CORPORATE Newsletter

Q3 2025 Issue 73

Proposed Accelerated Capital Cost Allowance Deductions

IN THIS ISSUE

In its 2024 Fall Economic Statement, the federal government announced that it would be extending significant accelerated capital cost allowance ("CCA") measures that had just begun to be phased out, namely the accelerated investment incentive and immediate expensing provisions. Also, the government has recently proposed immediate expensing for productivity-enhancing assets and accelerated CCA for purpose-built rental properties. These measures have not been enacted into law, but the tax rules are worth familiarizing yourself with for when they become official. In this article, we will review how these accelerated deductions work, how they will be extended, and what that means for your business.

An Overview of Capital Cost Allowance

First, we will quickly review the CCA rules that are relevant to this article, should you need an explanation or even a brief refresh.

CCA is completely distinct from depreciation for accounting purposes, though they are conceptually similar. Depreciation for accounting purposes has no relevance for computing income for tax purposes. Instead, you can claim a deduction in computing your income from a business or property for tax purposes to reflect the depreciation of your depreciable capital property; this is your CCA deduction which is determined in accordance with a set of robust tax rules.

The capital cost of depreciable property that you acquire is added to an account called the undepreciated capital cost. A prescribed percentage of this account's value can be deducted as capital cost allowance every year. The CCA measures discussed in this article essentially increase the amount of CCA you can deduct with respect to newly acquired property.

Accelerated Investment Incentive — Existing Rules

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 ("AII"). The AII increases the amount of CCA that can be deducted for the year in which depreciable property is acquired and available for use.

Property must be accelerated investment incentive property ("AIIP") to qualify for any of the accelerated CCA. AIIP is 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).

Normally, 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. For example, if an asset can be depreciated at an annual rate of 10%, the half-year rule restricts the first-year deduction to only 5%. However, the half-year rule is temporarily suspended for AIIP, which delivers partly on the "accelerated" promise.

Additionally, 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 undepreciated capital cost ("UCC") of the class are increased by 50% for the purposes of computing CCA. Notwithstanding the proposed extension discussed below, the additional 50% deduction was only available with respect to property that became available for use before 2024. Therefore, any property that becomes available for use in 2024 was 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 — No 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 deduct 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

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 deduct 20% of $1,500, or $300, for the first year. Notice that this deduction is *three times* the normal first-year deduction 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.

Extending the Accelerated Investment Incentive

The 2024 Fall Economic Statement announced that the government plans to fully reinstate the Accelerated Investment Incentive for property acquired on or after January 1, 2025. It would be phased out for property that becomes available for use after 2029 and the incentive would be fully eliminated for property that becomes available for use after 2033.

The government published this chart that helpfully illustrates the effects of the extension over the coming years:

	Current Enhanced First-Year Allowance	Proposed Enhanced First-Year Allowance Extension
2023	Up to 3x normal rate	-
2024	Up to 2x normal rate	-
2025	Up to 2x normal rate	Up to 3x normal rate
2026	Up to 2x normal rate	Up to 3x normal rate
2027	Up to 2x normal rate	Up to 3x normal rate
2028	Normal rate	Up to 3x normal rate
2029	Normal rate	Up to 3x normal rate
2030 to 2033	Normal rate	Up to 2x normal rate
2034 onward	Normal rate	Normal rate

Because of this reinstatement, the first-year deduction for 2025 would again be three times the normal rate (i.e., no half-year rule and the deduction grossed up by 50%). Consequently, your ability to accelerate your tax deductions from investing in depreciable capital assets will allow you to potentially reduce the current tax burden for your business. As you are no doubt aware, a higher tax deduction means less income tax to be paid.

Reinstating Immediate Expensing for Certain Assets

Until recently, the Accelerated Investment Incentive also enabled you to immediately deduct 100% of the cost of the following assets:

- Manufacturing and processing equipment,
- Clean energy generation and conservation equipment, and
- Zero-emission vehicles.

The full deduction began being phased out such that the deduction was only 75% for 2024. However, the government proposes to reinstate the full deduction as is summarized in the table below.

	Current Enhanced First-Year Allowance	Proposed Enhanced First-Year Allowance Extension
2023	100%	-
2024	75%	-
2025	75%	100%
2026	55%	100%
2027	55%	100%
2028	Normal rate	100%
2029	Normal rate	100%
2030 to 2031	Normal rate	75%
2032 to 2033	Normal rate	55%
2034 onward	Normal rate	Normal Rate

The full deduction will be phased out for property acquired after 2029. Property that becomes available for use after 2029 and before 2034 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 2033, the incentive is completely phased out so the CCA computation will return to normal (including the application of the half-year rule).

Note that this accelerated allowance is only for the first year of acquisition. Where eligible property becomes available for use during the phase-out period and thus is not fully written off in the first year, the remaining balance is depreciated at normal rates.

Immediate Expensing for Productivity-Enhancing Assets

The federal government has also proposed to provide immediate expensing for certain productivity-enhancing assets. Patents, data network infrastructure equipment, and general-purpose electronic data processing equipment (computers and smartphones, for example) would be eligible for a 100% deduction if acquired and available for use after April 15, 2024 and before 2027.

Additional Allowance for Purpose-Built Rental Housing

You can claim a 6% additional allowance for purpose-built rental housing, bringing the total rate to 10%, if certain conditions are met. The property must be a "residential rental unit", which means a housing unit that is (or is intended to be) rented for residential purposes that is not provided to people who are travelling or on vacation (i.e., no short-term accommodations).

The property must be a "purpose-built residential rental". To meet this definition, the building must be situated in Canada. The building must also contain four or more residential units at least four of which have a private bathroom, kitchen, and living space. Alternatively, the building can consist of 10 or more residential rental units without any criteria for bathrooms, kitchens, etc. Last, 90% or more of the residential rental units must be rented at a continuous period of at least 28 days (again, no short-term rentals).

The property must also be a "*new* purpose-built residential rental" to be eligible for the accelerated allowance. To meet this definition, the building must have been built for use as a purpose-built residential rental and construction must have begun after April 15, 2024 and before 2031. Existing buildings (or parts thereof) of previously used commercial properties can also be eligible if they are substantially renovated for use as a purpose-built residential rental if the renovations began after April 15, 2024 and before 2031. Finally, the building must become available for use before 2036.