



Department of Finance  
Canada

Deputy Minister

Ottawa, Canada  
K1A 0G5

Ministère des Finances  
Canada

Sous-ministre

Parliamentary Budget Officer

JUN 27 2013

Directeur parlementaire  
du budget

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JUN 21 2013

Ms. Sonia L'Heureux  
Parliamentary Budget Officer (Interim)  
Office of the Parliamentary Budget Officer  
Parliament Buildings  
Ottawa, ON K1A 0A9

Dear Ms. L'Heureux:

I am writing in response to your letter of May 21, 2013, in which you request information and data related to the revenues associated with the introduction of new measures to close tax loopholes as reported in Economic Action Plans 2010, 2011, 2012, and 2013.

As you may be aware, tax loophole and fairness measures were reported together in Table 4.2.7 in the main document of Economic Action Plan 2013. The attached table presents the revenue estimates for each of these measures.

The Department of Finance uses a number of data sources and methodologies to estimate the revenues associated with measures announced in Economic Action Plan 2013. In most cases, confidential tax data on individuals and corporations are used to evaluate the financial impact of integrity and fairness measures. Please note that disclosure of the underlying confidential data used to arrive at the estimated savings associated with measures introduced to close tax loopholes is prohibited by s. 241 of the *Income Tax Act* and paragraph 79.3(2)(a) of the *Parliament of Canada Act*.

Confidential taxpayer data are often used in conjunction with micro-simulation models to estimate the fiscal impacts of changes to the tax system, including those aimed at preserving the integrity and fairness of the tax system. The models used to assess tax measures are based on comprehensive data from a large sample of individuals and corporations, and the latest economic and population projections. When using these models, the fiscal impact of a measure is estimated by calculating the difference in tax liability (and entitlement to income-tested benefits in the case of personal income taxes)

under the current system and the alternative system that incorporates the proposed measure.

The use of micro-simulation models may not be appropriate in instances where a small group of taxpayers are affected by a measure (i.e., the sample does not provide a good representation of the targeted population) or where the parameters of a given measure cannot be modelled within a micro-simulation framework. In these cases, we would usually rely on universe tax data (which contains data on all tax filers and so is also confidential) and/or confidential information collected from audits to determine the number of taxpayers that would be affected by a measure and the additional amount of tax that would be paid. In cases where audit data are used to assess the revenue implications of closing tax loopholes, the results are grossed up to reflect assumptions about the targeted population.

When tax data are not available or are not sufficiently complete to assess the financial implications of a specific proposal, other supporting data are used to construct the estimate or augment the existing tax data. In some instances, the external data are the intellectual property of a third party and we are unable to provide this information. In other cases, public data sources may be used. Public data were an important source of information used to estimate the revenue impact of the following measures:

- *Medical Expense Tax Credit – Purely Cosmetic Procedures*: Data from the American Society for Aesthetic Plastic Surgery and Medicaid were used to estimate the Economic Action Plan 2010 change to make expenses for purely cosmetic procedures ineligible for the Medical Expense Tax Credit.
- *Character Conversion Transactions*: The SEDAR database, which contains information filed by public companies and investment funds with the Canadian Securities Administrators, was used to estimate the Economic Action Plan 2013 change to character conversion transactions.
- *Excise Duty Rate on Manufactured Tobacco*: the change in revenue from the increase to the excise duty rate on manufactured tobacco, was estimated using:
  - Information related to federal revenues from tobacco products from the 2012 Public Accounts of Canada;
  - Data related to shipments of fine-cut tobacco from Health Canada's website;
  - Forecasts from the Conference Board of Canada, which are proprietary.

The estimated savings from the integrity measures presented in Economic Action Plan 2013 (Table 4.2.7) (and included in the attached table) were revised to reflect updated tax data and economic projections for the fiscal planning period shown in the Economic Action Plan, and thus reflect the most recent estimates of the actual amount of savings

from these measures. The savings estimates shown in Economic Action Plan 2012 (Table 6.7) were based on the data and projections available at the time the measures were introduced. For a number of the measures listed in the attached table, the savings are denoted by a “-”. This presentation indicates that only small revenue gains are expected (i.e., less than a million dollars), or that the amount could not be determined, which is the case where a measure is considered to be a preventive action against future base erosion or when no information is available to estimate the savings.

The Annex, *Tax Measures: Supplementary Information*, in each of the Economic Action Plans provides a detailed description of each of the measures noted in the table if you require more information on these measures.

I trust that you will find this information useful.

Yours sincerely,

A handwritten signature in cursive script that reads "Michael Horgan".

Michael Horgan

Enclosure

- c. Mr. Rick Stewart, Assistant Secretary to Cabinet, Liaison Secretariat for Macroeconomic Policy  
Privy Council Office