CORPORATE Newsletter

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Budget Season 2017 – Business Tax Changes

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Budget season in 2017 was, with some exceptions, maintenance of the status quo. The federal government and many of the provincial governments did not announce major tax changes. Rather, niche tax loopholes were addressed and specialized areas were given new tax incentives. Regardless, there remains a few noteworthy tax changes announced by the federal and provincial/territorial governments—these important tax changes are summarized below.

Federal

Billed-Basis Accounting

Generally, taxpayers are required to include the value of their work in progress ("WIP") in their income whether or not they have actually received payment for performing the work. However, certain professionals such as lawyers, doctors, veterinarians, and chiropractors are not required to include the WIP in their income until the work is billed to the client. Budget 2017 proposes to eliminate billed basis accounting effective in taxation years that begin on or after March 22, 2017, with a transitional period. So going forward, professionals must include WIP in their taxable income even though they have yet to bill the client for that work.

Taxi and Ride-Sharing Services

Effective July 1, 2017, Budget 2017 proposes to extend the GST/HST on taxi operators to ride-sharing services. Taxi operators are required to collect and remit GST/HST on their fares with no dollar exemption limit. In order to ensure GST/HST is consistently applied, ride-sharing service providers will be required to register for GST/HST and charge the tax on their fares.

Review of Tax Planning Using Private Corporations

The Budget 2017 documents revealed that the government has been undergoing further reviews of various planning strategies relating to the use of private corporations that reduce personal income taxes of high income earners. The government will be releasing a paper in the next few months which will contain proposed policy responses to various tax planning strategies involving private corporations — no specifics were provided with respect to which kinds of strategies will be targeted.

Energy Changes

Budget 2017 proposes several tax changes relating to the energy sector:

- CCA Classes 43.1 and 43.2 are expanded to include additional forms of geothermal energy equipment;
- Expenditures related to a discovery well, building a temporary access road, and site preparation in respect of a discovery well will no longer be deductible as a current expense, but will rather be gradually deducted at a 30% CCA rate;
- Budget 2017 proposes to eliminate the ability of eligible small oil and gas corporations to classify the first $1 million of certain capital expenses as current expenses that can be flowed-through to investors.

Investment Tax Credit for Child Care Spaces

The investment tax credit in respect of a taxpayer's "child space care amount" is available to taxpayers who create new child care spaces for the taxpayer's employees. Generally, the credit is 25% of eligible expenditures incurred on the creation of a new child care space, with a maximum credit of $10,000 per child care space. Budget 2017 proposes to repeal the credit for child space care amounts, effective for expenditures incurred on or after March 22, 2017.

Additional Deduction for Gifts of Medicine

Corporations can claim an additional deduction for the amount of an "eligible medical gift" (i.e., certain donations of medicine for use by a Canadian charity outside Canada) made to an eligible charity. Budget 2017 proposes to eliminate this deduction for eligible medical gifts made on or after March 22, 2017.

British Columbia

Small Business Corporate Income Tax Rate

The small business corporate income tax rate is reduced to 2% (from 2.5%) effective April 1, 2017.

Interactive Digital Media Tax Credit

Augmented Reality and Virtual Reality

Effective February 22, 2017, qualifying B.C. labour employed in the development of augmented reality and virtual reality products will be eligible for the interactive digital media tax credit. The tax credit is calculated as 17.5% of qualifying B.C. labour expenses. The tax credit does not apply to films or videos that provide the user with limited or no immersion, including 360°, 270°, and 180° videos, spherical videos, and panoramic videos.

Principal Business Requirement

Currently, to be eligible for the interactive digital media tax credit, a corporation's principal business must be the development of interactive digital media products. Effective for tax years that end on or after February 22, 2017, corporations that have annual qualifying B.C. labour expenses greater than $2 million do not need to meet this requirement.

Eligible Business Corporations Participating in the Small Business Venture Capital Program

Effective for tax years that end on or after February 22, 2017, interactive digital media corporations participating in the small business venture capital program are eligible for the interactive digital media tax credit.

Phase-Out of Preferential Tax Benefit for Credit Unions

Budget 2017 pauses the phase-out of the provincial preferential income tax treatment for credit unions pending completion of the *Financial Institutions Act* and *Credit Union Incorporation Act* review. For the 2017 tax year, credit unions will continue to receive 80% of the full preferential tax treatment instead of having its value reduced to 60% (as previously scheduled).

