CORPORATE Newsletter

August 2019 Issue 49

Recent Capital Cost Allowance Changes

IN THIS ISSUE

First-Year CCA Before Accelerated Investment Incentive

Accelerated First-Year CCA

100% Deduction for Clean Energy Property

Zero Emissions Vehicles

Phase-Out

Accelerated Investment Incentive

The 2018 Fall Economic Statement announced an accelerated first-year CCA measure for most types of depreciable property. This temporary measure is known as the Accelerated Investment Incentive. As the name implies, the Accelerated Investment Incentive will accelerate the amount of CCA that can be deducted for the year in which depreciable property is acquired and available for use. The Accelerated Investment Incentive will also provide 100% CCA deductions for newly acquired manufacturing and processing property (Class 53) and eligible clean energy property (Classes 43.1 and 43.2).

Property must be accelerated investment incentive property ("AIIP") to qualify for any of the accelerated CCA provisions discussed below. AIIP is defined as property that is acquired after November 20, 2018 and becomes available for use before 2028. With this broad definition, AIIP basically includes any kind of depreciable property (with some exceptions).

For most classes, the amount of CCA that can be deducted with respect to any assets that are acquired in the year is limited to 50% of the amount that could otherwise be deducted—this is often referred to as the half-year rule. The half-year rule applies by reducing the undepreciated capital cost ("UCC") of a class by 50% of net additions in the year for the purposes of computing how much CCA can be deducted. However, the half-year rule does not apply to AIIP, but appropriately will continue to apply with respect to any property that is not AIIP.

In addition to suspending the half-year rule for newly-acquired AIIP, a taxpayer's first-year CCA deduction with respect to the AIIP that becomes available for use in the year is increased by a factor of 50%. More specifically, net additions to the UCC of the class are grossed-up by 50% for the purposes of computing CCA, which is similar to how the half-year rule halves the UCC for computing CCA when an asset is acquired. The additional 50% deduction is only available with respect to property that becomes available for use before 2024. Therefore, any property that becomes available for use after 2023 (even if it was acquired before that time) is not eligible for the accelerated first-year allowance, though it continues to be exempt from the half-year rule if it is available for use prior to 2028.

Example 1 — First-Year CCA Before Accelerated Investment Incentive

Before November 21, 2018, a Class 8 asset is acquired for $1,000 and it is the only asset in the class. The half-year rule applies. Normally, Class 8 allows a taxpayer to claim an allowance for 20% of the UCC, or $200. However, because of the half-year rule, the first-year allowance is computed as if the addition to Class 8 was half the actual cost, or $500. Therefore, the taxpayer can only claim 20% of $500, or $100, for the first year. For subsequent years, the CCA deduction amount is computed without adjusting the UCC. So in the second year, the taxpayer can deduct 20% of the remaining $900 UCC, or $180.

Example 2 — Accelerated First-Year CCA

In 2020, a Class 8 asset is acquired for $1,000, it is AIIP, and is the only asset in the class. The half-year rule does not apply. Normally, Class 8 allows a taxpayer to claim an allowance for 20% of the UCC, or $200. However, the first-year additional allowance is computed as if the addition to Class 8 was 50% higher, or $1,500. Therefore, the taxpayer can claim 20% of $1,500, or $300, for the first year. Notice that this deduction is three times the normal first-year in Example 1. For subsequent years, the CCA computation returns to normal since the accelerated allowance is only available in the first year that the property is available for use. Thus, in the second year, the taxpayer can deduct 20% of the remaining $700 UCC, or $140.

100% Deduction for Clean Energy Property and Manufacturing and Processing Property

Currently, manufacturing and processing ("M&P") property is included in Class 53 (50% allowance), but any property acquired after 2025 will be included in Class 43 (30% allowance). Various types of clean energy equipment are included in Classes 43.1 and 43.2, which are eligible for 30% and 50% allowances, respectively. Where assets in these classes are acquired after November 20, 2018, are available for use before 2024, and qualify as AIIP, the taxpayer is eligible for CCA deduction for the entire cost of the asset.

The full deduction will be phased out for property acquired after 2023. Property that becomes available for use after 2023 and before 2028 will still be eligible for an accelerated CCA deduction in the year it is acquired, and will not be subject to the half-year rule, but it will not be a 100% write-off. For any assets that become available for use after 2027, the rule is completely phased out so the CCA computation will return to normal (including the application of the half-year rule).

Where eligible property becomes available for use during the phase-out period and thus is not fully written off in the first year, it is important to note that this accelerated allowance is only for the first year, similar to how the accelerated allowance applies to other AIIP.

Zero Emissions Vehicles

The Budget 2019 announced a temporary enhanced first-year CCA rate of 100% for zero-emissions vehicles acquired on or after March 19, 2019, that become available for use before 2028, subject to phase-out for vehicles that become available for use after 2023.

Two new CCA classes have been introduced: Class 54 for zero-emission vehicles that would otherwise be included in Class 10 or 10.1, and Class 55 for zero-emission vehicles that would otherwise be included in Class 16. Class 54 will be subject to a $55,000 limit in respect of each zero-emission passenger vehicle, which will be reviewed annually to ensure it remains appropriate. The $55,000 limit also applies with respect to GST/HST input tax credits that a taxpayer is eligible to receive with respect to the vehicle. Any remaining balances in Class 54 or Class 55 after the enhanced first-year allowance will be entitled to CCA deduction on a declining-balance basis at a rate of 30% for Class 54 and 40% for Class 55.

To be eligible for this first-year enhanced allowance, a vehicle must fit within a new definition of "zero-emission vehicle". Zero-emission vehicles include a motor vehicle that is fully electric, a plug-in hybrid with a battery capacity of at least 7 kWh, or fully powered by hydrogen, not have been used, or acquired for use, for any purpose before it is acquired by the taxpayer and not a vehicle for which assistance has been paid by the Government under a prescribed program (also announced in Budget 2019).

Phase-Out

The accelerated first-year CCA rate for all of the classes discussed above that are eligible for 100% write-off will be phased-out beginning in 2024 and no longer in effect after 2027. The first-year CCA rates for these classes are as follows.

Year Asset Becomes Available for Use

November 21, 2018 – December 31, 2023: 100%

2024: 75%

2025: 75%

2026: 55%

2027: 55%

2028: accelerated rate phased-out, normal rate with respect to class is applicable, and half-year rule is applicable.