

AGF Market Insight — federal budget impact on oil sands



March 2007

The Federal fiscal budget introduced yesterday by the Conservative government includes a plan to phase out the Accelerated Capital Cost Allowance (ACCA) program. The baseline 25% rate will remain in place.

Back in the 1990s the Liberal government provided fiscal incentives to the oil sands sector to ease the significant capital investment required. The program allowed eligible firms to deduct up to 100% of the capital cost (including machinery, equipment, structures and infrastructure) of projects against their taxable income, effectively deferring any taxes until the capital cost was recovered. This incentive helped offset some of the risk associated with early oil sands investments and contributed to the development of this strategic resource.

The government has now proposed eliminating the ACCA program. However, before they do so they are proposing that:

- assets acquired (or major construction that had started) before March 19th, 2007 will be ‘grandfathered’ with respect to the ACCA rules
- other projects will see the ACCA rules be gradually phased down over the 2011-2015 period as follows:

Allowable percentage of additional allowances		
2010	-	100%
2011	-	90%
2012	-	80%
2013	-	60%
2014	-	30%
2015	-	0%

We believe the phasing out, which begins in 2011, should allow time for the industry to adjust. The impact of phasing down of the ACCA will affect the economics of future projects, particularly those that will have a start date after 2010 as lower rates of deductions will be implemented. The grandfathering provision will ease the burden for projects already under construction, as existing ACCA tax pools will remain valid. However, this policy change, coupled with rising costs and the prospect of more stringent environmental regulations ahead, could impact new projects.

We feel this makes existing projects, and those currently under construction, more valuable than those coming online in future years. Overall, we feel that the industry will have time to adapt to the new rules and we should not see any substantial consequences. We are not planning on making any changes to the Fund due to the announcement and see only a negligible impact on future projects.
