).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: T1 and T3 micro-simulation models. For individuals, the estimate for a given year represents the tax relief associated with the carry-forward to that year of losses incurred in prior years. Data on losses carried back to a previous year is not available. The estimates also do not include losses carried over by part-time farmers. For trusts, the estimate for a given year represents the tax relief associated with the carry-forward to that year of losses incurred in prior years, as well as the carry-back to that year of losses incurred in subsequent years. Data on amounts carried back are preliminary. Corporate income tax: The estimate for a given year represents the tax relief associated with both the carry-forward to that year of losses incurred in prior years and the carry-back to prior years of losses incurred in that year. The estimate is equal to the amount of losses carried over multiplied by the tax rate applicable in the year in which the losses are applied.
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for corporations. Corporate income tax: The cost of this measure is projected to grow in line with corporate taxable income.
Number of beneficiaries	About 40,700 individuals, 3,700 trusts and 440,000 corporations made use of this measure in 2018 (not counting individuals that carried back losses only).

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Farm and fishing non-capital losses								
Personal income tax								
Individuals – carried back	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Individuals – applied to current year	20	15	15	15	15	15	15	20
Trusts	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax								
Carried back	15	15	20	25	35	30	30	30
Applied to current year	40	35	50	40	40	40	45	45
Total – corporate income tax	55	55	65	70	80	70	70	75
Total – farm and fishing non-capital losses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other non-capital losses								
Personal income tax								
Individuals – carried back	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Individuals – applied to current year	75	65	80	70	70	65	75	80
Trusts	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax								
Carried back	2,165	2,585	1,980	2,015	2,125	2,195	2,210	2,185
Applied to current year	4,280	4,570	5,200	5,805	4,445	4,390	4,490	4,920
Total – corporate income tax	6,445	7,155	7,180	7,820	6,570	6,585	6,700	7,105
Total – other non-capital losses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total – non-capital losses								
Personal income tax								
Individuals – carried back	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Individuals – applied to current year	95	80	95	85	85	75	90	100
Trusts	130	200	370	135	180	200	320	450
Total – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax								
Carried back	2,180	2,600	2,000	2,040	2,160	2,225	2,240	2,215
Applied to current year	4,320	4,605	5,250	5,850	4,485	4,430	4,535	4,965
Total – corporate income tax	6,500	7,210	7,250	7,890	6,650	6,655	6,770	7,180
Total – non-capital losses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Non-deductibility of advertising expenses in foreign media

Description	Expenses for advertising in non-Canadian newspapers and periodicals or on non-Canadian broadcast media cannot generally be deducted for income tax purposes if the advertising is directed primarily to a market in Canada. This treatment results in a negative tax expenditure, since the deductibility of expenses incurred to earn business income is considered to be part of the benchmark tax system.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses that advertise in foreign media
Type of measure	Other
Legal reference	*Income Tax Act*, sections 19 to 19.1
Implementation and recent history	• Introduced in Budget 1965. Effective for expenses in respect of advertising in non-Canadian newspapers and periodicals made after December 31, 1965. • This measure was broadened to cover advertising on non-Canadian broadcast media, effective after September 21, 1976. • Following the 1999 Canada-U.S. Agreement on Magazines, expenses incurred to advertise in periodicals published after May 2000 are fully deductible if the periodicals contain at least 80% original editorial content. If the periodicals contain less than 80% original editorial content, then 50% of advertising expenses are deductible.
Objective – category	To achieve an economic objective - other
Objective	This measure is intended to ensure that control of periodicals and newspapers remains in the hands of Canadians and supports the continued existence of a viable and original Canadian magazine industry (*House of Commons Debates*, vol. 3, 1965; Department of Finance Canada news release, June 19, 1995).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure disallows the deduction of an expense that is incurred to earn business income.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: No data is available on expenses incurred by unincorporated businesses to advertise in non-Canadian media. Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: No estimate is available. Corporate income tax: T2 micro-simulation model
Projection method	Personal income tax: No projection is available. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 360 corporations reported non-deductible advertising expenses in 2018. No data is available for unincorporated businesses.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	S	S	S	S	S	S	S	S
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Non-taxation of allowances for diplomats and other government employees posted abroad

Description	Diplomats and other government employees posted abroad can claim an exemption for the allowances received to cover the additional costs associated with living outside Canada.
Tax	Personal income tax
Beneficiaries	Diplomats and other government employees posted abroad
Type of measure	Exemption
Legal reference	*Income Tax Act*, subparagraph 6(1)(b)(iii)
Implementation and recent history	• Introduced in 1943.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure recognizes the additional costs incurred by diplomats and other government personnel employed outside Canada.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Global Affairs Canada and National Defence data
Estimation method	The value of this tax expenditure is estimated by multiplying total exempt allowances by the estimated marginal tax rates of recipients.
Projection method	The projection for 2019 is based on partial year data and historical growth. Projections for 2020 and 2021 are not provided as the value of this measure cannot be reliably forecast for these years.
Number of beneficiaries	More than 10,000 individuals received non-taxable allowances in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	25	30	30	35	35	35	n.a.	n.a.

Non-taxation of allowances for members of legislative assemblies and certain municipal officers

Description	Elected members of provincial and territorial legislative assemblies and of incorporated municipalities, elected officers of municipal utilities boards, commissions, corporations, or similar bodies, and members of public or separate school boards may receive allowances for expenses incident to the discharge of their duties. Such allowances were not included in income so long as they did not exceed half of the salary or other remuneration received in that capacity in the year. This exemption was repealed as of the 2019 tax year.
Tax	Personal income tax
Beneficiaries	Members of provincial and territorial legislative assemblies and of incorporated municipalities; elected officers of municipal utilities boards, commissions, corporations, or similar bodies; and members of public or separate school boards
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsections 81(2) and (3)
Implementation and recent history	• The exemptions for members of provincial and territorial legislative assemblies and for other municipal officers were introduced in 1947 and 1949 respectively. • Budget 2017 announced the repeal of this measure, effective for the 2019 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure recognizes the additional costs incurred by members of legislative assemblies and certain municipal officers in the course of their duties.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return and T4 Statement of Remuneration Paid
Estimation method	Allowances reported on T4 slips are matched against T1 returns and incremental tax is calculated on the basis of the individual's taxable income with and without the allowance.
Projection method	The cost of this measure is projected to grow in line with allowances.
Number of beneficiaries	About 26,000 individuals received non-taxable allowances in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	20	20	20	20	–	–	–	–

Non-taxation of benefits from private health and dental plans

Description	Employer-paid benefits for private health and dental plans are deductible business expenses but are not a taxable employee benefit. In the case of self-employed individuals, they can claim a deduction in computing income from a business for amounts paid under a private health services plan for the benefit of the individual, the individual's spouse or common-law partner and members of the individual's household, subject to certain restrictions.
Tax	Personal income tax
Beneficiaries	Employees and self-employed individuals
Type of measure	Exemption (for employer-paid benefits); deduction (for self-employed individuals)
Legal reference	*Income Tax Act*, subparagraph 6(1)(a)(i), section 18 and section 20.01
Implementation and recent history	• The exemption of employee health plans was introduced in 1948. • The deduction for self-employed individuals was introduced in Budget 1998, applicable to amounts paid or payable in a fiscal period beginning after 1997.
Objective – category	To achieve a social objective
Objective	This measure improves access to supplementary health and dental benefits (Budget 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base. This measure provides tax recognition for an expense that is not incurred to earn income.
Subject	Health
CCOFOG 2014 code	7072 - Health - Outpatient services
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Canadian Life and Health Insurance Association Inc., *Health Insurance Benefits in Canada* and *Premium & Retail Tax on Life & Health Insurance* Conference Board of Canada, *Benefits Benchmarking*
Estimation method	The value of this tax expenditure is calculated as the tax revenue forgone from the non-taxation of employer-provided health related insurance premiums and benefits. These amounts are estimated using statistics provided by the Canadian Health and Life Insurance Association, in conjunction with survey information from the Conference Board of Canada. The estimated number of policy holders, along with the average value of benefits, is imputed into the T1 model using survey information from Statistics Canada to reflect estimated coverage by family type and income level. If these employer-paid amounts were taxable benefits, they would be eligible expenses under the Medical Expense Tax Credit; this interaction is taken into account in the estimation of the tax expenditure.
Projection method	T1 micro-simulation model
Number of beneficiaries	It is estimated that about 13.0 million individuals received employer-paid health or dental benefits in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	2,580	2,480	2,840	3,050	3,240	3,425	3,605	3,795

Non-taxation of benefits in respect of home relocation loans

Description	The benefit associated with a home relocation loan provided to an employee by an employer was required to be included in income for tax purposes, but an offsetting deduction from net income was provided. The amount of the deduction was the lesser of the amount of the taxable benefit and the deemed interest benefit on the first $25,000 of a five-year interest-free loan. This approach effectively exempted such benefits from taxation, while ensuring that they were taken into account in determining income-tested credits and benefits. This deduction was repealed as of the 2018 taxation year.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 110(1)(j)
Implementation and recent history	• Introduced in Budget 1985. Effective for home relocation loans received after May 23, 1985. • Budget 2017 announced the repeal of this measure, effective for the 2018 and subsequent taxation years.
Objective – category	To encourage employment To recognize expenses incurred to earn employment income
Objective	This measure is intended to facilitate mobility by allowing employers to compensate relocated employees facing higher living costs at the new location (Budget 1985).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base. This measure provides tax recognition for an expense that is incurred to earn employment income.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 1,100 individuals claimed this deduction in 2017.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	S	S	S	–	–	–	–	–

Non-taxation of capital dividends

Description	A private corporation may distribute the balance of its capital dividend account to its shareholders in the form of a capital dividend. Where the corporation elects to pay this dividend from its capital dividend account, the dividend is received tax-free by the corporation's shareholders who are resident in Canada. At any time, the capital dividend account balance generally includes the total of the excess of the non-taxable portion of capital gains over the non-deductible portion of capital losses, the non-taxable portion of gains resulting from the disposition of eligible capital property, the net proceeds of certain life insurance policies received by the corporation, and the aggregate of capital dividends received by the corporation, less the aggregate of capital dividends paid by the corporation.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate investors
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsections 83(2) and 89(1)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years.
Objective – category	To encourage or attract investment To encourage savings To support competitiveness
Objective	This measure maintains the non-taxable treatment of certain amounts received by individuals through private corporations, similar to the treatment of those amounts received directly by the individuals.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of capital gains on donations of cultural property

Description	Certain objects certified by the Canadian Cultural Property Export Review Board as being of cultural importance to Canada are exempt from capital gains tax when disposed of by sale or donation within 24 month of certification to a cultural institution, such as a museum or art gallery, designated under the *Cultural Property Export and Import Act*. Recipient cultural institutions are required to hold the cultural property for at least 10 years. Such donations are also eligible for the Charitable Donation Tax Credit (for individuals) or deduction (for corporations).
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate donors
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsections 118.1(1) and 110.1(1) and paragraph 39(1)(a)(i.1)
Implementation and recent history	• Introduced in 1977. • Budget 1998 extended the holding period for certified cultural property from 5 to 10 years, effective February 23, 1998. • Budget 2019 amended the *Income Tax Act* and *the Cultural Property Export and Import Act*, removing the requirement that property be of "national importance" in order to qualify for the ehanced tax incentives for donations of cultural property. The change applies to donations made on or after March 19, 2019.
Objective – category	To achieve a social objective
Objective	This measure preserves Canada's artistic, historic and scientific heritage by encouraging the donation of cultural property determined to be of outstanding significance to Canada's national heritage to designated Canadian institutions, such as museums and art galleries (Budget 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Donations, gifts, charities and non-profit organizations Arts and culture
CCOFOG 2014 code	70829 - Recreation, culture, and religion - Cultural services
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs. Programs within the mandate of Canadian Heritage also support arts and culture. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data from the Canadian Cultural Property Export Review Board and T1 Income Tax and Benefit Return. Corporate income tax: No data is available.
Estimation method	Personal income tax: The value of this measure is estimated by multiplying the exempt capital gains by the capital gains inclusion rate and an assumed marginal tax rate. Corporate income tax: No estimate is available.
Projection method	Personal income tax: Future donations of Canadian cultural property are projected based on a historical average. Corporate income tax: No projection is available.
Number of beneficiaries	The Canadian Cultural Property Export Review Board issued approximately 325 certificates to individuals and 20 corporations in 2018-19.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	10	10	5	5	3	5	5	5
Trusts	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Donations of cultural property benefit from both the non-taxation of capital gains and the Charitable Donation Tax Credit in the case of an individual donor or the deductibility of charitable donations in the case of a corporate donor. The total tax assistance for donations of cultural property is as follows:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Charitable Donation Tax Credit	25	25	20	15	10	15	20	20
Deductibility of charitable donations	20	3	5	5	4	5	5	5
Non-taxation of capital gains – personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of capital gains – corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Non-taxation of capital gains on donations of ecologically sensitive land

Description	A zero inclusion rate applies to capital gains arising from a donation of ecologically sensitive land (including a conservation easement, covenant or, in the province of Quebec, a personal servitude the rights to which the land is subject and which has a term of not less than 100 years, or a real servitude on such land) to a public conservation charity (other than a private foundation) or certain other qualified donees if the fair market value of the land is certified by the Minister of the Environment. These donations are also eligible for the Charitable Donation Tax Credit (for individuals) or deduction (for corporations).
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate donors
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsections 110.1(1), 118.1(1) and 38(a.2), and section 207.31
Implementation and recent history	• Budget 1995 eliminated the net income limit for donations of ecologically sensitive land eligible for the tax credit. • Budget 2000 reduced by half the normal inclusion rate applicable to capital gains arising in respect of gifts of ecologically sensitive land and related easements, covenants and servitudes. • Budget 2006 further reduced the inclusion rate to 0%. • Budget 2014 extended the carry-forward period for donations of ecologically sensitive land from 5 to 10 years. • Budget 2017 removed private foundations as eligible recipients of donations of ecologically sensitive land, and introduced a number of administrative measures designed to better protect such gifts and broaden slightly the types of gifts which qualify (i.e., certain personal servitudes in Quebec).
Objective – category	To achieve a social objective
Objective	This measure encourages Canadians to protect ecologically sensitive land, including areas containing habitats for species at risk, by donating such property to conservation charities and certain other qualified donees (Budget 2000; Budget 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Donations, gifts, charities and non-profit organizations Environment
CCOFOG 2014 code	70549 - Environmental protection - Protection of biodiversity and landscape
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs. Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada and Natural Resources Canada also support environment-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: Data from Environment and Climate Change Canada's Ecological Gifts Program Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: The value of this measure is estimated by multiplying the exempt capital gains by the capital gains inclusion rate and an assumed marginal tax rate. Corporate income tax: T2 micro-simulation model
Projection method	Personal income tax: Future donations of ecologically sensitive land are projected based on historical growth. Corporate income tax: Projections are based on the average of the last three historical years. The tax expenditure is projected to grow in line with nominal gross domestic product.

Number of beneficiaries	This measure provided tax relief to a small number of corporations (fewer than 20) in 2019. The number of individuals and trusts who obtained tax relief is unknown; however, fewer than 100 individuals made donations of ecologically sensitive land in that year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	1	3	2	3	2	2	2	3
Trusts	S	S	S	S	S	S	S	S
Total – personal income tax	2	4	2	4	2	3	3	3
Corporate income tax	S	S	2	1	1	1	1	1
Total	2	4	4	4	3	4	4	4

Donations of ecologically sensitive land benefit from both the non-taxation of capital gains and the Charitable Donation Tax Credit in the case of an individual donor or the deductibility of charitable donations in the case of a corporate donor. The total tax assistance for donations of ecologically sensitive land is as follows:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Charitable Donation Tax Credit	5	10	5	10	5	10	10	10
Deductibility of charitable donations	1	1	1	10	2	4	4	4
Non-taxation of capital gains – personal income tax	2	4	2	4	2	3	3	3
Non-taxation of capital gains – corporate income tax	S	S	2	1	1	1	1	1
Total	5	15	10	25	10	15	15	15

Non-taxation of capital gains on donations of publicly listed securities

Description	A zero inclusion rate applies to capital gains arising from a donation of publicly listed securities made to a qualified donee, which effectively exempts such gains from income tax. Donations of publicly listed securities are also eligible for the Charitable Donation Tax Credit (for individuals) or deduction (for corporations).
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individual and corporate donors
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraphs 38(a.1) and (a.4), sections 38.3 and 38.4
Implementation and recent history	• Budget 1997 introduced a temporary reduction of half the normal inclusion rate applicable to capital gains arising from a donation of publicly listed securities to a registered charity that is not a private foundation. This measure was made permanent in Budget 2001. • Budget 2006 reduced the inclusion rate to 0%. • Budget 2007 extended the zero inclusion rate to capital gains arising on donations of publicly listed securities to private foundations. • Budget 2008 extended the zero inclusion rate to donations of unlisted exchangeable securities if exchanged for publicly listed securities and donated within 30 days of the exchange.
Objective – category	To achieve a social objective
Objective	This measure was introduced to facilitate the transfer of certain publicly listed securities to charities to help them respond to the needs of Canadians (Budget 1997).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: The value of this measure is estimated by multiplying the exempt capital gains on publicly listed shares by the capital gains inclusion rate and the top marginal tax rate. Corporate income tax: T2 micro-simulation model
Projection method	Personal income tax: Projections for publicly listed securities are made based on historical donation levels and projected growth in capital gains. Corporate income tax: Projections are based on the average of the last three historical years. The tax expenditure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	This measure provided tax relief to about 1,250 corporations in 2018. The number of individuals and trusts who obtained tax relief is unknown; however, about 7,000 individuals made donations of publicly listed shares in that year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	60	75	95	75	125	90	105	115
Trusts	S	1	1	2	2	2	2	2
Total – personal income tax	60	75	95	75	125	90	105	120
Corporate income tax	60	65	105	75	125	100	105	110
Total	120	135	200	150	250	190	210	230

Donations of publicly listed securities benefit from both the non-taxation of capital gains and the Charitable Donation Tax Credit in the case of an individual donor or the deductibility of charitable donations in the case of a corporate donor. The total tax assistance for donations of publicly listed securities is as follows:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Charitable Donation Tax Credit	190	240	315	270	410	300	340	390
Deductibility of charitable donations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-taxation of capital gains – personal income tax	60	75	95	75	125	90	105	120
Non-taxation of capital gains – corporate income tax	60	65	105	75	125	100	105	110
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Non-taxation of capital gains on principal residences

Description	This measure provides an exemption from tax in respect of all or a portion of a capital gain from the sale of a principal residence of an individual or personal trust. In general, certain property of an individual or personal trust may be designated as a principal residence for a taxation year where the property was ordinarily inhabited in the year by the taxpayer or a particular beneficiary of the trust or by the spouse or common-law partner, former spouse or common-law partner, or child of the taxpayer or the particular beneficiary of the trust. Properties that may be designated as a principal residence of an individual or personal trust are a housing unit, a leasehold interest in a housing unit, and in certain circumstances, shares of the capital stock of a cooperative housing corporation owned by the individual or personal trust. The exempt portion of the capital gain from the sale of a principal residence is generally determined in proportion to the fraction where one plus the number of years after 1971 that the property was owned by and designated as the principal residence of the individual or personal trust while resident in Canada is divided by the number of years after 1971 that the property was owned by the individual or personal trust.
Tax	Personal income tax (including trusts)
Beneficiaries	Individual homeowners
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 40(2)(b), definition of "principal residence" in section 54 *Income Tax Regulations*, sections 2300 and 2301
Implementation and recent history	• Introduced as part of the 1972 Tax Reform. • Amended in Budget 1981 so that, for years after 1981, a family may only treat one property as its principal residence for a taxation year. • Amended on October 3, 2016 to require the reporting of dispositions (and introduce an indefinite reassessment period for unreported dispositions) and to limit the types of trusts that are eligible to designate a property as a principal residence for a taxation year beginning after 2016.
Objective – category	To achieve a social objective To achieve an economic objective – other
Objective	This measure recognizes that principal homes are generally purchased to provide basic shelter and not as an investment, and increases flexibility in the housing market by facilitating the movement of families from one principal residence to another in response to their changing circumstances (*Summary of 1971 Tax Reform Legislation*, 1971; Budget 1981).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Data from the Multiple Listing Service and Statistics Canada
Estimation method	The value of this tax expenditure is estimated by multiplying total net exempt capital gains by the marginal tax rate on capital gains. Total net exempt capital gains are estimated based on data and assumptions about the volume and average selling price of residential resales, the proportion of residential resales to which the measure applies, the purchase cost and length of tenure of residential resales, capital improvements made (e.g., additions and renovations), and expenses deductible in determining net capital gains (e.g., real estate commissions, legal fees). The breakdown of the estimates between individuals and trusts is not available.
Projection method	Projections are based on data for residential resales and average selling prices provided by the Canada Mortgage and Housing Corporation/Multiple Listing Service.
Number of beneficiaries	About 435,000 individuals claimed this exemption in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	6,185	7,815	7,390	5,310	5,540	7,845	7,710	7,760

Non-taxation of certain importations

Description	Goods imported into Canada are generally taxable. However, a number of goods do not attract GST upon importation, including: • goods, other than prescribed goods (e.g., alcohol and tobacco products, certain books and periodicals), valued at not more than $20 and sent from other countries by mail or courier (other than by courier from Mexico or the United States) to residents of Canada; • goods, other than prescribed goods, valued at not more than $40 and imported by courier from Mexico or the United States; • goods imported by foreign diplomats or by settlers to Canada; • Canadian goods re-entering Canada and on which GST has already been paid; • goods imported on a temporary basis, such as tourists' baggage and foreign-based conveyances (ships, airplanes, trains, trucks) used in the international transportation of people or goods; • goods for emergency use, such as personal protective equipment (PPE) e.g. masks and gloves.
Tax	Goods and Services Tax
Beneficiaries	Households, businesses, foreign diplomats, settlers
Type of measure	Other
Legal reference	Schedule VII to the *Excise Tax Act* *Non-Taxable Imported Goods (GST/HST) Regulations* *Goods for Emergency Use Remission Order*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • The list of non-taxable importations has been periodically amended. Most recently: o In accordance with the Canada—United States—Mexico Agreement (CUSMA), GST relief is provided for goods, other than prescribed goods, valued at not more than $40 and imported by courier from Mexico or the United States, applicable on or after July 1, 2020; o Budget 2012 announced a measure to provide GST relief on foreign-based rental vehicles temporarily imported by Canadian residents, applicable on or after June 1, 2012; and o regulations codifying the treatment of Canadian goods re-entering Canada were released on April 8, 2014, generally applicable retroactively to the inception of the GST (Department of Finance Canada news release 2014-051).
Objective – category	To reduce administration or compliance costs To prevent double taxation To achieve an economic objective - other
Objective	This measure is intended to simplify administration, prevent double taxation, promote tourism and ensure compliance with international convention precedents.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	The non-taxation of goods that will be consumed in Canada is a deviation from a broadly defined value-added tax base.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.

Number of beneficiaries	No data is available.

Non-taxation of certain non-monetary employment benefits

Description	Fringe benefits provided to employees by their employers are not taxed when it is not administratively feasible to determine the value of the benefit. Examples include subsidized recreational facilities offered to all employees and scramble parking.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Exemption
Legal reference	Administrative concession
Implementation and recent history	• Administrative positions have evolved over time.
Objective – category	To reduce administration or compliance costs
Objective	This measure recognizes the significant administrative and compliance costs that would be incurred in taxing certain non-monetary employment benefits.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of certain veterans’ benefits

Description	A number of benefits paid to veterans and Canadian Armed Forces members are tax free. These include the War Veterans Allowance, Disability Pensions, the Canadian Forces Income Support Benefit, the Caregiver Recognition Benefit, and certain other amounts payable under the *Pension Act* (as well as pension payments from allied countries that grant similar relief), the *Civilian War-related Benefits Act,* the *Gallantry Awards Order* and section 9 of the *Aeronautics Act*.
Tax	Personal income tax
Beneficiaries	Veterans, members of the Canadian Armed Forces and their families
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraphs 81(1)(d), (d.1) and (e)
Implementation and recent history	• Introduced in Budget 1942. Effective for pensions being administered on July 31, 1942. • Extended to the Canadian Forces Income Support Benefit in 2005, effective April 1, 2006. • Extended to the Family Caregiver Relief Benefit in 2015 (renamed the Caregiver Recognition Benefit in 2017), effective for the 2015 and subsequent taxation years.
Objective – category	To provide income support or tax relief
Objective	This measure recognizes that these benefits provide a basic level of support to veterans of Canada’s military engagements and their families (Budget 1942; New Veterans Charter, 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support
CCOFOG 2014 code	70219 - Defense - Military defense
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Data from Veterans Affairs Canada
Estimation method	The value of this tax expenditure is estimated by multiplying actual expenditures on exempt veterans’ benefits by estimates of the marginal tax rates applicable to recipients.
Projection method	Projections for this tax expenditure are based on forecasted expenditures on exempt veterans’ benefits.
Number of beneficiaries	About 95,000 individuals did not include these amounts in income in 2019-20.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	230	220	205	200	200	195	185	175

Non-taxation of Guaranteed Income Supplement and Allowance benefits

Description	The Guaranteed Income Supplement is an income-tested benefit payable to low-income seniors as part of the Old Age Security program. There is also an income-tested Allowance that is provided to an eligible spouse, common-law partner, widow or widower aged 60 to 64. The Guaranteed Income Supplement and Allowance benefits are effectively non-taxable. Although these benefits must be included in income, an offsetting deduction from net income is provided. This approach ensures that such payments are taken into account in determining other income-tested credits and benefits.
Tax	Personal income tax
Beneficiaries	Low-income seniors
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 110(1)(f)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1971 and subsequent taxation years.
Objective – category	To provide income support or tax relief
Objective	This measure recognizes that these income-tested payments provide a basic level of support to elderly Canadians with little income other than the Old Age Security pension (Budget 1971).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support Retirement
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	Of the approximately 2.3 million beneficiaries of the Guaranteed Income Supplement and Allowance benefits in 2018, it is estimated that about 550,000 additional individuals would have been in a taxable position in the absence of this measure.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	155	175	225	225	230	200	180	175

Non-taxation of income earned by military and police deployed to international operational missions

Description	Income earned by members of the Canadian Armed Forces and police officers deployed on international operational missions must be included in income for tax purposes, but an offsetting deduction from net income is provided. This approach effectively exempts such income from taxation, while ensuring that it is taken into account in determining income-tested credits and benefits.
Tax	Personal income tax
Beneficiaries	Members of the Canadian Armed Forces and police officers deployed on international operational missions
Type of measure	Exemption
Legal reference	*Income Tax Act*, subparagraph 110(1)(f)(v)
Implementation and recent history	• The deduction was introduced in Budget 2004 for high-risk operational missions. Effective for the 2004 and subsequent taxation years. • On April 14, 2004, the Government announced that the deduction would be extended to moderate-risk missions (National Defence news release NR-04.028, April 14, 2004). • On May 18, 2017, the Government announced that the deduction would be extended to all international operational missions, effective for the 2017 and subsequent taxation years (National Defence news release, May 18, 2017). The maximum deduction was increased to the pay level of a Lieutenant-Colonel (General Services Officer).
Objective – category	To achieve a social objective
Objective	This measure is intended to provide special recognition for Canadian Armed Forces personnel and police serving their country on international operational missions (Budget 2004; National Defence news release NR-04.028, April 14, 2004; National Defence news release, May 18, 2017).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Employment
CCOFOG 2014 code	70219 - Defense - Military defense 70319 - Public order and safety - Police services
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Data from National Defence, the Royal Canadian Mounted Police, and the Canada Revenue Agency.
Estimation method	The value of this measure is estimated by multiplying total exempt earnings by an estimate of the marginal tax rate of the individuals that benefit from this measure. The estimates and projection are calculated based on administrative data from the Canada Revenue Agency and National Defence.
Projection method	Outer-year projections are not provided as the value of this measure cannot be reliably forecast for these years.
Number of beneficiaries	About 8,800 individuals received tax-deductible income in respect of international operational missions in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	10	15	40	40	45	30	n.a.	n.a.

Non-taxation of investment income on certain amounts received as damages in respect of personal injury or death

Description	Amounts received in respect of damages for personal injury or death, as well as awards paid pursuant to the authority of criminal injury compensation laws, are not taxable. In addition, investment income earned on personal injury awards is excluded from income until the end of the year in which the person reaches the age of 21. While the benchmark definition of income excludes amounts received as damages for personal injury or death (since they compensate taxpayers for a personal loss), it includes investment income earned on these amounts as part of this benchmark tax base. Thus, the non-taxation of investment income earned on these awards for those under age 22 is considered to be a tax expenditure.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraphs 81(1)(g.1) and (g.2)
Implementation and recent history	• Introduced in Budget 1972. Effective for the 1972 and subsequent taxation years.
Objective – category	To provide income support or tax relief
Objective	This measure provides assistance to young persons receiving personal injury awards.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support
CCOFOG 2014 code	71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of life insurance companies' foreign income

Description	The income earned by a life insurer resident in Canada from an insurance business carried on in a country other than Canada is not subject to federal income tax in Canada.
Tax	Corporate income tax
Beneficiaries	Life insurance corporations
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsection 138(2) *Income Tax Regulations*, sections 2400 to 2412
Implementation and recent history	• Introduced in 1954. • Amended in 2001, effective for taxation years ending after 1999, to clarify that only the gross investment revenue derived by the insurer from "designated insurance property" is included in the exempt income.
Objective – category	To provide relief for special circumstances To prevent double taxation
Objective	In recognition that other jurisdictions do not necessarily tax life insurance companies on the same basis as Canadian tax rules, this measure helps ensure that Canadian multinational life insurance companies are not adversely affected in foreign insurance markets by exempting their foreign income from tax in Canada (Budget 1977).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of lottery and gambling winnings

Description	Lottery and gambling winnings are generally not subject to income tax unless, in the case of gambling winnings, the amounts are earned by the taxpayer through carrying on a business.
Tax	Personal income tax
Beneficiaries	Individuals with lottery or gambling winnings
Type of measure	Exemption
Legal reference	*Income Tax Act*, section 3, paragraph 40(2)(f) and subsection 52(4)
Implementation and recent history	• Canadian courts have generally held that lottery and gambling winnings are not considered to be a "source" of income for tax purposes, unless in the case of gambling winnings they were earned through the carrying on of a business. They have therefore generally not been taxed under the Canadian income tax system. • Paragraph 40(2)(f) and subsection 52(4) were introduced in 1972 as part of the 1971 Tax Reform and confirm the non-taxation of lottery and gambling winnings.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure reflects the agreement by the federal government to not tax this revenue in favour of the provinces.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of non-profit organizations

Description	A non-profit organization that is a club, society or association that is not a charity and that is organized and operated exclusively for social welfare, civic improvement, pleasure or for any other purpose except profit, qualifies for an exemption from income tax if it meets certain conditions. To be eligible, it is generally required that no part of the income of the organization be payable to, or otherwise available for the personal benefit of, any proprietor, member or shareholder of the organization. The exemption applies to both incorporated and unincorporated organizations. A tax expenditure results to the extent that the organization has income that would otherwise be taxable, such as investment income or profits from commercial activities.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Non-profit organizations
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 149(1)(l)
Implementation and recent history	• Non-profit organizations have been exempt from federal income tax since the inception of the federal income tax in 1917.
Objective – category	To achieve a social objective
Objective	This measure provides tax relief for non-profit organizations in recognition of the important role they play in Canadian society.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax certain taxpayers.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	T1044 Non-Profit Organization (NPO) Information Return T2 Corporation Income Tax Return
Estimation method	Net income of non-profit organizations is estimated based on a presumed market rate of return on the organization's net assets. It is assumed that that income, in the absence of the tax exemption, would be subject to the same average effective tax rates as those of typical taxable corporations. This represents a lower bound estimate.
Projection method	The cost of this measure is projected based on the estimated growth of nominal gross domestic product and the average yield on 10-year benchmark bonds.
Number of beneficiaries	About 27,500 non-profit organizations with positive net assets filed a non-profit organization information return in 2017.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Total – personal and corporate income tax	70	65	100	125	90	40	50	75

Non-taxation of payments to Canadian Armed Forces members and veterans in respect of pain and suffering

Description	The Disability Award provides injured Canadian Armed Forces members or veterans with an award for an injury or illness resulting from military service. The Critical Injury Benefit is a lump-sum award that addresses the immediate impacts of the most severe and traumatic service-related injuries or diseases sustained by Canadian Armed Forces members. Starting in 2019, the Pain and Suffering Compensation and the Additional Pain and Suffering Compensation are payments for life to recognize pain and suffering caused by a service-related disability. All these payments are exempt from income tax, as they are analogous to amounts received in respect of damages for personal injury. The benchmark definition of income excludes amounts received as damages since they compensate taxpayers for a personal loss.
Tax	Personal income tax
Beneficiaries	Veterans, members of the Canadian Armed Forces and their families
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 81(1)(d.1)
Implementation and recent history	• The Disability Award was made tax-free when it was introduced in 2005 as part of the New Veterans Charter. • The Critical Injury Benefit was made tax-free when it was introduced in 2015 (Veterans Affairs Canada news release, March 30, 2015). • The Pain and Suffering Compensation and the Additional Pain and Suffering Compensation were made tax-free when introduced as of April 1, 2019 (Veterans Affairs Canada, news release, December 20, 2017).
Objective – category	Other
Objective	This measure recognizes that these benefits provide a basic level of support to veterans of Canada's military engagements and their families (New Veterans Charter, 2005).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Other
CCOFOG 2014 code	71012 - Social protection - Sickness and disability - Disability 70219 - Defense - Military defense
Other relevant government programs	n/a
Source of data	Data from Veterans Affairs Canada
Estimation method	The value of this tax expenditure is estimated by multiplying actual expenditures on veterans' Disability Awards and Critical Injury Benefits by estimates of the marginal tax rates applicable to recipients.
Projection method	Projections for this tax expenditure are based on forecasted expenditures on veterans' Disability Awards and Critical Injury Benefits.
Number of beneficiaries	In 2019-20, there were about 19,000 Pain and Suffering beneficiaries and 14,000 Additional Pain and Suffering beneficiaries.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	155	170	345	345	375	520	385	330

Non-taxation of personal property of status Indians and Indian bands situated on reserve

Description	Section 87 of the *Indian Act* exempts the personal property of status Indians and Indian bands from direct taxation if that property is situated on a reserve. Courts have held that the term "personal property" includes income. Determining whether income is situated on a reserve requires an examination of the factors that connect it to a reserve. Such connecting factors include the location (on or off a reserve) of the residence of the status Indian, the location at which the employment duties were performed and the location of other income-earning activities. In respect of the GST, the exemption applies if a status Indian makes a purchase of a good or service on a reserve, or if goods are purchased off-reserve by a status Indian and are delivered to a reserve by the vendor or vendor's agent.
Tax	Personal income tax Goods and Services Tax
Beneficiaries	Status Indians and Indian bands on reserve
Type of measure	Exemption
Legal reference	*Indian Act*, section 87 *Income Tax Act*, paragraph 81(1)(a)
Implementation and recent history	• The first tax exemption available to status Indians was enacted in 1850, later being replaced by the *Indian Act* in 1876. • The current wording of section 87 of the *Indian Act* was added in 1951 and has not changed materially since then. • Court decisions continue to have an important role in defining the scope of the exemption under section 87.
Objective – category	Other
Objective	This measure reflects provisions under section 87 of the *Indian Act*.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax certain taxpayers.
Subject	Other
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of provincial assistance for venture investments in small businesses

Description	As a general rule, a taxpayer receiving government assistance (such as a provincial tax credit) for the purchase of an asset would need to either: (i) reduce the adjusted cost base of the asset such that when the asset is disposed of at a profit, taxes are payable on the portion of the gain that originates from the government assistance; or (ii) include the amount of the provincial assistance in income. This measure, however, ensures that a taxpayer who receives assistance from a provincial government to purchase the shares of a prescribed venture capital corporation is not subject to either of these income inclusion provisions.
Tax	Personal and corporate income tax
Beneficiaries	Individual and corporate investors
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 12(1)(x) *Income Tax Regulations*, sections 6700, 6702 and 7300
Implementation and recent history	• Introduced in 1986. Effective for shares acquired on or after May 23, 1985.
Objective – category	To encourage or attract investment
Objective	This measure supports investments in prescribed venture capital corporations that provide small businesses with capital and professional management support.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Business - small businesses
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of RCMP pensions and other compensation in respect of injury, disability or death

Description	Pension payments or compensation received in respect of an injury, disability or death associated with the service of a member in the Royal Canadian Mounted Police (RCMP) are exempt from tax.
Tax	Personal income tax
Beneficiaries	RCMP members and their families
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 81(1)(i)
Implementation and recent history	• Introduced in 1958. Effective for the 1958 and subsequent taxation years.
Objective – category	To provide income support or tax relief
Objective	This measure recognizes that these benefits represent, to a large extent, compensation to members of Canada's national police force and their families for a loss suffered by members in the course of their duties.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support Employment
CCOFOG 2014 code	71011 - Social protection - Sickness and disability - Sickness 71012 - Social protection - Sickness and disability - Disability 71039 - Social protection - Survivors
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	*Public Accounts of Canada*
Estimation method	The value of this measure is estimated based on amounts paid to compensate members of the RCMP for injuries received in the performance of duty, as reported in the Public Accounts.
Projection method	The projection is based on the historical trend in the value of payments.
Number of beneficiaries	More than 15,000 individuals did not include these amounts in income in 2018-19.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	25	30	35	40	50	50	55	55

Non-taxation of registered charities

Description	Registered charities, both incorporated and unincorporated, are exempt from income tax. Registered charities include charitable organizations, public foundations and private foundations. A tax expenditure results to the extent that the charity has income that would otherwise be taxable, such as investment income or profits from certain commercial activities.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Registered charities
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 149(1)(f)
Implementation and recent history	• Charities have been exempt from federal income tax since the inception of the federal income tax in 1917.
Objective – category	To achieve a social objective
Objective	This measure provides tax relief for registered charities in recognition of the important role they play in Canadian society (*The Tax Treatment of Charities*, Discussion Paper, June 23, 1975).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax certain taxpayers.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of social assistance benefits

Description	Social assistance payments generally must be included in income for tax purposes, but an offsetting deduction from net income is provided. This approach effectively exempts such benefits from taxation, while ensuring that they are taken into account in determining income-tested credits and benefits. Some other forms of benefits (e.g., payments to foster parents, benefits in kind) are not included in income, and are therefore exempt from taxation. If an individual lived with a spouse or common-law partner when the payments were received, the person with the higher net income must report all of the payments.
Tax	Personal income tax
Beneficiaries	Low-income individuals
Type of measure	Exemption
Legal reference	*Income Tax Act*, paragraph 110(1)(f)
Implementation and recent history	• To be consistent with the treatment of payments made under the Guaranteed Income Supplement, Budget 1981 made social assistance payments includable in income and deductible in computing taxable income, effective for the 1982 and subsequent taxation years.
Objective – category	To provide income support or tax relief
Objective	This measure recognizes the nature of social assistance as a payment of last resort (Budget 1981).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support
CCOFOG 2014 code	71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model. The estimates do not include the non-taxation of social assistance benefits that are not included in income.
Projection method	T1 micro-simulation model
Number of beneficiaries	Of the approximately 1.7 million individuals who reported having received social assistance payments in 2018, it is estimated that 570,000 individuals would have had an increase in net tax owing in the absence of this measure.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	230	240	265	300	330	300	290	280

Non-taxation of strike pay

Description	Most payments of the type commonly referred to as strike pay that are received from a member's union are not taxable.
Tax	Personal income tax
Beneficiaries	Union members
Type of measure	Exemption
Legal reference	Strike pay is not a source of income under the *Income Tax Act*.
Implementation and recent history	• The Supreme Court confirmed a longstanding administrative position that strike pay is non-taxable in a 1990 court case (*Wally Fries v. The Queen*, [1990] 2 CTC 439, 90 DTC 6662).
Objective – category	To implement a judicial decision
Objective	Strike pay is non-taxable by virtue of the Supreme Court of Canada's determination that it is not income from a source.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Non-taxation of up to $10,000 of death benefits

Description	Up to $10,000 of the total death benefit paid by a deceased person's employer or former employer in respect of the deceased person's employment service is exempt from tax in the hands of recipient individuals. The excess must be included in the recipients' income.
Tax	Personal income tax (including trusts)
Beneficiaries	Individuals receiving death benefits
Type of measure	Exemption
Legal reference	*Income Tax Act*, subparagraph 56(1)(a)(iii) and subsection 248(1), definition of "death benefit"
Implementation and recent history	• The exemption of up to $10,000 of a death benefit was introduced in Budget 1959, applicable to amounts received on or after the death of an employee that occurred after April 9, 1959.
Objective – category	To achieve a social objective To provide income support or tax relief
Objective	This measure alleviates the hardship faced by dependants upon the death of a supporting individual (Budget 1959).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Families and households Income support
CCOFOG 2014 code	71039 - Social protection - Survivors
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T4A Statement of Pension, Retirement, Annuity, and Other Income
Estimation method	An estimate of forgone tax revenue is calculated by multiplying the exempt portion of death benefits paid in a year by the average marginal tax rate of individuals receiving such amounts. The estimates do not cover death benefits accruing to trusts.
Projection method	The projection assumes no growth in exempt death benefit amounts.
Number of beneficiaries	About 7,800 death benefits were paid in 2018. The number of individuals who benefited from the non-taxation of a portion of the death benefit in that year is unknown.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	5	5	5	5	5	10	10	10

Non-taxation of workers' compensation benefits

Description	Compensation received under the employees' or workers' compensation law of Canada or a province in respect of an injury, disability or death must generally be included in income, but an offsetting deduction for the purposes of the calculation of taxable income is provided. This approach effectively exempts such benefits from taxation, while ensuring that they are taken into account in determining income-tested credits and benefits.
Tax	Personal income tax
Beneficiaries	Employees
Type of measure	Exemption
Legal reference	*Income Tax Act*, subparagraph 110(1)(f)(ii)
Implementation and recent history	• The first Workers' Compensation Boards were established in 1915, and workers' compensation benefits have been non-taxable since the inception of the income tax in 1917. • Prior to 1982, workers' compensation payments were excluded from income. From 1982 onward, workers' compensation benefits have been included in total income and deductible in computing taxable income.
Objective – category	To provide income support or tax relief
Objective	This measure provides assistance to workers suffering on-the-job injuries.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Income support Employment
CCOFOG 2014 code	71012 - Social protection - Sickness and disability - Disability 71099 - Social protection - Social protection not elsewhere classified
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 589,000 individuals reported having received workers' compensation benefits in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	630	640	675	720	755	770	750	755

Northern Residents Deductions

Description	Individuals residing in prescribed areas in Canada for a specified period may claim the Northern Residents Deductions. Two different deductions can be claimed: a residency deduction of up to $22 a day, and a deduction for two employer-provided vacation trips per year and unlimited employer-provided medical travel. Residents of the Northern Zone are eligible for the full deductions, while residents of the Intermediate Zone are eligible for half of the deductions.
Tax	Personal income tax
Beneficiaries	Individuals residing in prescribed areas in the North
Type of measure	Deduction
Legal reference	*Income Tax Act*, section 110.7 *Income Tax Regulations*, sections 7303.1 and 7304
Implementation and recent history	• Introduced in Budget 1986. Effective for the 1987 and subsequent taxation years. • The current design of the Northern Residents Deductions was introduced in 1990 (Department of Finance Canada news release, December 7, 1990). • Budget 2008 increased the maximum daily residency deduction by 10%, from $15.00 to $16.50. • Budget 2016 increased the maximum daily residency deduction by 33%, from $16.50 to $22.00.
Objective – category	To encourage employment
Objective	This measure assists in drawing skilled labour to northern and isolated communities (Budget 1986; Budget 2008).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure provides tax recognition for an expense that is not incurred to earn income.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 262,000 individuals claimed these deductions in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	180	220	225	230	235	210	235	240

