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Tax Measures From the 2024 Fall Economic Statement

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The Government of Canada released *2024 Fall Economic Statement — Reducing Everyday Costs and Raising Wages* (the "Fall Economic Statement") on December 16, 2024. Like every year, the Fall Economic Statement included the announcement of many new tax changes. This article discusses corporate and business tax measures that were announced. At the time of writing, none of these announcements have been officially implemented via legislation by the government.

Extending the Accelerated Investment Incentive and Immediate Expensing Measures

The Fall Economic Statement proposes to extend certain accelerated capital cost allowance ("CCA") measures. The overall effect of these changes will be that your business may be able to claim larger deductions when it acquires depreciable assets.

If you're not already familiar, CCA is a method by which capital assets can be depreciated for tax purposes. Depreciation for accounting purposes is irrelevant for tax purposes; it is instead the CCA rules that determine how an asset is depreciated in computing taxable income. Generally, in computing income from a business or property, you are entitled to deduct an amount in respect of CCA. The CCA amount is determined by multiplying the capital cost of an asset by a specific percentage. The percentage depends on which class the asset is included in. For example, a computer is included in Class 50, which makes the computer eligible for a 55% depreciation rate. On the other hand, a building is included in Class 1 and has a mere 4% annual depreciation rate — reflecting the much longer lifespan of the asset.

Many rules apply to the calculation of a CCA deduction, notably including the "half-year rule" which normally reduces the CCA deduction for an asset acquired in the current year to half of what it would normally be. However, the half-year rule was suspended for property acquired after November 20, 2018 and before 2028 by a temporary incentive called the Accelerated Investment Incentive ("AII"). The AII also increased the CCA deduction for the year in which an asset was first acquired by another 50%. However, the 50% increase expired for property acquired after 2023.

The Fall Economic Statement proposes to reinstate the AII for property acquired on or after January 1, 2025, with the result being that the first-year CCA deduction would be three times the regular amount (i.e., no half-year rule plus an additional 50%). The AII would be phased out beginning in 2030 and fully phased out for property that becomes available for use after 2033.

The Fall Economic Statement also proposes to partially extend the immediate expensing incentive. Basically, this incentive allowed private corporations and sole proprietorships to immediately expense up to $1.5 million of certain newly acquired depreciable assets.

The immediate expensing, which was also scheduled to be phased out, will also be extended, specifically for the following types of qualifying property:

- Class 53 — manufacturing and processing equipment;
- Class 43.1 — clean energy generation and energy conservation equipment; and
- Classes 54, 55, and 56 — zero-emission vehicles.

SR&ED Tax Incentive Program

The Fall Economic Statement proposes several changes that will enhance the value of the scientific research and experimental development ("SR&ED") program. If your business engages in this type of activity, this change may result in receiving higher investment tax credits.

For the enhanced 35% refundable credit for Canadian-controlled private corporations ("CCPCs"), the limit of the value of expenditures which can be claimed would increase from $3 million to $4.5 million. The taxable capital phase-out threshold for determining the expenditure limit would be increased to $15 million — the expenditure limit for this enhanced credit would be completely reduced to nil when taxable capital reaches $75 million (up from $50 million).

The Fall Economic Statement also proposes to reinstate eligibility of capital expenditures for both a deduction from income and the investment tax credit. Capital costs had been eligible prior to 2014. This change would apply to property acquired on or after December 16, 2024. For leases, it would apply for lease payments that become payable on or after December 16, 2024.

With respect to the deduction against income, eligible expenses would be those incurred to acquire depreciable property intended to:

- be used for all or substantially all of its operating time in its expected life in the performance of SR&ED in Canada, or
- consume all or substantially all of its value in performing SR&ED in Canada.

For a CCPC claiming the enhanced refundable credit, capital expenditures can qualify for up to a 40% refundability rate (unlike current expenditures, which are 100% refundable).

Extension of Capital Gains Rollover for ESBC Shares

Individuals are allowed to defer taxation of capital gains on a qualifying disposition of eligible small business corporation ("ESBC") shares (which is a common share issued by an ESBC to an individual where the total carrying value of the assets of the ESBC and related corporations does not exceed $50 million) to the extent that the proceeds from the disposition are used to acquire replacement ESBC shares within the year of disposition, or up to 120 days following that year.

The Fall Economic Statement proposes to:

- increase the period to acquire replacement shares from the year of disposition plus 120 days to the year of disposition and the calendar year following that year;
- expand the definition of an ESBC share to include both common and preferred shares; and
- increase the limit on the carrying value of the assets of the ESBC and related corporations from $50 million to $100 million.

These changes would be effective for qualifying dispositions that occur on or after January 1, 2025. Consequently, these changes would expand eligibility for this rollover which may allow you to defer capital gains from selling shares if you use the proceeds to acquire replacement shares.

Reporting by Non-Profit Organizations

The *Income Tax Act* provides an exemption from income tax for organizations that meet the definition of a non-profit organization ("NPO"). The Fall Economic Statement proposes the following to the reporting requirements for NPOs to improve transparency:

- require NPOs with total gross revenues over $50,000 to also file the annual NPO information return; and
- require NPOs that do not meet the thresholds for filing the annual NPO information return to file a new, short-form return that contains basic information about the organization.

These measures would apply to the 2026 and subsequent taxation years.

Modification of Canada Carbon Rebate for Small Businesses

The Canada Carbon Rebate for Small Businesses is a refundable tax credit that returns a portion of federal fuel charge proceeds directly to eligible CCPCs. To qualify, your corporation must have employees in a designated province (i.e., a province subject to the federal carbon pricing regime) and have less than 500 employees in the calendar year.

The Fall Economic Statement proposes to modify certain elements of the Canada Carbon Rebate for Small Businesses for the 2024–2025 and later fuel charge years. First, the tax credit would be extended to include cooperative corporations and credit unions as eligible businesses. A minimum payment amount would be added; an eligible corporation with one to 20 employees across Canada would receive a payment corresponding to it having 20 employees.