Scientific Research and Experimental Development Tax Credit

The scientific research and experimental development tax credit is extended for five years to August 31, 2022.

Training Tax Credits

The training tax credits are extended for three years to the end of 2020.

Mining Exploration Tax Credit

As announced January 23, 2017, the mining exploration tax credit is expanded to allow the costs of environmental studies and community consultations incurred after February 28, 2015, to be included in the calculation of the mining exploration tax credit. The credit is calculated as 20% of eligible B.C. mining exploration expenditures, or 30% if exploration is in the mountain-pine-beetle-affected area.

Book Publishing Tax Credit

As announced February 15, 2017, the book publishing tax credit is extended for two years to March 31, 2019.

Manitoba

The following tax credits have been eliminated for expenditures made after April 11, 2017. However, this will not impact unused credits for expenditures made before April 12, 2017.

- Co-operative Development Tax Credit
- Odour Control Tax Credit
- Nutrient Management Tax Credit
- Neighbourhoods Alive! Tax Credit
- Data Processing Investment Tax Credits

Research and Development Tax Credit

The Research and Development Tax Credit rate will be reduced from 20% to 15%, for eligible expenditures made after April 11, 2017.

Manufacturing Investment Tax Credit

The non-refundable portion of the Manufacturing Investment Tax Credit will be reduced from 2% to 1%, for qualifying property acquired after April 11, 2017. The 8% refundable portion of this tax credit will not change. The credit is also being extended until December 31, 2020.

Paid Work Experience Tax Credit

Crown corporations and other provincial government entities cannot claim the Paid Work Experience Tax Credit for 2017 or subsequent taxation years.

Film and Video Production Tax Credit

The Film and Video Production Tax Credit will be maintained; however, Manitoba will reduce administrative costs by eliminating the current film classification board and adopting British Columbia's film ratings.

Tax Credit Extensions

The Book Publishing Tax Credit has been extended until December 31, 2018.

The Interactive Digital Media Tax Credit has been extended until December 31, 2022.

Capital Tax Deduction

Manitoba's $10 million capital tax deduction will be eliminated for fiscal years ending after April 30, 2017.

Saskatchewan

Corporation Income Tax Rates

The Saskatchewan general corporate income tax rate will be reduced by a half point effective July 1, 2017, and another half-point effective July 1, 2019. When fully implemented, the general tax rate will have declined from 12% to 11%. The rate reduction will be pro-rated for corporate taxation years that straddle the effective dates.

The manufacturing and processing ("M&P") profits tax reduction, which lowers the general corporate income tax rate by up to two percentage points for eligible M&P income, is being maintained. This means Saskatchewan's effective tax rate on eligible M&P income can be as low as 9%.

Saskatchewan Commercial Innovation Incentive

Budget 2017 introduces the Saskatchewan commercial innovation incentive, which reduces the Saskatchewan corporate income tax rate to 6% on taxable income earned from the commercialization of qualifying intellectual property in the province for a period of 10 years. Companies will be able to extend the benefit period to 15 years if the qualifying intellectual property is substantially developed in Saskatchewan.

The program will be open to any corporation operating in any sector provided it's solely engaged in the commercialization of qualifying intellectual property and meets the eligibility requirements. Applicants will be required to successfully complete both a scientific eligibility test and an economic eligibility test. The incentive is not available in respect of incremental innovations to existing products.

Research and Development ("R&D") Tax Credit

Saskatchewan currently offers a non-refundable corporate income tax credit equal to 10% of qualifying R&D expenditures incurred in Saskatchewan. Budget 2017 reforms the R&D credit to better target smaller and medium-sized Saskatchewan innovation companies. Effective April 1, 2017, a new refundable 10% R&D tax credit is introduced for the first $1 million in annual qualifying expenditures incurred in Saskatchewan by Canadian-controlled private corporations.

Corporation Capital Tax

Effective April 1, 2017, the corporation capital tax rate on large financial institutions is increased from 3.25% to 4.0%.