Overseas Employment Tax Credit

Description	An employee who was a resident of Canada and was employed outside Canada for more than six consecutive months by a person resident in Canada (or a foreign affiliate of such a person) in connection with the exploration for, or exploitation of, certain natural resources, with construction, installation, engineering or agricultural activities or with activities performed under a contract with the United Nations was able to claim a non-refundable tax credit equal to the federal income tax otherwise payable on 20% (for 2015) of his or her foreign employment income (80% before 2013), up to a maximum foreign employment income of $100,000. Budget 2012 announced the phase-out of this measure by 2016 (see details below).
Tax	Personal income tax
Beneficiaries	Employees working abroad
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 122.3 *Income Tax Regulations*, sections 3400 and 6000
Implementation and recent history	• Introduced in Budget 1979 as a 50% deduction of foreign employment income, up to a maximum deduction of $50,000. Effective for the 1980 and subsequent taxation years. • Budget 1983 replaced the deduction with a non-refundable credit equal to the federal income tax otherwise payable on 80% of foreign employment income, effective as of 1984. • Budget 2012 announced the phase-out of this credit over the 2013-2015 period. The share of qualifying foreign employment income on which the credit is calculated was reduced from 80% to 60% for 2013, to 40% for 2014 and to 20% for 2015. The credit was fully eliminated in 2016.
Objective – category	To support competitiveness
Objective	This measure promoted the competitiveness of Canadian firms in certain sectors in bidding for overseas contracts by offering tax treatment comparable to that provided by other countries (Budget 1979; Budget 1983; Budget 2012).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Employment International
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 3,900 individuals claimed this credit in 2015.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	25	–	–	–	–	–	–	–

Partial deduction of and partial input tax credits for meals and entertainment

Description	The deductibility of meals and entertainment expenses in computing business income for income tax purposes is limited to 50% of the expenses incurred. This limit is increased to 80% in the case of meal expenses incurred by long-haul truck drivers. Similarly, 50% of the GST paid by businesses on meals and entertainment, increased to 80% in the case of meals consumed by long-haul truck drivers, can be claimed as input tax credits by GST registrants.
Tax	Personal (including trusts) and corporate income tax Goods and Services Tax
Beneficiaries	Businesses
Type of measure	Deduction; input tax credit
Legal reference	*Income Tax Act*, section 67.1 *Excise Tax Act*, section 236
Implementation and recent history	• The 1987 Tax Reform limited the deductibility of meals and entertainment expenses to 80% of the expenses incurred. • Budget 1994 reduced the deductibility limit from 80% to 50%. • Budget 2007 increased the deductibility limit to 80% for expenses incurred by long-haul truck drivers. • The rule limiting input tax credits for these expenses has been in place since the inception of the GST. The allowable amount is periodically amended, concurrently with the income tax rules.
Objective – category	n/a
Objective	n/a
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Meals and entertainment expenses that are incurred by businesses for the purpose of earning business income may be viewed as also having an element of personal consumption. A tax expenditure would arise to the extent that a deduction is granted for the personal consumption portion of meals and entertainment expenses, or that an input tax credit is granted for the GST paid in respect of that portion. However, the personal consumption portion of meals and entertainment expenses cannot be determined, therefore it is not known the extent to which the partial deduction and input tax credits for meals and entertainment expenses depart from the benchmark tax system.
Subject	Business – other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return
Estimation method	The estimates are based on actual expenses incurred by individuals (not including trusts) and businesses. The estimates are an upper bound, as they assume that all meal and entertainment expenses are incurred for personal consumption.
Projection method	The personal income tax component of this measure is projected using the T1 micro-simulation model; the corporate income tax component is projected to grow in line with corporate taxable income. The GST component is projected based on the income tax projections.
Number of beneficiaries	This measure provided tax relief to about 954,000 individuals and 892,000 corporations in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	210	215	210	200	205	130	195	210
Corporate income tax	290	300	315	330	350	210	295	350
Goods and Services Tax	175	180	185	190	175	105	150	175
Total	675	690	710	720	730	445	640	735

Partial inclusion of capital gains

Description	Only half of net realized capital gains are included in income.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Exemption
Legal reference	*Income Tax Act*, section 38
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years. • The 1987 Tax Reform increased the capital gains inclusion for the 1988 and subsequent taxation years. In general terms, the inclusion rate increased to two-thirds from one-half for 1988 and 1989, and to three-quarters from two-thirds for the 1990 and subsequent taxation years. • The capital gains inclusion rate was reduced to two-thirds from three-quarters effective February 28, 2000 (Budget 2000), and reduced again to one-half from two-thirds, effective October 18, 2000 (2000 Economic Statement and Budget Update).
Objective – category	To encourage or attract investment To encourage savings To support competitiveness
Objective	This measure provides incentives to Canadians to save and invest, and ensures that Canada's treatment of capital gains is broadly comparable to that of other countries (*Proposals for Tax Reform*, 1969; *The White Paper: Tax Reform 1987*; Budget 2000; 2000 Economic Statement and Budget Update).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Personal income tax: T1 Income Tax and Benefit Return and T3 Trust Income Tax and Information Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	Personal income tax: T1 micro-simulation model and T3 micro-simulation model. The tax expenditure accruing to trusts is estimated under the assumption that the repeal of this measure would cause the same proportion of the simulated taxable capital gains as the actual taxable capital gains to be paid out to beneficiaries. Corporate income tax: T2 micro-simulation model
Projection method	Personal income tax: T1 micro-simulation model in the case of individuals. Projections for trusts are based on projected growth for individuals. Corporate income tax: Projections are based on the Department of Finance Canada's forecast for the growth of capital gains.
Number of beneficiaries	About 2.9 million individuals and 254,000 corporations reported capital gains in 2018. In addition, about 37,000 trusts are estimated to have benefited from this measure in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	5,730	6,250	9,485	8,700	7,775	7,375	8,310	9,110
Trusts	755	570	830	695	775	740	830	905
Total – personal income tax	6,490	6,820	10,315	9,395	8,550	8,115	9,140	10,015
Corporate income tax	6,300	6,480	9,615	11,500	9,655	9,460	10,590	11,560
Total	12,785	13,300	19,930	20,895	18,205	17,580	19,730	21,575

Partial inclusion of U.S. Social Security benefits

Description	Individuals who are resident in Canada and receiving U.S. Social Security benefits since before 1996 (and their surviving spouses and common-law partners who are eligible to receive survivor benefits) can deduct 50% of those benefits in computing income. Other recipients of U.S. Social Security benefits can deduct 15% of the benefits received.
Tax	Personal income tax
Beneficiaries	Seniors
Type of measure	Exemption
Legal reference	*Income Tax Act*, section 110(1)(h) Canada-United States Tax Convention, article XVIII, paragraph 5(a)
Implementation and recent history	• From 1984 to 1996, under the Canada-United States Tax Convention, Canada had the sole right to tax U.S. Social Security benefits of Canadian residents. However, the Convention also required that half of these benefits be tax-exempt in Canada. This exemption was introduced to take into account how the benefits would have been taxed in the U.S. if paid to U.S. residents. Before 1996, the U.S. exempted up to 50% of U.S. Social Security benefits. • The 1995 Protocol to the Canada-United States Tax Convention granted the United States the exclusive right to tax the benefits of Canadian residents, effective for 1996 and 1997. • Under the 1997 Protocol, Canada regained exclusive taxing jurisdiction over U.S. Social Security benefits of Canadian residents, generally effective retroactively to January 1, 1996. Concurrently, 15% of those benefits became tax-exempt because the U.S. was exempting up to 15% of U.S. Social Security benefits since 1996. • Budget 2010 reinstated the 50% exemption for all Canadians and their spouses and common-law partners who have been in receipt of benefits since before January 1, 1996, effective for benefits received on or after January 1, 2010.
Objective – category	To provide income support or tax relief
Objective	This measure increases from 15% to 50% the percentage of U.S. Social Security payments that Canadian residents who have received such benefits since before January 1, 1996 can exclude from their taxable income in order to exempt the same proportion of U.S. Social Security benefits that the U.S. exempted before 1996.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Retirement
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No reliable data is available for this measure. As such, estimates and projections are no longer presented.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Patronage dividends paid as shares by agricultural cooperatives

Description	While patronage dividends not in respect of consumer goods and services are generally taxable when received, members of an agricultural cooperative are permitted to defer paying tax on a patronage dividend paid by the cooperative in the form of an eligible share until the disposition (or deemed disposition) of the share. In addition, when an eligible agricultural cooperative pays a patronage dividend to a member in the form of an eligible share, the withholding obligation in respect of the patronage dividend is deferred until the share is redeemed. In general terms, in order to issue eligible shares, agricultural cooperatives must be established in Canada and have as their principal business activity farming or the provision of goods or services required for farming in Canada. In order to be an eligible share, the share must be issued after 2005 and before 2026, and generally must not be redeemable or retractable within five years of its issue.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Members of agricultural cooperatives
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 135.1
Implementation and recent history	• Introduced in Budget 2005. Effective in respect of eligible shares issued after 2005 and before 2016. • Budget 2015 extended this measure to apply in respect of eligible shares issued before 2021. • The 2020 *Fall Economic Statement* extended this measure to apply to eligible shares issued before 2026.
Objective – category	To encourage or attract investment
Objective	The objective of this measure is to aid the capitalization of agricultural cooperatives (Budget 2005).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	This tax expenditure is calculated by multiplying the reported amount of patronage dividends paid as shares by agricultural cooperatives by the average marginal personal income tax rate for farmers.
Projection method	The cost of this tax expenditure is fairly stable; as such no growth is assumed over the projection period.
Number of beneficiaries	This measure provided tax relief to about 40 corporations in 2018. No data is available for unincorporated agricultural cooperatives.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	S	2	2	2	1	1	1	1
Corporate income tax	S	5	4	4	3	3	3	3
Total	S	5	5	5	4	4	4	4

Pension Income Credit

Description	The Pension Income Credit is a non-refundable credit that provides tax relief to taxpayers receiving eligible pension income. The value of the credit is calculated by applying the lowest personal income tax rate to the first $2,000 of eligible pension income. Any unused portion of the credit may be transferred to a spouse or common-law partner. Eligible pension income is generally limited to certain types of income from registered plans, such as a lifetime pension from a Registered Pension Plan and, for individuals who are age 65 or over, income from a Pooled Registered Pension Plan, a Registered Retirement Savings Plan annuity, a Registered Retirement Income Fund or a Life Income Fund. Variable benefits payments from a defined contribution Registered Pension Plan are also eligible for individuals who are age 65 or over. Veterans' Retirement Income Security Benefit payments and Income Replacement Benefit payments are also eligible for the credit.
Tax	Personal income tax
Beneficiaries	Seniors and pensioners receiving eligible pension income
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsections 118(3) and (7)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, effective for the 1988 and subsequent taxation years, to replace the previous pension deduction. • The maximum amount of income eligible for the Pension Income Credit was doubled from $1,000 to $2,000 in Budget 2006. • Veterans' Retirement Income Security Benefit payments became eligible for the Pension Income Credit as of the 2015 taxation year and veterans' Income Replacement Benefit payments are eligible for the credit as of the 2019 taxation year.
Objective – category	To provide income support or tax relief To achieve a social objective
Objective	This measure was introduced to provide additional protection against inflation for the retirement income of elderly Canadians (Budget November 1974).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Retirement
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 5.4 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,170	1,190	1,195	1,235	1,250	1,250	1,265	1,285

Pension income splitting

Description	Canadian residents receiving income that qualifies for the Pension Income Credit can allocate up to one-half of that income to their resident spouse or common-law partner for income tax purposes. Income that is eligible for the Pension Income Credit and pension income splitting is generally limited to certain types of income from registered plans, such as a lifetime pension from a Registered Pension Plan and, for individuals who are age 65 or over, income from a Pooled Registered Pension Plan, a Registered Retirement Savings Plan annuity, a Registered Retirement Income Fund or a Life Income Fund. Variable benefits payments from a defined contribution Registered Pension Plan are also eligible only for individuals who are age 65 or over. Income from a Retirement Compensation Arrangement (which is not eligible for the Pension Income Credit), as well as veterans' Retirement Income Security Benefit payments and Income Replacement Benefit payments, also qualify for pension income splitting for individuals who are age 65 or over, subject to specified conditions.
Tax	Personal income tax
Beneficiaries	Seniors and pensioners receiving eligible pension income
Type of measure	Other
Legal reference	*Income Tax Act*, section 60.03
Implementation and recent history	• Introduced as part of the 2006 Tax Fairness Plan. Effective for the 2007 and subsequent taxation years. • Income from a Retirement Compensation Arrangement became eligible for pension income splitting, subject to specified conditions, as of the 2013 taxation year. • Subject to specified conditions, veterans' Retirement Income Security Benefit payments became eligible for pension income splitting as of the 2015 taxation year and veterans' Income Replacement Benefit payments are eligible for pension income splitting as of the 2019 taxation year.
Objective – category	To provide income support or tax relief To extend or modify the unit of taxation
Objective	This measure recognizes the special challenges of planning and managing retirement income, and provides targeted assistance to pensioners (Tax Fairness Plan, 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extends the unit of taxation.
Subject	Retirement
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1.4 million couples split pension income in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,165	1,135	1,290	1,380	1,395	1,490	1,625	1,755

Political Contribution Tax Credit

Description	Individuals (including testamentary trusts) who make monetary contributions to a registered party, a registered association or a candidate as defined in the *Canada Elections Act* can claim the Political Contribution Tax Credit in respect of their contributions. This non-refundable credit is calculated as 75% of the first $400 contributed, 50% of the next $350 contributed, and 33⅓% of the next $525 contributed. The maximum credit available is $650.
Tax	Personal income tax (including trusts)
Beneficiaries	Individuals
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 127(3)
Implementation and recent history	• Introduced as part of the *Election Expenses Act* of 1974. • In 2003, the amount to which the 75% credit applies was extended to $400, effective January 1, 2004. • Corporations were prohibited from making political contributions in 2007, following the adoption of the *Federal Accountability Act*.
Objective – category	To achieve a social objective
Objective	This measure encourages broad citizen participation in the electoral process.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Social
CCOFOG 2014 code	70111 - General public services - Executive and legislative organs, financial and fiscal affairs, external affairs - Executive and legislative organs
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T3 Trust Income Tax and Information Return Data from Elections Canada
Estimation method	T1 micro-simulation model. The estimates do not cover political contributions made by testamentary trusts.
Projection method	Projections for this measure for individuals are derived using Elections Canada data and a T1 micro-simulation model. These projections take into account observed trends in political donations around federal election years.
Number of beneficiaries	This measure provided tax relief to about 151,700 individuals in 2018. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	55	25	25	30	40	25	25	25

Pooled Registered Pension Plans

Description	A Pooled Registered Pension Plan (PRPP) is a type of pension plan that is similar to a defined contribution Registered Pension Plan. A deferral of tax is provided on savings in a PRPP in order to encourage and assist Canadians to save for retirement. Contributions to a PRPP are deductible from income, the investment income is not taxed as it accrues in the plan, and withdrawals and benefit payments are included in income for tax purposes. Contributions to PRPPs must be made within a PRPP member's available Registered Retirement Savings Plan contribution limit.
Tax	Personal income tax
Beneficiaries	Individuals with available RRSP contribution room
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 147.5
Implementation and recent history	• The income tax rules for PRPPs came into force on December 14, 2012 (Department of Finance Canada news release 2012-165, December 14, 2012).
Objective – category	To encourage savings
Objective	Consistent with tax assistance provided on savings in Registered Pension Plans and Registered Retirement Savings Plans, this measure encourages and assists Canadians to arrange for their financial security in later years.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Retirement Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	n/a
Estimation method	n/a
Projection method	n/a
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: The tax expenditure associated with this measure is combined with the tax expenditure associated with Registered Retirement Savings Plans (see measure "Registered Retirement Savings Plans").

Preferential tax rate for small businesses

Description	The first $500,000 of annual income earned by a Canadian-controlled private corporation (CCPC) from an active business carried on in Canada is taxed at a preferential federal corporate income tax rate of 9% (as of January 1, 2019). The $500,000 annual small business limit must be shared by a CCPC with other CCPCs with which it is associated. In order to target the preferential tax rate to small businesses, the annual small business limit is gradually reduced when: • The taxable capital of the CCPCs that are part of the same associated group is between $10 million and $15 million, and is zero if the taxable capital of the associated group is $15 million or greater. • The investment income of the CCPCs that are part of the same associated group is between $50,000 and $150,000, and is zero if the investment income of the associated group is $150,000 or greater. The annual small business limit is the lesser of the two reduced amounts.
Tax	Corporate income tax
Beneficiaries	Small Canadian-controlled private corporations
Type of measure	Preferential tax rate
Legal reference	*Income Tax Act*, section 125
Implementation and recent history	• A lower federal corporate tax rate was introduced in Budget 1949 to assist smaller corporations. In general terms, a low 10% rate applied to business income up to $10,000 while additional income was taxed at a 33% rate. All corporations were eligible for this lower rate, regardless of size; however, only one corporation in a controlled corporate group could claim that lower rate. • Eligibility rules to this lower rate were modified as part of the 1972 Tax Reform to limit access to CCPCs and provide for the sharing of the small business limit among associated corporations. • Budget 1994 introduced rules to phase out the preferential tax rate for CCPCs with taxable capital of at least $10 million. • The annual business limit was increased in stages from $200,000 in 2002 to $300,000 in 2005. It was increased to $400,000 effective 2007. • The 2007 Economic Statement reduced the preferential tax rate from 12% to 11% effective 2008 (compared to the general corporate income tax rate of 19.5% in 2008). The federal corporate surtax (equivalent to 1.12 percentage points of tax) was also eliminated for all corporations as of 2008. • Budget 2009 increased the annual income limit to $500,000 (from $400,000), effective 2009. • Budget 2015 announced a series of reductions to the preferential tax rate, including a reduction from 11% to 10.5% in 2016. • Budget 2016 introduced a change to prevent the small business deduction from applying to income earned from sales to another corporation, or related persons, that have a direct or indirect interest in the selling corporation. • On October 16, 2017 the Government announced a further reduction in the preferential tax rate to 10% as of January 1, 2018, and to 9% as of January 1, 2019. • Budget 2018 announced that the small business business limit would be reduced on a straight-line basis for CCPCs having between $50,000 and $150,000 of investment income, for tax years beginning after 2018. • Budget 2019 introduced a change to allow the income from sales of farming and fishing products by a CCPC to any arm's length corporation to count for the small business deduction.
Objective – category	To encourage or attract investment To support business activity
Objective	This measure allows small businesses to retain more of their earnings to reinvest and create jobs (Budget 2015).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	The applicable tax rate departs from the benchmark tax rate.
Subject	Business - small businesses

CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	T2 micro-simulation model
Projection method	The cost of this measure is projected to grow in line with corporate taxable income. A rate of 9% is used for projection years.
Number of beneficiaries	This measure provided tax relief to about 806,000 corporations in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	3,170	3,545	3,800	4,175	5,100	5,370	5,495	6,035

Public Transit Tax Credit

Description	A non-refundable tax credit was available at the lowest personal income tax rate for the cost of monthly public transit passes or passes of longer duration. The credit could be claimed by the individual or the individual's spouse or common-law partner in respect of eligible transit costs of the individual, the individual's spouse or common-law partner, and the individual's children who were under 19 years of age. This credit was eliminated, effective for transit use after June 30, 2017.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.02
Implementation and recent history	• Introduced in Budget 2006. Effective July 1, 2006 and subsequent taxation years. • Budget 2007 extended the credit to innovative fare products like electronic fare cards and weekly passes when used on an ongoing basis. • Budget 2017 announced the elimination of this measure, effective for transit use occurring after June 30, 2017.
Objective – category	To achieve a social objective
Objective	This measure is intended to encourage public transit use, as increasing public transit use will ease traffic congestion in urban areas and improve the environment (Budget 2006).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure is transferable between spouses or common-law partners.
Subject	Environment Social
CCOFOG 2014 code	70456 - Economic affairs - Transport - Public Transit 70539 - Environmental protection - Pollution abatement
Other relevant government programs	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, Parks Canada and Natural Resources Canada also support environment-related objectives. Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	n/a
Number of beneficiaries	About 1.5 million individuals claimed this credit in 2017.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	190	190	105	–	–	–	–	–

Quebec Abatement

Description	The federal government provides an abatement of personal income tax to taxpayers residing in Quebec equal to 16.5% of Basic Federal Tax payable. The abatement represents compensation to the Province of Quebec for opting out of certain federal transfer programs established in the 1960s.
Tax	Personal income tax (including trusts)
Beneficiaries	n/a
Type of measure	Other
Legal reference	*Federal-Provincial Fiscal Arrangements Act*, Part VI *Federal Provincial Fiscal Revision Act*, 1964
Implementation and recent history	• During the 1960s, the federal government offered provinces opting-out arrangements for certain federal-provincial programs, such as hospital care and social welfare. Under the arrangements—which only Quebec opted to use—the federal government abated personal income tax by 13.5 percentage points while Quebec increased its personal income taxes by an equivalent amount. In order to ensure that Quebec would not receive federal transfer payments for health and social programs and (unlike other provinces) also the tax abatement, this abatement was originally deducted from transfer payments to Quebec. The abatement was rolled into the Canada Health and Social Transfer in 1995, and then into the Canada Health Transfer and Canada Social Transfer in 2004. In 2012, the *Federal-Provincial Fiscal Arrangements Act* was revised to clarify that the recovery is no longer linked to the Canada Health and Social Transfer or its successor programs (the Canada Health Transfer and Canada Social Transfer). • In 1964, the federal government introduced the Youth Allowances Program. Quebec had a similar program at the time and, wishing to continue it, obtained an abatement of three personal income tax points. The Youth Allowances Program was dismantled in 1974; however, in order to minimize disruption to Quebec's tax structure, an arrangement was made to maintain the three-point abatement. The value of the corresponding reduction is currently recovered through bi-annual payments made by the Province of Quebec to the Receiver General for Canada.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure reflects the election by the Province of Quebec to receive part of the federal program contribution in the form of a tax abatement.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	Canada Revenue Agency, Tax Sharing Statements
Estimation method	The value of the Quebec Abatement is calculated by multiplying Basic Federal Tax for Quebec residents by 0.165.
Projection method	Projections for this measure are based on forecasted growth of Basic Federal Tax.
Number of beneficiaries	n/a

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	4,380	4,420	4,745	5,130	5,380	5,330	5,575	5,855
Trusts	60	60	95	70	85	90	95	95
Total – personal income tax	4,440	4,480	4,840	5,200	5,465	5,420	5,665	5,955

Rebate for book purchases made by certain organizations

Description	A 100% rebate is provided in respect of GST paid on books acquired by: • schools, universities, public colleges and municipalities; • charities and qualifying non-profit organizations that operate public lending libraries; and • designated charities and qualifying non-profit organizations whose primary purpose is the promotion of literacy. The rebate is not available when the books are acquired for resale.
Tax	Goods and Services Tax
Beneficiaries	Schools, colleges, universities, municipalities, certain charities and certain non-profit organizations
Type of measure	Rebate
Legal reference	*Excise Tax Act*, section 259.1
Implementation and recent history	• Introduced on October 23, 1996 (Department of Finance Canada news release 1996-076). Effective in respect of GST paid after that date. • Budget 2012 extended the rebate to include books acquired to be given away by designated literacy organizations.
Objective – category	To achieve a social objective
Objective	This measure recognizes the important role played by public libraries, educational institutions and other community organizations in helping people learn how to read and improve their reading skills (Department of Finance Canada news release 1996-076, October 23, 1996).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Education
CCOFOG 2014 code	70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with provincial government expenditures on education.
Number of beneficiaries	About 1,800 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	15	15	15	15	15	15	15	15

Rebate for hospitals, facility operators and external suppliers

Description	Hospitals provide primarily tax-exempt services, and as such are unable to claim input tax credits for GST paid on most of their purchases. However, public hospitals are eligible for a rebate of 83% of the GST paid on purchases related to their supply of exempt services. Since 2005, government-funded charities and non-profit organizations that provide health care services similar to those traditionally performed in hospitals or supply ancillary support services to hospitals and eligible health care facilities ("facility operators and external suppliers") are also eligible for an 83% rebate of the GST paid on purchases related to their exempt health care supplies.
Tax	Goods and Services Tax
Beneficiaries	Public hospitals, facility operators and external suppliers
Type of measure	Rebate
Legal reference	*Excise Tax Act*, subsection 259(3)
Implementation and recent history	• The rebate for public hospitals has been in effect since the inception of the GST in 1991. • Budget 2005 extended the 83% rebate to facility operators and external suppliers to accommodate the restructuring by provinces and territories of the delivery of health care services that has resulted in some services formerly provided by hospitals being performed by other non-profit organizations.
Objective – category	To achieve a social objective
Objective	The rebate for public hospitals was implemented at the time of inception of the GST to ensure that the sales tax burden did not increase as a result of moving to the GST from the previous federal sales tax (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	7073 - Health - Hospital services
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with provincial government expenditures on health.
Number of beneficiaries	About 700 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	695	630	665	695	740	885	975	975

Rebate for municipalities

Description	Municipalities are eligible for a 100% rebate for the GST paid on their purchases of inputs used in the provision of their exempt supplies. Entities that are not municipalities (e.g., library boards) may nonetheless be determined by the Minister of National Revenue to be municipalities for the purposes of this rebate. Similarly, service providers may be designated to be municipalities with respect to certain municipal-like services they provide (e.g., sewage treatment services). Entities determined or designated to be municipalities are eligible for the 100% rebate in respect of GST paid on inputs used in the course of their exempt municipal activities.
Tax	Goods and Services Tax
Beneficiaries	Municipalities
Type of measure	Rebate
Legal reference	*Excise Tax Act*, subsections 259(3) and (4)
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991, initially with a rebate rate of 57.14%. • The rebate rate was increased to 100%, generally effective since February 2004 (Department of Finance Canada news release 2004-007, February 3, 2004).
Objective – category	To implement intergovernmental tax arrangements
Objective	The partial rebate initially provided was intended to ensure that the sales tax burden of municipalities did not increase as a result of moving to the GST from the previous federal sales tax (*Goods and Services Tax: Technical Paper*, August 1989).The rebate was increased to 100% to provide municipalities with an increased source of reliable, predictable and long-term funding to address infrastructure priorities (Department of Finance Canada news release 2004-007, February 3, 2004).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	70183 - General public services - Transfers of a general character between different levels of government - General purpose transfers to local governments
Other relevant government programs	n/a
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with local government expenditures.
Number of beneficiaries	About 9,500 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	2,245	2,285	2,515	2,665	2,740	2,810	2,885	2,970

Rebate for new housing

Description	Builders or purchasers of newly constructed and substantially renovated residential housing are eligible for a rebate of the GST paid if the housing is for use as a primary place of residence. For houses valued at or below $350,000, the rebate is 36% of the total GST paid to a maximum of $6,300. The rebate is gradually phased out for houses valued between $350,000 and $450,000, and there is no rebate for houses valued at $450,000 or more. The same rebate is available for the GST paid by individuals to construct or substantially renovate housing that is for use by the owner or a relative as a primary place of residence. The rate of rebate was established so that the GST burden on new housing would be equal to the federal sales tax component of the total price of a new home before the introduction of the GST (which was approximately 4.5% on average).
Tax	Goods and Services Tax
Beneficiaries	Individuals who have purchased or constructed new homes
Type of measure	Rebate
Legal reference	*Excise Tax Act*, sections 254 and 256
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • The maximum dollar value of the rebate was lowered in Budget 2006 and in the 2007 Economic Statement concurrently with the reductions in the GST rate from 7% to 6% on July 1, 2006 and to 5% on January 1, 2008.
Objective – category	To achieve a social objective
Objective	This measure is designed to ensure that the GST does not pose a barrier to the affordability of new homes (*Goods and Services Tax Consolidated Explanatory Notes*, April 1997).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada. Data on expenditures on residential construction from the System of National Accounts were adjusted by Statistics Canada for conceptual differences in the timing and tax treatment of land.
Estimation method	The cost of this measure is calculated from source data.
Projection method	The cost of this measure is projected to grow in line with housing completions.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	570	520	510	490	460	485	515	510

Rebate for new residential rental property

Description	Builders or purchasers of newly constructed or substantially renovated residential rental housing are eligible for a rebate of the GST payable if it can reasonably be expected that the first use of the individual residential units within the property will be as a primary place of residence for at least one year. The rebate also applies to builders or purchasers of new additions to multiple-unit residential rental housing and to the leasing of land (i.e., housing lots) to a person that affixes a new or substantially renovated house or sites in new residential trailer parks for long-term residential use. For single-unit residential housing (including duplexes) or units in multiple-unit residential housing valued at or below $350,000, the rebate is 36% of the total GST paid to a maximum of $6,300. The rebate is phased out for such residential housing or units valued between $350,000 and $450,000. In the case of leasing housing lots or sites in residential trailer parks, the rebate is 36% of the total GST paid to a maximum $1,575. The rebate is phased out for each housing lot or site valued between $87,500 and $112,500.
Tax	Goods and Services Tax
Beneficiaries	Builders and purchasers of new residential rental property and landlords that lease housing lots or sites in new residential trailer parks for long-term residential use
Type of measure	Rebate
Legal reference	*Excise Tax Act*, section 256.1
Implementation and recent history	• Introduced in Budget 2000. Effective February 28, 2000. • The maximum dollar value of the rebate was lowered in Budget 2006 and in the 2007 Economic Statement concurrently with the reductions in the GST rate from 7% to 6% on July 1, 2006 and to 5% on January 1, 2008.
Objective – category	To achieve a social objective
Objective	This measure ensures that builders and purchasers of new residential rental property face the same effective GST rate faced by purchasers of new owner-occupied homes (Budget 2000).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Housing
CCOFOG 2014 code	70619 - Housing and community amenities - Housing development
Other relevant government programs	Programs within the mandate of the Canada Mortgage and Housing Corporation, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada are intended to promote the construction, repair and renewal of affordable and safe housing. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST524 - GST/HST New Residential Rental Property Rebate Application
Estimation method	The cost of this measure is calculated from source data.
Projection method	The cost of this measure is projected to grow in line with housing completions for multiple units.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	140	170	160	165	165	180	195	195

Rebate for poppies and wreaths

Description	The Royal Canadian Legion is eligible for a 100% rebate of GST paid on Remembrance Day poppies and wreaths it acquires.
Tax	Goods and Services Tax
Beneficiaries	Royal Canadian Legion
Type of measure	Rebate
Legal reference	*Excise Tax Act*, section 259.2
Implementation and recent history	• Introduced on October 28, 2010 (Department of Finance Canada news release 2010-101). Effective in respect of tax payable or paid after 2009.
Objective – category	To achieve a social objective
Objective	This measure recognizes the special status of poppies and wreaths as symbols of the contribution, courage and sacrifices of those who served in the Canadian Forces (Department of Finance Canada news release 2010-101, October 28, 2010).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	70869 - Recreation, culture, and religion - Recreation, culture, and religion not elsewhere classified
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	Form GST189 - General Application for Rebate of GST/HST
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	n/a
Number of beneficiaries	The Royal Canadian Legion is the sole direct beneficiary of this measure.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	X	X	X	X	X	X	X	X

Rebate for qualifying non-profit organizations

Description	Non-profit organizations that receive at least 40% of their funding from governments, municipalities or Indian Bands are eligible for a rebate of 50% of the GST paid on purchases related to their supplies of exempt services.
Tax	Goods and Services Tax
Beneficiaries	Non-profit organizations
Type of measure	Rebate
Legal reference	*Excise Tax Act*, subsection 259(3)
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure recognizes the important role of non-profit organizations in Canadian society (*Goods and Services Tax*, December 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 7,000 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	75	70	75	75	70	65	75	80

Rebate for registered charities

Description	Charities registered under the *Income Tax Act* and registered Canadian amateur athletic associations are eligible for a rebate of 50% of the GST paid on purchases related to their supplies of exempt services. Non-profit organizations operating a facility or part thereof to provide nursing home care are also eligible for the rebate.
Tax	Goods and Services Tax
Beneficiaries	Registered charities, registered Canadian amateur athletic associations, non-profit organizations operating a facility or part thereof to provide nursing home care
Type of measure	Rebate
Legal reference	*Excise Tax Act*, subsection 259(3)
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure recognizes the important role of charities in Canadian society (*Goods and Services Tax*, December 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Donations, gifts, charities and non-profit organizations
CCOFOG 2014 code	705 - Environmental protection; 706 - Housing and community amenities; 707 - Health; 708 - Recreation, culture, and religion; 709 - Education; 710 - Social protection; Other various codes
Other relevant government programs	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 45,000 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	325	310	315	315	310	310	320	335

Rebate for schools, colleges and universities

Description	Schools, colleges and universities provide primarily tax-exempt services, and as such are unable to claim input tax credits for GST paid on most of their purchases. However, elementary and secondary schools operating on a not-for-profit basis are eligible for a rebate of 68% of the GST paid on purchases related to their supplies of exempt services. Publicly funded colleges and recognized degree-granting universities operating on a not-for-profit basis are eligible for a rebate of 67% of the GST paid on purchases related to their supplies of exempt services.
Tax	Goods and Services Tax
Beneficiaries	Schools, colleges and universities
Type of measure	Rebate
Legal reference	*Excise Tax Act*, subsection 259(3)
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure was implemented at the time of inception of the GST to ensure that the sales tax burden on these sectors did not increase as a result of moving to the GST from the previous federal sales tax (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Education
CCOFOG 2014 code	70929 - Education - Primary and Secondary education 70939 - Education - College education 70949 - Education - University education
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with provincial government expenditures on education.
Number of beneficiaries	About 4,500 entities claim this rebate each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Rebate for schools	400	420	445	470	470	480	505	515
Rebate for colleges	85	95	105	125	110	115	120	125
Rebate for universities	235	235	280	295	275	285	295	305
Total – Goods and Services Tax	725	745	830	885	855	880	920	945

Rebate for specially equipped motor vehicles

Description	A GST rebate is available in respect of motor vehicles specially equipped with certain features for use by individuals with disabilities. The amount of the rebate is the GST paid on the portion of the purchase price attributable to the special features. The rebate is available in respect of both new and used vehicles, and in respect of vehicles purchased either in Canada or abroad (with the GST being paid on importation). The rebate is also available when a vehicle is imported after being modified with special features.
Tax	Goods and Services Tax
Beneficiaries	Individuals with disabilities, organizations serving these individuals and caregivers
Type of measure	Rebate
Legal reference	*Excise Tax Act*, sections 258.1 and 258.2
Implementation and recent history	• Introduced on April 3, 1998 (Department of Finance Canada news release 1998-036). Effective in respect of new vehicles paid for after April 3, 1998. • An amendment to extend the relief to used vehicles was announced on November 27, 2006 (Department of Finance Canada news release 2006-073), effective retrospectively to vehicles paid for after April 3, 1998.
Objective – category	To achieve a social objective
Objective	This measure ensures that all individuals and organizations get tax relief on the additional cost of purchasing vehicles, such as a car or minivan, that meet their special needs (Department of Finance Canada news release 1998-036, April 3, 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	70713 - Health - Medical products, appliances, and equipment - Therapeutic appliances and equipment
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST518 - GST/HST Specially Equipped Motor Vehicle Rebate Application
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with consumption expenditures on vehicles and parts.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	S	S	S	S	S	S	S	S

Rebate to employees and partners

Description	Employees and partners may incur expenses in the course of carrying out their duties that are not directly reimbursed by their employers and partnerships. Instead, compensation may be provided through salaries, commissions, profits and other means that would not be subject to GST. Consequently, employers and partnerships cannot recover the GST paid by the employees and partners through the input tax credit mechanism. A rebate is available to an employee of a GST registrant (other than a listed financial institution) for the GST paid on those expenses that are deductible in computing the employee's income from employment for income tax purposes. For example, an employee is allowed to claim a rebate in respect of the GST on a portion of entertainment expenses or on the capital cost allowance for an automobile, aircraft or musical instrument that is used in his or her employment and on which GST is payable. This rebate is also available to an individual who is a member of a GST-registered partnership in respect of expenses incurred outside the partnership that are deducted in computing the member's income from the partnership for income tax purposes.
Tax	Goods and Services Tax
Beneficiaries	Employees and partners
Type of measure	Rebate
Legal reference	*Excise Tax Act*, section 253
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To provide relief for special circumstances
Objective	This measure is designed to reduce the possible tax-cascading effect that would occur in certain cases when employers and partnerships cannot recover GST paid by employees and partners in the course of their duties.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	GST rebates effectively reduce the value added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Employment Business - other
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Form GST370 - Employee and Partner GST/HST Rebate Application
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	55	55	50	50	50	50	50	55

Reclassification of expenses under flow-through shares

Description	Small corporations in the oil and gas sector were entitled to reclassify as Canadian Exploration Expenses (CEE) the first $1 million per year of eligible Canadian Development Expenses (CDE) renounced to shareholders under a flow-through share agreement. CEE is fully deductible in the year incurred, while CDE is deductible at the rate of 30% per year. For background information, see the related item "Flow-through share deductions". Budget 2017 announced the elimination of this measure.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Investors in flow-through shares and small oil and gas corporations
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 66(12.601)
Implementation and recent history	• Introduced in the 1992 Economic and Fiscal Statement. Effective after December 2, 1992. • Budget 1996 reduced the amount of CDE that can be reclassified to $1 million per year from $2 million and restricted the reclassification to firms with less than $15 million of taxable capital employed in Canada. • Budget 2017 announced the elimination of this tax expenditure. This will generally apply to expenses incurred after 2018.
Objective – category	To encourage or attract investment
Objective	This measure was introduced to facilitate financing and promote investment in the junior oil and gas sector (Economic and Fiscal Statement, 1992; Budget 1996).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure may permit the depreciation of a capital asset faster than its useful life.
Subject	Business - natural resources
CCOFOG 2014 code	70432 - Economic affairs - Fuel and energy - Petroleum and natural gas
Other relevant government programs	Programs within the mandate of Natural Resources Canada also support the natural resource sector. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return
Estimation method	The value of this tax expenditure is estimated by comparing the tax benefits received by the shareholders to the tax benefits that would have been received if the CDE had been flowed out as CDE rather than CEE. It is assumed that the issuing corporations would have been able to fully flow out the expenses as CDE, even though CDE is generally less attractive to investors than CEE. To the extent that they could not, the tax expenditure would be higher than this estimate. The breakdown of the estimates between individuals and trusts is not available.
Projection method	Projections based on current market conditions.
Number of beneficiaries	Information on the number of flow-through share investors who benefitted from the measure is not available. A small number of corporations (fewer than 20) reclassified expenses under this provision in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	-5	-5	-2	-4	-3	-2	-1	-1
Corporate income tax	-1	S	S	-1	S	S	S	S
Total	-5	-5	-2	-4	-3	-2	-2	-1

Refundable capital gains tax for investment corporations, mutual fund corporations and mutual fund trusts

Description	Capital gains realized by an investment corporation or a mutual fund corporation are taxed at the corporation level, and the tax is accumulated in an account known as the "refundable capital gains tax on hand" account. The tax accumulated in that account is refunded to the corporation upon distribution of its capital gains to its shareholders or when a mutual fund corporation redeems shares. These distributions are taxed as capital gains in the hands of the shareholder and not as dividends. This departs from general practice in that income earned by a public corporation (including taxable capital gains) does not generally retain its character for tax purposes when subsequently distributed to shareholders. Similarly, a mutual fund trust can claim a refund when it redeems units in respect of the tax the trust has paid on capital gains retained within the trust.
Tax	Personal (trusts only) and corporate income tax
Beneficiaries	Investment and mutual fund corporations and mutual fund trusts
Type of measure	Other
Legal reference	*Income Tax Act*, subsections 131(2) and (6)
Implementation and recent history	• Introduced as part of the 1971 Tax Reform to enable investment corporations and mutual fund corporations that realize capital gains to flow them out to shareholders in a subsequent distribution.
Objective – category	To prevent double taxation
Objective	This measure permits capital gains earned by investors through investment corporations and mutual fund corporations to be taxed on a similar basis as capital gains earned directly by investors.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Savings and investment
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T2 Corporation Income Tax Return T3 Trust Income Tax and Information Return
Estimation method	The value of this measure is the sum of the amounts of federal capital gains refunds claimed by investment corporations, mutual fund corporations and mutual fund trusts.
Projection method	Projections for this measure are derived under the assumption that capital gains refunds will increase at the same rate as the average of corporate taxable income and taxable capital gains.
Number of beneficiaries	About 70 investment and mutual fund corporations and 1,200 mutual fund trusts claimed a capital gain refund in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Investment and mutual fund corporations – corporate income tax	1,025	925	1,535	1,120	1,165	1,180	1,220	1,280
Mutual fund trusts – personal income tax	2,400	3,355	4,480	2,400	4,890	3,910	4,305	4,735
Total	3,425	4,280	6,015	3,520	6,055	5,095	5,520	6,010

Refundable Medical Expense Supplement

Description	The Refundable Medical Expense Supplement is a refundable credit that provides low-income working Canadians with assistance for medical and disability-related expenses. For 2020, the supplement is available to individuals whose earnings from employment or self-employment meet or exceed a minimum threshold of $3,714. To be eligible for the supplement, individuals must be 18 years of age or older and have claimed eligible medical expenses under the Medical Expense Tax Credit or the disability supports deduction. The supplement is equal to the lesser of $1,272 (for 2020) and 25% of the allowable portion of expenses that can be claimed under the Medical Expense Tax Credit and the disability supports deduction. The supplement is reduced by 5% of net family income above an income threshold of $28,164. The maximum supplement amount, the minimum earnings threshold and the family net income threshold are indexed to inflation.
Tax	Personal income tax
Beneficiaries	Low-income employees and self-employed individuals
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.51
Implementation and recent history	• Introduced in Budget 1997. Effective for the 1997 and subsequent taxation years. • The maximum supplement amount was increased to $750 in Budget 2005 (from $562 in 2004) and to $1,000 in Budget 2006.
Objective – category	To encourage employment
Objective	This measure improves work incentives for Canadians with disabilities by helping to offset the loss of coverage for medical and disability-related expenses when individuals move from social assistance to the paid labour force (Budget 2006).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment Health
CCOFOG 2014 code	7071 - Health - Medical products, appliances, and equipment 7072 - Health - Outpatient services 7073 - Health - Hospital services 71012 - Social protection - Sickness and disability - Disability
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 547,000 individuals received this benefit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	150	155	155	165	165	150	165	170

