FEDERAL ECONOMIC STATEMENT

NOVEMBER 21, 2018

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INTRODUCTION

In the *Fall Economic Statement 2018*, Finance Minister Bill Morneau introduces new measures to encourage investment in the country.

Here are the highlights of the update.

PERSONAL INCOME TAX MEASURES

A New Non-Refundable Tax Credit for Subscriptions to Canadian Digital News Media

The Government intends to introduce a new temporary, non-refundable 15-per-cent tax credit for qualifying subscribers of eligible digital news media.

Additional details on this measure will be provided in Budget 2019.

BUSINESS INCOME TAX MEASURES

A New Refundable Tax Credit to Support News Organizations

To further support news journalism in Canada, the Government intends to introduce a new refundable tax credit for qualifying news organizations. 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. Once established, the effective date of the refundable tax credit will be set for January 1, 2019.

Supporting Early Stage Mineral Exploration

The 15-per-cent Mineral Exploration Tax Credit is scheduled to expire March 31, 2019. Given the continuing challenges facing junior mining companies, the Government proposes to support their mineral exploration efforts by extending the credit for an additional five years, until March 31, 2024.

Accelerating Business Investment

The *Fall Economic Statement* is proposing three important immediate changes to Canada's tax system, in order to enhance business confidence in Canada.

Accelerated Investment Incentive

This new measure introduces an accelerated capital cost allowance for businesses of all sizes, across all sectors of the economy, that are making capital investments.

First-year allowance

The Accelerated Investment Incentive will provide an enhanced first-year allowance for capital property that is subject to the CCA rules (referred to as "eligible property"), excluding certain property discussed in the *Restrictions* section below.

The Accelerated Investment Incentive will also not apply to property in Classes 53 (manufacturing and processing machinery and equipment), 43.1 and 43.2 (clean energy equipment), which will rather be eligible for the full expensing measure.

The Accelerated Investment Incentive will effectively suspend the half-year rule in respect of eligible property.

The allowance will then generally be calculated by applying the prescribed CCA rate for a class to one-and-a-half times the net addition to the class for the year.

As a result, property currently subject to the half-year rule will, in essence, qualify for an enhanced CCA equal to three times the normal first-year allowance and property not currently subject to the half-year rule will qualify for an enhanced CCA equal to one-and-a-half times the normal first year allowance.

For example, if a taxpayer incurs $100 in respect of accelerated investment incentive property included in Class 10 (30% CCA rate) in 2019 and it becomes available for use in that year (assume no reductions in the Class for the year), the taxpayer may deduct $45 instead of the $15 that would normally be available in the first year because of the half-year rule, as calculated below:

Undepreciated capital cost at the end of the year:	$100
(0.5($100)) addition:	$50
Adjusted undepreciated capital cost:	$150
CCA rate:	30%
Enhanced first year CCA deduction ($150 x 30%):	$45
Undepreciated capital cost after CCA deduction:	$55

In the following year, assuming no new acquisitions, the taxpayer may deduct 30% of the $55

UCC and no additional amount for accelerated investment incentive property.

Effect of the first-year allowance in the following years

The Accelerated Investment Incentive will not change the total amount that can be deducted over the life of a property—the larger deduction taken in the first year in respect of a property will eventually be offset by smaller deductions in respect of the property in future years.

Application and Phase-Out

The Accelerated Investment Incentive will be available for eligible property that is acquired after November 20, 2018 and that becomes available for use before 2028, subject to a phase-out for property that becomes available for use after 2023.

Short Taxation Years

Under the short taxation-year rule, the amount of CCA that can be claimed in a taxation year must generally be prorated when the taxation year is less than 12 months.

When these rules apply, the Accelerated Investment Incentive will apply in respect of an eligible property on the same prorated basis and will not be available in the following taxation year in respect of the property.

Restrictions

Certain additional restrictions will be placed on property that is eligible for the Accelerated Investment Incentive. Property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer will be eligible for the Accelerated Investment Incentive only if both of the following conditions are met:

> neither the taxpayer nor a non-arm's-length person previously owned the property; and
> the property has not been transferred to the taxpayer on a tax-deferred "rollover" basis.

Full Expensing for Manufacturing and Processing Machinery and Equipment

The Government proposes to provide an enhanced first-year allowance for such property (Classes 43 and 53) if it is acquired after November 20, 2018 and becomes available for use before 2028. The enhanced allowance will initially provide a 100-per-cent deduction, with a phase-out for property that becomes available for use after 2023 (described in the table below). The half-year rule will effectively be suspended for property eligible for this measure.

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

The rules relating to short taxation years and restrictions relating to the use of CCA described for the Accelerated Investment Incentive will also apply in respect of this enhanced allowance.

Full Expensing for Clean Energy Equipment

The Government proposes to provide an enhanced first-year allowance for property currently included in Class 43.1 or 43.2 if it is acquired after November 20, 2018 and becomes available for use before 2028. The enhanced allowance will initially provide a 100-per-cent deduction, with a phase-out for property that becomes available for use after 2023 (as described in the table below). The half-year rule will effectively be suspended for property eligible for this measure.

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

The rules relating to short taxation years and restrictions relating to the use of CCA described for the Accelerated Investment Incentive will also apply in respect of this enhanced allowance.