

ANNEX 5

Government Tax Expenditure and Spending Reviews

Overview

In 2015, the Government committed to achieving up to \$3 billion in annual savings by 2019–20 through a number of targeted changes to federal tax expenditures and program spending.

As a first step, in Budget 2016, the Government announced a significant cut to its advertising budget and federal spending on professional services and travel. As a result of these early actions, \$221 million in annual savings were made available to reinvest in better government services, and new and enhanced programs to strengthen and grow the middle class.

Since then, the Government has undertaken a comprehensive review of federal tax expenditures. Over the four-year period ending in 2018–19, the tax expenditure review resulted in savings of \$3.9 billion, and will lead to estimated savings of more than \$3 billion annually starting in 2019–20.

Table A5.1

Total Savings Realized From Tax Measures and Government Spending Reviews Since 2015

millions of dollars

	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Pre-Budget 2019 Tax Savings (Table A5.2)	20	371	1,200	2,319	3,020	3,720
Budget 2019 Tax Savings (Table A5.3)					75	154
Spending Review Savings (Table A5.4)	222	231	235	237	237	237
Total Estimated Savings Achieved	242	602	1,435	2,556	3,332	4,111
2015 Savings Commitment		500	1,000	2,000	3,000	3,000

The continuous improvement of government programming is vital to ensuring that tax dollars are delivering the value and results that Canadians expect and deserve.

In addition to the review of its tax expenditures, the Government undertook several comprehensive program spending reviews to ensure that the resources invested in these areas are administered effectively and continue to deliver value for Canadians.

Tax Expenditure Review

In Budget 2016, the Government committed to undertake a wide-ranging review of federal tax expenditures. Individuals and businesses had expressed concerns about the efficiency and fairness of Canada's tax system, and how the increasing number of tax expenditures had made the federal tax system more complex.

The review's objectives were to eliminate poorly targeted and inefficient tax measures, and allow the Government to identify opportunities to reduce tax benefits that unfairly help the wealthiest Canadians rather than the middle class and those working hard to join it.

The Government has completed a wide-ranging review of federal tax expenditures to ensure that they are fair for Canadians, efficient and fiscally responsible.

- The Government's comprehensive review has resulted in the elimination of measures that were found to be ineffective and inefficient.
- The review also identified opportunities to crack down on tax evasion and aggressive tax avoidance, and reduce tax benefits that disproportionately helped the wealthiest Canadians rather than the middle class and those working hard to join it.
- Finally, the review led to measures that made existing tax relief for individuals and families more effective and accessible.

In each of its budgets, the Government has made improvements to the tax system—many of which have been informed by this comprehensive review. Table A5.2 below provides a detailed breakdown of the savings resulting from tax measures introduced from the beginning of the Government's mandate up to and including Budget 2018.

**Table A5.2
Savings Realized From Tax Measures Undertaken
From Beginning of Mandate to Budget 2018**
millions of dollars

Measure	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Multiplication of the Small Business Deduction	-	-5	60	55	45	40
Avoidance of the Business Limit and Taxable Capital Limit	-	-1	10	10	10	10
Life Insurance Policies	-	30	35	35	35	40
Debt-Parking to Avoid Foreign Exchange Gains	-	-	-	-	-	-
Valuation for Derivatives	-	-	-	-	-	-
Cross-Border Surplus Stripping	-	-	-	-	-	-
Extension of Back-to-Back Rules	-	-	-	-	-	-
Taxation of Switch Fund Shares	-	-	75	145	145	145
Sales of Linked Notes	-	65	-20	-	45	45
Restricting the Relief of Excise Tax on Diesel and Aviation Fuel	-	35	45	45	40	40

Table A5.2

Savings Realized From Tax Measures Undertaken**From Beginning of Mandate to Budget 2018**

millions of dollars

Measure	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
GST/HST Closely Related Test	-	-	-	-	-	-
Cracking Down on Tax Evasion and Combating Tax Avoidance <i>(Net Federal Revenue Impact)</i>						
Budget 2016		154	312	398	473	775
Budget 2017			122	232	335	511
Budget 2018				32	46	45
Enhancing Tax Collections ¹		-32	-56	-80	-105	-78
Children's Fitness and Arts Tax Credits	20	120	245	250	255	260
Principal Residence Exemption Measure of October 2016		-	-	-	-	-
Automatic Exchange of Information for Tax Purposes		-	-	-	-	-
Registered Education Savings Plan and Registered Disability Savings Plan Anti-Avoidance Rules		-	-	-	-	-
Meaning of Factual Control		-	-	-	-	-
Timing of Recognition of Gains and Losses on Derivatives		-	54	60	60	65
Extending the Base Erosion Rules to Foreign Branches of Canadian Life Insurers		-	-	-	-	-
Public Transit Tax Credit		-	150	205	210	220
Taxation of Benefits in Respect of Home Relocation Loans		-	-	-	-	-
Billed-Basis Accounting		-	35	220	170	-
Tax Exemption for Insurers of Farmers and Fishers		-	-	-	10	10
Accelerated Deductibility of Some Canadian Exploration Expenses		-	-	-	45	55
Reclassification of Expenses Under Flow-Through Shares		-	-	-	2	2
Eliminating Tax Exemptions of Allowances for Certain Public Officials		-	-	6	30	30
GST/HST Rebate to Non-Residents for Tour Package Accommodations		-	10	15	15	15
Additional Deduction for Gifts of Medicine		-	-	-	-	-
Investment Tax Credit for Child Care Spaces		-	-	-	-	-
Income Sprinkling announcement of December 2017		45	190	200	205	
Taxi and Ride-Sharing Services		3	4	4	4	
Passive Investment Income—Business Limit		-	-2	120	430	