Refundable taxes on investment income of private corporations

Description	An individual could defer personal income tax on investment income if the individual earned the investment income through a private corporation that is subject to a corporate income tax rate that is significantly lower than the highest personal income tax rate. Consequently, the *Income Tax Act* provides rules that counter such a deferral: • Under Part I of the *Income Tax Act*, investment income (other than taxable dividends) received by a Canadian-controlled private corporation is subject to a partly refundable 38⅔% income tax rate (an unreduced 28% general tax rate plus an additional tax of 10⅔%). The refundable portion corresponds to 30⅔% of the investment income. • Under Part IV of the Act, taxable dividends received by a private corporation are generally subject to a 38⅓% income tax rate. The refundable portion of the Part I tax and the Part IV tax paid on ineligible dividends are added to the corporation's Non-Eligible Refundable Dividend Tax on Hand account. The Part IV tax paid on eligible dividends is added to the corporation's Eligible Refundable Dividend Tax on Hand account. Amounts in both accounts are refundable to the corporation upon the payment of ineligible dividends, at the effective rate of 38⅓% of ineligible dividends paid. Only amounts in the corporation's Eligible Refundable Dividend Tax on Hand account, however, are refundable upon the payment of eligible dividends, also at the effective rate of 38⅓%.
Tax	Corporate income tax
Beneficiaries	Private corporations
Type of measure	Other
Legal reference	*Income Tax Act*, sections 123, 123.3, 123.4, 124, 129 and 186
Implementation and recent history	• Introduced as part of the 1971 Tax Reform. The Part I tax was 50% and the refundable portion of that tax was 25%. The Part IV tax was introduced at a rate of 33⅓% and was fully refundable. The refundable tax paid on investment income was refundable at a basic rate of one dollar for every three dollars of taxable dividends paid. • Amended as part of the 1987 Tax Reform, effective after 1987, to reflect changes in federal tax rates. The Part I tax was reduced to 28% from 36%, and its refundable portion to 20%. The Part IV tax was reduced to 25%. The rate of refund was decreased to one dollar for every four dollars of taxable dividends paid. • Budgets 1994 and 1995 increased the rate of the Part IV tax to 33⅓% to further reduce personal income tax deferral possibilities. The rate of refund was increased to one dollar for every three dollars of taxable dividends paid. These changes were generally effective for taxation years beginning after June 1995. • Budget 1995 introduced an additional refundable 6⅔% Part I tax on investment income earned by Canadian-controlled private corporations. • These refundable taxes (and the related refund rate) were increased to their current levels effective January 1, 2016, in order to reflect the new 33% top personal income tax rate applicable as of that date. • In July 2017, the Government launched consultations on proposals to limit tax planning strategies using private corporations. The 2017 *Fall Economic Statement* announced that the Government will move forward with measures to limit tax deferral opportunities related to investment income earned through private corporations, with further details to be announced in Budget 2018. • Budget 2018 announced that Canadian-controlled private corporations would no longer be able to obtain refunds of taxes paid on investment income while distributing dividends from income taxed at the general corporate rate. Private corporations will now track two Refundable Dividend Tax on Hand accounts to allow Part IV tax paid on eligible dividend income to be recovered upon the payment of eligible dividends. This measure applies in respect of tax years beginning after 2018.
Objective – category	To ensure a neutral tax treatment across similar situations
Objective	This measure is intended to reduce the possibility for individuals to defer personal income tax on investment income by earning such income through a private corporation instead of earning such income directly (Budget 1995).
Category	Structural tax measure

Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Other
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T2 Corporation Income Tax Return
Estimation method	The tax expenditure is comprised of the additional Part I tax (the difference between the applicable Part I tax rate and the federal general corporate income tax rate of 15%), the Part IV tax and the sum of the aforementioned refunds. In these accounts, tax revenues are recorded as negative amounts.
Projection method	The cost of this measure is projected to grow in line with investment income and taxable income.
Number of beneficiaries	About 297,000 and 248,000 corporations were respectively subject to the additional Part I tax and Part IV tax in 2018, while 280,000 corporations claimed the dividend refund in that year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Additional Part I tax	-4,265	-4,885	-6,165	-7,635	-7,735	-7,740	-7,960	-8,460
Part IV tax	-4,895	-5,320	-6,120	-8,000	-7,880	-7,880	-8,105	-8,615
Dividend refund	8,780	8,960	10,440	13,215	12,815	12,820	13,180	14,010
Total – corporate income tax	-380	-1,240	-1,840	-2,415	-2,800	-2,800	-2,880	-3,065

Refunds for Indigenous self-governments

Description	Under agreements which are given force of law by Parliament, Indigenous self-governments are provided with a 100% refund of the GST for goods and services acquired for use in governmental activities.
Tax	Goods and Services Tax
Beneficiaries	Indigenous self-governments, their corporations and entities performing functions of government
Type of measure	Refund
Legal reference	The agreements are given force of law by the implementation legislation related to Self-Government Agreements and Comprehensive Land Claims and Self-Government Agreements.
Implementation and recent history	• The refund first became available in the late 1990s in Self-Government Agreements signed with certain Yukon First Nations. • To date, 18 combined Comprehensive Land Claims and Self-Government Agreements have been concluded (in the Yukon, British Columbia, the Northwest Territories and Newfoundland and Labrador) and several other Indigenous groups, mainly in British Columbia, Saskatchewan, Quebec and the Northwest Territories, are at the final agreement stage.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure relieves from GST the expenditures incurred by Indigenous self-governments in exercising governmental activities.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	GST refunds effectively reduce the value-added subject to tax, and are therefore deviations from a broadly defined value-added tax base.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	7018 - General public services - Transfers of a general character between different levels of government
Other relevant government programs	n/a
Source of data	Form GST66 - Application for GST/HST Public Service Bodies' Rebate and GST Self-Government Refund
Estimation method	The cost of this measure corresponds to the amounts of rebates approved, as reported in administrative data.
Projection method	The cost of this measure is projected to grow in line with government expenditures and expected ratification of new Self-Government Agreements and Comprehensive Land Claims and Self-Government Agreements.
Number of beneficiaries	About 30 entities claim these refunds each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	10	5	5	10	5	10	10	10

Registered Disability Savings Plans

Description	A Registered Disability Savings Plan (RDSP) is a tax-assisted long-term savings plan that may generally be established for the benefit of an individual under 60 years of age who is eligible for the Disability Tax Credit. Contributions to an RDSP are not deductible from income, and therefore are also not included in income for tax purposes when paid out of an RDSP. Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) are not taxed when they are paid into an RDSP and investment income earned in the plan is not taxed as it accrues. CDSGs, CDSBs and investment income earned in the plan are included in the beneficiary's income for tax purposes when paid out of an RDSP. Contributions to an RDSP are limited to a lifetime maximum of $200,000, and are permitted up until the end of the year in which a beneficiary attains 59 years of age. Up to $70,000 in matching CDSGs and up to $20,000 in CDSBs may be provided to a beneficiary over their lifetime, up until the end of the year in which the beneficiary attains 49 years of age. While the CDSGs and CDSBs are not tax expenditures, they increase the cost of the tax expenditure to the extent that they encourage increased use of RDSPs.
Tax	Personal income tax
Beneficiaries	Individuals with disabilities
Type of measure	Timing preference
Legal reference	*Income Tax Act*, sections 146.4 and 205 *Canada Disability Savings Act* and *Canada Disability Savings Regulations*
Implementation and recent history	• Introduced in Budget 2007. Effective for the 2008 and subsequent taxation years. • Budget 2019 proposed to eliminate the requirement to close an RDSP when a beneficiary no longer qualifies for the Disability Tax Credit.
Objective – category	To encourage savings
Objective	This measure helps individuals with severe disabilities and their families save for their long-term financial security (Budget 2014).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Health Savings and investment
CCOFOG 2014 code	71012 - Social protection - Sickness and disability - Disability
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Employment and Social Development Canada
Estimation method	The value of this tax expenditure is calculated as the tax revenue forgone from the non-taxation of investment income earned on RDSP assets as well as from the non-taxation of CDSBs and CDSGs when deposited in an RDSP, minus the taxes paid on RDSP withdrawals. These amounts are determined using assumed marginal tax rates for plan contributors and beneficiaries. The tax-sheltered investment income is estimated based on the assumption that the rate of return on net RDSP assets is equal to the rate of return on Government of Canada bonds. Estimates and projections vary from those in last year's report due primarily to a revision in the reporting of actual and projected levels of bond payments.
Projection method	Projections for this measure are based on projected RDSP net assets and withdrawals produced by Employment and Social Development Canada. Future bond yields are based on the average private sector forecast of the 10-year government bond rate.
Number of beneficiaries	About 209,000 RDSPs were registered from December 2008 to October 2020.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	40	50	60	65	60	65	70	80

Registered Education Savings Plans

Description	A Registered Education Savings Plan (RESP) is a tax-assisted savings vehicle designed to help families accumulate savings for the post-secondary education of their children. Contributions to an RESP are not deductible for income tax purposes and as such are not taxed upon withdrawal, while the investment income accruing in the plan is not subject to tax until withdrawal. An individual can contribute to an RESP on behalf of a designated beneficiary. For each beneficiary of an RESP, there is a lifetime contribution limit of $50,000, but no annual limit on contributions. Contributions to an RESP may attract additional government assistance through the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB), both of which are generally included in the income of the plan's beneficiary on withdrawal. While the CESG and CLB are not tax expenditures, they increase the tax expenditure associated with RESPs to the extent that they encourage the use of RESPs, are not taxable until withdrawn and generate investment income on which tax can be deferred.
Tax	Personal income tax
Beneficiaries	Individuals who subscribe under an RESP
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 146.1 *Canada Education Savings Act* and *Canada Education Savings Regulations*
Implementation and recent history	• Introduced in 1973 (Department of Finance Canada news release 1973-97). Effective for the 1972 and subsequent taxation years. • Budget 1998 introduced the CESG, equal generally to 20% of annual contributions made after 1997 to an RESP for beneficiaries up to and including age 17. • Budget 2004 introduced the CLB and enhanced the CESG. • Budget 2007 eliminated the $4,000 limit on annual contributions and increased the maximum CESG annual amount to $500 from $400 (to $1,000 from $800 if there is unused grant room). The lifetime RESP contribution limit was raised to $50,000 from $42,000. • Budget 2008 raised the number of years that contributions can be made to an RESP (to 31 years from 21 years) and the number of years before an RESP must be terminated (to 35 years from 25 years).
Objective – category	To encourage savings
Objective	This measure broadens access to higher education by encouraging Canadians to save towards the post-secondary education of children (Budget 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Education Savings and investment
CCOFOG 2014 code	70939 - Education - College education 70949 - Education - University education
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Employment and Social Development Canada
Estimation method	The value of this tax expenditure is calculated as the tax revenue forgone from the non-taxation of investment income earned on RESP assets, minus the taxes paid on RESP withdrawals. These amounts are determined using assumed marginal tax rates for plan contributors and beneficiaries. The tax-sheltered investment income is estimated assuming that the rate of return on net RESP assets is equal to the rate of return on Government of Canada bonds.
Projection method	The projection for the first year is based on projected RESP net assets and withdrawals produced by Employment and Social Development Canada, while projections for outer years are made based on historical growth. Future Government of Canada bond yields are based on the average private sector forecast of the 10-year government bond rate.

Number of beneficiaries	No data on the total number of individuals with an RESP is available. About 6.3 million individuals with an RESP have received a Canada Education Savings Grant between 1998 and 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	145	135	110	110	115	95	120	100

Registered Pension Plans

Description	A deferral of tax is provided on contributions to Registered Pension Plans (RPPs) in order to encourage and assist Canadians to save for retirement. Contributions to these plans are deductible from income, the investment income is not taxed as it accrues in the plan, and withdrawals are included in income for tax purposes. For defined contribution RPP members, contributions are limited to 18% of employment earnings up to a specified dollar amount ($27,830 for 2020). For defined benefit RPP members, pension benefits are limited to 2% of employment earnings per year of service up to a specified dollar amount ($3,092.22 for 2020).
Tax	Personal income tax
Beneficiaries	Employees with a registered pension plan
Type of measure	Timing preference
Legal reference	*Income Tax Act*, sections 147.1 to 147.4
Implementation and recent history	• Employer RPP contributions became deductible with the introduction of income tax in 1917. Employee RPP contributions became deductible in 1919. • A major reform of the RPP and Registered Retirement Savings Plan limits was introduced in 1990 in order to provide more comparable tax-assisted savings opportunities for Canadians regardless of whether they saved in a defined benefit RPP, a defined contribution RPP or a Registered Retirement Savings Plan. • The maximum dollar contribution and benefit limits for RPPs were increased in 2003 and 2005. • The RPP dollar limits were indexed to average wage growth for 2010 and subsequent years.
Objective – category	To encourage savings
Objective	By allowing taxpayers to defer tax on savings, this measure encourages and assists Canadians to arrange for their financial security in later years (*Pension Reform: Improvements in Tax Assistance for Retirement Saving*, Department of Finance Canada, 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Retirement Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return Statistics Canada, Registered pension plans, Trusteed pension funds and Pension satellite account (Tables 11-10-0122-01, 11-10-0079-01 and 36-10-0576-01)
Estimation method	The value of this tax expenditure is calculated on a cash-flow basis as the sum of forgone tax revenue from the deductibility of RPP contributions and non-taxation of investment income earned on RPP assets, minus the tax revenue from RPP benefit payments.
Projection method	Projections are derived using T1 micro-simulation model and data from Statistics Canada on historical RPP assets.
Number of beneficiaries	About 7.9 million households had individuals that had accrued benefits under RPPs in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Deduction for contributions	15,110	15,595	16,125	16,460	16,490	16,030	16,980	17,935
Non-taxation of investment income	19,370	20,725	23,345	20,235	24,750	21,400	21,255	21,940
Taxation of withdrawals	-9,780	-10,310	-10,180	-10,030	-10,185	-11,020	-11,245	-11,770
Total – personal income tax	24,700	26,010	29,295	26,670	31,055	26,410	26,985	28,090

Registered Retirement Savings Plans

Description	A deferral of tax is provided on contributions to Registered Retirement Savings Plans (RRSPs) in order to encourage and assist Canadians to save for retirement. Contributions to these plans are deductible from income, the investment income is not taxed as it accrues in the plan, and withdrawals are included in income for tax purposes. Contribution limits are determined as 18% of prior year earned income up to a specified dollar limit ($27,230 for 2020), less an estimate of contributions made to a Registered Pension Plan and/or a Deferred Profit-Sharing Plan, plus unused contribution room carried forward from previous years. Earned income for this purpose includes income from employment and self-employment as well as other specified types of earnings. Tax-free withdrawals from RRSPs are permitted under the Home Buyers' Plan and the Lifelong Learning Plan to promote home ownership and skills enhancement respectively, subject to specified eligibility conditions, withdrawal limits and repayment provisions.
Tax	Personal income tax
Beneficiaries	Individuals with earned income
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 146
Implementation and recent history	• Introduced in 1957. • A major reform of the RRSP and Registered Pension Plan limits was introduced in 1990 in order to provide more comparable tax-assisted savings opportunities for Canadians regardless of whether they saved in a defined benefit Registered Pension Plan, a defined contribution Registered Pension Plan or an RRSP. • The maximum dollar contribution limit for RRSPs was increased in 2003 and 2005. • The RRSP dollar limit was indexed to average wage growth for 2011 and subsequent years.
Objective – category	To encourage savings
Objective	By allowing taxpayers to defer tax on savings, this measure encourages and assists Canadians to arrange for their financial security in later years (*Pension Reform: Improvements in Tax Assistance for Retirement Saving*, Department of Finance Canada, 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Retirement Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return Statistics Canada, Pension satellite account (Table 36-10-0576-01)
Estimation method	The value of this tax expenditure is calculated on a cash-flow basis as the sum of forgone tax revenue from the deductibility of RRSP contributions and non-taxation of investment income earned on RRSP assets, minus the tax revenue from Registered Retirement Income Fund/annuity income and RRSP withdrawals.
Projection method	Projections are derived using the T1 micro-simulation model and Statistics Canada data on historical RRSP assets.
Number of beneficiaries	About 8.9 million households had individuals that had RRSPs or Registered Retirement Income Funds in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Deduction for contributions	8,490	8,950	9,440	9,740	10,300	9,900	10,445	10,970
Non-taxation of investment income	13,595	13,715	15,145	12,795	15,375	13,545	13,585	14,165
Taxation of withdrawals	-6,890	-6,615	-7,265	-7,950	-7,915	-7,805	-8,655	-8,990
Total – personal income tax	15,195	16,050	17,320	14,585	17,760	15,640	15,375	16,145

Note: The cost information includes the tax expenditures associated with Pooled Registered Pension Plans and the Saskatchewan Pension Plan.

Rollovers of investments in small businesses

Description	Individuals are permitted to defer the tax on a capital gain arising from the disposition of shares in a qualified small business investment, to the extent the proceeds are reinvested in shares of another qualified small business. An eligible small business investment consists of shares issued from treasury in an active Canadian-controlled private corporation with assets not exceeding $50 million, excluding professional corporations, specified financial institutions, rental or leasing corporations, and real estate corporations. The reinvestment must be made at any time in the year of disposition or within 120 days after the end of that year.
Tax	Personal income tax
Beneficiaries	Individual investors
Type of measure	Timing preference
Legal reference	*Income Tax Act*, section 44.1
Implementation and recent history	• Introduced in Budget 2000. Effective for dispositions after February 27, 2000. • The October 2000 Economic Statement and Budget Update increased the size of an eligible investment from $500,000 to $2 million and the size of business eligible for the rollover from $10 million to $50 million. • Budget 2003 eliminated the individual investor limits on the amount of the original investment and reinvestment eligible for the deferral and allowed a reinvestment to be eligible for the rollover when made at any time in the year of disposition or within 120 days after the end of the year.
Objective – category	To encourage or attract investment
Objective	This measure was implemented to improve access to capital for small business corporations (Economic Statement and Budget Update, October 2000; Budget 2003).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - small businesses
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 1,800 individuals reported capital gains eligible for this measure in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	X	25	10	15	10	5	10	10

Saskatchewan Pension Plan

Description	A deferral of tax is provided on contributions to the Saskatchewan Pension Plan (SPP) in order to encourage and assist Canadians to save for retirement. Contributions to the SPP are deductible from income, the investment income is not taxed as it accrues in the plan, and withdrawals and benefit payments are included in income for tax purposes. While the tax rules permit SPP contributions to be made within an SPP member's available Registered Retirement Savings Plan (RRSP) contribution limit, the SPP restricts annual contributions to a specified maximum ($6,300 for 2020).
Tax	Personal income tax
Beneficiaries	Individuals with available RRSP contribution room
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 146(21) to (21.3) *Income Tax Regulations*, section 7800
Implementation and recent history	• The SPP was introduced in 1986. Deductible contributions were initially limited to $600 annually, if made within an SPP member's available RRSP contribution limit. • In 2011, the federal tax rules were amended to accommodate certain changes proposed by the Saskatchewan government to improve the plan, in particular an increase in the annual contribution limit to $2,500 (Department of Finance Canada news release 2010-118, December 7, 2010). • In January 2018, the SPP increased its annual contribution limit to $6,000 and indexed the limit to increases in the Year's Maximum Pensionable Earnings for the Canada Pension Plan.
Objective – category	To encourage savings
Objective	This measure was introduced to ensure consistency in the tax treatment of Canadians saving for their retirement, whether they save through a private or a provincially sponsored registered plan (Budget 1987).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Retirement Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	n/a
Estimation method	n/a
Projection method	n/a
Number of beneficiaries	About 11,500 individuals contributed to the Saskatchewan Pension Plan in 2019.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: The tax expenditure associated with this measure is combined with the tax expenditure associated with Registered Retirement Savings Plans (see measure "Registered Retirement Savings Plans").

Scientific Research and Experimental Development Investment Tax Credit

Description	A credit is available in respect of eligible expenditures on scientific research and experimental development (SR&ED) performed by businesses in Canada. SR&ED involves the systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, and eligible SR&ED activities cover basic research and applied research as well as experimental development. Expenditures eligible for the credit include most current expenditures in respect of SR&ED performed by or on behalf of a taxpayer and that are related to a business of the taxpayer, including salary and wages, materials, overhead and contracts. The credit is provided at a general rate of 15%. An enhanced rate of 35% is provided to small Canadian-controlled private corporations (CCPCs) on their first $3 million per year of eligible expenditures. Small CCPCs that have prior-year taxable capital of $10 million or less can obtain a refund in respect of credits earned in a year but not used, at a rate of 100% on the first $3 million of eligible expenses. The $3 million expenditure limit is gradually reduced if prior-year taxable capital is between $10 million and $50 million. Qualifying expenditures in excess of a CCPC's expenditure limit are eligible for the 15% tax credit. Unused SR&ED credits earned at this rate may be partially refundable depending on the CCPC's taxable income and taxable capital. Unused credits that are not refunded can be carried forward 20 years and back 3 years to reduce taxes payable in those years. Unincorporated businesses are not eligible for the enhanced 35% credit rate, but are generally eligible for a 40% refund. An immediate income tax deduction is also provided in respect of eligible SR&ED expenditures (see the measure "Expensing of current expenditures on scientific research and experimental development").
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Businesses conducting eligible scientific research and experimental development
Type of measure	Credit, refundable and non-refundable
Legal reference	*Income Tax Act*, section 127
Implementation and recent history	• Federal tax incentives for SR&ED were first introduced in 1948. The basic structure of the current credit system was put in place between 1983 and 1985. • Several changes were introduced in Budget 2012, including: the reduction of the general credit rate to 15% from 20% and the removal of capital expenditures from the base of expenditures eligible for the credit (both changes effective January 1, 2014); the reduction in the prescribed proxy amount in respect of overhead expenses from 65% of the salaries and wages of employees directly engaged in the conduct of SR&ED to 60% in 2013 and 55% in subsequent years; and the removal of the profit element for arm's length third-party contracts (effective January 1, 2013). • For taxation years ending after March 19, 2019, Budget 2019 announced the repeal of the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced SR&ED tax credit.
Objective – category	To encourage or attract investment
Objective	This measure is intended to encourage the performance of scientific research and experimental development in Canada by the private sector and to assist small businesses to perform scientific research and experimental development (Budget 1996). The rationale for this tax support is that the benefits of SR&ED extend beyond the performers themselves to other firms and sectors of the economy. The existence of these spillovers of externalities means that, in the absence of government support, firms would perform less SR&ED than desirable for the economy.
Category	Non-structural tax measure and refundable tax credit
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues. The portion of this measure that is refundable is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Business - research and development
CCOFOG 2014 code	7048 - Economic affairs - R&D Economic affairs

Other relevant government programs	Programs within the mandates of Innovation, Science and Economic Development Canada, the National Research Council Canada and the federal granting councils also support research and development. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Personal income tax: T1 Income Tax and Benefit Return Corporate income tax: T2 Corporation Income Tax Return
Estimation method	The cost of this measure is based on data on actual credits claimed. Estimates for the personal income tax for 2010 to 2013 include investment tax credits claimed in respect of certain other certified property under a provision that is now repealed. These credits cannot be separated from SR&ED investment tax credits, but are likely negligible. The estimates do not cover investment tax credits claimed by trusts.
Projection method	Personal income tax: The cost of this measure is projected based on historical growth. Corporate income tax: The cost of this measure is projected to grow in line with nominal gross domestic product. The projected cost of the non-refundable portion of the measure is reduced for 2019 to 2021 by the introduction of the Accelerated Investment Incentive, full expensing for manufacturing or processing machinery and equipment, and full expensing for clean energy generation equipment, which will reduce corporate taxable income.
Number of beneficiaries	About 5,100 individuals and 21,300 corporations claimed this credit in 2018. The number of trusts having claimed this credit in 2018 is not disclosed due to confidentiality restrictions.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1	S	1	1	1	1	1	1
Corporate income tax								
Non-refundable portion								
Earned and claimed in current year	475	465	440	565	325	290	305	320
Claimed in current year but earned in prior years	875	895	1,035	820	525	520	520	560
Earned in current year but carried back to prior years	40	80	65	20	30	25	30	30
Total – non-refundable portion	1,390	1,440	1,540	1,405	880	835	850	910
Refundable portion	1,285	1,280	1,300	1,400	1,745	1,555	1,650	1,735
Total – corporate income tax	2,670	2,715	2,835	2,805	2,625	2,390	2,500	2,645
Total	2,670	2,715	2,835	2,805	2,625	2,395	2,500	2,645

Search and Rescue Volunteers Tax Credit

Description	Individuals who performed at least 200 hours of eligible ground, air and marine search and rescue volunteer services during a year can claim the non-refundable Search and Rescue Volunteers Tax Credit. The value of the credit is calculated by applying the lowest personal income tax rate to a credit amount of $3,000. An individual who performs both eligible volunteer search and rescue services and eligible volunteer firefighting services for a total of at least 200 hours in the year can claim either the Search and Rescue Volunteers Tax Credit or the Volunteer Firefighters Tax Credit. An individual who claims the Search and Rescue Volunteers Tax Credit is ineligible for the exemption from income that would otherwise apply to up to $1,000 of income (honoraria) received in the year for being a search and rescue volunteer (see the measure "Tax-free amount for emergency services volunteers").
Tax	Personal income tax
Beneficiaries	Search and rescue volunteers
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.07
Implementation and recent history	• Introduced in Budget 2014. Effective for the 2014 and subsequent taxation years.
Objective – category	To achieve a social objective
Objective	This measure recognizes the important role played by search and rescue volunteers in contributing to the security and safety of Canadians (Budget 2014).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Social
CCOFOG 2014 code	70369 - Public order and safety - Public order and safety not elsewhere classified
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 5,300 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	2	2	2	2	2	2	2	2

Small suppliers' threshold

Description	Small suppliers (other than taxi businesses, which include ride-sharing providers) are not required to register for GST purposes. Small suppliers who choose not to register do not have to charge and remit GST on taxable supplies (other than sales of real property and, in the case of municipalities, of capital property) and they are not entitled to input tax credits. A "small supplier" is a person whose total taxable supplies in the preceding year do not exceed $30,000 ($50,000 in the case of public service bodies). A charity or public institution (i.e., a registered charity that is a university, a public college, a school authority, a hospital authority or a designated municipality) can also qualify as a small supplier if its gross annual revenue in either of its previous two fiscal years does not exceed $250,000.
Tax	Goods and Services Tax
Beneficiaries	Small businesses, charities and public institutions
Type of measure	Other
Legal reference	*Excise Tax Act*, paragraph 240(1)(a) and section 166
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • Municipalities that are small suppliers are required to charge and remit GST on sales of their capital property, effective after March 9, 2004 (Department of Finance Canada news release 2004-018, March 9, 2004). This change was made concurrently with the increase to 100% of the rebate for municipalities. • Budget 2017 announced that the definition of "taxi business" in the *Excise Tax Act* would be amended to include providers of ride-sharing services. This means that the small suppliers' threshold no longer applies to these providers; they must register for and collect GST/HST regardless of the total amount of sales they make. The change was effective July 1, 2017.
Objective – category	To reduce administration or compliance costs
Objective	This measure ensures that very small businesses do not face an additional compliance burden as a result of the introduction of the GST (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is a deviation from a broadly defined value-added tax base.
Subject	Business - small businesses
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return T2 Corporation Income Tax Return GST34 Goods and Services Tax/Harmonized Sales Tax Return
Estimation method	The cost of this measure is estimated by applying the GST rate to the difference between the gross and net revenues of non-registered businesses with gross revenue under $30,000. Gross and net revenue data is obtained from personal and corporate income tax information, and businesses that are registered for the GST are identified using data from the GST34 Return.
Projection method	The cost of this measure is projected to grow in line with nominal gross domestic product.
Number of beneficiaries	About 1.4 million small suppliers make use of this measure each year.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	225	225	230	245	250	225	250	275

Special tax computation for certain retroactive lump-sum payments

Description	Taxpayers receiving qualifying retroactive lump-sum payments may use a special mechanism to compute the tax on those payments. The tax under the special mechanism is the federal tax that would have been payable if the principal portion of the retroactive lump-sum payment had been taxed in the year to which it relates, plus interest to reflect the time value of money in respect of the delay in paying the tax. The interest component of the receipt of a lump-sum payment is fully included in income in the year in which it is received. To be eligible for the special tax calculation, the right to receive the income must have existed in a prior year. In addition, the principal portion of the lump-sum payment must be at least $3,000, and must have been received in a year after 1994.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Other
Legal reference	*Income Tax Act*, sections 110.2 and 120.31
Implementation and recent history	• Introduced in Budget 1999. Effective for the 1995 and subsequent taxation years.
Objective – category	To assess tax liability over a multi-year period
Objective	This measure aims to ensure that the Government does not benefit from the delay in certain types of lump-sum payments at the taxpayer's expense as a result of the progressivity of the income tax system (Budget 1999).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Other
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model. The value of this measure corresponds to the difference between the tax that would be owed on the principal portion of eligible retroactive lump-sum payments if they were taxed in the year received, and the tax computed under the special mechanism.
Projection method	T1 micro-simulation model
Number of beneficiaries	This measure provided tax relief to about 1,200 individuals in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1	1	1	1	1	1	1	1

Special tax rate for credit unions

Description	Credit unions are eligible for the preferential small business tax rate of 9% (as of January 1, 2019) that generally applies to a Canadian-controlled private corporation on the first $500,000 of qualifying income (the cost associated with this preferential tax rate is included under the tax expenditure "Preferential tax rate for small businesses"). An additional deduction, available only to credit unions, provided access to the preferential income tax rate for income that is not eligible for the small business deduction. This tax expenditure represents the cost of this additional preference. Budget 2013 announced the phase-out over five years of this additional preference for credit unions. For 2013, the preferential tax rate applied to 80% of the qualifying income of a credit union that exceeds $500,000. This percentage is reduced to 60% in 2014, 40% in 2015, 20% in 2016, and 0% in 2017 and subsequent years.
Tax	Corporate income tax
Beneficiaries	Credit unions
Type of measure	Preferential tax rate
Legal reference	*Income Tax Act*, subsection 137(3)
Implementation and recent history	• Introduced in 1972 to provide credit unions with access to the preferential tax rate for small businesses. • Over time, changes made to the design of the preferential tax rate for small businesses resulted in a more generous tax preference being available to credit unions. • Budget 2013 announced the phase-out over five years of this additional preference for credit unions (see the description for details). • On October 16, 2017 the Government announced a further reduction in the preferential tax rate to 10% as of January 1, 2018, and to 9% as of January 1, 2019.
Objective – category	To encourage or attract investment
Objective	This measure permits a credit union to accumulate capital on a tax-preferred basis up to a maximum of 5% of deposits and capital (Department of Finance Canada news release 71-157, December 6, 1971).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	The applicable tax rate departs from the benchmark tax rate.
Subject	Business - other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	This tax expenditure is estimated by multiplying the additional deduction claimed by credit unions with a factor that represents the difference between the federal general corporate tax rate of 15% and the preferential small business tax rate.
Projection method	Projections for this measure are derived under the assumption that the amount of deduction claimed will increase at the same rate as the average of taxable income and will be subject to applicable phase-out factors.
Number of beneficiaries	About 325 credit unions applied this special tax rate in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	15	10	S	–	–	–	–	–

Spouse or Common-Law Partner Credit

Description	A taxpayer supporting a spouse or common-law partner may be eligible for the non-refundable Spouse or Common-Law Partner Credit, the value of which is calculated by applying the lowest personal income tax rate to the credit amount. The credit amount is indexed to inflation. The credit amount is reduced dollar-for-dollar by the net income of the dependent spouse or common-law partner. The Government has tabled a Notice of Ways and Means Motion to introduce an income-tested supplement to the Spouse or Common-Law Partner Credit as of 2020, which is proposed to be gradually increased in steps exceeding inflation each year until 2023, at which time the maximum credit amount will be $15,000. Based on the proposed amendments, the maximum credit amount for 2020 would be $13,229, with the fully reduced amount being $12,298.
Tax	Personal income tax
Beneficiaries	Couples
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, paragraph 118(1)(a)
Implementation and recent history	• Introduced as part of the 1987 Tax Reform, effective for the 1988 and subsequent taxation years, to replace the previous married exemption. • Until 2007, the Spouse or Common-Law Partner Credit amount was less than the Basic Personal Amount, and was reduced dollar-for-dollar by the net income of the dependent spouse or common-law partner in excess of the income threshold applicable for the taxation year. • Budget 2007 introduced two changes to the Spouse or Common-Law Partner Credit: (i) the credit amount was set equal to the Basic Personal Amount; and (ii) the income threshold was eliminated, resulting in the credit amount being reduced dollar-for-dollar by the net income of the dependent spouse or common-law partner. These changes became effective in 2007. • In December 2019, the Government announced its intention to increase the Spouse or Common-Law Partner Credit to $15,000 by 2023. The proposed increase would be gradually implemented from 2020 to 2023 through annual increases in excess of inflation. The new, increased portion of the credit would be subject to an income test beginning at a level of individual net income equal to the fourth federal tax bracket threshold ($150,473 in 2020), and would be fully phased out by the fifth federal bracket threshold ($214,368 in 2020).
Objective – category	To recognize non-discretionary expenses (ability to pay)
Objective	This measure recognizes that a taxpayer whose spouse or common-law partner has little or no income has a reduced ability to pay tax relative to a single taxpayer with the same income (*Report of the Royal Commission on Taxation*, vol. 3, 1966).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 2.1 million individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,440	1,575	1,715	1,740	1,800	1,800	1,890	2,000

Student Loan Interest Credit

Description	Individuals can claim a non-refundable credit in respect of interest paid in the year or in the preceding five years on a student loan received for post-secondary education under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act* or similar provincial or territorial government programs. The value of the credit is calculated by applying the lowest personal income tax rate to the amount of interest paid.
Tax	Personal income tax
Beneficiaries	Students
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.62
Implementation and recent history	• Introduced in Budget 1998. Effective for the 1998 and subsequent taxation years. • Extended to Canada Apprentice Loans in Budget 2014.
Objective – category	To recognize education costs
Objective	This measure helps individuals manage their student debt loads by providing tax relief for interest payments on student loans and improving the Canada Student Loan Program to help borrowers facing financial difficulties (Budget 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues.
Subject	Education
CCOFOG 2014 code	70939 - Education - College education 70949 - Education - University education 70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 560,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	40	40	45	50	50	35	40	45

Surtax on the profits of tobacco manufacturers

Description	Tobacco manufacturers were subject to a surtax on their profits, equivalent to an additional income tax of 10.5% on Canadian tobacco manufacturing profits. This measure was a negative tax expenditure as the surtax resulted in more revenues than would otherwise be raised under the benchmark tax system. Budget 2017 announced the repeal of the surtax as of March 23, 2017.
Tax	Corporate income tax
Beneficiaries	Tobacco manufacturers
Type of measure	Surtax
Legal reference	*Income Tax Act*, Part II, section 182
Implementation and recent history	• Introduced in February 1994 as part of the National Action Plan to Combat Smuggling for a three-year period at a level equivalent to an additional income tax of 8.4% on Canadian tobacco manufacturing profits. • Announcement in November 1996 that the surtax would be extended for another three years from February 1997 to February 2000. • Announcement in November 1999 that the surtax would be made permanent, effective February 2000. • The surtax was increased to a level equivalent to an income tax of 10.5% on Canadian tobacco manufacturing profits, effective April 2001. • Following the review of federal tax expenditures, Budget 2017 announced that the tobacco surtax would be eliminated effective March 23, 2017, and tobacco excise duty rates would be adjusted in order to maintain the intended tax burden of the manufacturers' surtax on tobacco products.
Objective – category	To achieve a social objective
Objective	This measure was introduced as part of the National Action Plan to Combat Smuggling to reduce the windfall profits for the tobacco industry that resulted from the reduction in tobacco excise taxes that were implemented as part of this plan. The rate of surtax was increased in 2001 as part of the Government's comprehensive strategy to improve the health of Canadians by discouraging tobacco consumption (Department of Finance Canada news release 2001-039, April 5, 2001).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	The applicable tax rate departs from the benchmark tax rate.
Subject	Health
CCOFOG 2014 code	70761 - Health - Health not elsewhere classified - Health prevention programs (collective)
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The value of this measure is based on data on actual amounts of surtax paid.
Projection method	n/a
Number of beneficiaries	The number of corporations affected by this measure is not published in order to preserve taxpayer confidentiality.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Corporate income tax	X	X	X	–	–	–	–	–

Tax status of certain federal Crown corporations

Description	Under section 125 of the *Constitution Act*, 1867, Canada and the Provinces are immune from taxation. This immunity generally extends to federal Crown corporations that act as agents of the Crown. However, federal Crown corporations prescribed under the *Income Tax Regulations* that carry on substantial business activities, as well as their subsidiaries, are subject to federal corporate income tax. This gives rise to a negative tax expenditure. For agent Crown corporations, the applicable federal tax rate is increased by 10% (i.e., they do not benefit from the federal abatement) given that no provincial taxes apply. Prescribed non-agent Crown corporations are taxed at the regular applicable rate by both the federal and provincial governments.
Tax	Corporate income tax
Beneficiaries	Certain federal Crown corporations
Type of measure	Other
Legal reference	*Income Tax Act*, sections 27 and 124 and paragraphs 149(1)(d) to (d.4) *Income Tax Regulations*, section 7100
Implementation and recent history	• The taxation of prescribed federal Crown corporations was introduced in 1952. • The list of prescribed federal Crown corporations is reviewed and updated as required.
Objective – category	To ensure a neutral tax treatment across similar situations To support competitiveness
Objective	This measure is intended to ensure a level playing field between these corporations and similar businesses in the private sector.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	The measure imposes federal tax on prescribed federal Crown corporations that would otherwise be immune or exempt from income tax.
Subject	Business - other
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	Programs within the mandates of Global Affairs Canada, Public Services and Procurement Canada, and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T2 Corporation Income Tax Return
Estimation method	The value of this (negative) tax expenditure corresponds to the taxes paid by prescribed federal Crown corporations.
Projection method	n/a
Number of beneficiaries	The *Income Tax Regulations* currently prescribe 10 federal Crown corporations.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Corporate income tax	X	X	X	X	X	X	X	X

Tax treatment of active business income of foreign affiliates of Canadian corporations and deductibility of expenses incurred to invest in foreign affiliates

Description	The active business income of a foreign affiliate of a Canadian corporation is effectively exempt from tax in Canada, both when it is earned and when paid out as a dividend to the Canadian corporation, if the foreign affiliate is located in a country which has a tax treaty or tax information exchange agreement (TIEA) with Canada and has earned the income from a business carried on in such a country (referred to as "exempt surplus" treatment). In other situations the active business income of a foreign affiliate is generally taxable in Canada when paid out as a dividend to the Canadian corporation ("taxable surplus" treatment). Half of a dividend paid out of certain capital gains of a foreign affiliate is taxable in Canada, and half is exempt ("hybrid surplus" treatment). If the active business income is earned by a controlled foreign affiliate in a country with which Canada has no tax treaty and has not concluded a TIEA within five years of being asked by Canada to do so, then it is taxed to the Canadian corporation as it accrues (i.e., on a current basis as "foreign accrual property income"). Where active business income is taxable, relief is provided for foreign tax paid on that income. Interest and other expenses incurred by a Canadian corporation in respect of an investment in a foreign affiliate can generally be deducted in Canada, regardless of whether income from that investment is taxable in Canada, subject only to the general limitations on the deductibility of interest that are not specific to investments in foreign affiliates.
Tax	Corporate income tax
Beneficiaries	Corporations with foreign affiliates
Type of measure	Exemption; deduction
Legal reference	*Income Tax Act*, sections 91 and 113 and subsections 20(1), 93.1(1), 94.2(2) and 95(1) *Income Tax Regulations*, sections 5900-5902, 5905 and 5907
Implementation and recent history	• Most aspects of the current system were introduced as part of the 1972 Tax Reform and became effective as of 1976. • Budget 2007 added the provisions related to TIEAs, effective 2008. • The hybrid surplus provisions were added in 2014, effective retrospectively to August 2011.
Objective – category	To support competitiveness To prevent double taxation
Objective	The tax treatment of foreign active business income prevents international double taxation, supports the competitiveness of Canadian companies abroad, and assists Canada's policy on tax information exchange by giving an incentive to non-treaty countries to enter into TIEAs with Canada (*Proposals for Tax Reform*, 1969; Budget 2007).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	There are at least three possible benchmarks for taxing the active business income of foreign affiliates of Canadian corporations (see part I of this report, footnote 5). Under the benchmark where that income would be exempt, its taxation in Canada in certain circumstances would be a negative tax expenditure, while the deductibility of interest would be a positive tax expenditure. Under the benchmark where that income would be taxable when dividends are paid to the Canadian corporation, the exemption in some cases would be a positive tax expenditure, taxation of the income on an accrual basis in certain cases would be a negative tax expenditure, and the immediate deductibility of interest would be a positive tax expenditure. Under the benchmark where that income would be taxable in Canada as it accrues, the exemption of that income in some cases and the deferral of tax until the income is paid out as dividends in other cases would both be considered a positive tax expenditure.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	n/a
Estimation method	n/a
Projection method	n/a

Number of beneficiaries	No data is available.

