KINGSTON ROSS PASNAK LLP

2018 Economic Update

The November 21, 2018 Economic Update contained considerable economic data, as well as comparisons between the U.S. and Canadian tax systems. Commitments were also made to various initiatives on reviewing regulatory requirements in the coming months.

Tax changes were also announced in respect of the capital cost allowance system, and a few other areas, designed to enhance competitiveness with the U.S. These directly respond to the temporary ability in the U.S. to fully deduct the cost of many capital asset purchases. The Canadian response includes the following adjustments to capital cost allowances ("CCA"), or as is often called, depreciation:

a) Machinery and equipment used in manufacturing and processing, and acquired from November 21, 2018 to December 31, 2023 will be eligible for full deduction in the year of acquisition. Such assets acquired in calendar 2024 and 2025 will generate a deduction for 75% of their cost, declining to 55% for 2026 and 2027. Acquisitions to December 31, 2025 qualify for inclusion in Class 53 (50% declining balance), while additions after December 31, 2025 will be Class 43 assets (30% declining balance), as Class 53 was already scheduled to expire at that time.

b) Clean energy assets (Classes 43.1 and 43.2) will qualify for the same first year claims as manufacturing and processing equipment (100% up to December 31, 2023, declining thereafter).

c) CCA will be enhanced for acquisitions of depreciable assets in classes other than the above from November 21, 2018 to December 31, 2027, for the year of purchase. For most assets, the usual half year of CCA available in the year of acquisition will be tripled (goodbye, "half year rule"; hello "year and a half" rule) for acquisitions to December 31, 2023. For acquisitions in calendar 2024 to 2027, the half year rule will not apply (so we drop down to the "full year rule" for those years). The half year rule will return on January 1, 2018.

   Certain classes that have an equivalent to the half year rule (such as Class 13 leaseholds) will have a similar enhancement to CCA in the year of acquisition. Other classes which lack a half year rule (e.g. Class 14 franchises and licenses) will qualify for a 50% increased CCA claim in the year of acquisition, if acquired by December 31, 2023, or a 25% increase for acquisitions in calendar 2024 through 2027.

   After the acquisition year, CCA will return to the normal declining balance rate on the remaining pool. If the year of acquisition is less than a full twelve months, the usual CCA prorating rules will apply. The total CCA in the year of acquisition is capped at the cost of the property (so we will not get a claim for over 100% of Class 12 additions, for example).

   This accelerated CCA will replace some existing CCA enhancements in the mining and resource sectors.

d) Similar to the CCA enhancement, the deduction for Canadian development expenses (CDE) and Canadian oil and gas property expenses (COGPE) will be increased by 50% in the year of acquisition, for expenses incurred from November 21, 2018 to December 31, 2023, and by 25% for expenses incurred in calendar 2024 to 2027.

e) **Accelerated CCA will not be available on assets acquired from related parties, or acquired under various rollover provisions**.

While the dollars may be significant for investing in depreciable assets (and virtually every depreciable asset acquisition will generate a higher first-year deduction), the actual rules are pretty straightforward – a bump to CCA available in the purchase year.

The legislation and regulations for the above changes were tabled with the Economic Update. A variety of incentives targeting news organizations, including a 15% personal tax credit for "qualifying subscribers of eligible digital news services" to support Canadian digital news media organizations. Details of these initiatives, including their timing, were not provided with the Update materials.

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As always, should you have any questions or care to discuss the above in more detail, contact your KRP Advisor or simply call our offices at 780.424.3000.