Table A5.2

**Savings Realized From Tax Measures Undertaken
From Beginning of Mandate to Budget 2018**

millions of dollars

Measure	2015– 2016	2016– 2017	2017– 2018	2018– 2019	2019– 2020	2020– 2021
Passive Investment Income—						
Refundability of Taxes on						
Investment Income			-	45	185	220
Artificial Losses Using Equity-Based						
Financial Instruments			-	135	245	265
Stop-Loss Rule on Share						
Repurchase Transactions			-	230	315	275
At-risk Rules for Tiered Partnerships			-	-	-	-
Amendment to Section 212.1—						
Cross-Border Surplus Stripping			-	-	-	-
Foreign Accrual Property Income						
Avoidance Using						
Tracking Interests			-	-	-	-
CRA Common International Data						
Standard—Phase II				-5	-6	-9
Tax Savings Total (of measures introduced from the beginning of the mandate to Budget 2018)	20	371	1,200	2,319	3,020	3,720

Notes: “-” indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base.

For years prior to the implementation of a measure, the corresponding cells for this measure have been left blank.

¹ It is anticipated that this proposal will result in the collection of an additional \$7.4 billion in tax debt over five years.

Additional Tax Savings Introduced in Budget 2019

Budget 2019 builds on the Government's earlier efforts to build an economy that works for everyone, and maintain a tax system in which all Canadians pay their fair share. It also proposes measures to further strengthen the Canada Revenue Agency's ability to crack down on tax evasion and combat tax avoidance, and makes additional progress in closing tax loopholes.

Table A5.3 provides a breakdown of the savings resulting from tax measures proposed in Budget 2019.

Table A5.3

Savings Realized From Tax Measures Introduced in Budget 2019 millions of dollars

Measure	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021
Foreign Affiliate Dumping				-	-	-
Transfer Pricing Measures				-	-	-
Cross-Border Share Lending Arrangements				-	-	-
Character Conversion Transactions				-	-	-
Mutual Funds: Allocation to Redeemers Methodology				-	25	105
Pensionable Service Under an Individual Pension Plan				-	-	-
Carrying on a Business in a Tax-Free Savings Account				-	-	-
CRA Measures to Enhance Tax Compliance					50	49
Tax Savings Total (of measures included in Budget 2019)				-	75	154

Notes: “-” indicates a nil amount, a small amount (less than \$500,000) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base. For years prior to the implementation of a measure, the corresponding cells for this measure have been left blank.

To ensure the tax system operates as fairly and effectively as possible moving forward, the Government will continue to study, identify and address tax loopholes and tax planning schemes.

Government Spending Reviews

Responsible fiscal management requires that government spending and programming be managed wisely and be continuously improved in order to ensure that the investment of Canadian taxpayer dollars is delivering results in the most effective and efficient manner possible. Since 2015, the Government has undertaken a number of targeted program expenditure reviews to specifically achieve this aim.

Review	Impact
Professional Services, Travel and Advertising Reductions	In Budget 2016, the Government announced annual reductions of \$221 million in professional services, travel and government advertising, starting in 2016–17. The savings created as a result of these reductions enabled a better alignment of government spending with priorities.
Transport Canada Comprehensive Review	In 2016–17, Transport Canada undertook a Comprehensive Review of all departmental activities to identify and eliminate poorly targeted and inefficient programs. Savings identified through the Review were reprioritized to support government priorities within the department.
Fisheries and Oceans and the Canadian Coast Guard Comprehensive Review	In 2016–17, Fisheries and Oceans Canada and the Canadian Coast Guard undertook a Comprehensive Review. This review resulted in the reallocation of \$22 million per year ongoing in existing departmental resources to higher priority activities in the department's mandate.
Health Canada Comprehensive Review	In 2017–18, Health Canada undertook a Comprehensive Review of all program spending to ensure alignment with mandate, efficiency, effectiveness and program integrity. The review concluded that the department's programs are well-aligned with the mandate and positioned to deliver on the Government's priorities, and identified opportunities for reinvestment in core regulatory activities, such as the enforcement of drug and medical device regulations.

Review	Impact
Canada Border Services Agency Review	In 2017–18, the Canada Border Services Agency undertook a Comprehensive Review across its programs to ensure alignment with the agency's mandate and government priorities, and to identify opportunities to strengthen program efficiencies and effectiveness. Through the Review, the agency considered key priorities including ways to support financial and operational sustainability, the integrity of border infrastructure, continued delivery of core responsibilities, and opportunities to modernize border operations to keep pace with the growing volume of goods and people crossing the Canadian border.
Royal Canadian Mounted Police (RCMP) Review	In 2015, the RCMP began the process of undertaking a review of activities, programs and services with a view to better understanding resourcing requirements across business lines. The review provided a better understanding of the cost pressures facing the RCMP, efforts to streamline internal operations and enhance capacity, and challenges and opportunities to begin modernization of policing while focusing on delivering results to and for Canadians.

A detailed breakdown of the savings that were created as a result of several of the comprehensive reviews outlined above can be found in Table A5.4 below.

Table A5.4

Estimated Savings Realized From Government Spending Reviews

Undertaken Since 2015

millions of dollars

Review	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023
Professional Services, Travel and Advertising Reductions	221	221	221	221	221	221	221	221
Transport Canada Comprehensive Review	1	10	14	16	16	16	16	16
Estimated Total Review Savings Achieved	222	231	235	237	237	237	237	237