Tax treatment of alimony and maintenance payments

Description	Spousal support payments (also called "alimony and maintenance payments") paid on a periodic basis under a written agreement or court order are deductible by the payer and included in the taxable income of the recipient.
Tax	Personal income tax
Beneficiaries	Former couples
Type of measure	Other
Legal reference	*Income Tax Act*, paragraph 56(1)(b) and subsection 60(b)
Implementation and recent history	• Budget 1944 made alimony and comparable payments deductible from income. • Budget 1958 extended the tax treatment of payments in support of a dependant to cases where no divorce or written separation agreement was made, so long as the payments are made under a court order.
Objective – category	To extend or modify the unit of taxation
Objective	This measure provides consistent tax treatment of alimony payments under a written agreement or court order.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure extends the unit of taxation.
Subject	Families and households
CCOFOG 2014 code	71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model. The value of this tax expenditure corresponds to the value of the deduction to the payer, less the tax collected from the recipient.
Projection method	T1 micro-simulation model
Number of beneficiaries	About 80,000 individuals reported having received alimony or maintenance payments in 2018, while about 60,000 individuals claimed a deduction.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	65	95	95	95	110	110	125	130

Tax treatment of Canada Pension Plan and Quebec Pension Plan contributions and benefits

Description	Contributions to the Canada Pension Plan/Quebec Pension Plan receive tax recognition for income tax purposes, consistent with the taxation of the benefits received. Employees receive a tax credit for their contributions, and employer contributions are not included in their incomes. Self-employed individuals also receive a tax credit for the employee portion of the contribution, as well as a deduction for the employer portion. For both employees and self-employed individuals, the value of the credit for contributions is calculated by applying the lowest personal income tax rate to the value of contributions (15% in 2020). A tax deduction is provided on employee contributions (and on the employee share of contributions by self-employed individuals) associated with the enhanced portion of the Canada Pension Plan and Quebec Pension Plan (contributions to the enhanced portion of the Canada Pension Plan and Quebec Pension Plan began in 2019).
Tax	Personal income tax
Beneficiaries	Employees and self-employed individuals
Type of measure	Exemption; credit, non-refundable; deduction
Legal reference	*Income Tax Act*, section 118.7 and paragraphs 56(1)(a), 60(1)(e) and (e.1)
Implementation and recent history	• Budget 1965 introduced a deduction for Canada Pension Plan contributions, effective for the 1965 and subsequent taxation years. This deduction was replaced by a non-refundable tax credit as part of the 1987 Tax Reform. • Budget 2016 introduced the enhancement of the Canada Pension Plan, which is being phased in from 2019 to 2025. Employee contributions to the enhanced portion of the Canada Pension Plan are deductible. • Budget 2018 introduced an amendment to provide a tax deduction for employee contributions to the enhanced portion of the Quebec Pension Plan (the enhanced portion of the Quebec Pension Plan is being phased in from 2019 to 2025).
Objective – category	Other
Objective	These measures ensure a consistent tax treatment of Canada Pension Plan/Quebec Pension Plan contributions and benefits.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	These measures are considered part of the benchmark tax system, and therefore are not tax expenditures.
Subject	Employment Retirement
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 71029 - Social protection - Old age
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandate of Employment and Social Development Canada also support retirement income security. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 16.6 million individuals claimed the credit for Canada Pension Plan or Quebec Pension Plan contributions on employment income in 2018, while about 1.7 million claimed the credit for these contributions on self-employment or other income.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Tax recognition for employee-paid contributions	3,715	3,815	4,015	4,200	4,580	4,460	5,095	5,880
Non-taxation of employer-paid contributions	6,095	5,795	6,060	6,415	6,935	6,755	7,610	8,545
Total – personal income tax	9,810	9,610	10,075	10,615	11,515	11,215	12,710	14,425

Tax treatment of Employment Insurance and Quebec Parental Insurance Plan premiums and benefits

Description	A tax credit is provided for Employment Insurance and Quebec Parental Insurance Plan premiums paid by employees, while premiums paid by employers are not included in employees' incomes. The recognition for income tax purposes of employee and employer premiums is consistent with the taxation of the benefits received. The value of the credit for employee premiums is calculated by applying the lowest personal income tax rate to the premiums.
Tax	Personal income tax
Beneficiaries	Employees and self-employed individuals
Type of measure	Exemption; credit, non-refundable
Legal reference	*Income Tax Act*, section 118.7, subparagraphs 56(1)(a)(iv) and (vii) and paragraph 56(1)(r)
Implementation and recent history	• Budget 1971 introduced a deduction for employee premiums. This deduction was replaced by a non-refundable tax credit as part of the 1987 Tax Reform. • The credit was amended in 2010 to allow for a credit in respect of Quebec Parental Insurance Plan premiums, effective for 2006 and subsequent years, and to allow for a credit in respect of premiums paid by self-employed individuals.
Objective – category	Other
Objective	These measures ensure a consistent tax treatment of Employment Insurance and Quebec Parental Insurance Plan premiums and benefits.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	These measures are considered part of the benchmark tax system, and therefore are not tax expenditures.
Subject	Employment Social
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs 71049 - Social protection - Family and children
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	In 2018, about 16 million individuals claimed the credit for Employment Insurance contributions on employment income, while about 8,000 individuals claimed this credit on self-employment or other eligible earnings. About 3.9 million individuals claimed the credit for Quebec Parental Insurance Plan contributions on employment income earned in the province of Quebec, while about 126,000 individuals claimed the credit on income earned outside Quebec. About 467,000 individuals claimed the Quebec Parental Insurance Plan credit on self-employment or other eligible income.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Credit for employee-paid premiums	1,330	1,360	1,280	1,365	1,380	1,250	1,345	1,440
Non-taxation of employer-paid premiums	2,890	2,855	2,690	2,875	2,930	2,680	2,895	3,095
Total – personal income tax	4,220	4,215	3,970	4,240	4,315	3,930	4,240	4,535

Tax treatment of farm savings accounts (AgriInvest and Agri-Québec)

Description	AgriInvest is a producer savings account that provides flexible coverage to farmers for small income declines (first 15% of income) and supports investments to mitigate risks and improve market income. Generally, producers may make a deposit into an AgriInvest account each year, and receive a matching contribution from the federal and provincial governments. Interest income earned in AgriInvest accounts and government contributions to them are not taxable until the year of withdrawal. Since 2011, the province of Quebec has supplemented AgriInvest with the Agri-Québec program, an agricultural income stabilization account program that is very similar to the AgriInvest program. The Agri-Québec program is accorded the same income tax treatment as is provided to the AgriInvest program.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Farming businesses
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsections 12(10.2) and 248(1)
Implementation and recent history	• Introduced in Budget 2007. Effective for the 2007 and subsequent taxation years. A similar tax treatment was previously granted to accounts established under the Net Income Stabilization Account program. This program was introduced in 1991 and terminated in 2009. • Budget 2011 extended the AgriInvest tax treatment to the Agri-Québec program, effective for the 2011 and subsequent taxation years.
Objective – category	To achieve an economic objective - other To encourage savings
Objective	This measure is provided in support of the AgriInvest program, which is designed to encourage farmers, through government-matched contributions, to set aside earnings in order to provide coverage against income declines.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Agriculture and Agri-Food Canada
Estimation method	Personal income tax (unincorporated farms): The value of this tax expenditure is estimated on a cash-flow basis and corresponds to the taxes forgone in the year on the government contributions to and interest income earned in the farm savings accounts, minus the taxes paid on amounts withdrawn from the accounts in the year. This amount is multiplied by the share of farms that are unincorporated. Calculations are based on a marginal tax rate for unincorporated farm income as estimated by the Department of Finance Canada. The breakdown of the estimates between individuals and trusts is not available. Corporate income tax (incorporated farms): The estimated amount described above is multiplied by the share of farms that are incorporated and then by the average tax rate faced by farms, based on T2 tax return data. No estimate is available for Agri-Québec.
Projection method	Projections for 2020 through 2022 are not provided as the value of this measure cannot be reliably forecast for these years.
Number of beneficiaries	As of December 2019, about 100,000 AgriInvest accounts were registered.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
AgriInvest program								
Personal income tax	3	15	5	4	-1	n.a.	n.a.	n.a.
Corporate income tax	S	2	1	1	S	n.a.	n.a.	n.a.
Total	3	15	5	5	-1	n.a.	n.a.	n.a.
Agri-Québec program								
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total								
Personal income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Corporate income tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Tax treatment of investment income from life insurance policies

Description	A life insurance policyholder is not subject to annual taxation on the investment income earned in a life insurance policy as long as the policy qualifies as an exempt life insurance policy. Instead, life insurance companies pay a 15% tax (known as the Investment Income Tax) on the income they earn on investments that they hold to meet their liabilities under the life insurance policy. This treatment results in a tax deferral and tax rate reduction to the extent that the Investment Income Tax is less than the income tax that the policyholders would pay if they were taxed on the investment income as this income accrues. In practice, almost all life insurance policies with a savings element are structured by the life insurance industry to qualify as exempt policies, with the result that the Investment Income Tax system is the *de facto* system.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Life insurance policyholders
Type of measure	Preferential tax rate
Legal reference	*Income Tax Act*, subsections 12.2(9) and 211.1(1) and (2)
Implementation and recent history	• Prior to 1968, the accumulated savings within a life insurance policy were not taxed. • To reduce the tax preference given to savings accumulated in a life insurance policy, the Investment Income Tax was introduced in 1968, along with additional rules to tax on an accrual basis the income earned in non-exempt life insurance policies. • The Investment Income Tax was repealed in 1978, reintroduced in 1987, and modified and considerably simplified in 1990.
Objective – category	To reduce administration or compliance costs
Objective	This measure simplifies the taxation of investment income earned on life insurance policies.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	The applicable tax rate departs from the benchmark tax rate.
Subject	Savings and investment
CCOFOG 2014 code	71029 - Social protection - Old age
Other relevant government programs	n/a
Source of data	T2 Corporation Income Tax Return, industry survey statistics
Estimation method	The tax expenditure is estimated as the difference between the annual tax that would be payable by policyholders and the Investment Income Tax paid by life insurance companies. The breakdown of the estimated value by type of policyholders is not available.
Projection method	Projected growth in the Investment Income Tax is based on changes to average reserves and long-term bond rates.
Number of beneficiaries	According to the Canadian Health and Life Insurance Association, about 22 million individuals own life insurance.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal and corporate income tax	220	205	225	215	230	215	210	225

Taxation of capital gains upon realization

Description	In general, capital gains are taxed on a realization basis, upon the disposition of property. This results in a tax expenditure because, under the benchmark tax system, capital gains (net of capital losses) would be included in income as they accrue.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	Individuals and corporations
Type of measure	Timing preference
Legal reference	*Income Tax Act*, subsection 40(1)
Implementation and recent history	• Introduced in Budget 1971. Effective for the 1972 and subsequent taxation years.
Objective – category	To reduce administration or compliance costs
Objective	This measure recognizes that, in many cases, it is difficult to estimate with accuracy the value of unsold assets, and that taxing the accrued gains on assets that have not been sold would be administratively complex and could create significant liquidity problems for taxpayers (*Report of the Royal Commission on Taxation*, vol. 3, 1966).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure permits the deferral of the recognition of income or gains for income tax purposes.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Tax-free amount for emergency services volunteers

Description	A volunteer emergency service provider can claim an exemption of up to $1,000 for amounts received from a government, municipality or other public authority for work as a volunteer ambulance technician, firefighter, or search, rescue or other type of emergency worker. If the volunteer emergency service provider claims the $1,000 exemption, he or she cannot claim the Volunteer Firefighters Tax Credit or Search and Rescue Volunteers Tax Credit in respect of the emergency work.
Tax	Personal income tax
Beneficiaries	Providers of volunteer emergency services
Type of measure	Exemption
Legal reference	*Income Tax Act*, subsection 81(4)
Implementation and recent history	• Introduced in Budget 1961. Retroactive to the 1958 taxation year and effective in subsequent taxation years. The exemption was initially limited to volunteer firefighters. • Budget 1998 increased the exemption for volunteer firefighters to $1,000 from $500 and extended the exemption to other emergency services volunteers.
Objective – category	To achieve a social objective
Objective	This measure assists small and rural communities, which are often unable to maintain full-time emergency staff and depend on the services of volunteers. The measure supports emergency services volunteers who give freely of their time and expertise, often at considerable risk to themselves, in the service of their community (Budget 1998).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Social
CCOFOG 2014 code	70329 - Public order and safety - Fire protection services 70369 - Public order and safety - Public order and safety not elsewhere classified
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T4 Statement of Remuneration Paid
Estimation method	The value of this measure is estimated by first excluding taxpayers who claim the Volunteer Firefighters Tax Credit rather than the exemption. An estimate of forgone tax revenue is calculated by multiplying the total number of individuals assumed to claim the exemption by the average amount claimed in the year, and by the marginal tax rate of individuals claiming the Volunteer Firefighters Tax Credit over the estimation period.
Projection method	The projection assumes 0.68% average annual growth in the number of emergency services volunteers claiming the exemption.
Number of beneficiaries	It is estimated that about 18,000 individuals claimed this exemption in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	3	3	3	3	3	3	3	3

Tax-Free Savings Account

Description	The Tax-Free Savings Account (TFSA) is a general-purpose savings account that allows individuals to earn tax-free investment income. Individuals 18 years of age and older acquire TFSA contribution room each year, with unused room being carried forward. The TFSA annual contribution limit was $6,000 for 2020. TFSA contributions are not deductible, but investment income earned in the account and amounts withdrawn are not included in income for tax purposes or taken into account in determining eligibility for federal income-tested benefits and credits. Withdrawals also create contribution room in the following year for future savings.
Tax	Personal income tax
Beneficiaries	Individuals
Type of measure	Exemption
Legal reference	*Income Tax Act*, sections 146.2 and 207.01
Implementation and recent history	• Introduced in Budget 2008. Effective for 2009 and subsequent years. • The TFSA annual contribution limit was initially $5,000 per individual, indexed to inflation in $500 increments. The limit increased to $5,500 on January 1, 2013 due to indexation. • Budget 2015 increased the TFSA annual contribution limit to $10,000, not indexed to inflation, for 2015 and subsequent taxation years. • On December 7, 2015, the Government announced that the TFSA annual contribution limit would be returned to $5,500 and that indexation would be reinstated, effective for 2016.
Objective – category	To encourage savings
Objective	This measure improves incentives for Canadians to save by reducing taxes on savings (Budget 2008).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	This measure exempts from tax income or gains that are included in a comprehensive income tax base.
Subject	Savings and investment
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Canada Revenue Agency, Tax-Free Savings Account statistics
Estimation method	The value of this tax expenditure corresponds to the tax revenues forgone on the investment income earned in TFSAs. It is calculated by estimating how much of the total investment income earned in TFSAs is interest, dividends or capital gains, and multiplying these amounts by estimates of the average marginal tax rates applicable to TFSA holders (accounting for the dividend gross-up and tax credit and for the partial inclusion of capital gains). Interest income and dividend income are calculated based on estimated shares of TFSA assets that are fixed income and equity investments and on historical interest rates and dividend yields. Capital gains (or losses) are determined residually by subtracting estimated interest and dividend income from the total investment income.
Projection method	The value of this measure is projected based on the expected growth of net contributions and investment income earned in the accounts.
Number of beneficiaries	About 14.7 million individuals had a TFSA at the end of 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	635	810	1,075	870	1,060	910	935	1,180

Teacher and Early Childhood Educator School Supply Tax Credit

Description	Teachers and early childhood educators may claim a 15% refundable tax credit based on an amount of up to $1,000 in expenditures made in a taxation year for eligible supplies. Eligible supplies must be purchased for use in a school or in a regulated child care facility for the purpose of teaching or otherwise enhancing students' learning in the classroom or learning environment. Eligible supplies include the following durable goods: games and puzzles; supplementary books for classrooms; educational support software; and containers (such as plastic boxes or banker boxes for themes and kits). Eligible supplies also include consumable goods, such as construction paper for activities, flashcards or activity centres. This measure applies to supplies acquired on or after January 1, 2016.
Tax	Personal income tax
Beneficiaries	Teachers and early childhood educators
Type of measure	Credit, refundable
Legal reference	*Income Tax Act*, section 122.9
Implementation and recent history	• Introduced in Budget 2016, effective for the 2016 and subsequent taxation years.
Objective – category	To recognize expenses incurred to earn employment income
Objective	This measure provides tax recognition for costs that educators often incur at their own expense for supplies that enrich the learning environment (Budget 2016).
Category	Refundable tax credit
Reason why this measure is not part of benchmark tax system	This measure is classified as a transfer payment for government accounting purposes, and therefore is not considered to be a tax expenditure.
Subject	Employment
CCOFOG 2014 code	70412 - Economic affairs - General economic, commercial, and labor affairs - General labor affairs
Other relevant government programs	Programs within the mandate of Employment and Social Development Canada also support employment. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Labour Force Survey
Estimation method	n/a
Projection method	Projections are based on estimates of total amounts to be claimed multiplied by the 15% credit rate. Total amounts to be claimed are estimated on the basis of the eligible population and anticipated out-of-pocket school supply expenses. The number of eligible educators is projected to grow in line with Employment and Social Development Canada's Canadian Occupational Projection System for secondary and elementary school teachers and counsellors.
Number of beneficiaries	More than 65,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Personal income tax	–	3	4	5	5	5	5	5

Textbook Tax Credit

Description	A student eligible for the Education Tax Credit could claim a non-refundable tax credit at the lowest personal income tax rate for post-secondary textbook costs. For full-time students the amount was $65 per month of study, and for part-time students the amount was $20 per month. Unused amounts could be transferred to a supporting individual or carried forward to a subsequent taxation year. Budget 2016 announced the elimination of this measure as of 2017. Amounts carried forward from prior years may still be claimed.
Tax	Personal income tax
Beneficiaries	Students and individuals supporting them
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, subsection 118.6(2.1)
Implementation and recent history	• Introduced in Budget 2006. Effective for the 2006 and subsequent taxation years. • Budget 2016 announced the elimination of this measure as of 2017.
Objective – category	To recognize education costs
Objective	This measure provided better tax recognition for the cost of textbooks for post-secondary students (Budget 2006).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. This measure extended the unit of taxation. The tax benefit from this measure could be obtained in a taxation year other than the year during which it accrued.
Subject	Education
CCOFOG 2014 code	70939 - Education - College education 70949 - Education - University education 70959 - Education - Education not definable by level
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 2.3 million individuals earned this credit in 2016.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	120	115	65	55	40	30	20	5

Transfer of income tax points to provinces

Description	The federal government transfers 14.85851 points of personal income tax and one point of corporate income tax to provincial and territorial governments as part of existing federal-provincial fiscal arrangements.
Tax	Personal (including trusts) and corporate income tax
Beneficiaries	n/a
Type of measure	Other
Legal reference	*Federal-Provincial Fiscal Arrangements Act*, Part V.1
Implementation and recent history	• In 1967, the federal government transferred four points of personal income tax to all provinces in place of certain direct cash transfers under the then-existing cost-shared program for post-secondary education. • In 1977, the federal government agreed to transfer an additional 9.143 points of personal income tax and one point of corporate income tax to all provinces and territories as part of the Established Programs Financing for health and post-secondary education. • The 1977 reform involved a reduction of federal tax by 9.143% and a concurrent increase in provincial rates. This is the equivalent of 14.85851 tax points.
Objective – category	To implement intergovernmental tax arrangements
Objective	This measure reflects arrangements with provincial and territorial governments that allowed them to receive part of the federal program contribution for health and social programs in the form of tax abatements.
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	This measure is considered part of the benchmark tax system, and therefore is not a tax expenditure.
Subject	Intergovernmental tax arrangements
CCOFOG 2014 code	n/a
Other relevant government programs	n/a
Source of data	Canada Revenue Agency, Tax Sharing Statements
Estimation method	The value of the tax point transfers for personal income tax is estimated by multiplying Basic Federal Tax by 0.1485851. For corporate income tax, it is estimated by multiplying corporate taxable income by 0.01.
Projection method	Projections for this measure are based on forecasted growth of Basic Federal Tax for personal income tax and corporate taxable income for corporate income tax.
Number of beneficiaries	n/a

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax								
Individuals	22,060	21,265	22,895	24,425	25,185	25,295	26,445	27,865
Trusts	540	615	830	525	940	800	835	880
Total – personal income tax	22,600	21,875	23,725	24,945	26,125	26,095	27,280	28,750
Corporate income tax	2,850	3,000	3,320	3,650	3,835	3,740	3,830	4,275
Total	25,450	24,880	27,045	28,595	29,960	29,830	31,110	33,025

Travellers' exemption

Description	Canadian travellers are eligible for limited GST relief on goods they bring back to Canada. The relief that is provided depends on the length of absence: returning residents can bring back up to $200 in goods without paying the GST if they were outside the country for between 24 and 48 hours, and up to $800 in goods if they were away for more than 48 hours. There is no relief for same-day travel. This measure is referred to as an "exemption", based on customs administrative terminology. However, the imported goods are not exempt supplies as defined under the *Excise Tax Act*, and unlike exempt supplies, no GST is embedded in the cost of these goods.
Tax	Goods and Services Tax
Beneficiaries	Canadian travellers returning to Canada
Type of measure	Other
Legal reference	Section 1 of Schedule VII to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • Budget 2012 announced the following increases in the travellers' exemption limits for lengths of absence greater than 24 hours, effective June 1, 2012: o From $50 to $200 for lengths of absence between 24 and 48 hours; o From $400 to $800 for lengths of absence between 48 hours and 7 days; o From $750 to $800 for lengths of absence over 7 days.
Objective – category	To reduce administration or compliance costs
Objective	This measure expedites customs clearance for returning Canadian consumers, making cross-border business and personal travel more convenient for Canadians (Department of Finance Canada news release 2012-061, June 1, 2012).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	The non-taxation of goods that will be consumed in Canada is a deviation from a broadly defined value-added tax base.
Subject	International
CCOFOG 2014 code	70499 - Economic affairs - Economic affairs not elsewhere classified
Other relevant government programs	n/a
Source of data	Statistics Canada, Supply and Use Tables Canada Border Services Agency data
Estimation method	The cost of this measure is calculated by applying the GST rate to Statistics Canada's estimates of expenditures by Canadians abroad on goods brought back to Canada less the GST collected on such goods.
Projection method	The cost of this measure is projected to grow in line with non-merchandise travel imports.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	300	300	305	305	325	80	100	245

Tuition Tax Credit

Description	A student can claim a non-refundable tax credit at the lowest personal income tax rate on tuition fees paid to designated educational institutions where the total for such fees exceeds $100. The student must claim the credit first on his or her own return. If the student does not need to use all of the credit, the unused amount may be transferred to a supporting individual or carried forward to a subsequent taxation year.
Tax	Personal income tax
Beneficiaries	Students and individuals supporting them
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.5
Implementation and recent history	• Introduced as a deduction in Budget 1960. Effective for the 1961 and subsequent taxation years. • Replaced by a non-refundable tax credit and made transferable to spouses, parents or grandparents as part of the 1987 Tax Reform. • Budget 1997 introduced a provision allowing unused tuition amounts to be carried forward for use in a subsequent year. • Budget 2011 made occupational, trade or professional examinations eligible for the Tuition Tax Credit. The 13-week minimum duration requirement applying to studies undertaken by Canadians at foreign universities was also reduced to 3 consecutive weeks. • Budget 2017 expanded the range of courses eligible for the credit to include occupational skills courses that are undertaken at a post-secondary institution in Canada, effective for the 2017 and subsequent taxation years.
Objective – category	To recognize education costs
Objective	This measure provides students with tax relief by recognizing the costs of enrolling in qualifying programs or courses (Budget 1960).
Category	Structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system. This measure extends the unit of taxation. The tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues.
Subject	Education
CCOFOG 2014 code	70939 - Education - College education 70949 - Education - University education
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research and Indigenous Services Canada also support objectives related to education and training. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 2.5 million individuals earned this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	1,230	1,315	1,455	1,630	1,755	2,010	1,795	1,985

Volunteer Firefighters Tax Credit

Description	Individuals who performed at least 200 hours of eligible volunteer firefighting services during a year can claim the non-refundable Volunteer Firefighters Tax Credit. The value of the credit is calculated by applying the lowest personal income tax rate to a credit amount of $3,000. An individual who performs both eligible volunteer firefighting services and eligible volunteer search and rescue services for a total of at least 200 hours in the year can claim either the Volunteer Firefighters Tax Credit or the Search and Rescue Volunteers Tax Credit. An individual who claims the Volunteer Firefighters Tax Credit is ineligible for the exemption from income that would otherwise apply to up to $1,000 of income (honoraria) received in the year for being a volunteer firefighter (see the measure "Tax-free amount for emergency services volunteers").
Tax	Personal income tax
Beneficiaries	Volunteer firefighters
Type of measure	Credit, non-refundable
Legal reference	*Income Tax Act*, section 118.06
Implementation and recent history	• Introduced in Budget 2011. Effective for the 2011 and subsequent taxation years. • The Volunteer Firefighters Tax Credit was extended to recognize hours of eligible search and rescue volunteer service in Budget 2014.
Objective – category	To achieve a social objective
Objective	This measure recognizes the important role played by volunteer firefighters in contributing to the security and safety of Canadians (Budget 2011).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Tax credits are treated as deviations from the benchmark tax system.
Subject	Social
CCOFOG 2014 code	70329 - Public order and safety - Fire protection services
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	T1 Income Tax and Benefit Return
Estimation method	T1 micro-simulation model
Projection method	T1 micro-simulation model
Number of beneficiaries	About 44,000 individuals claimed this credit in 2018.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Personal income tax	20	20	20	20	15	20	20	20

Zero-rating of agricultural and fish products and purchases

Description	Certain agricultural and fish products are zero-rated throughout the production chain, including farm livestock, poultry, bees, grains and seeds for planting or feed, hops, barley, flax seed, straw, sugar cane, sugar beets and fertilizer. Prescribed agricultural and fishing equipment, such as tractors and fishing nets, are also zero-rated. This measure relates to the zero-rating of basic groceries.
Tax	Goods and Services Tax
Beneficiaries	Farming and fishing businesses
Type of measure	Zero-rating
Legal reference	Part IV of Schedule VI to the *Excise Tax Act* *Agriculture and Fishing Property (GST/HST) Regulations*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective To provide income support or tax relief
Objective	This measure is intended to improve the cash-flow position of farming and fishing businesses (*Goods and Services Tax*, December 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating inputs is a deviation from the multi-stage design of the GST, whereby businesses pay tax on their inputs and then claim input tax credits in respect of inputs used in making taxable (including zero-rated) supplies.
Subject	Business - farming and fishing
CCOFOG 2014 code	70421 - Economic affairs - Agriculture, forestry, fishing, and hunting - Agriculture 70423 - Economic affairs - Agriculture, forestry, fishing, and hunting - Fishing and hunting
Other relevant government programs	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	No data is available.
Estimation method	No estimate is available.
Projection method	No projection is available.
Number of beneficiaries	No data is available.

Zero-rating of basic groceries

Description	Basic groceries, which include the majority of foodstuffs for preparation and consumption at home, are zero-rated under the GST. A specified list of goods, such as soft drinks, candies, confections and alcoholic beverages, are not staple grocery items and are therefore taxable.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Zero-rating
Legal reference	Part III of Schedule VI to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	The zero-rating of basic groceries reflects the widely held view of Canadians that, as a general principle, basic foodstuffs should not be taxed (*Goods and Services Tax: Technical Paper*, August 1989).
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating is a deviation from a broadly defined value-added tax base.
Subject	Social
CCOFOG 2014 code	n/a
Other relevant government programs	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	4,260	4,370	4,540	4,685	4,860	5,355	5,300	5,330

Zero-rating of face masks and face shields

Description	Face masks (medical and non-medical grade) and face shields designed for human use that meet certain specifications (e.g., cover the nose, mouth and eyes) and that are for use in preventing the transmission of infectious agents, such as respiratory viruses, are zero-rated under the GST.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Zero-rating
Legal reference	Not yet legislated (as of December 31st, 2020)
Implementation and recent history	• Proposed as part of the November 30, 2020 *Fall Economic Statement*. This measure would apply to supplies of these items made after December 6, 2020, and is proposed to only be in effect until their use is no longer broadly recommended for the COVID-19 pandemic.
Objective – category	To achieve a social objective
Objective	This measure provides tax relief to households and other purchasers to support public health during the COVID-19 pandemic.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating is a deviation from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	70719 - Health - Medical products, appliances, and equipment - Medical products, appliances, and equipment not elsewhere classified
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables Canada Border Services Agency data
Estimation method	The cost of this measure corresponds to the tax on the estimated value of face masks (medical and non-medical grade) and face shields that would otherwise be taxable.
Projection method	Projections for this measure are based on the anticipated demand for face masks (medical and non-medical grade) and face shields.
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	–	–	–	–	–	3	75	20

Note: The total cost of this tax expenditure is slightly different than that presented in the 2020 *Fall Economic Statement* because of rounding.

Zero-rating of feminine hygiene products

Description	Sanitary napkins, tampons, sanitary belts, menstrual cups and other similar products that are marketed exclusively for feminine hygiene purposes are zero-rated.
Tax	Goods and Services Tax
Beneficiaries	Households
Type of measure	Zero-rating
Legal reference	Part II.1 of Schedule VI to the *Excise Tax Act*
Implementation and recent history	• Budget 2016 confirmed and implemented a previous Notice of Ways and Means Motion tabled in Parliament on May 28, 2015. The relief was effective in respect of supplies made on or after July 1, 2015.
Objective – category	To provide income support or tax relief
Objective	This measure provides tax relief to households.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating is a deviation from a broadly defined value-added tax base.
Subject	Families and households
CCOFOG 2014 code	n/a
Other relevant government programs	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	15	40	40	40	45	45	45	45

Zero-rating of medical and assistive devices

Description	A wide range of medical and assistive devices are zero-rated under the GST, including wheelchairs, medical and surgical prostheses, hearing and speaking aids, prescription eyeglasses and various diabetic supplies. Certain devices are zero-rated only if provided on the written order of a physician, physiotherapist, occupational therapist or registered nurse. Certain devices are zero-rated only when for use by a final consumer, but others are zero-rated whether the user is the final consumer or a health care provider.
Tax	Goods and Services Tax
Beneficiaries	Individuals with medical conditions or disabilities and health care providers
Type of measure	Zero-rating
Legal reference	Part II of Schedule VI to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991. • The list of zero-rated devices is periodically expanded and amended. Most recently, Budget 2016 announced that insulin pens, insulin pen needles, and intermittent urinary catheters would be zero-rated.
Objective – category	To achieve a social objective
Objective	This measure helps to preserve the affordability of these supplies.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating is a deviation from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	70719 - Health - Medical products, appliances, and equipment - Medical products, appliances, and equipment not elsewhere classified
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	2015	2016	2017	2018	2019 (P)	2020 (P)	2021 (P)	2022 (P)
Goods and Services Tax	400	430	455	475	490	465	495	525

Zero-rating of prescription drugs

Description	The following are zero-rated under the GST: • drugs that are controlled substances for which a prescription is required; • drugs that have been prescribed by a recognized health care practitioner; • certain drugs that do not require a prescription but that are used to treat life-threatening conditions; and • the service of dispensing a zero-rated drug. Drugs labelled or supplied for veterinary use are not zero-rated.
Tax	Goods and Services Tax
Beneficiaries	Individuals with medical conditions
Type of measure	Zero-rating
Legal reference	Part I of Schedule VI to the *Excise Tax Act*
Implementation and recent history	• This measure has been in effect since the inception of the GST in 1991.
Objective – category	To achieve a social objective
Objective	This measure helps to preserve the affordability of these supplies.
Category	Non-structural tax measure
Reason why this measure is not part of benchmark tax system	Zero-rating is a deviation from a broadly defined value-added tax base.
Subject	Health
CCOFOG 2014 code	70711 - Health - Medical products, appliances, and equipment - Pharmaceutical products
Other relevant government programs	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. Additional information on the relevant Government programs is provided in the table at the end of Part 3.
Source of data	Statistics Canada, Supply and Use Tables and National Income and Expenditure Accounts
Estimation method	Goods and Services Tax model
Projection method	Goods and Services Tax model
Number of beneficiaries	No data is available.

Cost Information:

Millions of dollars	**2015**	**2016**	**2017**	**2018**	**2019 (P)**	**2020 (P)**	**2021 (P)**	**2022 (P)**
Goods and Services Tax	810	825	850	880	900	915	940	980

Table
Additional Information on Relevant Government Programs by Subject

Subject	
Arts and culture	Programs within the mandate of Canadian Heritage also support arts and culture. These include programs such as the Canada Arts Presentation Fund, the Canada Arts Training Fund and the Canada Music Fund. More information on these programs can be found in the Departmental Plans of Canadian Heritage.
Business – farming and fishing	Programs within the mandates of Agriculture and Agri-Food Canada and Fisheries and Oceans Canada also support the farming and fishing sectors. These include programs such as the AgriStability, AgriInvest and AgriInsurance programs as well as the Catch Certification Program. More information on these programs can be found in the Departmental Plans of these organizations.
Business – natural resources	Programs within the mandate of Natural Resources Canada also support the natural resource sector. These include programs such as the Indigenous Forestry Initiative, the Investments in Forest Industry Transformation program, the Targeted Geoscience Initiative program, and the Green Mining Innovation initiatives. More information on these programs can be found in the Departmental Plans of Natural Resources Canada.
Business – small businesses	Programs within the mandate of Innovation, Science and Economic Development Canada also support small businesses. These include programs such as the Canada Small Business Financing Program, Innovative Solutions Canada, BizPal and Canada Business Network. More information on these programs can be found in the Departmental Plans of Innovation, Science and Economic Development Canada. The Business Development Bank of Canada, a federal Crown corporation, also provides financing and consulting services to small and medium-sized enterprises.
Business – research and development	Programs within the mandates of Innovation, Science and Economic Development Canada, the National Research Council Canada and the federal granting councils also support research and development. These include programs such as the Strategic Innovation Fund, Industrial Research Assistance Program, and Industrial Research Chairs. More information on these programs can be found in the Departmental Plans of these organizations.
Business – other	Programs within the mandates of Global Affairs Canada and the regional development agencies (among other federal organizations) also offer support to Canadian businesses in various manners. These include programs such as the Canadian Trade Commissioner Service and the CanExport program at Global Affairs Canada, and the Regional Economic Growth Through Innovation program at each regional development agency across the country. More information on these programs can be found in the Departmental Plans of these organizations. Export Development Canada and the Canadian Commercial Corporation, two federal Crown corporations, also have mandates of facilitating and promoting international trade, notably by providing financing, market expertise and other services to Canadian businesses.
Canada's COVID-19 Economic Response Plan	Many federal programs were introduced to support Canadians and businesses facing hardship as a result of the COVID-19 outbreak. Details on these programs can be found at: www.canada.ca/en/department-finance/economic-response-plan.html
Donations, gifts, charities and non-profit organizations	Many federal government entities provide direct funding to registered charities, non-profit organizations and international development associations through various programs.

Subject	
Education	Programs within the mandates of Employment and Social Development Canada, the Social Sciences and Humanities Research Council, the Natural Sciences and Engineering Research Council, the Canadian Institutes of Health Research, and Indigenous Services Canada also support objectives related to education and training. These include programs such as the Canada Student Loan Program and Canada Education Savings Grant, the Apprenticeship Incentive Grant and Apprenticeship Completion Grant, and the Canada Graduate Scholarships program. More information on these programs can be found in the Departmental Plans of these organizations. The federal government also provides funding to provinces and territories in support of post-secondary education through the Canada Social Transfer—see the Departmental Plans of the Department of Finance Canada.
Employment	Programs within the mandate of Employment and Social Development Canada also support employment. These include programs such as the Employment Insurance program, the Labour Market Development Agreements, the Workforce Development Agreements, the Federal Workers' Compensation Service, the Youth Employment Strategy, the Indigenous Skills and Employment Training Program, and the Foreign Credential Recognition Program. More information on these programs can be found in the Departmental Plans of Employment and Social Development Canada.
Environment	Programs within the mandates of Environment and Climate Change Canada, the Impact Assessment Agency of Canada, the Parks Canada Agency, Natural Resources Canada and Infrastructure Canada also support environment-related objectives. These include programs related to combatting climate change, such as the Low Carbon Economy Fund, the Energy Innovation Program and green infrastructure investments as well as supporting sustainable ecosystems and biodiversity, the Clean Growth Program and the Marine Renewable Energy Enabling Measures Program. More information on these programs can be found in the Departmental Plans of these organizations.
Families and households	Programs within the mandates of Employment and Social Development Canada and Indigenous Services Canada also support Canadian families and households. These include programs such as Employment Insurance maternity and parental benefits, investments to support early learning and child care, and the Income Assistance Program and Assisted Living Program that support First Nations on reserve. More information on these programs can be found in the Departmental Plans of these organizations.
Health	Programs within the mandates of Health Canada, the Canadian Food Inspection Agency, the Canadian Institutes of Health Research, Indigenous Services Canada, the Public Health Agency of Canada and Veterans Affairs Canada also support health-related objectives. These include programs such as the Health System Priorities program, the Medical Devices program, the Federal Tobacco Control Strategy, the Healthy Child Development program, and the First Nations and Inuit Primary Health Care program. More information on these programs can be found in the Departmental Plans of these organizations. The federal government also provides long-term predictable funding for health care to provinces and territories through the Canada Health Transfer—see the Departmental Plans of the Department of Finance Canada.
Housing	Programs within the mandate of Canada Mortgage and Housing Corporation are intended to promote the construction, repair and renewal of affordable housing – currently under the umbrella of the National Housing Strategy. The Housing program of Indigenous Services Canada, and related programs at Crown-Indigenous Relations and Northern Affairs Canada, also pursue the goal of increasing the supply of safe and affordable housing to First Nations, Inuit and Métis. More information on these programs can be found in the annual report of Canada Mortgage and Housing Corporation and Departmental Plans of Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada.

Subject	
Income support	Programs within the mandates of Employment and Social Development Canada and Veterans Affairs Canada also support income security. These include programs such as the Canada Pension Plan Disability and Survivor benefits, the Federal Workers' Compensation Service and the Disability Award program for veterans. More information on these programs can be found in the Departmental Plans of these organizations.
Retirement	Programs within the mandate of Employment and Social Development Canada also support retirement income security. These include the Canada Pension Plan as well as the Old Age Security program. More information on these programs can be found in the Departmental Plans of Employment and Social Development Canada.
Social	Programs within the mandates of Canadian Heritage, Immigration, Refugees and Citizenship Canada, Transport Canada and Public Safety Canada (among other departments) also support various other social objectives. These include programs such as the Development of Official-Language Communities program, the Settlement program, the Transportation Infrastructure program and programs in support of emergency management. More information on these programs can be found in the Departmental Plans of these organizations. The federal government also provides funding to provinces and territories in support of programs for children, social assistance and other social programs through the Canada Social Transfer—see the Departmental Plans of the Department of Finance Canada.

Part 4

Tax Evaluations and Research Reports

How Responsive Are R&D Expenditures to Tax Incentives?[1]

1. Introduction

Government intervention in the provision of public goods is justified on the grounds that private spending falls below the socially desirable level in the presence of externalities. In the context of business spending on research and development (R&D), externalities occur through knowledge spillover effects. If firms cannot capture the social value of increased knowledge – that is, if the social return on R&D is higher than its private return – then, in the absence of government support, firms will perform less R&D than is optimal.

This rationale underpins the decision by many countries, including Canada, to offer R&D subsidies. About 80% of Canada's support for R&D is delivered in the form of tax incentives,[2] which at the federal level is through the Scientific Research and Experimental Development (SR&ED) Program. The SR&ED Program provides broad-based financial support for R&D performed in Canada through immediate deductibility of qualifying expenditures and an investment tax credit (ITC). The ITC rate is enhanced for Canadian-controlled private corporations (CCPCs) with up to $3 million per year of qualified expenditures (henceforth, "small" firms). Some 26,000 businesses and individuals benefited from $2.8 billion of assistance from the SR&ED ITC in 2018.[3] Several provinces also provide similar tax incentives to support business R&D, generally following the federal program but with varying rates.[4]

However, the extent to which tax incentives are effective in encouraging businesses to conduct additional R&D remains an active area of research. To assess the responsiveness of R&D expenditures by small and large firms to the SR&ED ITC, this study estimates the elasticity of R&D expenditures with respect to the user cost of capital in Canada using T2 corporate tax return data from 2000 to 2016. The study focuses on two components of total R&D spending, namely, expenditures on wages and materials, while the identification strategy exploits variation in the user cost of capital brought about by changes to the federal and provincial SR&ED credit rates, and changes to the corporate income tax (CIT) rate. In line with the existing literature (e.g. OECD, 2016; Agrawal et al., 2020; Parsons and Phillips, 2007), the results suggest that the SR&ED ITC is effective in stimulating additional business spending on R&D in Canada, in particular among small firms. Moreover, firms in the manufacturing sector are found to be the most responsive.

The remainder of the study is organized as follows. Section 2 provides an overview of the SR&ED Program parameters, and Section 3 describes trends in claimed SR&ED expenditures over the sample period. Section 4 reviews the existing literature on the effectiveness of R&D subsidies. Section 5 describes the data and methodology used in estimation. Section 6 presents and discusses estimation results. Section 7 adds concluding remarks.

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1 The analysis presented in this study was prepared by Jakir Hussain, David Lemay, and Maxime Dufournaud-Labelle, Economists, Tax Policy Branch, Department of Finance Canada. Enquiries regarding Department of Finance Canada publications can be sent to finpub@canada.ca.

2 OECD Science, Technology and Industry Scoreboard, 2017.

3 Department of Finance Canada, *Report on Federal Tax Expenditures – Concepts, Estimates and Evaluations*, 2021.

4 See Tables A2 and A3 of the annex for provincial ITC rates, and Charts A1 and A2 for combined federal-provincial rates.

2. Overview of the SR&ED Program

The SR&ED Program is the single largest federal program supporting business R&D in Canada. The federal government has provided tax assistance for R&D since 1944, and the SR&ED Program in its current form was introduced in 1994. The overview provided in this section pertains to the 2000-2016 period of analysis covered in this study. Subsequently, Budget 2019 announced the repeal of the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced SR&ED credit, for taxation years ending after March 19, 2019.[5]

Components, Rates and Limits (2016)

The main component of the SR&ED Program is an investment tax credit on eligible SR&ED expenditures:

- The general SR&ED investment tax credits are available to all businesses at a rate of 15% on eligible SR&ED expenditures and are non-refundable. Unused investment tax credits can be carried back up to three years and carried forward up to 20 years to be applied against taxes payable in those years.
- CCPCs have access to an enhanced rate of 35% on their first $3 million per year of qualified expenditures. This $3 million "expenditure limit" is gradually reduced when taxable income and taxable capital are within a certain "phase-out range". Specifically, the expenditure limit is reduced when previous-year taxable income exceeds $500,000 or previous-year taxable capital exceeds $10 million. The expenditure limit is completely phased out when previous-year taxable income exceeds $800,000 or previous-year taxable capital exceeds $50 million.
- SR&ED tax credits earned at the enhanced rate of 35% are fully refundable. For CCPCs, except those within the phase-out range, 40% of the value of the general SR&ED tax credits earned on expenditures in excess of the expenditure limit is refundable (that is, for firms that have insufficient taxable income to use all their SR&ED tax credits, unused credits can be refunded up to 40%).

[5] As a result of this change, CCPCs with taxable capital up to $10 million will benefit from unreduced access to the enhanced refundable SR&ED investment tax credit regardless of their taxable income. The expenditure limit will continue to be gradually reduced for CCPCs with taxable capital between $10 million and $50 million (Department of Finance Canada, *Report on Federal Tax Expenditures – Concepts, Estimates and Evaluations*, 2020, p. 46).

These program parameters are summarized in Table 1.

Table 1
Federal SR&ED Tax Credit Rates and Refundability Rates, 2016
(in %)

Business Type	Credit Rate	Refundability Rate
Unincorporated businesses	15	40
CCPC that is a qualifying corporation[1]:		
Expenditures up to the expenditure limit[2]	35	100
Expenditures over the expenditure limit	15	40
CCPC that is not a qualifying corporation but with prior-year taxable income less than $800,000 and prior-year taxable capital less than $50 million:		
Expenditures up to the reduced expenditure limit	35	100
Expenditures over the expenditure limit	15	0
CCPCs with prior-year taxable income over $800,000 or with prior-year taxable capital employed in Canada over $50 million and non-CCPCs	15	0

[1] A qualifying corporation is a corporation with prior-year taxable income that does not exceed its qualifying income limit, calculated as $500,000 x ($40,000,000-(taxable capital-$10,000,000)/$40,000,000).
[2] The expenditure limit is $3 million per annum for taxation years that end on or after February 26, 2008. The expenditure limit for CCPCs is phased out for prior-year taxable income between $500,000 and $800,000 and for prior-year taxable capital employed in Canada between $10 million and $50 million.

The program also allows eligible SR&ED expenditures to be fully deducted for income tax purposes in the year they are incurred, even though such expenditures give rise to new knowledge, technology and other intangible assets of a capital nature that are expected to generate benefits over multiple years, which would otherwise be required to be depreciated over their useful economic life.

Eligible Activities and Expenditures

Three broad categories of activity eligible for the SR&ED tax incentives are defined in subsection 248(1) of the *Income Tax Act*: basic research, applied research, and experimental development.[6] SR&ED tax incentives generally do not cover activities in later stages of the innovation spectrum such as commercialization, but certain support activities are also eligible where they are commensurate with the needs, and directly in support, of basic research, applied research, or experimental development. These support activities include engineering, design, operations research, mathematical analysis, computer programming, data collection, testing, and psychological research. In administering the SR&ED Program, the Canada Revenue Agency assesses the work against certain criteria to determine eligibility.[7]

[6] The definition of SR&ED for income tax purposes is largely consistent with the Organisation for Economic Co-operation and Development (OECD) definition of R&D, as presented in the *Frascati Manual*. The *Frascati Manual* is a document stipulating the methodology for collecting and using statistics about R&D in OECD member countries.

[7] For a detailed description of the eligibility of work for the SR&ED ITC, see https://www.canada.ca/en/revenue-agency/services/scientific-research-experimental-development-tax-incentive-program/eligibility-work-investment-tax-credits.html.

Most R&D expenditures made by, or on behalf of, a business in Canada and related to its activities may be eligible for the SR&ED tax incentives. Expenses eligible for the SR&ED tax incentives include the salaries or wages of employees directly engaged in SR&ED, the cost of materials consumed or transformed in SR&ED, contracts to perform SR&ED, and overhead expenditures. Businesses have a choice in how to treat overhead and administrative expenses. Under the "traditional method", overhead and administrative expenses must be specifically identified and allocated in respect of SR&ED and may be eligible for both the SR&ED tax deduction and credit. Under the "proxy method", overhead and administrative expenses that are attributable to SR&ED are deductible as ordinary current expenses. For the purposes of the SR&ED tax credit, however, in lieu of including these amounts directly in the credit base, a notional amount (55% of the total salaries or wages of employees directly engaged in SR&ED) is eligible for the tax credit.

