FALL 2018

2018 FALL ECONOMIC STATEMENT

The Government Responds to US Tax Reform

On November 21, 2018, the Honourable Bill Morneau presented the federal government's 2018 Fall Economic Statement. In the 2018 Federal Budget, the government stated that they would conduct detailed analysis of US tax reform to assess any potential impacts on Canada. In this Economic Statement, the government responded and announced measures to improve the competitiveness of the Canadian tax system as it relates to investments by Canadian businesses.

The tax measures focus on enhanced tax deductions for investments by all businesses in capital property. These include full tax deductions for investments in manufacturing and processing machinery and equipment and clean energy equipment for investments made prior to 2024, as well as enhanced tax deductions in the year of acquisition for all other tangible and intangible property. This is in direct response to the measures in US tax reform, which allow for a full tax deduction for investments in new and used tangible property placed into service between September 27, 2017 and December 31, 2022. The Canadian tax measures apply to investments in both tangible and intangible property, while the US measures only deal with write-offs for tangible property.

The tax changes will result in larger deficits over the next several years with no announcement of when the government plans to return to a balanced budget.

The Economic Statement also contained several measures to assist news organizations that are struggling in today's economy.

Following is more information on the tax measures of interest to our clients.

Accelerated Investment Incentive

The government proposes to introduce an Accelerated Investment Incentive (AccII) to allow businesses in Canada to deduct the cost of their capital investments more quickly. This is being accomplished by enhancing the tax deductions available in the year of acquisition of property that is subject to the capital cost allowance (CCA) rules. This proposal will effectively suspend the half-year rule for acquisitions and increase the first year CCA deduction by applying the prescribed CCA rate for a class to one-and-a-half times the net addition to a CCA class for the year. This means that acquisitions of both tangible and intangible property will be eligible for three times the tax deduction in the year of acquisition than they would be eligible for under existing rules.

The proposed rules will not change the total amount that can be deducted for tax purposes with respect to eligible acquisitions. Rather, it will substantially increase the tax deduction available in the year of acquisition. This will be offset by smaller tax deductions available in future years.

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These rules will not apply to Class 53 (manufacturing and processing machinery and equipment) and Classes 43.1 and 43.2 (clean energy equipment) which will be eligible for a full deduction in the year of acquisition as described below.

This incentive is available for eligible property acquired after November 20, 2018 and that becomes available for use before 2028. However, for property that becomes available for use in the period 2024 to 2027, the incentive will be reduced. In that period, the incentive will be the elimination of the half-year rule in the year of acquisition, meaning that the tax deduction available for acquisitions of eligible property in this period will be two times the tax deduction available in the first year under current rules.

The example below (Figure 1) shows how the AccII will work for purchases that are not manufacturing and processing or clean energy equipment. The rate of CCA used in this example would apply to furniture (Class 8).

A few special rules are part of this incentive:

- *Liquefied Natural Gas Facility* – The AccII relating to the additional allowances for property at these types of facilities can only be claimed against income of the taxpayer that is attributable to the liquefaction of natural gas at that facility.
- *Class 41.2, Mining Property* – This incentive will not apply to the additional allowance for mining property included in Class 41.2, which is currently being phased out.
- *Canadian Development Expenses (CDE)* – The incentive will apply to eligible CDE which are deductible at a rate of 30%. However, since the half-year rule does not apply to CDE, the available first year deduction will be one-and-a-half times the deduction that is available under current rules.

The proposals indicate that CCA claims will be prorated if the first year is a short taxation year, and there will be no adjustment to provide additional CCA in the first year following a short taxation year. In addition, the AccII will not apply to purchases from a non-arm's length person, or when the purchase is acquired in a tax-deferred transaction.

Manufacturing and Processing Equipment

For manufacturing equipment that would otherwise be in CCA Class 53, the enhanced CCA rate will be 100% in the year of acquisition where the asset is available for use before 2024. Purchases in years 2024 through 2027 will be subject to a phased-out enhanced CCA rate as shown in the chart below. The chart also shows the first year CCA rate under the current system, assuming that the half-year rule applies.

	Current First-Year Allowance (half-year rule) %	Proposed First-Year Enhanced Allowance %
Implementation Date to 2023	25	100
2024	25	75
2025	25	75
2026	15	55
2027	15	55
2028 onward	15	–

Figure 1

Example - Class 8	Current First-Year Allowance (half-year rule) %	Proposed Accelerated Investment Incentive %
Eligible property acquired and available for use after November 20, 2018 and before 2024	10	30
Eligible property that becomes available for use after 2023 and before 2028	10	20

Clean Energy Equipment

For specified clean energy equipment that would otherwise be in CCA Class 43.1 or Class 43.2, the enhanced CCA rate will be 100% in the year of acquisition where the asset is available for use before 2024. As with manufacturing and processing equipment described above, purchases in years 2024 through 2027 will be subject to a phased-out enhanced CCA rate. The chart below (Figure 2) shows the proposed CCA rates in the year of acquisition as well as first year CCA rate under the current system, assuming the half-year rule applies.

Support for News Organizations

To support news organizations in Canada, the government announced the following:

- *Access to Charitable Tax Incentives for Eligible News Organizations* – In the 2018 Federal Budget, the government stated that it would explore new models that would enable private giving and philanthropic support for trusted, professional, non-profit journalism, including local news. To that end, the government announced that it intends to introduce a new category of qualified donee, for non-profit journalism organizations that produce a wide variety of news and information of interest to Canadians. As qualified donees, eligible non-profit journalism organizations would be able to issue official donation receipts, which allows donors to benefit from tax incentives for charitable giving (including the Charitable Donations Tax Credit for individuals and deductions for corporations). As qualified donees, these organizations would also be eligible to receive funding from registered charities.
- *A New Refundable Tax Credit to Support News Organizations* – To further support news journalism in Canada, the government announced that it intends to introduce a new refundable tax credit for qualifying news organizations. This new measure will aim to support Canadian news organizations that produce a wide variety of news and information of interest to Canadians. The refundable credit will support labour costs associated with producing original news content and will generally be available to both non-profit and for-profit news organizations. An independent panel will be established from the news and journalism community to define eligibility for this tax credit, as well as provide advice on other measures. Once established, the effective date of the refundable tax credit will be set for January 1, 2019.

Figure 2

	Current First-Year Allowance (half-year rule) Class 43.1 %	Current First-Year Allowance (half-year rule) Class 43.2 %	Proposed First-Year Enhanced Allowance %
Implementation Date to 2023	15	25	100
2024	15	25	75
2025	15	–	75
2026	15	–	55
2027	15	–	55
2028 onward	15	–	–

- *A New Non-Refundable Tax Credit for Subscriptions to Canadian Digital News Media* – To support Canadian digital news media organizations in achieving a more financially sustainable business model, the government announced that it intends to introduce a new temporary, non-refundable 15% tax credit for qualifying subscribers of eligible digital news media.

In total, the proposed access to tax incentives for charitable giving, refundable tax credit for labour costs and non-refundable tax credit for subscriptions will cost the federal government an estimated $595 million over the next five years. There will be additional details on these measures in the 2019 budget.

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