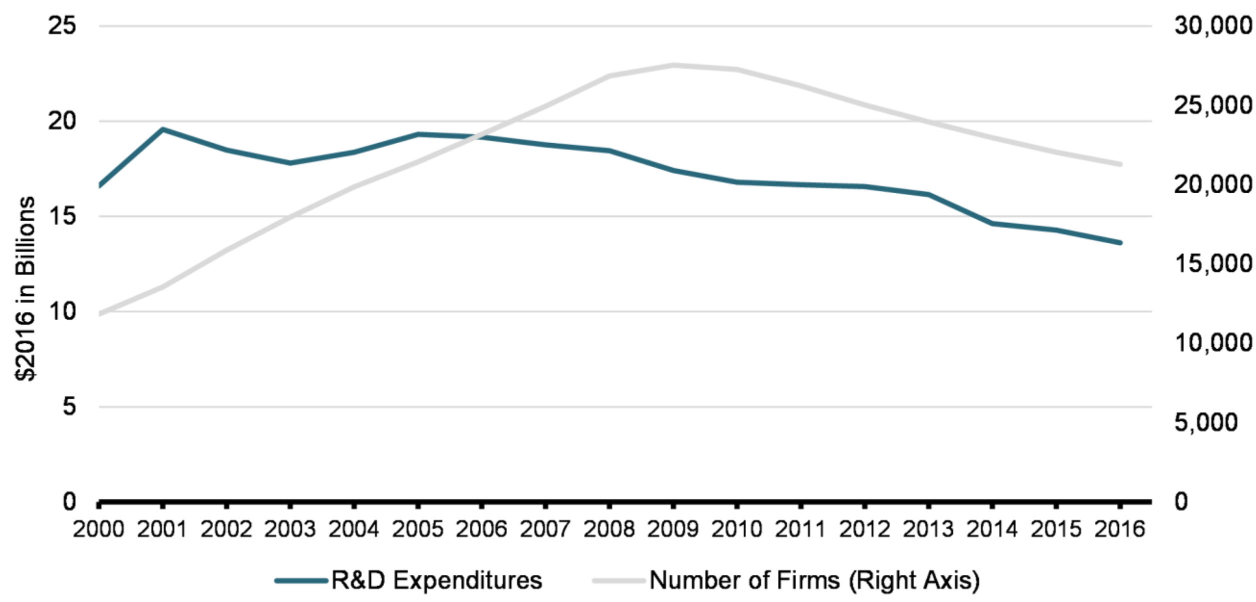
To simplify the tax credit base and increase the cost-effectiveness of the program, beginning in 2014, capital expenditures were no longer eligible, and the eligibility of contract payments and overhead expenditures were modified. Table A1 of the annex provides a summary of the major changes to the SR&ED Program between 2000 and 2016 (i.e., the time period covered by this study).

3. Recent Trends

This section provides a description of the trends in SR&ED expenditures[8] by businesses in Canada over the period spanning 2000 to 2016. The analysis is based on information from businesses that performed R&D activities in Canada and claimed the SR&ED ITC in their T2 returns over these years.

Chart 1

SR&ED Expenditures and Number of Firms Claiming SR&ED Tax Credits in Canada, 2000-2016



Source: Department of Finance Canada.

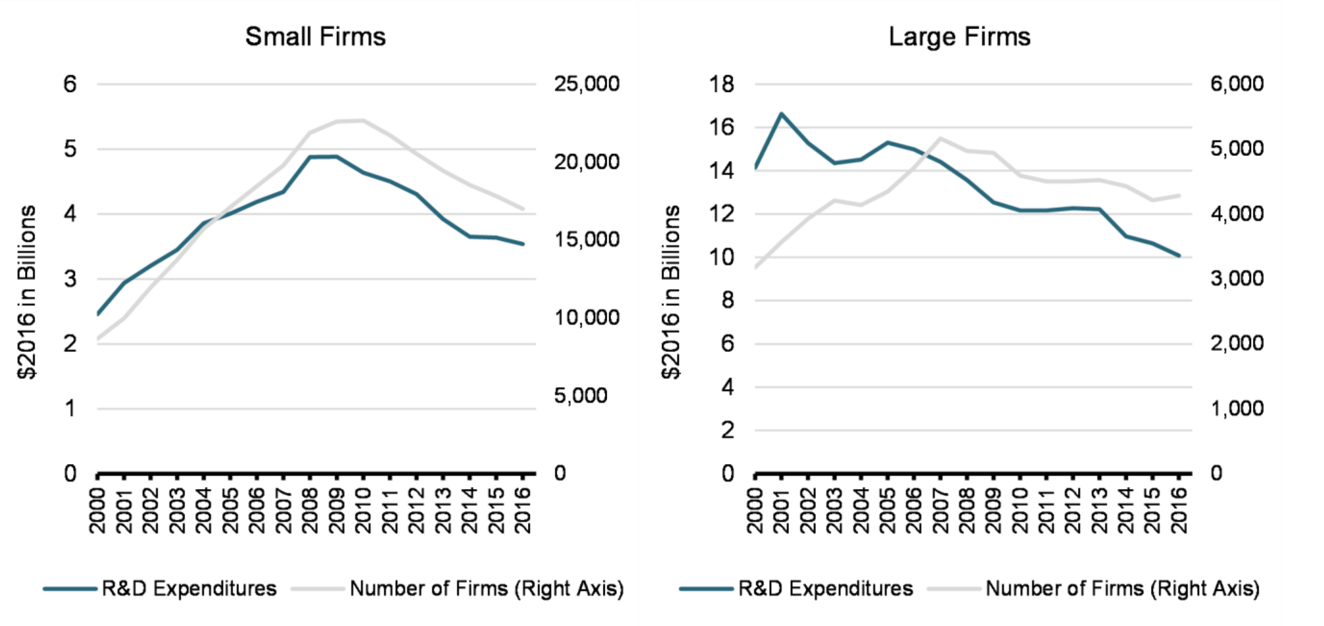
8 SR&ED expenditures are defined as expenditures that qualify for the ITC, with adjustments made to account for changes in the legislation regarding the amounts eligible (for example, contract payments, overhead expenditures).

Chart 1 shows the trends in overall SR&ED expenditures and the number of businesses claiming these expenditures between 2000 and 2016. Businesses claimed $13.6 billion in SR&ED expenditures in 2016, a 30% decline from the peak of nearly $19.6 billion in 2001.[9] Over this period, there was an 18% decline in reported SR&ED expenditures, with the decline taking place mostly after 2005. Between 2005 and 2016, reported SR&ED expenditures by businesses fell each year at an average annual rate of 2.9%.

Over 21,000 firms, including about 17,000 small firms, claimed SR&ED expenditures in 2016. This is about 80% higher than the number of firms (about 11,800) claiming in 2000. Although the number of firms claiming SR&ED expenditures increased overall between 2000 and 2016, a significant decline was observed after the 2008-09 financial crisis. After reaching a peak of about 27,500 firms in 2009, the number of firms claiming the SR&ED tax credit has fallen every year, declining by 23% between 2009 and 2016.

Chart 2

SR&ED Expenditures and Number of Firms Claiming SR&ED Tax Credits, by Firm Type, 2000-2016



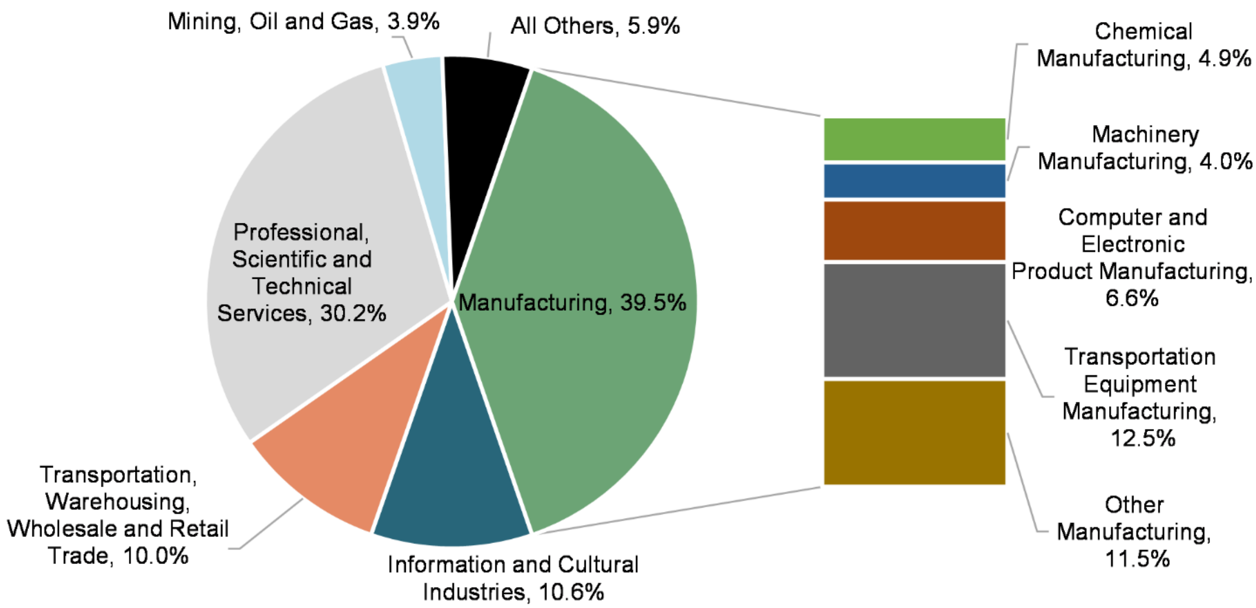
Source: Department of Finance Canada.

[9] All figures are expressed in 2016 dollars.

Chart 2 decomposes SR&ED claimant counts and expenditures by firm size. Claimant numbers grew for both small and large firms in the early years of the sample, then declined 25% and 17% from their peaks in 2010 and 2007, respectively. However, there was still a net increase of 96% and 35% in the number of small and large claimants over the sample period. SR&ED expenditures, for their part, grew by 44% for small firms but declined by 29% for large firms. The decline was fairly stable for large firms over the whole sample period, while for small firms SR&ED expenditures followed the trend exhibited in the number of claimants: after reaching a peak of about $4.9 billion in 2009, claimed SR&ED expenditures by small firms fell each year, declining by 28% between 2009 and 2016. Thus, the decline in the total number of claimants (in Chart 1) can largely be attributed to the decrease in the number of small firms while the decline in expenditures was driven by large firms. This primarily reflects their relative proportions, with small firms representing 80% of the claimants, on average, while large firms accounted for 77% of overall expenditures over the sample period.

Chart 3

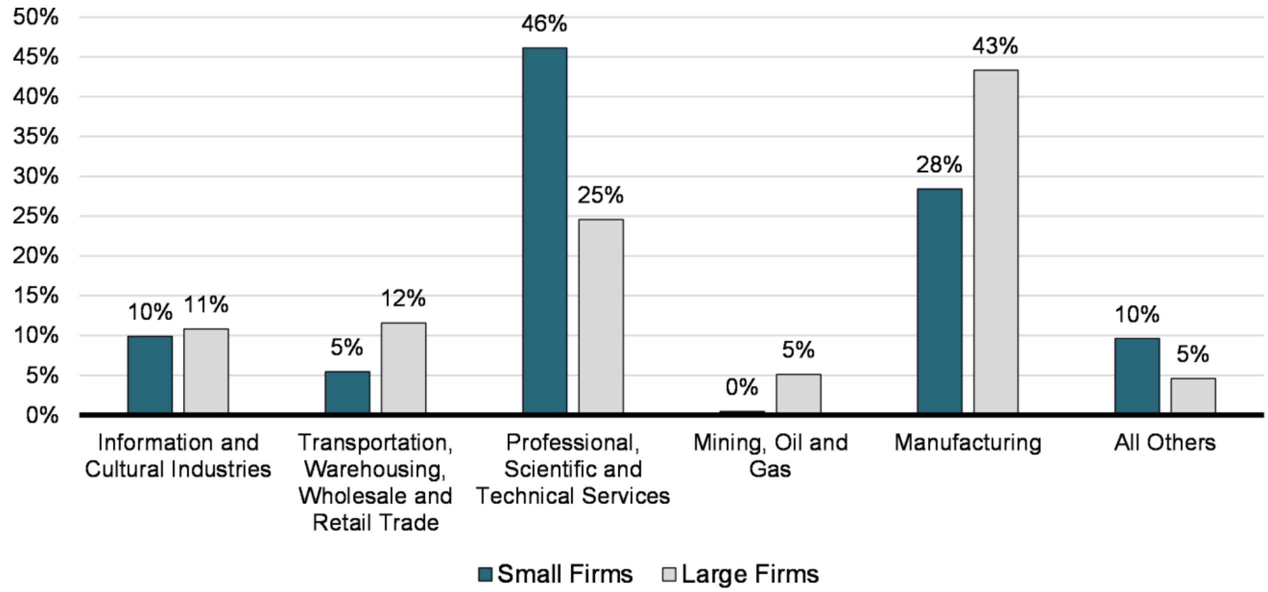
SR&ED Expenditures by Industry, 2016



Source: Department of Finance Canada.

Chart 3 presents the distribution of claimed SR&ED expenditures by industry in 2016. Almost 70% of overall SR&ED expenditures were claimed by businesses from the manufacturing sector (40%) and the professional, scientific, and technical services sector (30%), while an additional 20.6% was shared almost equally by information and cultural industries and transportation, warehousing, wholesale and retail trade. Within the manufacturing sector, transport equipment manufacturing and computer and electronic product manufacturing accounted for almost half of overall SR&ED expenditures. Although not shown in Chart 3, large firms represented more than 75% of claimed expenditures on average across sectors. For example, large firms claimed 81% of manufacturing SR&ED expenditures and 97% of the mining, oil and gas expenditures. However, their representation was somewhat lower (60%) in the professional, scientific and technical services sector.

Chart 4
Distribution of SR&ED Expenditures by Small and Large Firms Among Various Industries, 2016

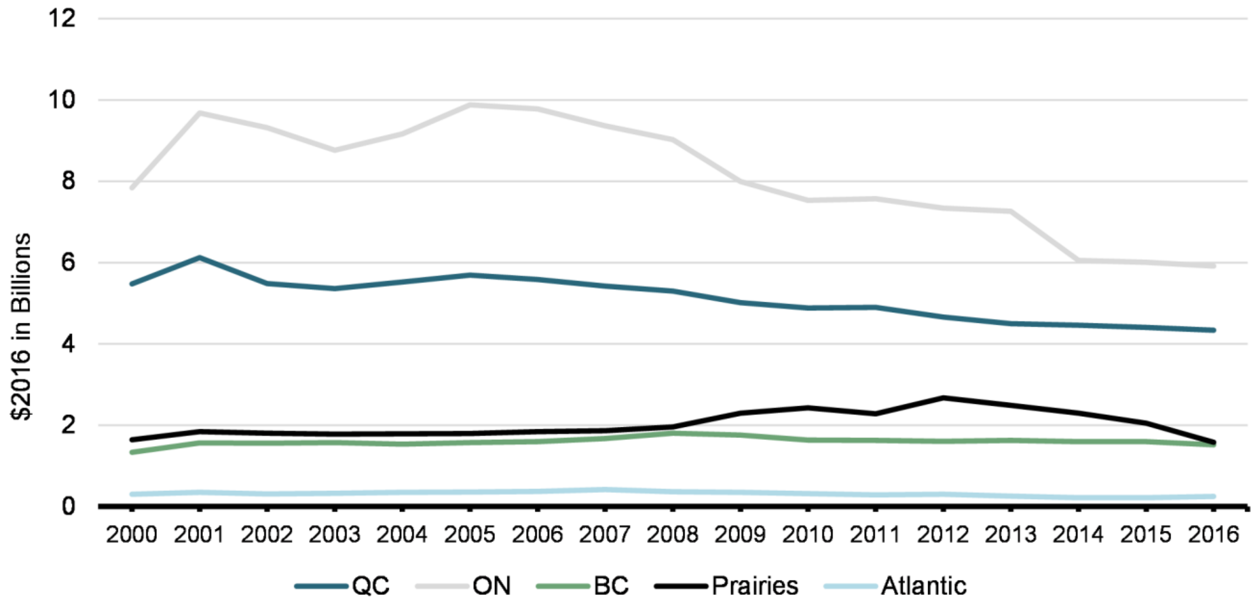


Source: Department of Finance Canada.

Chart 4 further decomposes claimed total 2016 SR&ED expenditures by industrial classification between small and large businesses. The manufacturing sector accounted for the largest share (43%) of SR&ED expenditures claimed by large firms while the professional, scientific and technical services sector made up an additional 25%. On the other hand, 46% of claimed SR&ED expenditures by small firms were in the professional, scientific and technical services sector, while manufacturing accounted for about 28% of their overall claimed SR&ED expenditures.

Chart 5 presents the distribution of claimed SR&ED expenditures by businesses from different provinces over the period of 2000 to 2016. In most provinces, eligible expenditures follow the federal definition, with an additional requirement that the R&D is performed in the province. Therefore, where possible, claimed SR&ED expenditures for businesses reporting activities in multiple jurisdictions were allocated using the amount of expenditures eligible for the provincial tax credit. Moreover, in some cases corporations have permanent establishments in that province, which is informative in allocating federally eligible expenditures. However, the Canada Revenue Agency does not administer Quebec or Alberta tax credits, and only began administering Ontario’s R&D tax credits in 2009. Where provincial tax credit amounts are not available, then, claimed SR&ED expenditures were allocated according to the provincial distribution of the corporation’s taxable income. As it is not possible to know in which province the R&D is performed using SR&ED claims in these cases, this allocation rule may under or overestimate the R&D expenditures in some provinces. Firms with activities in multiple jurisdictions represent on average 8% of the firms included in the sample, and 44% of overall SR&ED expenditures.

Chart 5
SR&ED Expenditures by Province, 2000-2016



Source: Department of Finance Canada.

As can be inferred from Chart 5, in 2016 Ontario and Quebec together represented $10.3 billion, or 75% of total claimed SR&ED expenditures. This marks a decline from $13.3 billion, or an 80% share, in 2000. Claimed SR&ED expenditures in the Atlantic provinces, Prairies and British Columbia were relatively unchanged over the period and stood at $300 million, $1.6 billion and $1.5 billion, respectively, in 2016. However, in the Prairies, SR&ED expenditures had increased by 37% between 2008 and 2012, followed by a decline through 2016.

4. Review of Literature

Hall and Van Reenen (2000) and Parsons and Phillips (2007) provide a comprehensive review of earlier studies investigating the sensitivity of R&D investment to tax incentives, while more recent studies have been compiled by the OECD (2016). Empirical strategies typically involve either a structural approach that exploits a change in policy (e.g., Swenson, 1992; Bailey and Lawrence, 1992; Guceri and Liu, 2019) or a regression framework where R&D spending is cast as a function of the after-tax price of performing R&D and non-tax control variables (e.g., Hall, 1993; Bloom et al., 2002; Lokshin and Mohnen, 2012; Rao, 2016; Thomson, 2017). The responsiveness of R&D expenditures to tax incentives is usually measured as a price elasticity, i.e., the percentage change in R&D spending due to a 1% change in the cost of performing R&D. Overall, the evidence suggests a price elasticity around one, which implies that a 1% reduction in the cost of R&D leads to a 1% increase in R&D spending.

Most Canadian studies focus on the federal tax incentive for R&D. Early examples include McFetridge and Warda (1983), Bernstein (1986), Shah (1994), Nadiri and Kim (1996), and Dagenais et al. (1997, 2004), all of which report a positive relationship between the SR&ED tax credit and business expenditures on R&D. More recently, Agrawal et al. (2020) estimate the R&D elasticity by exploiting the introduction of the enhanced SR&ED ITC rate for small firms in 2004. Their results suggest that eligible small firms increased their R&D expenditures by 15%, on average, following the policy change, corresponding to an overall R&D cost elasticity of -1.5.

Only two studies estimate the effect of provincially run R&D tax credits, with mixed results: Baghana and Mohnen (2009) estimate negative price elasticities (-0.10 in the short-run and -0.14 in the long-run) for manufacturing firms in Quebec between 1997 and 2003, while Brouillette (2011) does not find any statistically significant effect from the R&D tax credit introduced in British Columbia in 1999.[10]

Several studies have examined whether responsiveness to R&D incentives differs by firm size. The available evidence, reviewed in OECD (2016), suggests that small firms are more responsive to R&D tax incentives than their larger counterparts. Moreover, Kasahara et al. (2014) find the effect is greater among small firms with more outstanding debt, suggesting it operates through a relaxing of financial constraints. Canadian evidence on the effect of firm size is limited, but Baghana and Mohnen (2009) noted the short-run price elasticity of small firms in Quebec is twice that of large firms.

There is also some evidence that the responsiveness to tax incentives differs by component of R&D. Agrawal et al. (2020) and Rao (2016) find positive impacts of the tax credits on wages and contracts in Canada (elasticity coefficient of -1.05 for wages and -3.00 for contracts) and the US (elasticity coefficient of -3.5 for both wages and contracts).

The response of firms to R&D tax incentives may also depend on the industry to which they belong (Appelt et al., 2019). In addition, the use of cross-industry differences in R&D expenditure as a source of identifying variation is illustrated in Thomson (2017).

5. Data and Methodology

5.1 Data

This study employs T2 tax return data from 2000 to 2016, covering firms that claimed the SR&ED ITC at least once during the period and that had activities in a province. Firms are grouped by size (small or large), country of control, province and industry. Small firms, being CCPCs eligible for the enhanced credit rate (i.e., not exceeding $3 million in qualified expenditures), are by definition Canadian-controlled, but large firms may be classified as Canadian-controlled, US-controlled, other foreign-controlled, or of unknown ownership. As mentioned before, approximately 8% of firms had activities in multiple provinces in which case their R&D expenditures were allocated following provincial R&D tax credits, and otherwise according to the provincial distribution of taxable income. Industrial classification is at the NAICS 2-digit level,[11] except for manufacturing (at the 3-digit level), for a total of 37 industry groups in the sample. These groupings result in a total of 358 province-industry combinations for small firms and 1,195 province-industry-ownership combinations for large firms.[12]

[10] Based on anecdotal evidence, Lebeau (1996) estimates the price elasticity of -0.97 for the industries in Quebec for the period of 1977 to 1993.

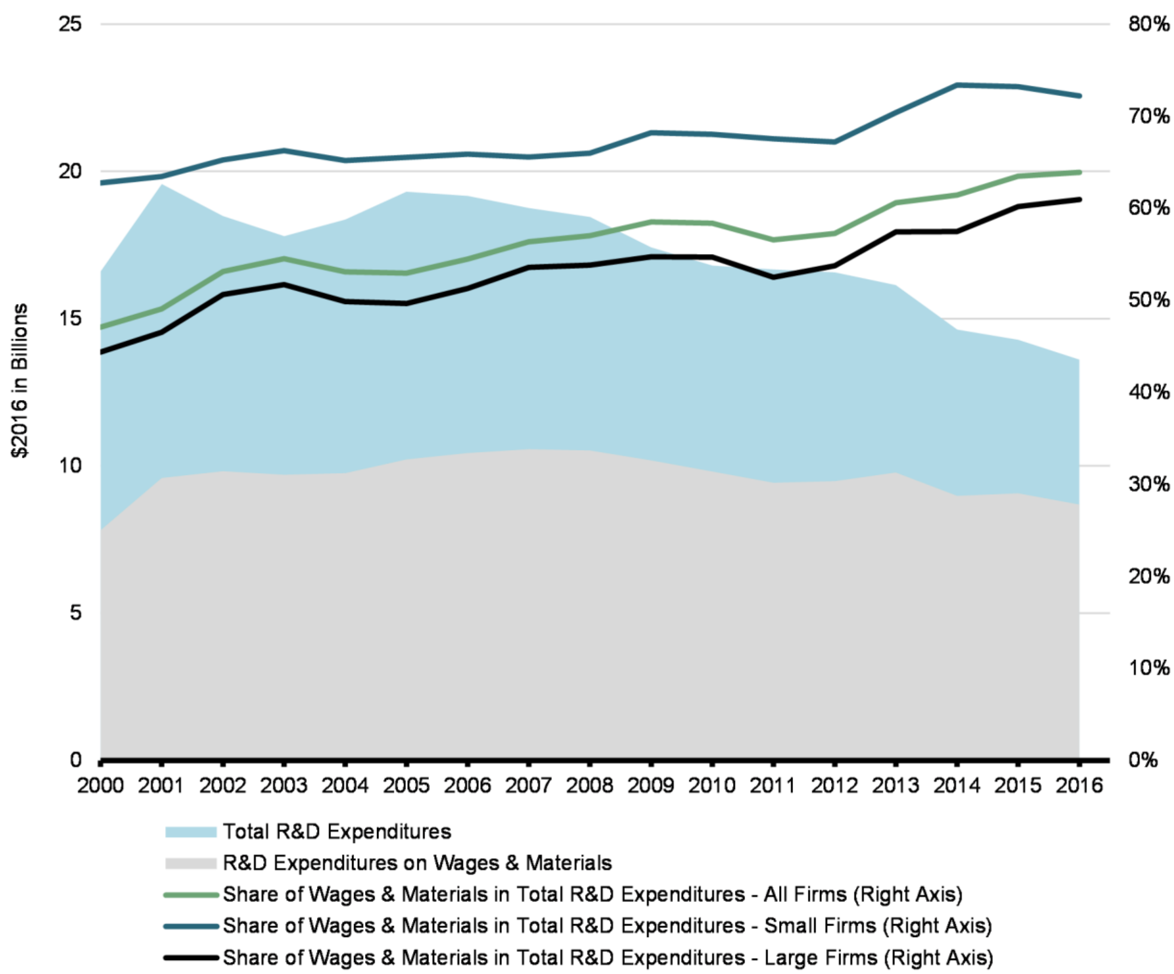
[11] NAICS is the North American Industry Classification System. The 2017 Canadian version of the NAICS was used in this study.

[12] It should be noted that not all of the 37 industry groups were represented in all provinces.

The measure of SR&ED ITC expenditures adopted here is based only on wages and materials reported on Form T661. As Budget 2012 restricted the expenditures eligible for the credit (i.e., by disallowing capital expenditures, reducing the prescribed proxy amount for overhead expenditures, and limiting fees paid to arm's-length third-party contracts), using total claimed expenditures could lead to a downward bias in the estimated effectiveness of the credit that would be due to policy changes, as opposed to a real decline in SR&ED expenditures. The eligibility of wages and materials, however, was unchanged throughout the sample period. As shown in Chart 6, SR&ED expenditures on wages and materials accounted for almost 64% of total SR&ED spending in 2016, a share that has been growing over the sample time period, and more sharply since Budget 2012 rendered capital expenditures ineligible. About 68% of the overall SR&ED expenditures by small firms, on average, were made on wages and materials, while this share was on average 53% for large firms.

Chart 6

SR&ED Expenditures on Wages and Materials, 2000-2016



Source: Department of Finance Canada.

The concept of the user cost of capital used in this study follows the standard neoclassical theory of investment.[13] A profit-maximizing firm increases its level of capital investment until the value of the marginal product of capital is equal to the marginal cost of capital, or the user cost of capital. At this equilibrium, the user cost represents the minimum rate of return required to cover the returns demanded by the suppliers of financial capital, economic depreciation (i.e., the loss of value of the capital asset) and business taxes. The user cost of R&D expenditures (uc) can be written as the weighted average of user costs across capital inputs j used in investment:

$$uc = \sum_j \alpha_j \left[q_j (1 - \phi) \left(1 + \tau_{sk_j}\right) \left(\frac{r_f + \delta_j - \pi}{1 - \tau_{CIT}}\right) \left\{1 - \tau_{CIT} Z_j + \frac{\tau_k (1 - \tau_{CIT})}{r_f + \delta_j}\right\} \right] \quad (1)$$

where α_j represents the share of R&D input j in total R&D expenditures, q_j is the price of capital j relative to output, ϕ is the ITC rate, τ_{sk_j} is the sales tax on capital j, r_f is the cost of financing, δ_j is the rate of economic depreciation for capital input j, π is the inflation rate, τ_{CIT} is the corporate income tax rate,[14] Z_j is the present value of tax depreciation for capital j, and τ_k is the capital tax rate. The present value of tax depreciation for capital, Z_j, takes the value one, as only R&D expenditures on wages and materials are considered, and these may be expensed when incurred. The cost of financing is given by $r_f = \beta i (1 - \tau_{CIT}) + (1 - \beta)\rho$, where β is the share of debt in the financing structure, i is the nominal interest rate, and ρ is the implicit rate of return on equity. The capital asset price relative to the output price q_j is also assumed to be equal to one. The rate of depreciation for R&D, δ_j is assumed to be 10%.[15]

The calculation of the cost of financing (r_f) requires information on the shares of debt and equity in the overall financing strategy of the firms. These shares serve as weights in calculating the averages of the returns on debt and equity. Data from the Quarterly Survey of Financial Statements conducted by Statistics Canada is used to calculate the debt-asset ratio for the industries in the dataset.[16] Debt is defined as the sum of total borrowings, and loans and accounts with affiliates, while the 10-year government bond yield is used as the return on equity.[17]

Additional data is used to serve as controls in the estimation procedure. The real net income of firms is included to account for the operating aspects of the business. Industry-level real gross domestic product (GDP) by province is included as a control for differing macroeconomic trends across jurisdictions. Provincial working age populations are included, as total R&D spending on wages and materials may be influenced by the availability of workers.[18] Industry entry and exit rates are also used, since in more competitive industries (i.e., with higher entry and exit rates), R&D spending is expected to be lower as the associated private gains will be difficult to capture.[19]

13 The standard neoclassical theory of capital accumulation (Jorgenson, 1963) was expanded to include taxation in the investment decision by businesses and also has been applied to the context of R&D. See, for example, Hall and Jorgenson (1967), King and Fullerton (1983), Boadway et al. (1984), Bloom et al. (1997), Hall and Van Reenen (2000) and Lester et al. (2007).

14 See Tables A4-A6 for CIT rates (provincial rates) for small, large and large manufacturing firms.

15 Nadiri and Prucha (1993) estimate the depreciation rate of R&D at 10%. Other researchers measuring the cost of R&D have used this figure in their calculations (e.g., Lester, Patry and Adéa, 2007; McKenzie, 2008).

16 Source: Statistics Canada, Table 33-10-0007-01, Quarterly balance sheet and income statement, by industry.

17 Source: OECD, Long-term Government Bond Yields: 10-year: Main (Including Benchmark) for Canada [IRLTLT01CAM156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/irltlt01cam156n, June 7, 2019.

18 Source: Statistics Canada, Table 17-10-0005-01, Population estimates on July 1st, by age and sex.

19 Data for the entry and exit rates are collected from the quarterly estimates of business entry and exit provided by Statistics Canada through its Longitudinal Employment Analysis Program (LEAP) database. Source: Statistics Canada, Table 33-10-0165-01, Quarterly estimates of business entry and exit.

5.2 Empirical Model

Following the existing literature, business expenditures on R&D are modelled as a function of the user cost of R&D:

$$\ln(RD_{kt}) = \beta_0 + \beta_1 \ln(uc_{kt}) + \gamma_k + \alpha_k + \lambda_t + X_{kt}\theta + \varepsilon_{kt} \qquad (2)$$

where RD_{kt} is the R&D expenditures on wages and materials by industry-province group k at time t, uc_{kt} is the user cost of R&D for industry-province group k at time t, and γ_k and λ_t denote industry and year fixed effects, respectively. α_k denotes the country of ownership fixed effects and is employed to estimate equation (2) for large firms. X_{kt} is the vector of time varying controls at the industry-province level: real net income, real GDP, working age population, entry rate and exit rate. Control variables are expressed in logarithm, with the exception of the entry and exit rates.

Equation (2) is estimated using the pooled ordinary least-squares (OLS) method, separately for small and large firms. Given the log-log specification, the coefficient β_1 corresponds to the user cost elasticity of R&D. It is expected to be negative, such that private spending on R&D decreases as the user cost of R&D expenditures increases. An elasticity coefficient of -1.0, for example, means that business R&D increases by one percentage point for every one percentage point decrease in the cost of R&D expenditures.

The identification strategy of the elasticity estimates in this study exploits the variation in the user cost that is brought about by the variation in the provincial credit rates and the variation in the provincial CIT rates. The estimates rely on these differences in provincial trends given that businesses across provinces receive the federal SR&ED tax credit at the same rate.

In order to control for firm-specific differences in terms of country of control, "ownership" fixed effects are included in the estimation framework for large firms. Moreover, the empirical model of this study uses year fixed effects to control for potential changes in the administration of the tax credits over the sample period.

Summary statistics for the variables used in estimating equation (2) are provided in Table A7 of the annex.

6. Results and Discussion

6.1 Regression Results

Preferred estimates for small firms are shown in the first column of Table 2. This specification includes the full set of controls and fixed effects. All coefficients, except the entry rate, have their expected signs and are found to be statistically significant at the 1% level. The point estimate of the cost elasticity of R&D expenditures for small firms is -1.3, indicating that a 10% reduction in the user cost of R&D expenditures is expected to increase the private R&D spending of small businesses by 13%. Although the coefficient on the entry rate is found to be statistically insignificant, the coefficient for the exit rate is significant at the 1% level and its sign is negative. This suggests that in industries with a lower exit rate, businesses may have greater financial stability to invest and grow, and thus increase R&D expenditures on wages and materials.

Similar results are seen in Column 4, which shows the preferred estimates for large firms. The elasticity coefficient is -1.01 and significant at the 1% level, implying that large firms are expected to increase R&D expenditures by slightly over 10% as a result of a 10% decrease in user cost. As with small firms, all other coefficients (except the entry rate) are found to be statistically significant and of expected sign.

The estimated elasticity coefficients suggest that businesses in Canada are responsive to changes in the user cost of R&D expenditures. It should be noted, however, that the dependent variable considered is R&D spending on wages and materials, and while these two components constitute more than 60% of overall R&D expenditures, Agrawal et al. (2020) found that the elasticity estimate for R&D wages is about two-thirds of the estimate for total R&D spending by small firms.

Table 2

Regression Results for the User Cost Elasticity of SR&ED Expenditures

	Small Firms			**Large Firms**			
	Dependent Variable: log(R&D Expenditures on Wages and Materials)						
	1	2	3	4	5	6	7
log(User Cost)	-1.31*	-1.30*	-1.60*	-1.01*	-1.01*	-1.10*	-0.78*
	(0.15)	(0.15)	(0.14)	(0.25)	(0.25)	(0.25)	(0.26)
log(Net Income)	2.31*	2.34*	-	1.76*	1.77*	-	2.82*
	(0.29)	(0.29)		(0.17)	(0.17)		(0.18)
log(GDP)t-1	0.41*	0.40*	0.39*	0.64*	0.64*	0.64*	0.62*
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
log(Working Age Population)	0.90*	0.91*	0.90*	0.80*	0.80*	0.81*	0.72*
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Entry Rate	0.00	-	0.00	0.01	-	0.01	0.00
	(0.02)		(0.02)	(0.01)		(0.01)	(0.02)
Exit Rate	-0.13*	-	-0.13*	-0.04***	-	-0.04**	-0.04***
	(0.02)		(0.02)	(0.02)		(0.02)	(0.02)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership Fixed Effects	No	No	No	Yes	Yes	Yes	No
R-Squared	0.77	0.77	0.76	0.64	0.64	0.63	0.63
No. of Observation	4,490	4,490	4,490	12,972	12,972	12,972	12,972
Fisher Panel Unit-Root Test Statistic – Inverse Normal	-10.56	-10.56	-9.93	-19.74	-19.77	-19.84	-20.35
(corresponding p-value)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Notes: Estimation results for the model described in equation (2). Small firms are CCPCs with no more than $3 million of qualified SR&ED expenditures per year. Standard errors of the parameter estimates are reported in parenthesis. *Indicates significance at 1% level, **indicates significance at 5% level, and ***indicates significance at 10% level. In all specifications, a Fisher test for panel unit roots in the residuals of equation (2) was performed and the null of unit root was rejected. Panel unit root testing of individual regressors is provided in Table A8 of the annex.

The higher elasticity coefficient seen for small firms is consistent with smaller firms being more financially constrained than larger firms. If this presents a barrier to spending on R&D, access to the SR&ED ITC may relax smaller firms' credit constraints. This effect could also be compounded by the fact that SR&ED ITCs claimed by small firms are generally fully refundable, meaning that a small firm would receive the benefits of the SR&ED immediately, regardless if the firm has a sufficient tax liability to absorb the ITCs.

In Columns 2 and 5, the entry rate and exit rate controls are dropped. The absence of these variables does not have any substantial effect on the coefficient estimates. This is not surprising since the coefficient of entry rate was insignificant in the preferred specifications and the effect of the exit rate on R&D expenditures was limited for large firms. In Columns 3 and 6, net income is dropped, resulting in larger elasticity coefficients. Firms with higher net income are expected to spend more on R&D, but the inclusion of net income in the preferred specification demonstrates this also holds at the aggregate province-industry (-ownership) level. Finally, Column 7 removes the ownership fixed effects for large firms, and as a result the magnitude of the elasticity coefficient is somewhat smaller. This suggests that the country of origin for large firms plays a role in determining the responsiveness of R&D expenditures to changes in the user cost.

6.2 Robustness

In this section, a number of robustness checks are performed to validate the results.

Table 3
Robustness Checks on Regression Results for the User Cost Elasticity of SR&ED Expenditures

	Small Firms			**Large Firms**		
	Dependent Variable: log(R&D Expenditures on Wages and Materials)					
	(1) Excluding Multi-Jurisdictional Corporations	(2) Manufacturing Industries	(3) Non-Manufacturing Industries	(4) Excluding Multi-Jurisdictional Corporations	(5) Manufacturing Industries	(6) Non-Manufacturing Industries
log(User Cost)	-1.53* (0.12)	-1.75* (0.15)	-0.84* (0.23)	-1.08* (0.31)	-1.13* (0.33)	-0.73* (0.37)
log(Net Income)	Yes	Yes	Yes	Yes	Yes	Yes
log(GDP)t-1	Yes	Yes	Yes	Yes	Yes	Yes
log(Working Age Population)	Yes	Yes	Yes	Yes	Yes	Yes
Entry Rate	Yes	Yes	Yes	Yes	Yes	Yes
Exit Rate	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Ownership Fixed Effects	No	No	No	Yes	Yes	Yes
R-Squared	0.80	0.78	0.77	0.53	0.64	0.66
No. of Observation	4,267	2,337	2,153	6,119	7,103	5,869

Notes: Estimation results shown are for the model described in equation (2). Small firms are CCPCs with no more than $3 million of qualified SR&ED expenditures per year. Standard errors of the parameter estimates are reported in parenthesis. *Indicates significance at 1% level, **indicates significance at 5% level, and ***indicates significance at 10% level.

Columns 1 and 4 in Table 3 provide results for small and large firms, respectively, when excluding firms that operated in more than one province. While these represent on average only 8% of firms included in the sample, they account for 44% of overall SR&ED expenditures. For these firms, where it was not possible to apportion SR&ED expenditures using provincial R&D claims, the use of provincial taxable income as an allocation rule may lead to an under or overestimate of R&D expenditures within a province. However, these results suggest that the exclusion of firms operating in multiple jurisdictions does not explain away the observed effect of user cost on R&D spending. In fact, an increase (in absolute terms) in both elasticity estimates is observed, with a smaller impact on the estimate for large firms, even though they represent the majority of corporations with activities in multiple jurisdictions.

Columns 2 and 3 in Table 3 present the results for manufacturing and non-manufacturing industries for small firms, while Columns 5 and 6 present the results for large firms. These groupings are chosen to investigate whether the estimated effects are primarily driven by observations in the manufacturing industry, which accounts for about 37% of the firms on average in the dataset and about 40% of overall SR&ED expenditures claimed in 2016. Manufacturing firms are found to be much more responsive to the tax credit compared to their non-manufacturing counterparts. For small manufacturing firms, a much larger elasticity coefficient (-1.75) is observed compared to the overall user cost elasticity for all small firms (-1.31), while for large manufacturing firms, the effect is less pronounced (-1.13 vs. -1.01). The elasticity estimate is lower still, in absolute terms, for large firms in non-manufacturing industries (-0.73).

Three other types of robustness tests were performed. The depreciation rate was varied from 10% to 30% in one-percentage point increments. User cost coefficient estimates were essentially unchanged under these specifications, ranging between -1.31 and -1.32 for small firms, and remaining at -1.01 for large firms. NAICS-specific regressions were also run, and while heterogeneity was noted, sample sizes were small and standard errors often too large to yield significant results. Lastly, to limit the effect that changes in CIT rates may have over time, the sample period was limited to a period of relative stability in CIT rates (2013-2016). The user cost coefficient was lower for small firms (-0.83) but not significantly different from that of the preferred specification, while for large firms the result was not significant. These results confirm that the SR&ED ITC rate itself is linked to small firm R&D spending decisions.

7. Conclusion

This study examined the effectiveness of the SR&ED ITC in stimulating private spending on R&D. The user cost elasticity of R&D spending on wages and materials was estimated for small and large firms using administrative tax data for the period spanning 2000 to 2016. Both elasticities were found to be greater than one in absolute terms, at -1.31 for small firms and -1.01 for large firms. These results are in line with the existing literature, and serve as evidence that the SR&ED Program is associated with additional private spending on R&D in Canada, particularly among small firms, as well as those in the manufacturing sector.

Consistent with the findings from existing literature, this study asserts that firms' R&D spending decisions are a function of the after-tax price of performing R&D and non-tax control variables. In particular, the identification strategy proposed depends on variation in both SR&ED ITC and CIT rates influencing firms' user cost of capital. Subsampling over a period of relative stability in CIT rates suggests the SR&ED ITC rate is itself linked to small firm R&D spending decisions, but examining the effects of the two variables separately would be of interest for future research.

It should also be noted that these results represent the average response across provinces and industries. While responsiveness plausibly differs along these dimensions, lack of variation and small sample sizes were a limiting factor in assessing such heterogeneity. Moreover, the results do not necessarily indicate that the SR&ED Program attracts foreign R&D; they may instead reveal a tendency for firms to allocate their R&D to those provinces where the cost is minimized.

Annex: The Federal Scientific Research and Experimental Development (SR&ED) Program

Table A1
Summary of Changes to the SR&ED Program

Budget 2000	• Provincial deductions for SR&ED that exceed the actual amount of the expenditure are deemed to be government assistance and are excluded from the calculation of eligible expenditures for federal SR&ED tax purposes
Budget 2003	• Taxable income phase-out range for the enhanced tax credit increased to $300,000-$500,000 (from $200,000-$400,000)
Budget 2004	• Refundable SR&ED credit rules amended to ensure that unconnected small businesses do not have to share the $2 million expenditure limit because they receive investments from the same venture capital investors
Budget 2006	• Taxable income phase-out range increased to $400,000-$600,000 • Carry-forward period is extended to 20 years (from 10 years)
Budget 2008	• Increased the expenditure limit for the enhanced credit to $3 million • Increased the upper bound of the taxable capital phase-out range to $50 million (from $15 million) • Increased the upper bound of the taxable income phase-out range to $700,000 • Extended the SR&ED tax incentives to certain activities carried on outside Canada, up to 10% of Canadian SR&ED labour expenditures
Budget 2009	• Taxable income phase-out range increased to $500,000-$800,000
Budget 2012	• Reduced the general SR&ED investment tax credit rate to 15% (from 20%) • Removed capital expenditures from eligible expenditures • Reduced the prescribed proxy amount, which taxpayers can elect to use to claim SR&ED overhead expenditures, to 55% of R&D salaries and wages (from 65%) • Removed the profit element for arm's length third-party contracts by allowing only 80% of fees paid to be eligible • Introduced changes to the administration of the SR&ED Program by the Canada Revenue Agency to improve the predictability of the program
Budget 2013	• Introduced more changes to the administration of the SR&ED credit, including the requirement to provide more detailed information on SR&ED Program claim forms about SR&ED Program tax preparers and billing arrangements
Budget 2019	• Repealed the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced SR&ED tax credit, for taxation years ending after March 19, 2019.[1]

[1] The analysis in this study considers the period from 2000 to 2016, and as such does not account for this change.

Table A2

SR&ED ITC Rates (%) for Small Firms, 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
AB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
BC	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
MB	15.0	15.0	15.0	15.0	15.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
NB	10.0	10.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
NL	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
NS	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
ON	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	13.0
PE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QC*	40.0	40.0	40.0	37.5	35.0	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	33.8	30.0	30.0
SK	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	10.0	10.0

Note: Small firms are CCPCs with no more than $3 million of qualified SR&ED expenditures per year.

*ITC rates for Quebec are not directly comparable to those of other provinces or the federal level as the credit base is narrower.

Table A3

SR&ED ITC Rates (%) for Large Firms, 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	15.0	15.0	15.0
AB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
BC	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
MB	15.0	15.0	15.0	15.0	15.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
NB	10.0	10.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
NL	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
NS	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
ON	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.0
PE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
QC	20.0	20.0	20.0	18.8	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	15.8	14.0	14.0
SK	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	10.0	10.0

Table A4

General CIT Rates (%) for Small Firms, 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal	13.1	13.1	13.1	13.1	13.1	13.1	13.1	13.1	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.5
AB	6.0	5.0	4.5	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
BC	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
MB	7.0	6.0	5.0	5.0	5.0	5.0	4.5	3.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NB	4.5	4.0	3.5	3.0	2.5	2.0	1.5	5.0	5.0	5.0	5.0	5.0	4.5	4.5	4.5	4.0	3.5
NL	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0
NS	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.5	4.0	3.5	3.0	3.0	3.0
ON	7.0	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
PE	7.5	7.5	7.5	7.5	7.5	6.5	5.4	4.3	3.2	2.1	1.0	1.0	1.0	4.5	4.5	4.5	4.5
QC	9.0	9.0	9.0	8.9	8.9	8.9	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
SK	8.0	6.0	6.0	6.0	5.5	5.0	5.0	4.5	4.5	4.5	4.5	2.0	2.0	2.0	2.0	2.0	2.0

Note: Small firms are CCPCs with no more than $3 million of qualified SR&ED expenditures per year.

Table A5

General CIT Rates (%) for Large Firms, 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal	29.1	28.1	26.1	24.1	22.1	22.1	22.1	22.1	19.5	19.0	18.0	16.5	15.0	15.0	15.0	15.0	15.0
AB	15.5	13.5	13.0	12.5	11.5	11.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0
BC	16.5	16.5	13.5	13.5	13.5	12.0	12.0	12.0	11.0	11.0	10.5	10.0	10.0	11.0	11.0	11.0	11.0
MB	17.0	17.0	16.5	16.0	15.5	15.0	14.5	14.0	13.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
NB	17.0	16.0	14.5	13.0	13.0	13.0	13.0	13.0	13.0	12.0	11.0	10.0	10.0	12.0	12.0	12.0	14.0
NL	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	15.0
NS	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
ON	14.5	12.5	12.5	12.5	14.0	14.0	14.0	14.0	14.0	14.0	12.0	11.5	11.5	11.5	11.5	11.5	11.5
PE	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
QC	9.0	9.0	9.0	8.9	8.9	8.9	9.9	9.9	11.4	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
SK	17.0	17.0	17.0	17.0	17.0	17.0	14.0	13.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0

Table A6

General CIT Rates (%) for Large Manufacturing Firms, 2000-2016

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal	22.1	22.1	22.1	22.1	22.1	22.1	22.1	22.1	19.5	19.0	18.0	16.5	15.0	15.0	15.0	15.0	15.0
AB	14.5	13.5	13.0	12.5	11.5	11.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0
BC	17.0	17.0	16.5	16.0	15.5	15.0	14.5	14.0	13.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
MB	17.0	16.0	14.5	13.0	13.0	13.0	13.0	13.0	13.0	12.0	11.0	10.0	10.0	12.0	12.0	12.0	14.0
NB	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	15.0
NL	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
NS	12.5	11.0	11.0	11.0	12.0	12.0	12.0	12.0	12.0	12.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
ON	7.5	7.5	7.5	7.5	7.5	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
PE	8.9	9.0	9.0	8.9	8.9	8.9	9.9	9.9	11.4	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
QC	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
SK	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

Table A7

Summary Statistics

Variable	Small Firms				Large Firms			
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
Real Net Income*	7,160	916	5,440	10,300	7,270	1,150	326	32,100
Real GDP*	5,282	10,394	0.0	93,420	5,783	11,121	0.0	93,420
Working Age Population*	2.9	2.9	0.1	9.4	3.1	3.0	0.1	9.4
Real SR&ED Expenditures on Wages and Materials*	9.6	36.0	0.0	502.0	8.7	32.1	0.0	840.0
Entry Rate	11.2	3.9	6.0	24.2	11.2	3.9	6.0	24.2
Exit Rate	10.7	2.9	7.6	22.3	10.7	2.9	7.6	22.3
User Cost	0.06	0.01	0.04	0.11	0.08	0.01	0.06	0.13
No. of Observation	4,490				12,972			

Notes: * denotes figures in $ millions. Data aggregated at the province-industry level for small firms, and at the province-industry-ownership level for large firms.

Table A8

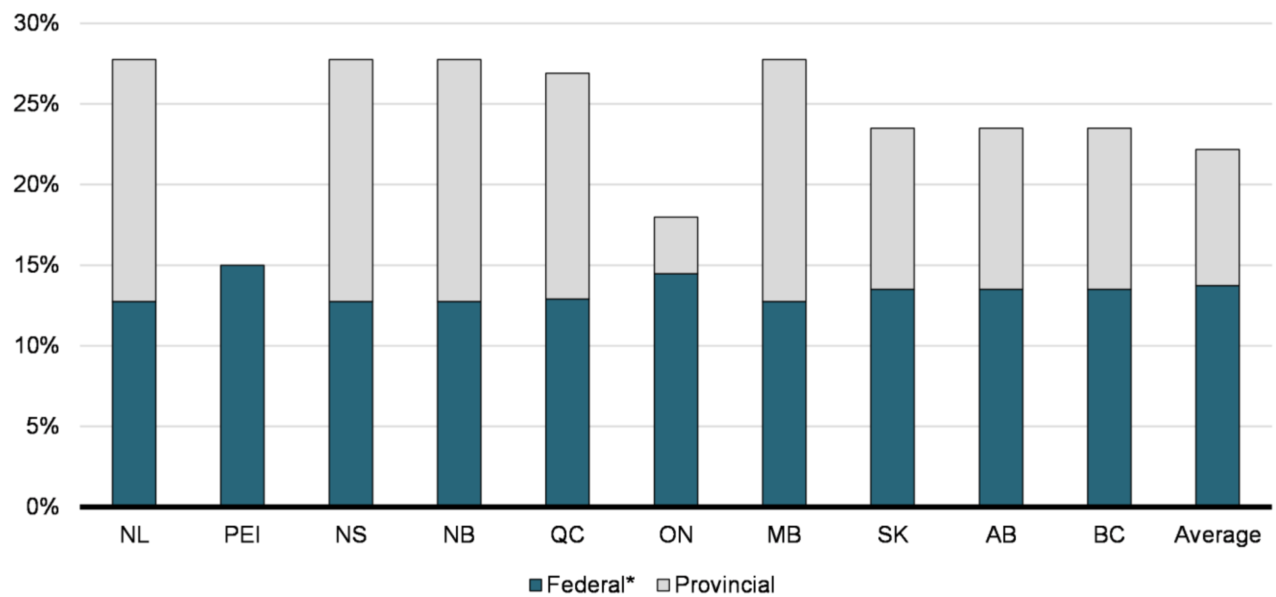
Unit Root Tests on Individual Series, Small and Large Firms

	Small Firms			Large Firms		
	Im, Pesaran & Shin W-stat	ADF-Fisher Chi-square	PP-Fisher Chi-square	Im, Pesaran & Shin W-stat	ADF-Fisher Chi-square	PP-Fisher Chi-square
log(User Cost)	0.00	0.00	0.00	0.00	0.00	0.00
log(Net Income)	0.00	0.00	0.00	0.00	0.00	0.00
log(Work Age Pop.)	0.00	0.00	0.10	0.00	0.00	0.00
log(GDP)t-1	0.00	0.00	0.00	0.00	0.00	0.00
Entry Rate	0.00	1.00	0.98	0.04	0.99	0.00
Exit Rate	0.00	0.00	0.00	0.00	0.00	0.00

Notes: For each series, cells show the probability of maintaining null hypothesis that panels contain individual unit root processes. Other available unit root tests (Levin-Lin Chu, Breitung and Hadri) were excluded due to dataset having large N, small T. Harris-Tzavalis could not be run as panel data is unbalanced. Small firms are CCPCs with no more than $3 million of qualified SR&ED expenditures per year.

Chart A1

Combined Effective Federal-Provincial-Territorial Tax Credit Rates for Large Business, 2018

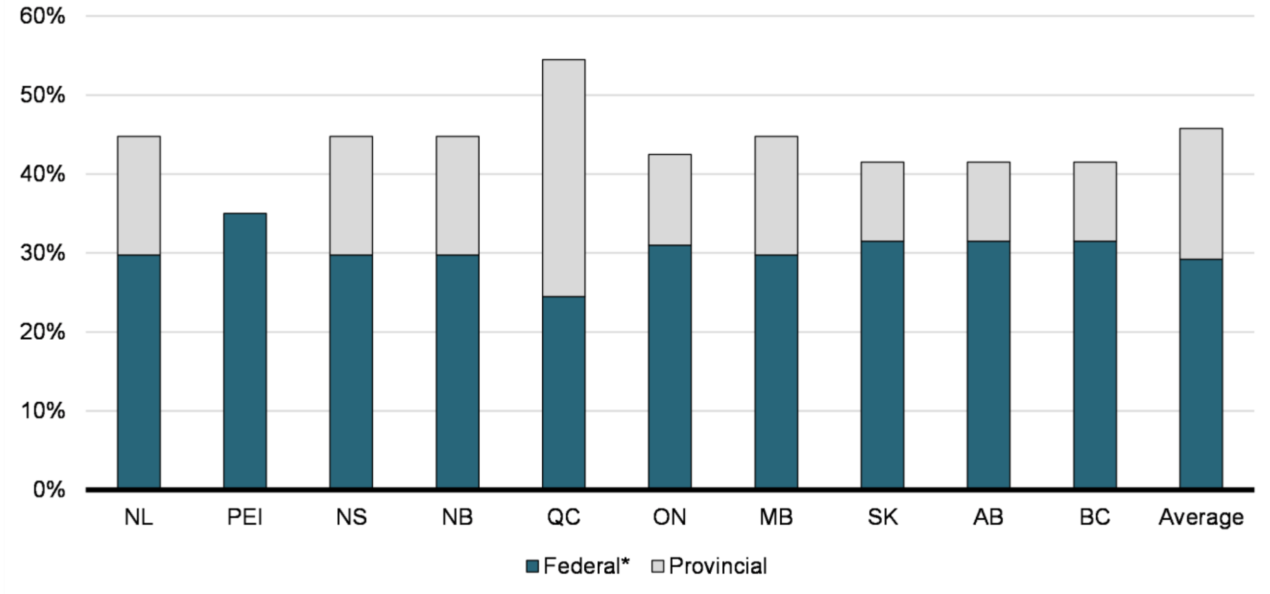


* Federal credit base is reduced by provincial assistance, resulting in a lower effective federal credit in provinces with higher credit rates.

Source: Department of Finance Canada.

Chart A2

Combined Effective Federal-Provincial-Territorial Tax Credit Rates for Small Business, 2018



* Federal credit base is reduced by provincial assistance, resulting in a lower effective federal credit in provinces with higher credit rates.

Source: Department of Finance Canada.

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Gender-Based Analysis Plus of Federal Personal Income Tax Measures: Impacts by Identity Factors other than Gender[1]

Introduction

The *Canadian Gender Budgeting Act* was passed by Parliament in December 2018, enshrining the Government's commitment to decision-making that takes into consideration the impact of policies on all types of Canadians. Among other things, the *Act* legislated a commitment that the Minister of Finance make available to the public analyses on the gender and identity impacts of tax expenditures. Pursuant to this requirement, the 2019 and 2020 editions of the *Report on Federal Tax Expenditures* (RFTE) included Gender-based Analysis Plus (GBA+) studies of existing personal income tax (PIT) expenditures. The main objectives of the 2019 study were to examine the overall impact of the federal PIT system on the distribution of income between men and women as well as the allocation of individual federal PIT expenditure benefits by gender and intersecting identity factors. The 2020 study complemented the first GBA+ by looking at how male and female spouses actually claim tax expenditures with family components – tax reliefs that can be used by either or both spouses or that are tied to the family situation – and how the selected benefit-sharing assumptions within couples impacts GBA+ results.

While the focus of the 2019 and 2020 GBA+ studies was on the impacts of the PIT system by gender, this year's study focuses on differential impacts by other identity factors. It looks at the intergenerational, income distribution and interregional impacts of federal PIT measures independently of gender. In particular, the study examines whether the global PIT system and a set of individual tax expenditures benefit certain taxfilers more than others based on age group, income group, family type and area of residence.[2]

The study is organized as follows. Section 2 presents details on data and scope of the analysis, describes the methodology used and discusses the identity factors considered with a statistical profile of taxfilers. Section 3 presents detailed results of the analysis by age group, income group, family type and area of residence and ends by providing a summary table of the results. Section 4 concludes the paper.

[1] The analysis presented in this paper was prepared by Dominique Fleury, Economist, Tax Policy Branch, Department of Finance Canada. Enquiries regarding Department of Finance Canada publications can be sent to finpub@canada.ca

[2] This type of analysis requires a set of subjective assumptions and is often limited by the availability of data. Like the previously published GBA+ studies, the current study should be viewed as one of various pieces of information for further discussion and analysis of the impacts of existing federal tax expenditures.

Background

2.1 Data and Scope of Analysis

This year's GBA+ is primarily based on 2018 T1 return data, the most recent complete personal income tax dataset. It also uses Canada Child Benefit (CCB) and Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit 2019-2020 payment information, which is based on the income that filers reported in their 2018 tax returns. A merge with Statistics Canada's Postal Code Conversion File (PCCF) was also performed to determine the area of residence of 2018 filers. By merging the postal codes reported on the identification box of 2018 tax returns with the PCCF, November 2019, information on their geographical location could be obtained (i.e., the standard 2016 Census geographic areas where their postal codes belonged – inside or outside census metropolitan areas (CMAs[3])).[4]

The list of PIT expenditures under review includes those for which the main beneficiaries are identifiable in 2018 T1 return data and for which a breakdown based on identity factors can be performed. Registered plans were excluded from the analysis due to incomplete information.[5] Tax expenditures that mainly benefit taxpayers who are not resident individuals (e.g., non-profit organizations, other levels of government, non-residents) were also excluded due to the impossibility of identifying the sociodemographic characteristics of these beneficiaries.

The group of expenditures that has been retained for the analysis is essentially the same as the one studied in the 2019 GBA+, which was based on 2016 data. New expenditures in the analysis include the Canada Caregiver Credit, which was introduced in 2017, and the Investment Tax Credits, which had previously been excluded due to the difficulty of breaking down the variety of credits available (e.g., the Mineral Exploration Tax Credit, Apprenticeship Job Creation Tax Credit and Investment Tax Credit for Child Care Spaces[6]). The Tuition Tax Credit[7] was also split in two parts, i.e., the part claimed for tuition incurred by a taxpayer and the part transferred from a dependant. The most recent data was also detailed enough to allow the inclusion of four additional employment expense deductions[8]:

- Apprentice vehicle mechanics' tools deduction;
- Deductibility of certain costs incurred by musicians;
- Deductibility of expenses by employed artists;
- Partial deduction of and partial input tax credits for meals and entertainment.

Measures that have been replaced or repealed since 2016 are not part of the current analysis (e.g., the Children's Arts Tax Credit).[9]

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3 According to Statistics Canada, a CMA is an area consisting of one or more neighbouring municipalities situated around a core. A CMA must have a total population of at least 100,000 of which 50,000 or more live in the core.

4 This approach allowed the identification of the main area of residence (at the time of filing) for 98.1% of the 2018 filers. It requires the exclusion of some filers due to data unavailability (e.g., missing or undefined postal codes) or inconsistencies (e.g., the province of residence did not match the province to which the postal code belonged or the postal code was valid but the filer was a non-resident). However, data analysis demonstrated that these exclusions do not bias the sociodemographic and economic profile of filers, including their regional distribution. The exclusion of a group of filers would entail some challenges in conducting analyses that require a high degree of precision such as costing of policy measures at the regional level.

5 While information is available in T1 return data on deductible contributions made to, and taxable withdrawals made from, registered plans, no information is available on investment income earned (which is non-taxable) in such plans.

6 The Investment Tax Credit for Child Care Spaces was repealed in Budget 2017. However, transitional relief is still available under certain conditions.

7 The Tuition Tax Credit tax expenditure also includes the remainder of amounts carried forward under the federal Education and Textbook Tax Credits, which were eliminated in 2017.

8 In 2019, information for these measures was considered insufficient to produce reliable results by gender and other intersecting identity factors.

9 With the exception of the Working Income Tax Benefit, which the Canada Workers Benefit replaced as of 2019.

2.2 Methodology

As in the 2019 GBA+, this study will first focus on the overall impact of the federal PIT system on the redistribution of income across filers of different age groups, income levels, family types and areas of residence. Second, it will examine whether a selected set of individual PIT expenditures provide a relatively higher benefit to taxfilers in these specific identity groups.[10]

To examine whether the global federal PIT system redistributes income between groups, it begins by comparing various concepts of income and tax payable. In order to have a redistributive impact toward a specific identity group, the federal PIT system has to:

- reduce – through adjustments, exemptions and deductions – the share of total taxable income that filers of this specific group hold in comparison to their share of total pre-tax income; or
- lower – through the progressive tax rate structure, non-refundable and refundable credits – the share of net tax payable owed by this group relative to those owed by the other groups.

It then examines the impacts of individual PIT expenditures by calculating statistics on the number of beneficiaries as well as on the total amount of benefits received for each of the tax expenditures considered by age group, income group, family type, and area of residence.

- The "number of beneficiaries" refers to the number of taxfilers who, in the absence of a particular tax expenditure, would have had to pay a higher amount of net federal tax, all else being equal (or, in other words, assuming no behavioural change by taxfilers[11]).
- The "total amount of benefits" refers to the amount of net federal tax saved by taxfilers due to the tax expenditure, all else being equal.[12]

In order to control for pre-existing income inequality between identity groups (i.e., before the application of the federal tax system), ratios of the share of total benefits received by each group relative to their share of total pre-tax income were derived. These ratios identify the proportion of total benefits of a tax measure that goes to a particular group of taxfilers in relation to the proportion of total pre-tax income reported by this group. Drawing conclusions based on these ratios allows a distinction between the impact of the tax system and the impact of pre-existing differences in income earned by the different identity groups. It is worth noting that ratios were derived based on the assumption that tax expenditures benefit only taxfilers who claim them on their income tax return.

[10] For additional details on the methodology and a discussion of indicators, see Department of Finance Canada, *Report on Federal Tax Expenditures 2019*, Gender-Based Analysis Plus of Existing Federal Personal Income Tax Measures.

[11] In order to determine the number of beneficiaries and the total amount of benefits attributable to a particular tax expenditure, it was assumed that most other tax expenditures remain unchanged (i.e., assuming no interactions among tax expenditures) and that the behaviour of claimants is not affected by the absence/presence of the tax expenditure. For these reasons, the sum of the benefits associated with each tax expenditure in a group of tax expenditures may not correspond to the total benefits associated with that group. Notably, data limitations precluded an examination of the benefits associated with a number of individual federal PIT expenditures in each of the broad types of tax expenditures.

[12] Net federal tax is before refundable tax credits; as such, possible changes in eligibility for refundable credits and benefit amounts that would occur in the absence of the tax expenditure are not accounted for when calculating the number of beneficiaries and total amount of benefits.

2.3 Identity Factors under Review

Table 1 shows the identity factors under review in this analysis and provides details on their categorization. The GBA+ analytical framework published in Budget 2018 suggests taking into account intersecting identity factors that go beyond biological differences (sex) such as race, ethnicity, sexual orientation or gender identity.[13] However, tax data does not allow such distinctions to be made.[14] The current impact analysis is limited to sociodemographic characteristics that are available in tax data.

Table 1
Details on the identity factors under review

Age group	Adjusted[1] pre-tax family income[2] quintile	Family type[3]	Area of residence
Under age 35	Quintile 1 (Min – $17,823)	Sole filer (filer not in a couple)	Remote (small and rural communities)
Age 35 to 54	Quintile 2 ($17,823 – $32,927)	Sole parent[4] (sole filer with children)	Urban (census metropolitan areas)
Age 55 and over	Quintile 3 ($32,927 – $53,073)	In a couple without children	
	Quintile 4 ($53,073 – $82,246)	In a couple with children	
	Quintile 5 ($82,246 – max)		

[1] Total adjusted family income is a more appropriate indicator of the socio-economic status of individuals since it accounts for the fact that family needs increase with family size. In the current study, the adjusted family income of an individual is obtained by dividing his/her total pre-tax family income by the square root of his/her family size.
[2] Pre-tax income includes all income for federal tax purposes, with the following adjustments: a) plus the non-taxable portion of capital gains; b) less the gross-up of dividends received; c) less the split pension income amounts transferred from a spouse; and d) less the net capital losses incurred during the year and those carried over from prior years.
[3] Family type only considers whether the taxfiler has a spouse or partner (filing or not) as well as whether he or she lives with children under 18 on December 31, 2018. It does not consider whether he or she lives with other relatives.
[4] The presence or absence of children under 18 is determined based on reported children's birthdates.
Source: T1 return data, 2018 for determining the upper limits of each quintile.

[13] Gender identity recognizes that individuals may have perceptions of their own gender which are not necessarily binary (man or woman) and/or correlated with their sex or biological gender attributed at birth. In this study, the term "gender" refers to the sex or biological gender attributed at birth based on available data.

[14] Ways to make better use of available data and overcome existing data limitations are continuously explored to improve GBA+ of tax expenditures.

Among the 58 measures retained for the current study, a minority of them specifically target some of the identity groups under review. Table 2 identifies 17 measures that target some of these groups. For instance, five measures aim to benefit seniors or pensioner filers, namely the non-taxation of Guaranteed Income Supplement and Allowance benefits, Age Credit, Home Accessibility Tax Credit, Pension Income Credit and pension income splitting. Therefore, it will not be surprising to observe that these measures particularly benefit these groups of filers.

Table 2
Federal PIT expenditures that directly target individuals in specific identity groups, 2018

Lower-income filers	Older filers	Filers in a couple	Filers not in a couple	Filers with children	Residents of remote areas
Non-taxation of Guaranteed Income Supplement and Allowance benefits		Spouse or Common-Law Partner Credit		Adoption Expense Tax Credit	Northern Residents Deductions
Non-taxation of social assistance benefits	Age Credit	Unused credits transferred from a spouse or common-law partner		Child Care Expense Deduction	
Goods and Services Tax/Harmonized Sales Tax Credit	Home Accessibility Tax Credit		Eligible Dependant Credit		
Refundable Medical Expense Supplement	Pension Income Credit			Canada Child Benefit (CCB)[1]	
Working Income Tax Benefit	Pension income splitting			Tuition Tax Credit (transferred from a dependant)	

[1] The CCB targets filers with children living in low- to middle-income families.

2.4 Profile of Filers

Table 3 provides an overview of the distribution of 2018 taxfilers by gender and the four identity factors considered in this study. More than 28 million individuals filed a 2018 Canadian PIT return, of which 48.5% were men and 51.5% were women. About 40.2% of them were aged 55 years or more while 27.8% were under the age of 35. The remaining 32.0% were between 35 and 54 years. A fifth of them (bottom quintile) reported an adjusted pre-tax family income below $17,823 whereas the adjusted pre-tax family income of another fifth of them (top quintile) was above $82,246. More than half of all filers (56.3%) lived in a couple that year. Of them, 34.8% had children under 18 in their family. In comparison, 8.2% of filers who were not in a couple had children under 18 in their family. While a majority of filers lived in urban areas (inside CMAs), close to 30% of filers resided in remote areas (outside CMAs).

It is important to mention that the four identity groups under review are not mutually exclusive. The probability of filers being in a given group does affect the probability that they are part of other identity groups. For instance, Table 3 indicates that filers under 35 years of age are considerably less likely to be living in a couple. They also have a significantly lower family income on average and they are slightly less likely to reside in a remote area.[15]

Since the descriptive statistics presented in this study do not control for the interplay between these characteristics, it will be important to keep in mind that this interdependence may play a role in explaining some of the results obtained.

Table 3
Distribution and profile of Canadian taxfilers, by various identity factors, 2018

	Distribution by group (%)	Average age (yrs. old)	Avg. adj. family pre-tax income ($)	% living in a couple	% with children in their family	% residing in a remote area
All taxfilers	100.0	48.9	59,080	56.3	23.1	29.1
Gender						
Men	48.5	48.2	61,540	58.3	21.1	29.5
Women	51.5	49.5	56,830	54.4	25.0	28.7
Age group						
Under age 35	27.8	25.9	36,610	30.0	20.4	25.9
Age 35 to 54	32.0	44.5	69,640	69.3	51.4	26.4
Age 55 and over	40.2	68.3	66,250	64.0	2.5	33.4
Family income quintile						
Quintile 1 (Min – $17,823)	20.0	37.0	8,960	25.4	19.2	26.6
Quintile 2 ($17,823 – $32,927)	20.0	54.9	25,000	42.6	17.8	32.7
Quintile 3 ($32,927 – $53,073)	20.0	50.7	42,970	60.3	25.6	31.9
Quintile 4 ($53,073 – $82,246)	20.0	50.3	66,430	72.2	28.3	29.8
Quintile 5 ($82,246 – max)	20.0	51.5	152,070	80.8	24.7	24.3
Family type						
Sole filer	40.2	44.6	39,350	0.0	0.0	27.4
Sole parent	3.6	39.0	25,880	0.0	100.0	33.4
In a couple without children	36.7	59.4	81,100	100.0	0.0	32.0
In a couple with children	19.6	40.7	66,510	100.0	100.0	26.2
Area of residence						
Remote (outside CMAs)	29.1	50.8	52,900	58.1	21.8	100.0
Urban (inside CMAs)	70.9	48.1	61,200	55.6	23.8	0.0

Notes: All shares have been rounded to the nearest tenth. Avg. adj. family pre-tax income amounts are presented in 2018 dollars, and have been rounded to the nearest ten amounts (except for the lower and upper limits of income quintiles). As a result, totals may not always add up.
Source: T1 return data, 2018 and the T1 return data, 2018 merged with Statistics Canada's Postal Code Conversion File (PCCF), November 2019.

[15] High Pearson correlation coefficients were found (30%-43%) between the following groups of filers: those aged less than 35 years, first quintile members and sole filers; those aged between 35 and 54 years and members of a couple with children; those aged 55 years or more and members of a couple without children.

Results: Differential Impacts by Identity Factors other than Gender

3.1 Age Group

In 2018, individuals aged under 35 years represented 27.8% of all filers but reported 18.2% of total pre-tax income (Table 4). In contrast, filers aged 35-54 and 55+ years reported larger proportions of total pre-tax income (39.9% and 41.9% respectively) than the proportions of filers they represented (32.0% and 40.2%).

Table 4 suggests that the 2018 federal PIT system was globally redistributive toward younger filers since the share of total after-tax income held by filers aged under 35 years (19.1%) is higher than the share of total pre-tax income they reported (18.2%).

A comparison between various concepts of income and tax payable indicates that refundable credits are the main contributor of income redistribution toward younger filers. Filers aged under 35 years reported 18.9% of taxable income while their share of net tax payable after the payment of refundable credits was 7.9%. The tax rate structure also contributed to this trend but to a lesser extent.

Although the various income adjustments applied for tax purposes (i.e., exemptions, deferrals and deductions) especially benefit older filers, the proportion of net tax payable considering refundable credits that this age group had to pay (47.7%) was much higher than their proportion of taxable income (41.0%).

Table 4
Total number of filers and total amounts of various concepts of income and tax payable, by age group, 2018

	Number (#) / Amount in millions ($)			Percentage (%)		
	Under 35	35-54	55+	Under 35	35-54	55+
Total number of filers (#)	7,891,617	9,061,995	11,403,968	27.8	32.0	40.2
Total pre-tax income[1]	261,980	574,625	604,276	18.2	39.9	41.9
Total taxable income[2]	240,948	512,149	522,255	18.9	40.2	41.0
Total net tax payable	23,133	70,805	60,317	15.0	45.9	39.1
Total net tax payable after the receipt of refundable credits	9,407	53,106	56,927	7.9	44.5	47.7
Total after-tax income	252,573	521,520	547,349	19.1	39.5	41.4
Total change in the group's amount ($) and share (pp.[3]) of income before and after the application of the federal PIT system	-9,407	-53,106	-56,927	+0.9	-0.4	-0.5

[1] Refers to disposable personal income before the application of the tax system.

[2] Refers to line 260 of the T1 return, i.e., the income used to calculate federal tax payable.

[3] "pp." stands for percentage points.

Source: T1 return data, 2018.

Table 5 identifies the individual PIT expenditures that contributed or not to this global income redistribution effect toward younger filers. For each of the selected tax expenditures, it presents the share of benefits received by each age group in comparison to the share of pre-tax personal income they reported. Resulting ratios enabled us to classify them in the following three categories:

- Especially benefit younger filers (aged under 35 years);
- Especially benefit middle-age filers (aged between 35 and 54 years);
- Especially benefit older filers (aged 55 years or more).

Overall, the ratios show that a similar number of measures (among the 58 federal PIT expenditures examined in this study) provide a relatively higher benefit to each age group. Indeed, between 25 and 27 measures especially benefit younger, middle-age and older filers. The ratios also indicate an important overlap between the measures that mostly benefit younger and middle-age filers. Among the 37 measures that benefit proportionally more either younger or middle-age filers, 17 of these measures benefit both age groups. Ten exclusively advantage younger filers while a smaller number (6) exclusively advantage middle-age filers. In comparison, measures that especially benefit older filers are much more likely to exclusively advantage this age group (21 out of 25 measures).

Interestingly, even if filers of all age groups are equally likely to claim the credit for the Basic Personal Amount (BPA), the ratios indicate that the BPA is especially benefiting younger filers. Because the BPA is the same for everyone, it represents a higher ratio of pre-tax income for groups with lower pre-tax income such as younger filers. Similarly, some credits granted in recognition of costs related to employment, such as the Canada Employment Credit and the credits for Canada Pension Plan/Quebec Pension Plan (CPP/QPP) contributions and Employment Insurance/Quebec Parental Insurance Plan (EI/QPIP) premiums, are also of slightly greater benefit to younger filers, although younger filers do not necessarily work more than middle-age taxfilers.

The ratios also highlight important differences in the types of expenditures that especially benefit each age group. As an illustration, Table 6 identifies the top five PIT expenditures for younger and older filers as per the ratios presented in Table 5 regardless of the total cost of each tax expenditure. While none of the top five measures for younger filers specifically target this population, they are all intended to compensate for the cost of activities that are typically performed in the early stage of adulthood, such as completing post-secondary education and getting a first home. Conversely, four of the five top measures for older filers are measures that directly target this population (i.e., the Age Credit, non-taxation of Guaranteed Income Supplement and Allowance benefits, Pension Income Credit and pension income splitting). Although the unused credits transferred from a spouse or common-law partner are not entirely directed to this age group, two of the five credits that can be transferred are (the Age and Pension Income Credits). By disaggregating the total benefits of this last measure, it can be observed that these two last credits make up the largest part of the claims, probably because older filers are more likely to be living in family types and income circumstances that allow for such types of transfers.

The Charitable Donation and Political Contribution Tax Credits are also part of the tax expenditures that are not directly targeted to older filers but still especially benefit them. This is also the case of the tax expenditures associated with:

- capital accumulation (e.g., Lifetime Capital Gains Exemption, partial inclusion of capital gains, capital and non-capital loss carry-overs),
- investments (e.g., dividend gross-up and tax credit, deduction of interest and carrying charges incurred to earn investment income and Investment Tax Credits), and,
- health-related costs recognition (e.g., disability supports deduction, Disability Tax Credit, Home Accessibility Tax Credit and Medical Expense Tax Credit).

Table 5

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by age group, 2018

Tax expenditures	Ratios by age group			Especially benefits		
	Under 35	**35-54**	**55+**	**Under 35**	**35-54**	**55+**
Exemptions						
Lifetime Capital Gains Exemption	0.54	0.70	1.48	○	○	●
Non-taxation of Guaranteed Income Supplement and Allowance benefits	0.00	0.00	**2.38**	○	○	●
Non-taxation of CPP/QPP contributions by employers	1.43	1.28	0.55	●	●	○
Non-taxation of EI and QPIP premiums paid by employers	**1.53**	1.25	0.53	●	●	○
Non-taxation of income earned by military and police deployed to international operational missions	**2.60**	1.26	0.06	●	●	○
Non-taxation of social assistance benefits	1.45	1.11	0.70	●	●	○
Non-taxation of workers' compensation benefits	0.53	0.83	1.36	○	○	●
Partial inclusion of capital gains	0.20	0.60	**1.72**	○	○	●
Deductions						
Apprentice vehicle mechanics' tools deduction	**4.59**	0.33	0.08	●	○	○
Capital loss carry-overs	0.10	0.54	**1.83**	○	○	●
Child Care Expense Deduction	1.47	**1.81**	0.02	●	●	○
Deductibility of certain costs incurred by musicians or of expenses by employed artists	1.23	1.24	0.68	●	●	○
Deduction for clergy residence	0.46	1.14	1.11	○	●	●
Deduction for tradespeople's tool expenses	**3.20**	0.86	0.18	●	○	○
Deduction of allowable business investment losses	0.22	1.09	1.25	○	●	●
Deduction of interest and carrying charges incurred to earn investment income	0.11	0.57	**1.80**	○	○	●
Deduction of other employment expenses	0.81	1.38	0.72	○	●	○
Deduction of union and professional dues	1.28	1.32	0.57	●	●	○
Disability supports deduction	0.42	0.77	1.47	○	○	●
Employee stock option deduction	0.32	1.22	1.08	○	●	●
Moving expense deduction	1.49	1.40	0.41	●	●	○
Non-capital loss carry-overs	0.27	0.88	1.43	○	○	●
Northern residents deductions	1.40	1.16	0.68	●	●	○
Partial deduction of and partial input tax credits for meals and entertainment	0.74	1.47	0.66	○	●	○
Rollovers of investments in small businesses	0.70	0.84	1.28	○	○	●
Non-refundable credits						
Adoption Expense Tax Credit	0.86	**1.96**	0.15	○	●	○
Age Credit – for self	0.00	0.00	**2.38**	○	○	●
Canada Caregiver Credit – for self	0.23	1.15	1.19	○	●	●
Canada Employment Credit	**1.75**	1.09	0.59	●	●	○
Charitable Donation Tax Credit	0.28	0.66	**1.63**	○	○	●
Credit for the Basic Personal Amount	1.48	0.86	0.93	●	○	○
Disability Tax Credit – for self and transferred from a dependant other than a spouse	0.35	0.92	1.36	○	○	●
Dividend gross-up and tax credit	0.31	0.84	1.45	○	○	●
Eligible Dependant Credit	1.18	**1.85**	0.11	●	●	○
First-Time Home Buyers' Tax Credit	**3.53**	0.79	0.10	●	○	○
Foreign tax credit for individuals	0.58	1.03	1.15	○	○	●
Home Accessibility Tax Credit	0.32	0.55	**1.72**	○	○	●
Investment Tax Credits[1]	0.14	0.80	**1.56**	○	○	●
Labour-Sponsored Venture Capital Corporations Credit	0.69	1.25	0.90	○	●	○

Table 5

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by age group, 2018

Tax expenditures	Ratios by age group			Especially benefits		
	Under 35	35-54	55+	Under 35	-- 35-54 --	55+
Medical Expense Tax Credit	0.33	0.61	**1.66**	○	○	●
Pension Income Credit – for self	0.01	0.06	**2.32**	○	○	●
Political Contribution Tax Credit	0.24	0.51	**1.80**	○	○	●
Search and Rescue Volunteers Tax Credit	1.12	0.98	0.96	●	○	○
Spouse or Common-Law Partner Credit	1.11	1.35	0.62	●	●	○
Student Loan Interest Credit	**3.86**	0.70	0.04	●	○	○
Tax credit for CPP/QPP contributions by employed and self-employed persons	**1.58**	1.25	0.51	●	●	○
Tax credit for EI and QPIP premiums paid by employed and self-employed persons	**1.66**	1.21	0.51	●	●	○
Tuition Tax Credit – for self[2]	**4.74**	0.32	0.03	●	○	○
Tuition Tax Credit – transferred from a dependant other than a spouse	0.00	**1.53**	0.93	○	●	○
Volunteer Firefighters Tax Credit	**1.75**	1.17	0.51	●	●	○
Unused credits transferred from a spouse or common-law partner[3]	0.34	0.37	**1.88**	○	○	●
Refundable credits						
Canada Child Benefit	**2.18**	1.48	0.04	●	●	○
Goods and Services Tax/Harmonized Sales Tax Credit	**2.07**	0.66	0.86	●	○	○
Refundable Medical Expense Supplement	**1.75**	0.97	0.70	●	○	○
Teacher and Early Childhood Educator School Supply Tax Credit	**1.67**	1.47	0.26	●	●	○
Working Income Tax Benefit[4]	**2.77**	0.88	0.35	●	○	○
Other refundable credits[5]	0.79	1.29	0.81	○	●	○
Other types						
Pension income splitting	0.00	0.04	**2.34**	○	○	●

Notes: A ratio higher than 1.05 indicates that a group of taxfilers benefits from the tax expenditure proportionally more than others, and vice versa. Ratios in **bold** indicate measures that benefit one age group considerably more over another.

[1] The Investment Tax Credits includes various tax credits, i.e., the Mineral Exploration Tax Credit, Apprenticeship Job Creation Tax Credit and Investment Tax Credit for Child Care Spaces.

[2] Tuition Tax Credit – for self includes Education and Textbook Tax Credit amounts claimed as part of the carry-forward provision, but excludes the portion of the Tuition Tax Credit that is transferred to others.

[3] The unused portion of the following credits can be transferred to a spouse or common-law partner: Age Credit, Pension Income Credit, Disability Tax Credit – for self, Tuition Tax Credit and Canada Caregiver Credit for infirm children under 18 years. For these tax expenditures, the portions transferable to a spouse or common-law partner are considered in the "unused credits transferred from a spouse or common-law partner" measure. Thus, only the portions of these measures that taxfilers claim for themselves or their dependants, and that are therefore not related to their marital status, are presented separately in the table.

[4] The Canada Workers Benefit replaced the Working Income Tax Benefit in 2019.

[5] Other refundable credits include the refund of the investment tax credit, the rebate to employees and partners, and the Part XII.2 trust tax credit.

Source: T1 return data, 2018.

Table 6
The top five federal PIT expenditures for younger and older filers, 2018

Younger (18-34 years) (18.2% of pre-tax income was held by younger filers)			Older (55+ years) (41.9% of pre-tax income was held by older filers)		
Tax expenditures	**% of benefits going to younger filers**	**Total costs ($ millions)**	**Tax expenditures**	**% of benefits going to older filers**	**Total costs ($ millions)**
Tuition Tax Credit – for self	86.1	1,630 (all)	Age Credit	100.0	3,625
Apprentice vehicle mechanics' tools deduction	83.5	3	Non-taxation of Guaranteed Income Supplement and Allowance benefits	100.0	225
Student Loan Interest Credit	70.3	50	Pension income splitting	98.3	1,380
First-Time Home Buyers' Tax Credit	64.1	105	Pension Income Credit	97.5	1,235
Deduction for tradespeople's tool expenses	58.2	2	Unused credits transferred from a spouse or common-law partner	79.0	340

Sources: T1 return data; 2018 and 2020 RFTE.

3.2 Income Group

Table 7 aggregates total amounts of different concepts of income and tax payable by filers' family income categories. The first category, called first or bottom quintile, includes the 20% of filers with the lowest family income adjusted for family size. The last category, called fifth or top quintile, includes the 20% of filers with the highest adjusted family income.

The distribution of total personal pre-tax income by quintile shows considerable income inequalities between these income groups. Filers in the bottom quintile reported 4.2% of total pre-tax income in 2018 in comparison to 49.0% for those in the top quintile. However, a comparison with other types of income and tax concepts suggests that the federal PIT system is globally redistributive toward lower-income filers.

Comparing the distribution of taxable income (a concept of income derived for tax purposes, i.e., after the application of exemptions, deferrals and deductions) to that of pre-tax income, the results show slight decreases in the shares of income held by the first two quintiles as well as by the top quintile. These changes reduce the portions of taxes payable by members of these quintiles as opposed to what they would have paid if tax rates had been applied to pre-tax income. In contrast, these changes increase the portions of taxes payable by members of the third and fourth quintiles.

The progressive tax rate structure and existing credits, in particular refundable credits, are especially important drivers of the federal PIT system's income redistribution impact. The shares of tax payable by members of the top quintile before and after the application of refundable credits (66.4% and 84.9% respectively) are significantly higher than the share of taxable income they report (47.7%). In contrast, the shares of tax payable by members of the first three quintiles are all lower than their shares of reported income. As an example, members of the bottom quintile reported 3.7% of taxable income in 2018 while their tax liabilities represented only 1% of all taxes payable before the application of refundable credits. When refundable credits are taken into account, the amount of credits they receive is even greater than the amount of taxes they owe, which increases the share of after-tax income they hold relative to their share of pre-tax income. Such a trend is especially important for members of the first income quintile and is also true for quintiles two and three, but to a lesser extent.

On the other hand, the shares of before- and after-tax income held by members of quintile four are very similar (22.6% and 22.5%), and this trend is completely reversed for members of the top quintile; i.e., the proportion of after-tax income held by the fifth quintile is lower than its proportion of pre-tax income (45.8% versus 49.0%). All this suggests that the global income redistribution impact of the federal PIT system comes mainly from quintile 5 toward quintiles 1, 2 and 3. As noted earlier, changes in income for tax purposes generally advantage members of the top quintile, which likely attenuates the observed redistributive impact.

Table 7

Total number of filers and total amounts of various concepts of income and tax payable, by adjusted family income quintile, 2018

	Number (#) / Amount in millions ($)					Percentage (%)				
	1st quintile	2d quintile	3rd quintile	4th quintile	5th quintile	Q1	Q2	Q3	Q4	Q5
Total number of filers	5,671,253	5,672,598	5,672,709	5,672,526	5,671,494	20.0	20.0	20.0	20.0	20.0
Total pre-tax income	60,209	131,206	218,225	325,121	706,120	4.2	9.1	15.1	22.6	49.0
Total taxable income	46,969	113,443	205,554	300,576	608,811	3.7	8.9	16.1	23.6	47.7
Total net tax payable	1,500	3,535	14,894	31,909	102,418	1.0	2.3	9.7	20.7	66.4
Total net tax payable after the receipt of refundable credits	-12,552	-5,687	8,115	28,156	101,408	-10.5	-4.8	6.8	23.6	84.9
Total after-tax income	72,761	136,893	210,110	296,965	604,712	5.5	10.4	15.9	22.5	45.8
Total change in the group's amount ($) and share (pp.) of income before and after the application of the federal PIT system	+12,552	+5,687	-8,115	-28,156	-101,408	+1.3	+1.3	+0.8	-0.1	-3.2

Source: T1 return data, 2018.

Among existing individual PIT expenditures, some are explicitly targeted to lower income filers to achieve particular policy objectives. Other are notionally available to all filers but, in practice, only result in tax savings for those with high enough taxable income. It is thus interesting to examine the extent to which individual PIT expenditures influence the income of filers based on their family income situation. In order to shed some light on how individual PIT expenditures contributed to the global income redistribution trends observed in Table 7, the total benefits associated with the list of 58 PIT expenditures previously established have been broken down by adjusted family income quintile. Each PIT expenditure was then classified as especially benefiting filers in one or several of the five income quintiles.

PIT expenditures that especially benefit lower-income filers relative to their share of income are considered progressive since they contribute to income redistribution from the top to the bottom of the income distribution. In contrast, expenditures that especially benefit higher-income filers are considered regressive as they contribute to increased income inequalities between these two groups.

The classification in Table 8 first shows that few measures especially benefit individual quintiles. Most of them especially benefit members of two or more quintiles at a time. However, certain trends are observed depending on the type of tax expenditure considered. Notably, Table 8 suggests that individual PIT expenditures in the form of exemptions, deferrals and deductions are more likely to especially benefit members of higher quintiles (Q4 and Q5) and, therefore, to be regressive. Among all measures considered of this type, only two especially benefit members of lower income quintiles. These are the two expenditures aiming to exempt from tax income received via income support programs available to low-income individuals, namely the non-taxation of Guaranteed Income Supplement and Allowance benefits and the non-taxation of social assistance benefits. Two others are neither regressive nor progressive since they especially benefit taxfilers located in the middle of the income distribution. These are the non-taxation of workers' compensation benefits and the Apprentice vehicle mechanics' tools deduction. The remaining 21 PIT expenditures of this type are found to advantage higher-income taxfilers, and among these, ten especially benefit filers in the top quintile only. These include measures concerning:

- the accumulation of capital gains (Lifetime Capital Gains Exemption, partial inclusion of capital gains, capital gains loss carry-overs),
- investments (deduction of allowable business investment losses, deduction of interest and carrying charges incurred to earn investment income, non-capital loss carry-overs, rollovers of investments in small businesses, employee stock option deduction), and
- some employment-related expenses (partial deduction of and partial input tax credits for meals and entertainment).

An opposite trend is observed with respect to refundable credits. Most refundable credits especially benefit members of lower income quintiles – which was expected given the eligibility criteria of these measures – and thus contribute to reduce income inequalities between filers at the top and bottom of the income distribution. This is notably the case of the Canada Child Benefit (CCB), Goods and Services Tax/Harmonized Sales Tax Credit (GSTC), Refundable Medical Expense Supplement (RMES) and Working Income Tax Benefit (WITB). Among refundable credits, the Teacher and Early Childhood Educator School Supply Tax Credit and other refundable credits (includes the refund of the investment tax credit, the rebate to employees and partners, and the Part XII.2 trust tax credit) do not contribute to this trend since they especially benefit members of quintiles 4 and 5 respectively. It is interesting to note that, among refundable credits that contribute to income redistribution, the CCB and the GSTC provide a relatively higher benefit to members of the first three income quintiles while the RMES especially benefits members of the first two quintiles only. In comparison, WITB benefits are concentrated more narrowly at the bottom of the income distribution; only members of the first income quintile especially benefited from this PIT expenditure in 2018.

Patterns are more nuanced with regard to non-refundable credits. Of the 26 non-refundable credits under review, five are neither progressive nor regressive since they especially benefit filers in the middle of the income distribution (Q2, Q3 and Q4). These include the Disability Tax Credit, First-Time Home Buyers' Tax Credit, Pension Income Credit, Student Loan Interest Credit and Volunteer Firefighters Tax Credit. Of the 21 remaining non-refundable credits, seven are progressive while twice as many (14) are more regressive. Table 9 suggests that the Investment Tax Credits and the foreign tax credit for individuals are among the most regressive non-refundable credits. More than 95% of the benefits associated with these credits went to members of the top two family income quintiles in 2018.

Table 8 also shows that pension income splitting does not globally contribute to income redistribution toward lower-income filers given that the measure especially benefits filers in the third and fourth family income quintiles.

Among all the individual PIT expenditures examined, a larger share appears to especially benefit higher-income filers. This may seem counterintuitive relative to the global redistributive impact found in Table 7. However, this can be explained by the fact that individual PIT expenditures especially benefiting lower-income filers globally provide larger tax relief than those especially benefiting higher-income filers. As an illustration, Table 9 indicates that the benefits associated with (or in other words, the costs associated with) the top five PIT expenditures for lower-income filers are considerably higher than those associated with the top five PIT expenditures for higher-income filers, mainly because of the CCB.[16]

[16] Lower-income filers were possibly entitled to larger amounts of refundable credits because of some exemptions and deductions; which are not accounted for in the current methodology. Preliminary results of analyses considering the indirect impact of refundable credits suggest that quintiles 2, 3 and 4 especially benefited from the child care expense deduction in 2018 as opposed to only quintiles 3 and 4 (Table 8). On the other hand, the benefits associated with the deduction of union and professional dues remain at the advantage of quintile 4 only. Considering the additional effects of refundable credits in the analysis could thus change the picture of some exemptions and deductions in favor of lower-income groups; but not all. This aspect will be examined further in future analyses.

Table 8

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by family income quintile, 2018

Tax expenditures	Ratios by family income quintile					Especially benefits (Progressive – Regressive)
	Q1	Q2	Q3	Q4	Q5	Q1 -- Q2 -- Q3 -- Q4 -- Q5
Exemptions						
Lifetime Capital Gains Exemption	0.09	0.00	0.01	0.02	**2.02**	○—○—○—○—●
Non-taxation of Guaranteed Income Supplement and Allowance benefits	0.62	**7.59**	1.31	0.22	0.07	○—●—●—○—○
Non-taxation of CPP/QPP contributions by employers	0.42	0.78	1.22	1.35	0.86	○—○—●—●—○
Non-taxation of EI and QPIP premiums paid by employers	0.46	0.82	1.26	1.37	0.83	○—○—●—●—○
Non-taxation of income earned by military and police deployed to international operational	0.19	0.10	0.75	**1.84**	0.93	○—○—○—●—○
Non-taxation of social assistance benefits	**8.82**	**5.46**	0.70	0.09	0.02	●—●—○—○—○
Non-taxation of workers' compensation benefits	0.28	1.23	**1.86**	1.40	0.57	○—●—●—●—○
Partial inclusion of capital gains	0.31	0.04	0.11	0.19	**1.88**	○—○—○—○—●
Deductions						
Apprentice vehicle mechanics' tools deduction	0.23	1.78	2.68	1.24	0.29	○—●—●—●—○
Capital loss carry-overs	0.16	0.04	0.15	0.31	**1.83**	○—○—○—○—●
Child Care Expense Deduction	0.14	0.62	1.06	1.39	0.95	○—○—●—●—○
Deductibility of certain costs incurred by musicians or of expenses by employed artists	0.25	0.71	0.94	1.17	1.06	○—○—○—●—●
Deduction for clergy residence	0.21	0.92	**1.55**	1.49	0.69	○—○—●—●—○
Deduction for tradespeople's tool expenses	0.30	0.96	**1.81**	**1.65**	0.52	○—○—●—●—○
Deduction of allowable business investment losses	0.08	0.13	0.40	0.65	**1.59**	○—○—○—○—●
Deduction of interest and carrying charges incurred to earn investment income	0.15	0.07	0.24	0.46	**1.73**	○—○—○—○—●
Deduction of other employment expenses	0.22	0.27	0.63	0.95	1.34	○—○—○—○—●
Deduction of union and professional dues	0.25	0.40	0.90	1.43	1.01	○—○—○—●—○
Disability supports deduction	0.11	0.42	1.17	1.04	1.11	○—○—●—○—●
Employee stock option deduction	0.30	0.00	0.01	0.02	**2.01**	○—○—○—○—●
Moving expense deduction	0.29	0.64	0.97	1.16	1.06	○—○—○—●—●
Non-capital loss carry-overs	0.35	0.59	0.73	0.66	1.37	○—○—○—○—●
Northern Residents Deductions	0.35	0.69	0.92	1.06	1.11	○—○—○—●—●
Partial deduction of and partial input tax credits for meals and entertainment	0.14	0.10	0.28	0.51	**1.69**	○—○—○—○—●
Rollovers of investments in small businesses	0.41	0.38	0.22	0.28	**1.74**	○—○—○—○—●
Non-refundable credits						
Adoption Expense Tax Credit	0.23	0.77	1.28	1.45	0.81	○—○—●—●—○
Age Credit	0.17	**2.93**	**2.61**	1.13	0.16	○—●—●—●—○
Canada Caregiver Credit	0.19	0.97	**2.14**	1.35	0.56	○—○—●—●—○
Canada Employment Credit	1.21	**1.65**	**1.54**	1.21	0.60	●—●—●—●—○
Charitable Donation Tax Credit	0.21	0.41	0.72	0.72	1.39	○—○—○—○—●
Credit for the Basic Personal Amount	**2.22**	**1.92**	**1.55**	1.10	0.51	●—●—●—●—○
Disability Tax Credit – for self and transferred from a dependant other than a spouse	0.28	**1.61**	**2.14**	1.31	0.45	○—●—●—●—○
Dividend gross-up and tax credit	0.13	0.18	0.46	0.60	**1.58**	○—○—○—○—●
Eligible Dependant Credit	**2.77**	**3.90**	**1.79**	0.72	0.19	●—●—●—○—○
First-Time Home Buyers' Tax Credit	0.39	1.14	**1.80**	**1.55**	0.53	○—●—●—●—○

Table 8
Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by family income quintile, 2018

Tax expenditures	Ratios by family income quintile					Especially benefits: Progressive – Regressive				
	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5
Foreign tax credit for individuals	0.42	0.06	0.15	0.30	**1.81**	○	○	○	○	●
Home Accessibility Tax Credit	0.13	0.52	**1.65**	**1.58**	0.70	○	○	●	●	○
Investment Tax Credits	0.09	0.07	0.16	0.20	**1.88**	○	○	○	○	●
Labour-Sponsored Venture Capital Corporations Credit	0.07	0.27	1.03	**1.60**	0.93	○	○	○	●	○
Medical Expense Tax Credit	0.26	1.02	**1.75**	1.30	0.69	○	○	●	●	○
Pension Income Credit	0.10	1.17	**2.03**	1.38	0.55	○	●	●	●	○
Political Contribution Tax Credit	0.12	0.27	0.75	1.03	1.28	○	○	○	○	●
Search and Rescue Volunteers Tax Credit	0.27	0.77	1.35	1.47	0.78	○	○	●	●	○
Spouse or Common-Law Partner Credit	**4.37**	**2.89**	**1.70**	0.76	0.25	●	●	●	○	○
Student Loan Interest Credit	0.37	1.21	**1.91**	**1.58**	0.46	○	●	●	●	○
Tax credit for CPP/QPP contributions by employed and self-employed persons	0.49	0.99	1.42	1.39	0.74	○	○	●	●	○
Tax credit for EI and QPIP premiums paid by employed and self-employed persons	0.55	1.05	1.44	1.37	0.72	○	○	●	●	○
Tuition Tax Credit – for self	1.30	**3.75**	**2.04**	0.84	0.22	●	●	●	○	○
Tuition Tax Credit – transferred from a dependant	0.15	0.60	0.92	1.04	1.15	○	○	○	○	●
Volunteer Firefighters Tax Credit	0.30	1.07	**1.78**	1.57	0.55	○	●	●	●	○
Unused credits transferred from a spouse or common-law partner	0.18	**2.76**	**2.96**	0.87	0.20	○	●	●	○	○
Refundable credits										
Canada Child Benefit	**9.28**	**2.54**	1.36	0.61	0.07	●	●	●	○	○
Goods and Services Tax/Harmonized Sales Tax Credit	**9.26**	**4.51**	1.22	0.07	0.00	●	●	●	○	○
Refundable Medical Expense Supplement	**10.23**	**5.11**	0.65	0.03	0.01	●	●	○	○	○
Teacher and Early Childhood Educator School Supply Tax Credit	0.79	0.46	0.78	1.45	0.98	○	○	○	●	○
Working Income Tax Benefit	**21.94**	0.83	0.03	0.01	0.00	●	○	○	○	○
Other refundable credits	0.47	0.39	0.69	0.96	1.28	○	○	○	○	●
Other types										
Pension income splitting	0.02	0.37	**2.20**	**1.60**	0.56	○	○	●	●	○

Notes: A ratio higher than 1.05 indicates that a group of taxfilers benefits from the tax expenditure proportionally more than others, and vice versa. Ratios in **bold** indicate measures that benefit one group considerably more over another.
Source: T1 return data, 2018.

Table 9

The top five progressive and regressive federal PIT expenditures for lower-income and higher-income filers, 2018

Progressive (13.3% of pre-tax income was held by filers in Q1 and Q2)			Regressive (71.6% of pre-tax income was held by filers in Q4 and Q5)		
Tax expenditures	**% of benefits going to lower-income filers**	**Total costs ($ millions)**	**Tax expenditures**	**% of benefits going to higher-income filers**	**Total costs ($ millions)**
Working Income Tax Benefit	99.3	1,105	Lifetime Capital Gains Exemption	99.5	1,855
Refundable Medical Expense Supplement	89.2	165	Employee stock option deduction	98.7	770
Non-taxation of social assistance benefits	86.5	300	Investment Tax Credits	96.7	65
Goods and Services Tax/Harmonized Sales Tax Credit	79.7	4,650	Partial inclusion of capital gains	96.6	8,700
Canada Child Benefit	61.9	23,900	Foreign tax credit for individuals	95.5	1,825

Sources: T1 return data; 2018 and 2020 RFTE.

3.3 Family Type

As the 2020 GBA+ study pointed out, there are a number of federal PIT expenditures that include a family component, meaning that they can be transferred or shared between spouses at filing, or that entitlement depends on filers' family circumstances or income.[17] It is thus interesting to examine whether individual PIT expenditures influence the income of filers differently based on their family circumstances. As Table 10 shows, filers without a spouse (sole filers and sole parents) represent a larger proportion of filers (43.7%) than the proportion of pre-tax income they report (33.8%), while the opposite is true for filers in couples (with or without children).

Overall, the federal PIT system has a small income redistribution impact between family types. In 2018, the system globally reduced by one percentage point the share of income held by filers in couples without children, while it slightly increased that of all other family types, especially sole parents (0.7 percentage points). The various concepts of income and tax payable compared in Table 10 suggest that all major components of the federal tax system have a positive overall income redistribution impact toward sole parents. On the other hand, it shows that only refundable credits generate a positive income redistribution impact toward filers in couples with children, and that all components other than refundable credits have a small positive impact toward sole filers.

[17] Department of Finance Canada, *Report on Federal Tax Expenditures 2020*, "Gender-Based Analysis Plus of Federal Personal Income Tax Expenditures With Family Components".

Table 10

Total number of filers and total amounts of various concepts of income and tax payable, by family type, 2018

	Number (#) / Amount in millions ($)				Percentage (%)			
	Sole filer (S)	Sole parent (SC)	Couple without children (C)	Couple with children (CC)	S	SC	C	CC
Total number of filers	11,412,118	994,495	10,393,239	5,557,728	40.2	3.5	36.7	19.6
Total pre-tax income	447,885	39,081	596,656	357,259	31.1	2.7	41.4	24.8
Total taxable income	392,572	33,060	529,874	319,846	30.8	2.6	41.5	25.1
Total net tax payable	41,546	2,797	65,199	44,714	26.9	1.8	42.3	29.0
Total net tax payable after the receipt of refundable credits	35,761	-6,225	62,824	27,080	29.9	-5.2	52.6	22.7
Total after-tax income	412,124	45,306	533,833	330,179	31.2	3.4	40.4	25.0
Total change in the group's amount ($) and share (pp.) of income before and after the application of the federal PIT	-35,761	+6,225	-62,824	-27,080	+0.1	+0.7	-1.0	+0.2

Source: T1 return data, 2018.

In order to observe the redistributive impact between family types of the selected 58 individual tax expenditures, Table 11 classifies them in one or several of the following four family categories:

- Especially benefits sole filers (S);
- Especially benefits sole parents (SC);
- Especially benefits filers in a couple without children (C); or
- Especially benefits filers in a couple with children (CC).

Again, with this classification, it can be observed that a majority of PIT expenditures especially benefit more than one family type (33 out of 58). Four expenditures predominantly benefit sole filers only. These are the non-taxation of Guaranteed Income Supplement and Allowance benefits (which is the federal PIT expenditure benefiting sole filers the most according to Table 12), the apprentice vehicle mechanics' tools deduction, the credit for the Basic Personal Amount and the Tuition Tax Credit – for self. A similar number of PIT expenditures especially benefit filers in a couple with children only, including the deduction of other employment expenses, moving expense deduction, partial deduction of and partial input tax credits for meals and entertainment, Volunteer Firefighters Tax Credit and other refundable credits. By comparison, only one expenditure exclusively benefits sole parents relatively more, namely the Eligible Dependant Credit. This measure is identified as the top federal PIT expenditure for sole parents in Table 12. This is consistent with the nature of this credit since only taxfilers who support a dependant and do not have a spouse or common-law partner can claim it.

However, a larger number of PIT expenditures (15) are found to advantage only filers in a couple without children. While the most important measure is pension income splitting, other tax expenditures also significantly benefit these filers, including the Lifetime Capital Gains Exemption, capital loss carry-overs, and the deduction of interest and carrying charges incurred to earn investment income. With the exception of the Search and Rescue Volunteers Tax Credit, which tends to especially benefit younger filers, PIT expenditures that are found to predominantly benefit filers in a couple without children are also measures that especially benefit older filers. The three PIT expenditures that more than proportionally benefit filers in a couple without children and sole filers (the non-taxation of workers' compensation benefits, partial inclusion of capital gains and Age Credit) are also measures that especially benefit older filers. This makes sense given that living in a childless couple or being unattached are the most prevalent family circumstances of older filers. In 2018, 67.9% of filers aged 55 years or more lived in a couple without children and 35.6% lived without a spouse and children. In comparison, the proportions of filers aged 35 to 54 years who lived in similar family situations were 25.0% and 23.7% respectively.

PIT expenditures targeted to lower-income filers are also found to especially benefit sole filers (with or without children). This may be due to the fact that persons who do not live in a couple are more likely to have a low family income.[18] The expenditures that especially benefit filers who do not live in a couple include a number of measures that also especially benefit younger filers (i.e., those under 35 years), two-thirds of whom were sole filers in 2018 (66.0%). This is notably the case of the credit for the Basic Personal Amount, of some credits for education expenses (Student Loan Interest Credit and the Tuition Tax Credit – for self) and for the purchase of a first home.

The Spouse or Common-Law Partner Credit is among the PIT expenditures that especially benefit filers in a couple (with or without children). This is expected given that only filers living in a couple can claim this credit. Only filers living in a couple can also claim the unused credits transferred from a spouse or common-law partner. However, this measure especially benefits filers in a couple without children only. This is likely because of the age restriction associated with some of the credits that can be transferred (i.e., the Age and Pension Income Credits). Some PIT expenditures that are not specifically targeted to filers in couples also predominantly benefit filers in this family type, including the deduction of allowable business investment losses, the employee stock option deduction and the Tuition Tax Credit – transferred from a dependant. While this last measure targets parents, Table 11 indicates that both couples with and without children especially benefit from it because many claimants of this measure only have children aged 18 years or more.[19]

Table 11 also indicates that some measures especially benefit filers with children, whether they are in a couple or not. As expected, the Child Care Expense Deduction and the CCB, which are both directly targeted to families with children, appear as the top two federal PIT expenditures for couples with children in Table 13. However, this is also true for several measures that do not directly target families with children, including the Disability Tax Credit, the Northern Residents Deductions and several employment-related measures (e.g., deduction of union and professional dues and measures related to CPP/QPP and EI contributions). In most cases, those expenditures also especially benefit filers aged under 55 years.

[18] In 2018, 60.4% of filers who were not in a couple were part of quintiles 1 or 2 compared with 24.2% of filers in a couple.
[19] The present study identifies the presence of children in the family when at least one child is aged less than 18 years.

Results in Tables 11, 12 and 13 confirm that the type of family in which filers find themselves can influence the share of benefits they obtained from the various individual PIT expenditures, whether these are directly targeted at certain types of families or not. However, they also demonstrate the important interdependence that exists between filers' age, family situation, position in the family income distribution and the share of benefits they received from various PIT expenditures.

Table 11

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by family type, 2018

Tax expenditures	Ratios by family type				Especially benefits			
	Sole filer	Sole parent	Couple without children	Couple with children	S	SC	C	CC
Exemptions								
Lifetime Capital Gains Exemption	0.87	0.34	1.32	0.70	○	○	●	○
Non-taxation of Guaranteed Income Supplement and Allowance benefits	**2.54**	0.06	0.49	0.02	●	○	○	○
Non-taxation of CPP/QPP contributions by employers	0.99	1.25	0.83	1.27	○	●	○	●
Non-taxation of EI and QPIP premiums paid by employers	1.05	1.26	0.81	1.22	○	●	○	●
Non-taxation of income earned by military and police deployed to international operational missions	1.19	0.54	0.63	1.43	●	○	○	●
Non-taxation of social assistance benefits	**2.27**	**3.55**	0.24	0.40	●	●	○	○
Non-taxation of workers' compensation benefits	1.19	1.01	1.05	0.68	●	○	○	○
Partial inclusion of capital gains	1.07	0.26	1.26	0.55	●	○	●	○
Deductions								
Apprentice vehicle mechanics' tools deduction	**2.31**	0.38	0.31	0.58	●	○	○	○
Capital loss carry-overs	0.87	0.26	1.42	0.55	○	○	●	○
Child Care Expense Deduction	0.06	**4.15**	0.04	**3.44**	○	●	○	●
Deductibility of certain costs incurred by musicians or of expenses by employed artists	1.10	0.72	0.84	1.18	●	○	○	●
Deduction for clergy residence	0.39	0.19	1.21	**1.51**	○	○	●	●
Deduction for tradespeople's tool expenses	1.61	0.47	0.52	1.10	●	○	○	●
Deduction of allowable business investment losses	0.63	0.48	1.21	1.17	○	○	●	●
Deduction of interest and carrying charges incurred to earn investment income	0.90	0.39	1.40	0.53	○	○	●	○
Deduction of other employment expenses	0.83	0.93	0.92	1.37	○	○	○	●
Deduction of union and professional dues	0.95	1.41	0.81	1.34	○	●	○	●
Disability supports deduction	**1.73**	1.18	0.65	0.65	●	●	○	○
Employee stock option deduction	0.42	0.41	1.30	1.29	○	○	●	●
Moving expense deduction	0.75	0.69	0.83	**1.63**	○	○	○	●
Non-capital loss carry-overs	0.89	0.57	1.24	0.78	○	○	●	○
Northern Residents Deductions	1.05	**1.56**	0.80	1.22	○	●	○	●
Partial deduction of and partial input tax credits for meals and entertainment	0.79	0.64	0.87	**1.52**	○	○	○	●
Rollovers of investments in small businesses	0.76	0.38	1.46	0.61	○	○	●	○
Non-refundable credits								
Adoption Expense Tax Credit	0.15	1.43	0.67	**2.57**	○	●	○	●
Age Credit	1.22	0.01	1.50	0.01	●	○	●	○
Canada Caregiver Credit	0.51	1.22	1.26	1.15	○	●	●	●
Canada Employment Credit	1.18	1.20	0.80	1.08	●	●	○	●
Charitable Donation Tax Credit	0.77	0.29	1.34	0.81	○	○	●	○

Table 11
Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by family type, 2018

Tax expenditures	Ratios by family type				Especially benefits
	Sole filer	Sole parent	Couple without children	Couple with children	S -- SC -- C -- CC
Non-refundable credits *(cont'd)*					
Credit for the Basic Personal Amount	1.23	1.00	0.91	0.85	● — ○ — ○ — ○
Disability Tax Credit – for self and transferred from a dependant other than a spouse	1.03	**1.59**	0.88	1.10	○ — ● — ○ — ●
Dividend gross-up and tax credit	0.73	0.34	1.30	0.92	○ — ○ — ● — ○
Eligible Dependant Credit	0.48	**30.44**	0.01	0.08	○ — ● — ○ — ○
First-Time Home Buyers' Tax Credit	1.38	1.12	0.69	1.02	● — ● — ○ — ○
Foreign tax credit for individuals	0.75	0.23	1.33	0.84	○ — ○ — ● — ○
Home Accessibility Tax Credit	0.86	0.61	1.40	0.56	○ — ○ — ● — ○
Investment Tax Credits	0.53	0.14	1.47	0.90	○ — ○ — ● — ○
Labour-Sponsored Venture Capital Corporations Credit	0.82	1.27	1.10	1.03	○ — ● — ● — ○
Medical Expense Tax Credit	0.93	0.65	1.28	0.65	○ — ○ — ● — ○
Pension Income Credit	0.99	0.05	**1.64**	0.04	○ — ○ — ● — ○
Political Contribution Tax Credit	0.85	0.20	1.46	0.52	○ — ○ — ● — ○
Search and Rescue Volunteers Tax Credit	0.90	0.57	1.15	0.91	○ — ○ — ● — ○
Spouse or Common-Law Partner Credit	0.02	0.03	1.20	**1.99**	○ — ○ — ● — ●
Student Loan Interest Credit	**1.59**	**1.54**	0.54	0.96	● — ● — ○ — ○
Tax credit for CPP/QPP contributions by employed and self-employed persons	1.06	1.33	0.79	1.23	● — ● — ○ — ●
Tax credit for EI and QPIP premiums paid by employed and self-employed persons	1.12	1.33	0.78	1.18	● — ● — ○ — ●
Tuition Tax Credit – for self	**2.37**	0.77	0.36	0.38	● — ○ — ○ — ○
Tuition Tax Credit – transferred from a dependant	0.40	0.93	1.42	1.06	○ — ○ — ● — ●
Volunteer Firefighters Tax Credit	0.87	0.69	0.85	1.45	○ — ○ — ○ — ●
Unused credits transferred from a spouse or common-law partner	0.01	0.00	**2.16**	0.41	○ — ○ — ● — ○
Refundable credits					
Canada Child Benefit	0.07	**11.19**	0.09	**2.57**	○ — ● — ○ — ●
Goods and Services Tax/Harmonized Sales Tax Credit	**1.93**	**4.45**	0.40	0.46	● — ● — ○ — ○
Refundable Medical Expense Supplement	**1.82**	**4.98**	0.40	0.53	● — ● — ○ — ○
Teacher and Early Childhood Educator School Supply Tax Credit	0.93	**2.11**	0.59	**1.64**	○ — ● — ○ — ●
Working Income Tax Benefit	**1.81**	**6.69**	0.32	0.49	● — ● — ○ — ○
Other refundable credits	0.81	0.85	0.97	1.30	○ — ○ — ○ — ●
Other types					
Pension income splitting	0.00	0.00	**2.38**	0.06	○ — ○ — ● — ○

Notes: A ratio higher than 1.05 indicates that a group of taxfilers benefits from the tax expenditure proportionally more than others, and vice versa. Ratios in **bold** indicate measures that benefit one group considerably more over another.
Source: T1 return data, 2018.

Table 12

The top five federal PIT expenditures for sole filers and sole parents, 2018

Sole Filers (31.1% of pre-tax income was held by sole filers)			Sole Parents (2.7% of pre-tax income was held by sole parents)		
Tax expenditures	**% of benefits going to sole filers**	**Total costs ($ millions)**	**Tax expenditures**	**% of benefits going to sole parents**	**Total costs ($ millions)**
Non-taxation of Guaranteed Income Supplement and Allowance benefits	79.0	225	Eligible Dependant Credit	82.6	980
Tuition Tax Credit – for self	73.6	1,630 (all)	Canada Child Benefit	30.3	23,900
Apprentice vehicle mechanics' tools deduction	71.7	3	Working Income Tax Benefit	18.1	1,105
Non-taxation of social assistance benefits	70.4	300	Refundable Medical Expense Supplement	13.5	165
Goods and Services Tax/Harmonized Sales Tax Credit	60.1	4,650	Goods and Services Tax/Harmonized Sales Tax Credit	12.1	4,650

Source: T1 return data; 2018 and 2020 RFTE.

Table 13

The top five federal PIT expenditures for filers in a couple without and with children, 2018

Couple Without Children (41.4% of pre-tax income was held by filers in a couple without children)			Couple With Children (24.8% of pre-tax income was held by filers in a couple with children)		
Tax expenditures	**% of benefits going to filers without children**	**Total costs ($millions)**	**Tax expenditures**	**% of benefits going to filers with children**	**Total costs ($ millions)**
Pension income splitting	98.5	1,380	Child Care Expense Deduction	85.3	1,355
Unused credits transferred from a spouse or common-law partner	89.4	340	Canada Child Benefit	63.7	23,900
Pension Income Credit	68.0	1,235	Adoption Expense Tax Credit	63.7	2
Investment Tax Credits	60.8	65	Spouse or Common-Law Partner Credit	49.4	1,740
Political Contribution Tax Credit	60.2	30	Teacher and Early Childhood Educator School Supply Tax Credit	40.7	5

Sources: T1 return data; 2018 and 2020 RFTE.

3.4 Area of Residence

The examination of tax expenditures' benefits by area of residence based on T1 return data is not as straightforward as the examination by filers' age, income group and family type. As explained in Section 2.1, this was made possible by merging T1 return data with the PCCF data. While this technique requires the exclusion of some filers (about 1.9% of them in 2018) due to data unavailability or inconsistencies, it allowed a reasonably good identification of filers' main area of residence based on their reported postal codes.[20]

In 2018, residents of remote areas (outside CMAs) represented 29.1% of filers whose areas of residence could be identified. These filers reported 25.9% of total pre-tax income.

Overall, Table 14 indicates that the 2018 federal PIT system slightly reduced income inequalities that existed between remote and urban areas. Indeed, the share of after-tax income held by residents of remote areas (26.4%) was 0.5 percentage points higher than their share of income before the application of the tax system (25.9%). Among the main tax system components, the progressive tax rate structure had the largest redistributive impact toward remote areas (result not reported).

Table 14
Total number of filers[1] and total amounts of various concepts of income and tax payable, by area of residence, 2018

	Number (#) / Amount in millions ($)		Percentage (%)	
	Remote	Urban	Remote	Urban
Total number of filers (#)	8,099,614	19,754,178	29.1	70.9
Total pre-tax income	366,702	1,049,523	25.9	74.1
Total taxable income	323,708	930,568	25.8	74.2
Total net tax payable	34,464	116,664	22.8	77.2
Total net tax payable after the receipt of refundable credits	23,769	92,995	20.4	79.6
Total after-tax income	342,933	956,528	26.4	73.6
Total change in the group's amount ($) and share (pp.) of income before and after the application of the federal PIT system	-23,769	-92,995	+0.5	-0.5

[1] Excludes the 1.9% of 2018 filers with missing regional information.
Source: T1 return data, 2018 merged with Statistics Canada's Postal Code Conversion File (PCCF), November 2019.

To examine the income redistribution impact of individual PIT expenditures by area of residence, a regional breakdown of the share of benefits received by each group in comparison to their share of pre-tax personal income was calculated. Resulting ratios were used to classify each expenditure in the following three categories (Table 15):

- Especially benefits residents of remote areas (outside CMAs);
- No significant interregional impact; or
- Especially benefits residents of urban areas (inside CMAs).

[20] For some filers, the postal code reported on their tax return may capture a mailing address that differs from their actual residential address. In spite if this potential limitation, the technique used to classify filers by main area of residence identifies a rural-urban divide (29.1%-70.9%) that is very similar to the one based on Statistics Canada's population estimates (28.5%-71.5%, Table 17-10-0135-01).

Out of the 58 PIT expenditures under review, about a third (21) were found to have no significant interregional impact in 2018, meaning that their benefits were distributed almost proportionally to the share of pre-tax income reported by filers residing in remote and urban areas. Among the other expenditures, a majority (23 out of 37) especially benefited residents of remote areas.

Expenditures that predominantly benefit residents of urban areas are mainly deductions. Four out the 17 deductions under review especially benefit filers in remote areas, while nine especially benefit residents of urban areas. Table 15 confirms that remote area residents especially benefit from the only deduction that specifically targets this population, namely the Northern Residents Deductions. As Table 16 indicates, this measure is the top PIT expenditure for remote area residents. In comparison, Table 16 shows that the number one PIT expenditure favouring urban area residents is the employee stock option deduction.

An opposite pattern is observed for all other types of PIT expenditures since larger proportions of exemptions and credits (refundable and non-refundable) are found to especially benefit residents of remote areas. Among all exemptions and credits under review, only the partial inclusion of capital gains, foreign tax credit for individuals, Investment Tax Credits and Tuition Tax Credit – for self and transferred from a dependant especially benefit filers residing in urban areas.

Table 15

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by area of residence, 2018

Tax expenditures	Ratios by area of residence		Especially benefits		
	Remote	Urban	Remote	--	Urban
Exemptions					
Lifetime Capital Gains Exemption	**1.82**	0.71	●	○	○
Non-taxation of Guaranteed Income Supplement and Allowance benefits	1.41	0.86	●	○	○
Non-taxation of CPP/QPP contributions by employers	0.99	1.00	○	●	○
Non-taxation of EI and QPIP premiums paid by employers	0.99	1.00	○	●	○
Non-taxation of income earned by military and police deployed to international operational missions	1.40	0.86	●	○	○
Non-taxation of social assistance benefits	1.15	0.95	●	○	○
Non-taxation of workers' compensation benefits	**1.52**	0.82	●	○	○
Partial inclusion of capital gains	0.69	1.11	○	○	●
Deductions					
Apprentice vehicle mechanics' tools deduction	**1.84**	0.71	●	○	○
Capital loss carry-overs	0.59	1.14	○	○	●
Child Care Expense Deduction	0.69	1.11	○	○	●
Deductibility of certain costs incurred by musicians or of expenses by employed artists	0.61	1.14	○	○	●
Deduction for clergy residence	1.00	1.00	○	●	○
Deduction for tradespeople's tool expenses	**1.61**	0.79	●	○	○
Deduction of allowable business investment losses	0.62	1.13	○	○	●
Deduction of interest and carrying charges incurred to earn investment income	0.62	1.13	○	○	●
Deduction of other employment expenses	0.87	1.04	○	●	○
Deduction of union and professional dues	1.08	0.97	○	●	○
Disability supports deduction	0.56	1.15	○	○	●
Employee stock option deduction	0.28	1.25	○	○	●
Moving expense deduction	1.37	0.87	●	○	○
Non-capital loss carry-overs	1.00	1.00	○	●	○
Northern Residents Deductions	**3.75**	0.04	●	○	○

Table 15

Ratios of the share of benefits received by filers relative to their share of total pre-tax personal income, by area of residence, 2018

Tax expenditures	Ratios by area of residence		Especially benefits		
	Remote	Urban	Remote	--	Urban
Partial deduction of and partial input tax credits for meals and entertainment	0.54	1.16	○	○	●
Rollovers of investments in small businesses	0.66	1.12	○	○	●
Non-refundable credits					
Adoption Expense Tax Credit	0.90	1.03	○	●	○
Age Credit	1.37	0.87	●	○	○
Canada Caregiver Credit	1.05	0.98	○	●	○
Canada Employment Credit	1.06	0.98	○	●	○
Charitable Donation Tax Credit	0.77	1.08	○	●	○
Credit for the Basic Personal Amount	1.11	0.96	●	○	○
Disability Tax Credit – for self and transferred from a dependant other than a spouse	1.18	0.94	●	○	○
Dividend gross-up and tax credit	0.91	1.03	○	●	○
Eligible Dependant Credit	1.13	0.95	●	○	○
First-Time Home Buyers' Tax Credit	1.07	0.98	○	●	○
Foreign tax credit for individuals	0.49	1.18	○	○	●
Home Accessibility Tax Credit	1.07	0.98	○	●	○
Investment Tax Credits	0.68	1.11	○	○	●
Labour-Sponsored Venture Capital Corporations Credit	1.30	0.90	●	○	○
Medical Expense Tax Credit	1.20	0.93	●	○	○
Pension Income Credit	1.30	0.90	●	○	○
Political Contribution Tax Credit	1.01	0.99	○	●	○
Search and Rescue Volunteers Tax Credit	**2.49**	0.48	●	○	○
Spouse or Common-Law Partner Credit	1.03	0.99	○	●	○
Student Loan Interest Credit	0.97	1.01	○	●	○
Tax credit for CPP/QPP contributions by employed and self-employed persons	1.01	1.00	○	●	○
Tax credit for EI and QPIP premiums paid by employed and self-employed persons	1.01	1.00	○	●	○
Tuition Tax Credit – for self	0.55	1.16	○	○	●
Tuition Tax Credit – transferred from a dependant	0.64	1.13	○	○	●
Volunteer Firefighters Tax Credit	**3.19**	0.23	●	○	○
Unused credits transferred from a spouse or common-law partner	1.38	0.87	●	○	○
Refundable credits					
Canada Child Benefit	1.21	0.93	●	○	○
Goods and Services Tax/Harmonized Sales Tax Credit	1.22	0.92	●	○	○
Refundable Medical Expense Supplement	1.29	0.90	●	○	○
Teacher and Early Childhood Educator School Supply Tax Credit	1.08	0.97	○	●	○
Working Income Tax Benefit	0.99	1.00	○	●	○
Other refundable credits	0.97	1.01	○	●	○
Other types					
Pension income splitting	1.35	0.88	●	○	○

Notes: A ratio higher than 1.10 indicates that a group of taxfilers benefits from the tax expenditure proportionally more than others, and vice versa. The 1.10 is slightly higher than for the other identity criteria (1.05). This is due to the small number of filers' exclusions that had to be applied before performing an analysis by area of residence, which likely introduced less precision to the analysis.
Source: T1 return data, 2018 merged with Statistics Canada's Postal Code Conversion File (PCCF), November 2019.

Table 16

The top five federal PIT expenditures for remote and urban residents, 2018

Remote (25.9% of pre-tax income was held by filers residing in remote areas)			**Urban** (74.1% of pre-tax income was held by filers residing in urban areas)		
Tax expenditures	**% of benefits going to remote area residents**	**Total costs ($ millions)**	**Tax expenditures**	**% of benefits going to urban area residents**	**Total costs ($ millions)**
Northern Residents Deductions	97.0	230	Employee stock option deduction	92.9	770
Volunteer Firefighters Tax Credit	82.6	20	Foreign tax credit for individuals	87.3	1,825
Search and Rescue Volunteers Tax Credit	64.4	2	Partial deduction of and partial input tax credits for meals and entertainment	86.1	200
Apprentice vehicle mechanics' tools deduction	47.7	3	Disability supports deduction	85.5	3
Lifetime Capital Gains Exemption	47.2	1,855	Tuition Tax Credit – for self	85.4	1,630 (all)

Sources: T1 return data, 2018 merged with Statistics Canada's Postal Code Conversion File (PCCF), November 2019 and 2020 RFTE

3.5 Summary

Table 17 is a summary table that displays the target population of the various individual PIT expenditures under review, provides a reminder as to which gender benefits relatively more from each of these measures, and identifies the various other identity groups that especially benefited from each of them in 2018.

For almost all individual PIT expenditures examined, Table 17 confirms the gender impacts that were found in the 2019 GBA+ study. Almost all measures that were identified as being gender-neutral, to the advantage of men or to the advantage of women in 2016 remained so based on 2018 data.[21] Only two measures identified as being gender-neutral in 2016 now appear to be slightly in favour of men, likely because of changes in market conditions: the partial inclusion of capital gains and the dividend gross-up and tax credit.

Regarding the deductions added to the list, i.e., apprentice vehicle mechanics' tools deduction, deductibility of certain costs incurred by musicians and of expenses by employed artists, and partial deduction of and partial input tax credits for meals and entertainment, the 2018 data indicates that men especially benefit from them. This is also the case for the majority of other deductions and the newly included Investment Tax Credits.

Further, the results show that the first part of the newly split credit, i.e., the Tuition Tax Credit – for self, especially benefits women as was observed in 2016 for the entire Tuition Tax Credit. However, the part of the Tuition Tax Credit – transferred from a dependant is found to be relatively gender-neutral, meaning that it does not favour one gender over another.

[21] Based on the hypothesis of no benefit sharing within couples.

As previously mentioned, only a few PIT expenditures target specific identity groups. Table 17 confirms that these measures are indeed reaching their targets, which tend to benefit relatively more from each measure. For instance, all PIT expenditures targeting seniors are found to especially benefit older filers. In the same vein, all PIT expenditures targeting lower-income filers especially benefit filers in the lowest family income quintiles. However, there are notable distinctions in the income groups that mostly benefit from the PIT expenditures targeting lower-income filers. While the CCB and GSTC especially benefit members of the first three income quintiles, the benefits of the RMES and non-taxation of social assistance benefits are mostly concentrated in the first two quintiles. Further, the Working Income Tax Benefit especially benefited filers in the first income quintile only. These results may be explained by the different phase-in and phase-out thresholds and reduction rates underlying these measures. It is also worth noting that the non-taxation of Guaranteed Income Supplement and Allowance benefits especially benefits filers in quintiles 2 and 3 but not filers in the bottom quintile.

Table 17 also suggests that even when a tax expenditure does not have any specific target population, it always ends up especially benefiting some identity groups over others. However, the main beneficiaries of individual PIT expenditures change from one measure to another and each of the groups especially benefit from at least some of them. Moreover, the identification of the number of individual expenditures especially benefiting a particular group can be seen as partially informative given that total benefit amounts may differ greatly from one measure to another.

Table 17
Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Exemptions			
Lifetime Capital Gains Exemption	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children -Remote area residents
Non-taxation of Guaranteed Income Supplement and Allowance benefits	-Seniors -Low-income	-Women	-Older filers -Filers in quintiles 2 and 3 -Sole filers -Remote area residents
Non-taxation of CPP/QPP contributions by employers	-No specific identity group	-None	-Younger and middle-age filers -Filers in quintiles 3 and 4 -Filers with children
Non-taxation of EI and QPIP premiums paid by employers	-No specific identity group	-None	-Younger and middle-age filers -Filers in quintiles 3 and 4 -Filers with children
Non-taxation of income earned by military and police deployed to international operational missions	-No specific identity group	-Men	- Younger and middle-age filers -Filers in quintile 4 -Sole filers and filers in a couple with children -Remote area residents
Non-taxation of social assistance benefits	-Low-income	-Women	-Younger and middle-age filers -Filers in quintiles 1 and 2 -Sole filers and sole parents -Remote area residents

Table 17

Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Non-taxation of workers' compensation benefits	-No specific identity group	-Men	-Older filers -Filers in quintiles 2-3 and 4 -Filers without children -Remote area residents
Partial inclusion of capital gains	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers without children -Urban area residents
Deductions			
Apprentice vehicle mechanics' tools deduction	-No specific identity group	-Men	-Younger filers -Filers in quintiles 2, 3 and 4 -Sole filers -Remote area residents
Capital loss carry-overs	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children -Urban area residents
Child Care Expense Deduction	-Filers with children	-Women	-Younger and middle-age filers -Filers in quintiles 3 and 4 -Filers with children -Urban area residents
Deductibility of certain costs incurred by musicians or of expenses by employed artists	-No specific identity group	-Men	-Younger and middle-age filers -Filers in quintiles 4 and 5 -Sole filers and filers in a couple with children -Urban area residents
Deduction for clergy residence	-No specific identity group	-Men	-Middle-age and older filers -Filers in quintiles 3 and 4 -Filers in a couple
Deduction for tradespeople's tool expenses	-No specific identity group	-Men	-Younger filers -Filers in quintiles 3 and 4 -Sole filers and filers in a couple with children -Remote area residents
Deduction of allowable business investment losses	-No specific identity group	-Men	-Middle-age and older filers -Filers in quintile 5 -Filers in a couple -Urban area residents
Deduction of interest and carrying charges incurred to earn investment income	-No specific identity group	-None	-Older filers -Filers in quintile 5 -Filers in a couple without children -Urban area residents

Table 17
Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Deduction of other employment expenses	-No specific identity group	-Men	-Middle-age filers -Filers in quintile 5 -Filers in a couple with children
Deduction of union and professional dues	-No specific identity group	-Women	-Younger and middle-age filers -Filers in quintile 4 -Filers with children
Disability supports deduction	-No specific identity group	-Women	-Older filers -Filers in quintiles 3 and 5 -Sole filers and sole parents -Urban area residents
Employee stock option deduction	-No specific identity group	-Men	-Middle-age and older filers -Filers in quintile 5 -Filers in a couple -Urban area residents
Moving expense deduction	-No specific identity group	-Men	-Younger and middle-age filers -Filers in quintiles 4 and 5 -Filers in a couple with children -Remote area residents
Non-capital loss carry-overs	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children
Northern Residents Deductions	-Remote area residents	-Men	-Younger and middle-age filers -Filers in quintiles 4 and 5 -Filers with children -Remote area residents
Partial deduction of and partial input tax credits for meals and entertainment	-No specific identity group	-Men	-Middle-age filers -Filers in quintile 5 -Filers in a couple with children -Urban area residents
Rollovers of investments in small businesses	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children -Urban area residents
Non-refundable credits			
Adoption Expense Tax Credit	-Filers with children	-Men	-Middle-age filers -Filers in quintiles 3 and 4 -Filers with children
Age Credit	-Older filers	-Women	-Older filers -Filers in quintiles 2, 3 and 4 -Filers without children -Remote area residents
Canada Caregiver Credit	-No specific identity group	-None	-Middle-age and older filers -Filers in quintiles 3 and 4 -Sole parents and filers in a couple

Table 17

Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Canada Employment Credit	-No specific identity group	-Women	-Younger and middle-age filers -Filers in quintiles 1, 2, 3 and 4 -Sole filers, sole parents and filers in a couple with children
Charitable Donation Tax Credit	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children
Credit for the Basic Personal Amount	-No specific identity group	-Women	-Younger filers -Filers in quintiles 1, 2, 3 and 4 -Sole filers -Remote area residents
Disability Tax Credit	-No specific identity group	-Women	-Older filers -Filers in quintiles 2, 3 and 4 -Filers with children -Remote area residents
Dividend gross-up and tax credit	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children
Eligible Dependant Credit	-Sole parents	-Women	-Younger and middle-age filers -Filers in quintiles 1, 2 and 3 -Sole parents -Remote area residents
First-Time Home Buyers' Tax Credit	-No specific identity group	-None	-Younger filers -Filers in quintiles 2, 3 and 4 -Sole filers and sole parents
Foreign tax credit for individuals	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in couples without children -Urban area residents
Home Accessibility Tax Credit	-Older filers	-Women	-Older filers -Filers in quintiles 3 and 4 -Filers in a couple without children
Investment Tax Credits	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children -Urban area residents
Labour-Sponsored Venture Capital Corporations Credit	-No specific identity group	-None	-Middle-age filers -Filers in quintile 4 -Sole parents and filers in a couple without children -Remote area residents

Table 17

Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Medical Expense Tax Credit	-No specific identity group	-Women	-Older filers -Filers in quintiles 3 and 4 -Filers in a couple without children -Remote area residents
Pension Income Credit	-Older filers	-Women	-Older filers -Filers in quintiles 2, 3 and 4 -Filers in a couple without children -Remote area residents
Political Contribution Tax Credit	-No specific identity group	-Men	-Older filers -Filers in quintile 5 -Filers in a couple without children
Search and Rescue Volunteers Tax Credit	-No specific identity group	-Men	-Younger filers -Filers in quintiles 3 and 4 -Filers in a couple without children -Remote area residents
Spouse or Common-Law Partner Credit	-Filers in a couple	-Men	-Younger and middle-age filers -Filers in quintiles 1, 2 and 3 -Filers in a couple
Student Loan Interest Credit	-No specific identity group	-Women	-Younger filers -Filers in quintiles 2, 3 and 4 -Sole filers and sole parents
Tax credit for CPP/QPP contributions by employed and self-employed persons	-No specific identity group	-Women	-Younger and middle-age filers -Filers in quintiles 3 and 4 -Sole filers and filers with children
Tax credit for EI and QPIP premiums paid by employed and self-employed persons	-No specific identity group	-Women	-Younger and middle-age filers -Filers in quintiles 3 and 4 -Sole filers and filers with children
Tuition Tax Credit – for self	-No specific identity group	-Women	-Younger filers -Filers in quintiles 1, 2 and 3 -Sole filers -Urban area residents
Tuition Tax Credit – transferred from a dependant	-Filers with children or dependants	-None	-Middle-age filers -Filers in quintile 5 -Filers in a couple -Urban area residents
Volunteer Firefighters Tax Credit	-No specific identity group	-Men	-Younger and middle-age filers -Filers in quintiles 2, 3 and 4 -Filers in a couple with children -Remote area residents
Unused credits transferred from a spouse or common-law partner	-Filers in a couple	-Men	-Older filers -Filers in quintiles 2 and 3 -Filers in a couple without children -Remote area residents

Table 17

Target population of individual PIT expenditures and identity groups that especially benefit from them, 2018

Tax expenditures	Target population among the identity groups under review[1]	Gender that especially benefits[2]	Other identity groups (under review) that especially benefit
Refundable credits			
Canada Child Benefit	-Low-to-middle income filers with children	-Women	-Younger and middle-age filers -Filers in quintiles 1, 2 and 3 -Filers with children -Remote area residents
Goods and Services Tax/Harmonized Sales Tax Credit	-Low-income	-Women	-Younger filers -Filers in quintiles 1, 2 and 3 -Sole filers and sole parents -Remote area residents
Refundable Medical Expense Supplement	-Low-income	-Women	-Younger filers -Filers in quintiles 1 and 2 -Sole filers and sole parents -Remote area residents
Teacher and Early Childhood Educator School Supply Tax Credit	-No specific identity group	-Women	-Younger and middle-age filers -Filers in quintile 4 -Filers with children
Working Income Tax Benefit	-Low-income	-Women	-Younger filers -Filers in quintile 1 -Sole filers and sole parents
Other refundable credits	-No specific identity group	-Men	-Middle-age filers -Filers in quintile 5 -Filers in a couple with children
Other types			
Pension income splitting	-Older filers	-Men	-Older filers -Filers in quintiles 3 and 4 -Filers in a couple without children -Remote area residents

[1] The specific identify groups under review in this analysis are: age group, adjusted family income group, family type and area of residence.
[2] Based on results published in the 2019 GBA+ and confirmed/adjusted with 2018 unpublished results.

Source: T1 return data, 2018.

4. Conclusion

This study provides a snapshot in time of the differential impacts of the federal PIT system by age group, income group, family type and area of residence. It shows that the various components of the system reallocate some portion of earned income between these groups. Because the main beneficiaries of the various existing PIT expenditures change from one measure to another, some PIT expenditures especially benefit one group over another. To illustrate, some measures especially benefit younger filers versus older filers, low-income filers versus high-income filers, filers in a couple versus sole filers, and urban residents versus rural residents (and vice versa within the four identity groups). In 2018, all these groups benefited relatively more from at least some of the available federal PIT expenditures.

However, given the inherent progressive nature of the federal tax system, the analysis shows that, overall, it tends to favour economically disadvantaged groups (i.e., groups which report lower proportions of total pre-tax income compared to the proportions of filers they represent). As was the case for women, the shares of after-tax income held by younger filers, members of the lower family income quintiles, sole parents and rural area residents were higher than their shares of pre-tax income.

Contrary to gender (with few exceptions of gender fluidity), age, family situation, income group and area of residence are not static characteristics. They may change over an individual's lifetime. In addition to getting older, individuals can also experience various changes in family and income situations in their adulthood and move in and out of urban areas. Accordingly, from one period to another in their lives, they may be in a position to benefit relatively more from the various available tax breaks. Nevertheless, considering that tax expenditures can be used to achieve policy objectives in a given year, including vertical equity (i.e., the idea that taxfilers who have the ability to pay more taxes should contribute more), the analyses presented in the current study can help identify the expenditures that work in favour or against such objectives.

It is important to stress that the tax system has various objectives and that a tax expenditure cannot be assessed entirely on the impact it has on the allocation of income between groups. A thorough assessment of tax measures requires the consideration of a much broader range of possible effects than the ones studied in the current paper.

The Child Care Expense Deduction: A Profile of Beneficiaries[1]

1. Introduction

Introduced in 1972, the Child Care Expense Deduction (CCED) is a federal tax relief measure provided to individuals who incur child care expenses in the course of earning employment or business income, pursuing education or performing research. Since its introduction, the measure has gone through a number of changes, including increases in the maximum amounts allowed and age limits.

The CCED promotes horizontal equity by recognizing that an individual who incurs child care expenses would have a reduced ability to pay tax relative to an individual with similar income who would not incur such expenses. The CCED also seeks to reduce barriers to labour force participation for secondary income earners within a family by ensuring neutrality in the tax system between the decision to work or to stay at home to care for a child. This objective is supported through the design of the measure, which stipulates that the lower-income spouse in a couple, who would typically be the one faced with such a decision, must claim the deduction. Although existing empirical evidence on the impact of child care on labour supply is mixed, due to methodological and data limitations, there is a clear consensus that reducing the cost of child care has the potential to increase labour market participation.

The purpose of this study is to present a detailed descriptive analysis of the CCED and its beneficiaries. It begins with an overview of the CCED and its eligibility criteria, followed by a statistical profile of reported child care expenses. The paper concludes with a discussion of the profile of CCED claimants and beneficiaries.

2. Description of the Child Care Expense Deduction

For eligible individuals, the CCED is a deduction, meaning that eligible child care expenses are subtracted from the claimant's total income (to determine net income) prior to the application of federal and provincial tax rates. Therefore, the CCED also indirectly contributes to determining entitlement to federal and provincial/territorial income-tested programs, which are calculated using net income, such as the Canada Child Benefit, Refundable Medical Expense Supplement, Canada Workers Benefit, and the Goods and Services Tax/Harmonized Sales Tax (GST/HST) Credit, as well as reducing federal and provincial taxes payable.

A claim for the CCED can be made by completing Form T778 and filing a tax return with the Canada Revenue Agency. An individual supporting an "eligible child" (defined below), or another supporting person residing in the household,[2] can claim the CCED for child care expenses paid by either individual. To claim the deduction, parents must have earned employment or business income, carried out research activities, or studied in a full-time or part-time educational program during the tax year.[3]

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1 The analysis presented in this study was prepared by Amnit Litt, with the support of Dominique Fleury, Economists, Tax Policy Branch, Department of Finance Canada. Enquiries regarding Department of Finance Canada publications can be sent to finpub@canada.ca.

2 The individual claiming the credit must be one of the following: the eligible child's parent; the spouse or common-law partner of the eligible child's parent; or an individual claiming an amount for a caregiver credit for the eligible child in their tax return (Lines 304, 305, 307, or 367 of Schedule 1 of the T1 Return). The individual must have resided in the same household as the eligible child during the year or at any time during the first 60 days of the subsequent year.

3 Educational programs must be at least three consecutive weeks in duration and offered by a secondary school, college, university, or designated educational institution. Full-time study requires at least 10 hours per week on coursework, whereas part-time study requires at least 12 hours per month.

An "eligible child", for the purposes of the CCED, is defined as:

- The child of the individual,
- The child of the individual's spouse or common-law partner, or
- A child who was dependent on the individual or their spouse or common-law partner and earned a net income below the basic personal amount for the year.[4]

All eligible children must have been under the age of 16 at some point in the year. However, the age limit does not apply for any dependent children with an impairment in physical or mental function.

Individuals may claim child care expenses incurred to enable themselves or the supporting person to carry on activities of employment, education, or research. The child care services must include a caregiving component and only the portion of the expenses related to child care may be claimed – these arrangements include caregiving services provided by individuals, babysitting, daycare centres, day camps, day sports schools, boarding schools and educational institutions.[5] Child care services provided by individuals such as the child's parent or relative are ineligible for the deduction. Residents of Quebec may claim the basic contribution they paid directly to a subsidized child care provider.

The age of each eligible child in the household determines the maximum amount that can be claimed for the CCED. The maximum dollar limits, which are not indexed to inflation, are:

- $8,000 per child under age seven
- $5,000 per child between seven and 16 years of age and infirm dependent children over 16
- $11,000 per child eligible for the Disability Tax Credit (DTC), with no age restrictions

The total annual CCED amount that a taxfiler may claim is the lesser of:[6]

- The total maximum dollar limits for all children
- Two-thirds of earned income for the year[7]
- The actual amount of child care expenses incurred

The dollar limits were put in place to reflect the approximate cost of child care for children in different age groups, while also recognizing that the availability of multiple care options may lead some parents to choose more expensive arrangements with additional components (i.e., enrichment activities, care workers who perform non-care activities). The rationale behind the two-thirds earned income rule was to ensure that child care costs are reasonable relative to an individual's earnings through work-related activities.

[4] In 2018, this amount was $11,809.

[5] Payments that cannot be claimed for the deduction include fees for recreational or extra-curricular activities, tuition fees at an educational institution, medical or hospital care, clothing, and transportation costs. Any expenses for which a reimbursement for child care costs was received cannot be claimed. (Canada Revenue Agency, *Income Tax Folio S1-F3-C1, Child Care Expense Deduction*.)

[6] Unclaimed expenses may not be carried forward to another year.

[7] Earned income consists of: employment income (including tips and gratuities and the non-taxable portion of an allowance received as an emergency volunteer); net self-employment income; the taxable portion of scholarships, bursaries, fellowships, and research grants; earnings supplements received through Government of Canada-sponsored programs encouraging employment; disability benefits received from the Canada Pension Plan or the Quebec Pension Plan; and amounts received under the Apprenticeship Incentive Grant program and the Apprenticeship Completion Grant program. (Form T778). According to the current design of the measure, individuals who are unemployed may not claim the CCED, since Employment Insurance benefits are not considered a component of earned income for the purposes of the CCED.

Furthermore, to increase simplicity and reduce the compliance burden on taxfilers, the design of the CCED allows families to pool the dollar limits for all eligible children. For instance, for a family with one child under the age of seven and one child between seven and 16, the total dollar limits would be $13,000, regardless of which children the child care expenses were incurred on behalf of. This feature of the CCED benefits relatively more families with more than one child who could potentially incur child care expenses beyond the individual dollar limits for some children (and less for others) and still deduct the full amount of child care expenses incurred. In contrast, families with one child would be not be able to claim expenses that exceed the limit for the age group to which their child belongs.

In lone parent families, the parent must claim the entire CCED amount. Net income (excluding amounts for child care expenses and social benefits repayment) is used to determine which individual in a dual-earner family can claim the deduction. Generally, the spouse with lower income must claim the CCED (including spouses with zero income). However, the CCED amount could be shared between spouses or claimed solely by the higher-income parent for some situations.[8]

Over the past 25 years, there have been a few changes to the measure. In 1996, the age limit for children for whom child care expenses can be claimed increased from 14 to 16 years. Budget 1998 raised the dollar limits for children under age seven from $5,000 to $7,000 and for children aged seven to 16 from $3,000 to $4,000. In 2000, the dollar limit for children eligible for the DTC increased from $7,000 to $10,000. The last change came in 2015, when the maximum dollar limits increased by a further $1,000 for each group. Since then, there have been no further changes to the CCED's design.

To summarize, to be eligible to claim the CCED in a given year, an individual taxfiler must meet the following basic eligibility criteria:

- **Parent** – The individual is the parent of an eligible child.
- **Child care expenses** – The individual or their spouse/common-law partner incurs child care expenses related to the care of at least one eligible child.
- **Relative income** – For filers in a dual-filing couple, the individual is the lower-income spouse, unless an exception applies which allows the higher-income spouse to claim the deduction.
- **Employment or education** – The individual earns employment or business income, studies in a full-time or part-time capacity, or engages in research activities.

3. Statistical Profile

3.1 Profile of Child Care Expenses

This study uses T1 personal income tax return data for the 2018 tax year. Although the design of the measure is tied to some family-based components (i.e., the relative income position of each spouse in a couple), the individual has been chosen as the unit of analysis, since the CCED is claimed at the individual level.

8 The higher-income spouse may claim the CCED during the period of time the lower-income spouse is: infirm, confined to a bed or wheelchair, in prison for at least two weeks, attending a designated educational institution, or living apart due to a breakdown in the relationship for a period of at least 90 days during the year.

This section analyzes reported child care expenses among the population of taxfilers in Canada and provides statistics on the characteristics of the claimant and beneficiary populations of the CCED. The eligible population is defined as all individuals who, according to the tax data, meet the criteria to claim the CCED, whereas the claimant population is defined as all individuals who claimed the CCED.[9] The beneficiary population includes all filers who claimed the CCED and benefitted from a reduction in federal income tax payable and/or increased entitlement to federal income-tested benefits due to the measure.[10] The profile of beneficiaries is based on the following personal identity factors: gender, age, family type, total family income, and province of residence.

In 2018, 28.4 million Canadians filed a personal income tax return, making up 20.6 million families. Over half of all taxfilers (55.0%) lived in a couple with another filer, while the remainder were sole filers (45.0%).[11] The population of taxfilers most in need of child care are parents who are working and/or studying. As shown in Table 1, 22.5% of all individual filers had eligible children in their family, with women more likely to be parents compared to men (24.7% versus 20.7%).[12] Approximately 8.7% of filers were parents who belonged to families that reported child care expenses – this is likely an underestimate of Canadians who incur child care expenses since filers who report child care expenses are those that expect to benefit from the CCED. This figure reduces to 5.0% after accounting for the relative income of these filers (i.e., lone parents and lower-income spouses), along with the criteria for working or studying.[13,14]

In 2018, the eligibility rate, defined as the proportion of all taxfilers who were eligible to claim the CCED (i.e., who met the four above-described eligibility criteria), was 5.0%, corresponding to approximately 1,426,200 filers. The higher eligibility rate among women compared to men (7.0% versus 3.2%) can be attributed to the far greater likelihood of women being lone parents or the lower-income spouse in a couple (71.3% versus 28.7%). Among eligible filers, 1,387,600 claimed a CCED amount (97.3%). The high claimant rate is due to the methodological choice of identifying the eligible population based on those who reported child care expenses and thus intended to claim the deduction.[15] Approximately 95.0% of claimants benefitted from the CCED through a reduction in federal taxes payable and/or increased entitlement to federal income-tested benefits, which is equivalent to 1,317,900 beneficiaries.

9 Due to data limitations, it is not possible to identify the higher-income spouse for circumstances when: the lower-income spouse was confined to prison or a similar institution for at least two weeks; the relationship broke down for at least 90 days in 2018; or the lower-income spouse was not capable of caring for children due to an impairment in physical or mental function, for individuals who were not eligible for the DTC.

10 The analysis accounts for the following federal-income tested benefits: Canada Child Benefit, Refundable Medical Expense Supplement, Canada Workers Benefit, and the GST/HST credit.

11 Taxfilers who are not part of a couple or who self-report couple status that cannot be confirmed in the T1 data are considered to be sole filers for this study, whereas individuals who are in a couple with a non-filer are included in the count of couples. The majority of filers in a couple have a filing spouse (99.1%), while only 0.9% were in a couple with a non-filing spouse. Among taxfilers identified as sole filers in 2018, 2.2% had uncertain couple status, i.e., they were potentially in a couple with another filer, but their tax return contained inconsistencies that did not allow their status to be definitively confirmed.

12 The total number of children for each individual filer has been constructed at the family level, i.e., the total number of children in a family, which includes all children belonging to an individual or their spouse or common-law partner, including those children who were in shared custody. Data on child birthdates from Canada Child Benefit recipients was used to determine the ages of all children on December 31, 2018. Filers with eligible children are those who had at least one child aged 0-16 and/or at least one child eligible for the DTC aged 0-17 in the 2018 tax year.

13 For those filers who work, individuals must have reported positive net income on Line 236 of their tax return (excluding child care expenses on Line 214 and social benefits repayments on Line 235). Students were identified as all individuals who reported tuition expenses for themselves on Schedule 11, which were incurred in 2018. The data does not allow for the identification of part-time study as described in Form T778 (i.e., at least 12 hours per calendar month), so all individuals who reported tuition expenses are considered students.

14 According to Statistics Canada's Survey on Early Learning and Child Care Arrangements, 2019, approximately 60% of Canadian children under the age of six received some type of formal or informal child care during the first three months of 2019. This figure represents all types of non-parental care, such as day care centres, pre-schools, and care by a relative in the home, whereas the CCED captures taxfilers' reported out-of-pocket expenses for child care.

15 According to the data, an estimated 3.8% of all CCED claimants did not have any eligible children. There are a few explanations for this observation. It is possible that the tax data does not fully capture all family dynamics. For instance, individuals who claim a caregiving credit on behalf of an eligible child could claim the CCED, but may not necessarily show up as the child's parent in the data. Furthermore, identification of children is based on data from Canada Child Benefit payments administered in December, so there may have been some individuals who had children earlier in the year, but not in December. Another reason for the discrepancy could be due to misinterpretation of the CCED rules and eligibility criteria by taxfilers who may have claimed the CCED for circumstances under which they were not eligible for the deduction (i.e., claims on behalf of a child who was not eligible). Finally, it is also possible that the Canada Revenue Agency reassessed these claims at a later date, which would not be captured in the data used for this study.

Table 1
Proportion of taxfilers with eligible children, who work or are students, report child care expenses, are eligible for the CCED (eligibility rate), and claim the CCED (claimant rate), by gender (%), 2018

	Proportion of filers (%)			Distribution by gender (%)	
	All	Men	Women	Men	Women
ALL TAXFILERS (#)	28,357,600	13,727,400	14,592,400	48.4	51.5
Filers with eligible children in their family[1]	22.5	20.7	24.7	44.5	55.5
Parents in families that reported child care expenses	8.7	8.3	9.1	46.2	53.8
Lone parents or lower-income spouses in two-parent families that reported child care expenses	5.1	3.1	7.1	29.1	70.9
Lone parents or lower-income spouses that reported child care expenses, worked or studied, and reported positive earned income[2]	5.0	3.0	7.0	28.7	71.3
Eligibility rate[3]	5.0	3.0	7.0	28.7	71.3
Claimant rate[4]	97.3	92.1	99.4	27.2	72.8

Notes: The sum of the total number of men and women does not necessarily correspond to the total number of filers, since there are some filers whose gender could not be identified. All figures in this table are rounded to the nearest 100.
[1] Filers with eligible children are those who had at least one child aged 0-16 and/or at least one child eligible for the DTC aged 0-17 in their family at some point during the 2018 tax year. This figure also includes all filers who did not have any eligible children in their family, but at least one spouse claimed the CCED.
[2] Individuals must have reported positive net income on Line 236 of their tax return (excluding child care expenses on Line 214 and social benefits repayments on Line 235). Students were identified as all individuals who reported tuition expenses for themselves on Schedule 11, which were incurred in 2018.
[3] The eligibility rate is the proportion of eligible taxfilers among all filers.
[4] The claimant rate is the proportion of claimants among all eligible taxfilers.
Source: 2018 T1 tax returns.

Table 2 presents statistics on family composition for all filers who had eligible children. In 2018, there were 6,309,700 filers with eligible children. The distribution by age group of children shows that nearly one-third of individuals (31.9%) had children under the age of seven only, whereas 47.9% of filers only had children seven and older. The remaining 20.2% had children in both age groups. Just 4.7% of individuals had a child who was eligible for the DTC. Approximately equal proportions of filers had one child (41.1%) or two children (41.5%), whereas 17.4% had three or more children. Among filers with one child, 42.6% had a child under the age of seven, while 57.4% had a child older than seven.[16]

[16] Figures not reported.

Table 2

Distribution of filers based on children's age group, presence of DTC-eligible child in the family, and number of eligible children in the family, among filers with eligible children (%), 2018

	Proportion of filers (%)
Taxfilers with eligible children (#)	6,309,700
Distribution of filers based on children's age group	
Children under 7 only	31.9
Children 7-16 and/or DTC-eligible children 7-17 only	47.9
Children 0-16 and/or DTC-eligible children 0-17	20.2
Distribution of filers based on presence of DTC-eligible children in the family	
At least one DTC-eligible child	4.7
No DTC-eligible children	95.3
Distribution of filers based on number of eligible children in the family	
One child only	41.1
Two children	41.5
Three or more children	17.4

Notes: All figures include children who are eligible for the DTC, unless otherwise stated. Figures are rounded to the nearest 100.
Source: 2018 T1 tax returns.

Table 3 shows statistics on child care spending, among all filers who reported child care expenses by completing Form T778. The distinction has been made between average child care spending per filer and per child; the former refers to overall average spending per taxfiler, whereas the latter figure accounts for the number of children for whom expenses were incurred. In 2018, there were 1,406,900 filers who reported a total of $7.05 billion in out-of-pocket child care expenses. Approximately 70.7% of spending ($4.98 billion) was for children under the age of seven, while 29.3% of spending ($2.06 billion) was for children seven and older.[17] Overall child care spending per filer was $5,010, on average, while median spending per filer was lower at $3,235. Individuals who incurred expenses for children under seven reported $5,810, on average, while average spending per filer for children seven and older was much lower at $2,610.[18]

On a per-child basis, average spending was $2,810 overall. Filers who reported expenses for children under seven only incurred $4,180 per child, on average, compared to an average of $1,800 per child among filers who had children seven and older only. The differences in expenses incurred between the two age groups reflect the greater need for child care for younger children, compared to older children who are typically enrolled in full-time schooling.

It should be noted that child care costs are dependent on a number of factors including the age of the child, type of care arrangement, location, etc., which are not captured by average and median figures. The dollar limits for each category of expenses may also influence reporting behaviour, as taxfilers may choose to under-report child care expenses in accordance with the limits that apply to their situation. In addition, the average expenses claimed per child may not be fully representative of the actual per-child costs incurred by families. Since the design of the CCED allows families with multiple children to pool the dollar limits across all eligible children, it allows a family incurring higher costs than the dollar limit for one child to receive greater recognition of their costs if their expenses for another child are below their corresponding per-child limit.

17 There were 241,700 individuals who claimed child care expenses for children in both age groups (children under seven and children seven and older).

18 The Survey on Early Learning and Child Care Arrangements (2019) reports that average annual child care costs for children aged zero to five was $7,163 in 2019.

Due to the design of Form T778, it is not possible to isolate child care expenses incurred in respect of children eligible for the DTC. However, 3.8% of filers (54,100 individuals) with a DTC-eligible child in the household claimed child care expenses totaling $234.1 million (3.3% of total reported expenditures among all filers), compared to the 1,352,800 filers who did not have any DTC-eligible children and claimed $6.81 billion in expenses. Average spending on child care per filer is lower among individuals with a DTC-eligible child ($4,330 versus $5,035), along with average spending per child ($2,020 versus $2,850). One reason for this finding could be that the majority of individuals who had a DTC-eligible child in their family reported zero child care expenses. In 2018, just 1.0% of the entire population of Canadian taxfilers had a DTC-eligible child (295,700 individuals), and 81.7% of these individuals did not report any child care expenses.[19]

Table 3
Summary statistics on individual child care expenses ($), 2018

	Total reported child care expenses ($ millions)	Average spending per filer ($)	Median spending per filer ($)	Average spending per child ($)	Filers (#)
Reported child care expenses for:					
All eligible children	7,046.6	5,010	3,235	2,810	1,406,900
All eligible children under 7	4,982.6	5,810	4,180	4,180	857,200
All eligible children 7 and older	2,064.0	2,610	1,540	1,800	791,300
Individuals with a DTC-eligible child	234.1	4,330	2,510	2,020	54,100
Individuals with no DTC-eligible children	6,812.5	5,035	3,270	2,850	1,352,800

Notes: All values include child care expenses incurred for DTC-eligible children, unless otherwise stated. Due to the design of Form T778, it is not possible to isolate the exact child care spending on DTC-eligible children.
All values in the table are in current dollars.
Figures on the number of filers are rounded to the nearest 100.
Figures on average and median spending are rounded to the nearest 5.
Source: 2018 T1 tax returns.

As shown in Table 4, Quebec and Ontario account for the largest share of child care spending among the provinces and territories (67.2%), reporting $1.98 billion and $2.75 billion respectively. Across the country, the share of spending for children under the age of seven is greater than the share for children seven and older, ranging from 85.2% in the territories to 65.0% in New Brunswick. The areas with the greatest average spending per filer were Ontario ($6,235), Alberta ($5,930), and the territories ($5,845). In contrast, the lowest spending per filer was found in Prince Edward Island ($4,350), Quebec ($3,705), and Manitoba ($3,590).

[19] As a comparison, among the 6,014,100 filers who do not have a DTC-eligible child, 21.6% reported child care expenses in 2018, which is slightly higher than the proportion for filers with a DTC-eligible child. The corresponding proportions for filers with children under the age of seven only, children seven and older only, and children in both age groups are 27.1%, 16.0%, and 25.7% respectively.

Table 4

Annual reported child care spending by province ($), 2018

	Total reported child care expenses ($ millions)	Expenses for children <7 (%)	Expenses for children 7+ (%)	Average spending per filer ($)	Median spending per filer ($)
Newfoundland and Labrador	70.4	69.7	30.3	5,370	4,195
Prince Edward Island	24.3	74.6	25.4	4,350	3,405
Nova Scotia	151.4	66.9	33.1	4,720	3,540
New Brunswick	138.2	65.0	35.0	4,950	4,000
Quebec	1,983.1	71.8	28.2	3,705	2,265
Ontario	2,752.5	68.1	31.9	6,235	4,365
Manitoba	170.7	72.6	27.4	3,590	2,480
Saskatchewan	171.8	78.7	21.3	4,965	3,950
Alberta	833.4	74.4	25.6	5,930	3,970
British Columbia	719.7	72.8	27.2	5,790	3,970
Territories	19.7	85.2	14.8	5,845	4,420
CANADA	**7,035.2**	**70.7**	**29.3**	**5,010**	**3,235**

Notes: All values include child care expenses incurred for DTC-eligible children, unless otherwise stated. Due to the design of Form T778, it is not possible to isolate the exact child care spending on DTC-eligible children.
Filers residing outside of Canada who reported child care expenses have been excluded.
All values in the table are in current dollars.
Figures on average and median spending are rounded to the nearest 5.
Source: 2018 T1 tax returns.

3.2 Profile of Claimants and Beneficiaries

Table 5 presents statistics on CCED claimants and beneficiaries. In 2018, 1,387,600 individuals claimed over $6.01 billion for the deduction (85.3% of total reported child care expenses), for an average of $4,330 per filer. Approximately 22.2% of claimants were sole filers (308,100 individuals), whereas the remaining 77.8% of filers belonged to a dual-filing couple (1,079,400 individuals). Among the latter, the lower-income spouse was solely responsible for 95.9% of the claims, while the higher-income spouse was involved in the remaining 4.1% of claims. [20] It should be noted that only 7,300 claimants were students, the majority of whom (60.1%) were lone parents.[21] As a result of claiming the CCED, there were 1,193,400 individuals who benefitted from a reduction in federal tax payable, with average tax savings of $850 per person. After accounting for the impact on federal income-tested benefits, CCED beneficiaries (1,317,900 individuals) received an average of $1,020 per person in benefits. The total benefits delivered to taxfilers through this measure in 2018 was $1.35 billion. Tables 6 and 7 present further statistics on CCED claimants and beneficiaries.

[20] An estimated 16.3% of claimants (226,700 individuals) claimed a CCED amount that was less than the total reported child care expenses incurred by the family, mainly due to the total maximum dollar limits for all children and the two-thirds earned income rule. As discussed in Section 2.2, the CCED amount an individual can claim is the lesser of: the total maximum dollar limits for all children; two-thirds of earned income for the year; and the actual amount of child care expenses incurred.

[21] Figures not reported.

Table 5

Distribution of claimants based on income position, and total and average CCED claims and benefits, by gender, 2018

	All	Men	Women
Claimants[1] (#)	1,387,600	377,800	1,009,800
Distribution of claimants based on income position in the household (%)			
Sole filers	22.2	16.9	24.2
Filers in a dual-filing couple[2]	77.8	83.1	75.8
Lower-income spouse only	95.9	91.4	97.7
Higher-income spouse only	2.6	6.0	1.2
Both lower- and higher-income spouses	1.5	2.6	1.1
Total CCED amount claimed by filers ($ millions)	6,007.5	1,703.8	4,303.5
Average CCED claim per filer ($)	4,330	4,510	4,260
Individuals with reduction in federal tax payable (#)	1,193,400	340,500	852,800
Total reduction in federal tax payable realized by filers due to the CCED ($ millions)	1,014.7	304.4	710.3
Average reduction in federal tax payable per filer ($)	850	895	835
Beneficiaries[3] (#)	1,317,900	366,100	951,800
Total benefits realized by filers due to the CCED ($ millions)	1,345.8	394.0	951.8
Average benefits per filer ($)	1,020	1,075	1,000

Notes: The sum total of the total number of male and female filers does not necessarily correspond to the totals, since there are some filers whose gender could not be identified.

[1] Claimants are defined as all taxfilers who claim the CCED by entering an amount on Line 214 of their T1 return.

[2] Includes all filers in a couple where both individuals filed their tax return. In this table, filers in a couple where only one individual filed their tax return have been included with sole filers, since only one person was able to claim the CCED.

[3] Beneficiaries are defined as all taxfilers who claim the CCED and benefit from a reduction in federal tax payable and/or increased entitlement to income-tested benefits.

Figures on the number of filers are rounded to the nearest 100.

Figures on average spending, reduction in federal tax payable, and benefits are rounded to the nearest 5.

Source: 2018 T1 tax returns.

Gender

Table 1 shows that women had a higher CCED eligibility rate than men (7.0% versus 3.0%), largely due to the fact that they were more likely to be lone parents or the lower-income spouse in a dual-filing couple. As shown in Table 5, since average CCED claims by men ($4,510) were greater than those made by women ($4,260), the average benefits were also higher among men ($1,075 versus $1,000 per filer). However, while women represented 51.5% of Canadian taxfilers in 2018, they made up a significantly higher proportion of CCED beneficiaries (72.2%). Moreover, 70.7% of the total benefits resulting from the CCED accrued to women.

Age Group

As shown in Table 6, total federal benefits were concentrated among filers aged 25 to 44, particularly because they were the most likely to have eligible children. Roughly 81.0% of beneficiaries were 25 to 44 years old, accounting for 86.2% of total federal benefits from the CCED. The average total benefits for filers aged 35 to 44 was $1,115 per filer and total benefits consisted of 23.0% of their total CCED claims.

Family Type

Table 6 presents results based on family type. Both average child care expenses and CCED amounts claimed were greater among filers in a couple compared to sole filers. This is likely because, among CCED claimants, lone parents tended to have fewer children than filers in a couple.[22] The distribution of beneficiaries skewed heavily towards filers in a couple with children (80.4% versus 19.6%), who realized 85.6% of the total benefits. Sole filers benefitted from a reduction in federal tax payable of $565 per filer, on average, compared to a per-filer average of $920 among filers in a couple. However, sole filers benefited more from the impact of income-tested benefits compared to filers in a couple, since the total benefits as share of CCED claims were roughly equal among the two groups.

Total Family Income Group

Table 6 also presents results based on total family income (which is the sum of total personal income for both spouses in a couple). Filers with higher family income are more likely to be in a dual-filer couple in which both spouses work. When considering only the reduction in federal tax payable, filers with family income greater than $150,000 benefitted disproportionately from the CCED, accounting for 51.3% of federal tax savings. One reason for this result is that the value of a deduction increases with income, since higher-income filers face higher marginal tax rates. However, once federal income-tested benefits are also included in the estimates of the impact of the CCED, the total benefits accruing to low- to modest-income filers increase significantly. Federal tax savings as a proportion of CCED claims were 11.8% and 14.5% for beneficiaries with family income ranging from $30,000 to $60,000 and $60,000 to $90,000 respectively. After adding the impact of income-tested benefits, total benefits as a share of CCED claims were 24.2% and 22.5% respectively. In fact, total benefits as a share of CCED claims was highest among filers with family income ranging from $30,000 to $60,000. Overall, filers with family income under $90,000 made up 35.7% of CCED beneficiaries and received 23.9% of total federal benefits, compared to filers with family income over $150,000 who comprised 31.1% of beneficiaries and received 45.1% of total benefits. Total benefits as a share of CCED claims was lowest among filers with family income under $30,000 because these filers were more likely to have insufficient income to benefit from a reduction in federal tax payable, and at this income level, increases in entitlement to income-tested benefits would have a limited impact.

Finally, it should be noted that there may be differences in underlying preferences for child care among taxfilers across the income distribution, which would impact the types of child care sought out by these individuals. These differences would be reflected in reported child care expenses, which would, in turn, impact claims and benefits derived from the CCED.

Province of Residence

Table 7 shows that, outside of the territories, filers from Ontario claimed the highest average CCED amount per filer ($5,220), followed by individuals in Alberta ($4,975), while filers from Quebec claimed the lowest ($3,310). The majority of beneficiaries resided in either Ontario or Quebec (69.0%) – in fact, individuals living in Quebec represented only 23.5% of Canadian taxfilers in 2018, yet they made up 36.7% of CCED beneficiaries. However, filers from Ontario accounted for 39.0% of total benefits, with average benefits of $1,230 per filer.

The inclusion of the impact on federal income-tested benefits had the largest effect in Prince Edward Island. When considering only federal tax savings, the benefits arising from the CCED accounted for 15.8% of total CCED claims. After accounting for federal income-tested benefits, the total impact as a proportion of claims rose to 22.7% – an increase of approximately 6.9 percentage points.

[22] Among sole filers with children, 49.1% had one child only, whereas only 31.1% of filers in a couple with children had just one child.

Table 6

Statistics on eligibility and benefits from the CCED, by age group, family type, and family income group, 2018

	Share of filers (%)	Average reported child care expenses ($)	Average CCED claim ($)	Average reduction in federal tax payable ($)	Distribution of federal tax savings (%)	Average total federal benefits ($)	Distribution of total federal benefits (%)	Distribution of beneficiary population (%)	Federal tax savings/ CCED claim (%)	Total federal benefits/ CCED claim (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
AGE GROUP										
24 years and under	11.2	3,180	2,765	450	0.4	565	0.5	0.9	8.5	15.3
25-34 years	16.6	5,145	4,525	835	26.3	1,030	27.9	27.7	15.1	21.3
35-44 years	16.1	5,400	4,665	930	59.1	1,115	58.3	53.3	17.6	23.0
45-54 years	15.9	3,780	3,170	660	13.3	760	12.4	16.7	18.5	22.9
55 and over	40.2	3,490	2,725	580	0.9	635	0.9	1.4	18.3	22.1
FAMILY TYPE										
Sole filers with children	44.7	3,095	2,825	565	13.1	750	14.4	19.6	15.5	22.7
Filers in a couple with children	55.3	5,545	4,750	920	86.9	1,085	85.6	80.4	17.1	22.4
FAMILY INCOME GROUP										
Under $30,000	29.7	2,550	2,065	220	0.4	345	1.1	3.1	1.9	6.9
From $30,000 to $60,000	21.9	3,085	2,735	415	6.5	675	10.1	15.3	11.8	24.2
From $60,000 to $90,000	15.7	3,695	3,325	555	10.9	750	12.7	17.3	14.5	22.5
From $90,000 to $120,000	11.6	4,485	4,070	670	14.5	835	14.8	18.0	15.2	20.5
From $120,000 to $150,000	7.6	5,340	4,845	865	16.3	1,095	16.2	15.1	17.1	22.6
$150,000 or more	13.4	7,465	6,120	1,285	51.3	1,480	45.1	31.1	20.5	23.9
ALL TAXFILERS	**100.0**	**5,010**	**4,330**	**850**	**100.0**	**1,020**	**100.0**	**100.0**	**16.9**	**22.4**

Notes: Columns (2) and (3) present results among the population of claimants. Columns (4) – (10) present results among the population of beneficiaries.
Figures are rounded to the nearest 5.
Source: 2018 T1 tax returns.

Table 7

Statistics on eligibility and benefits from the CCED, by province of residence, 2018

	Share of filers (%)	Average reported child care expenses ($)	Average CCED claim ($)	Average reduction in federal tax payable ($)	Distribution of federal tax savings (%)	Average total federal benefits ($)	Distribution of total federal benefits (%)	Distribution of beneficiary population (%)	Federal tax savings/ CCED claim (%)	Total federal benefits/ CCED claim (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
PROVINCE OF RESIDENCE[1]										
Newfoundland and Labrador	1.5	5,370	4,935	950	1.1	1,150	1.1	1.0	17.8	22.8
Prince Edward Island	0.4	4,350	4,165	745	0.4	970	0.4	0.4	15.8	22.7
Nova Scotia	2.7	4,720	4,390	835	2.2	1,030	2.3	2.3	16.3	22.4
New Brunswick	2.2	4,950	4,725	870	2.1	1,100	2.2	2.0	16.1	22.5
Quebec	23.6	3,705	3,310	610	25.8	770	27.6	36.7	15.0	21.3
Ontario	38.3	6,235	5,220	1,040	40.4	1,230	39.0	32.3	18.0	23.0
Manitoba	3.5	3,590	3,410	660	2.6	800	2.7	3.4	16.3	22.5
Saskatchewan	3.0	4,965	4,685	910	2.7	1,110	2.7	2.5	17.0	22.9
Alberta	11.0	5,930	4,975	1,030	12.2	1,180	11.7	10.1	18.1	22.9
British Columbia	13.6	5,790	4,880	965	10.1	1,125	9.9	9.0	17.3	22.4
Territories	0.3	5,845	5,615	1,235	0.4	1,390	0.4	0.3	20.2	24.2
ALL TAXFILERS	**100.0**	**5,010**	**4,330**	**850**	**100.0**	**1,020**	**100.0**	**100.0**	**16.9**	**22.4**

Notes: Columns (2) and (3) present results among the population of claimants. Columns (4) – (10) present results among the population of beneficiaries.

[1] Filers residing outside of Canada have been excluded.

Figures are rounded to the nearest 5.

Source: 2018 T1 tax returns.

4. Conclusion

This study presents an analysis of the CCED, a tax measure that allows individuals to claim child care expenses incurred in order to earn employment or business income, attend an educational institution, or perform research. By design, the CCED provides support to secondary income earners in families by requiring the lower-income spouse to claim the deduction, thereby promoting labour force participation for these individuals.

The results show that filers who reported child care expenses tended to spend more on child care for children under the age of seven, relative to children aged seven and older. While the average benefits per filer were greater among men, the majority of the total benefits accrued to women. The profile of beneficiaries indicates that the CCED tends to benefit higher-income filers, when considering the measure's impact on federal tax payable only. Although the benefits from the CCED may appear to increase with income, the combined impact on federal tax payable and entitlement to federal income-tested benefits significantly benefits modest-income filers.

Overall, the federal tax and transfer system plays an important role in supporting parents. The CCED allows taxfilers to claim eligible child care expenses and increases entitlement to income-tested benefits. It complements other children's measures such as provincial benefits and the federal Canada Child Benefit, while providing significant support to families with respect to the costs of raising children.

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List of Tax Expenditures