M&P Investment Tax Credit

The rate of the M&P investment tax credit increases from 5% to 6% for eligible capital acquisitions made on or after March 23, 2017.

Provincial Sales Tax

Effective March 23, 2017, the PST rate is increased from 5% to 6%. Budget 2017 also expands the PST tax base by eliminating exemptions or tax relief provisions as follows:

- The exemption for children's clothing is eliminated effective April 1, 2017.
- Exemptions for restaurant meals and snack foods are eliminated effective April 1, 2017, and taxable on the same basis as the GST.
- Effective April 1, 2017, while the exemption for used cars is maintained, the value of a trade-in will no longer be deductible in determining the PST on the purchase of vehicles that are new or have not been previously taxed in Saskatchewan.
- The PST remission in respect of permanently mounted equipment ("PME") used in the oil and gas and potash industries is repealed effective April 1, 2017. Lease payments due on or after April 1 on PME will be subject to PST. If the PME is leased from a related party the lease payment must conform to fair market value.
- Non-residents who bring PME into Saskatchewan from another jurisdiction after April 1, 2017, must pay the PST on the depreciated value or in accordance with the temporary use formula.
- Insurance premiums are taxable where the insured is resident in Saskatchewan or the premiums are paid in respect of property located in Saskatchewan, effective for premium payment due dates on or after July 1, 2017 (this includes all life, accident, health, property, vehicle, liability, casualty, and agricultural insurance).

Quebec

Additional Deduction for Transportation Costs of Certain Remote Manufacturing SMEs

To provide more assistance to small and medium-sized enterprises ("SMEs") operating in remote areas, particularly the "special remote area," the 7% additional deduction for transportation costs currently afforded to those SMEs will be increased to 10%.

This additional deduction will apply to taxation years beginning after March 28, 2017.

Additional Deduction for Transportation Costs of All SMEs Located in the Special Remote Area

An additional deduction is introduced for transportation costs of certain SMEs operating in the special remote area. All Canadian-controlled private corporations whose paid-up capital, calculated on a consolidated basis, is less than $15 million may qualify for an additional deduction of up to 10% of their gross income.

Paid-up capital, calculated on a consolidated basis, must not exceed $10 million to be eligible for the full deduction. The SME must show that 50% of its cost of labour or over 50% of its cost of capital for the taxation year is attributable to carrying on business in the special remote area. SMEs will not be able to claim both the additional deduction for transportation costs mentioned above and this new credit.

This new deduction will be available to an eligible corporation whose taxation year commences after March 28, 2017.

Tax Holiday for Large Investment Projects

A corporation that carries out a large investment project in Quebec may, under certain conditions, claim a tax holiday in respect of the income from its eligible activities relating to the project and a holiday from certain employer contributions to the Health Services Fund. This holiday may also apply to a partnership that qualifies, as well as a corporation that is a member of the partnership. Such a corporation may receive a tax holiday in respect of its share of the income from eligible activities of the partnership relating to the project. Such a tax holiday lasts 15 years.

Currently, to claim the tax holiday a qualifying corporation must apply for an initial qualification certificate before November 20, 2017. The Budget proposes that this timeline be extended so that a qualifying corporation has until December 31, 2020, to apply.

This amendment will apply to projects for which an application for initial qualifying certificate is filed after March 28, 2017.

Election Enabling an Additional Phase to be Added to a Large Investment Project

Corporations that qualify for a tax holiday under the above provision are being granted a similar tax holiday for new activities that would also qualify under the parameters of the program. These are referred to as Phase II activities and must qualify the same way as the original project and activities, and must be applied for not later than the date on which the application for the first annual certificate relating to Phase I was issued, and before January 1, 2021. Other restrictions and regulations apply.

These amendments will apply as of March 29, 2017.

Additional Capital Cost Allowance of 35%

Corporations purchasing property that consists of general-purpose electronic data processing equipment and systems software for that equipment, as well as property that consists of machinery and equipment acquired mainly with a view to using them for manufacturing and processing goods intended for sale or lease, will be allowed an additional deduction of up to 35% of the amount of capital cost allowance claimed on that equipment in the year.

The special deduction will only be available for a two-year period: the year the asset is acquired and the immediate following year. These changes will apply to qualifying property acquired after March 28, 2017, and before April 1, 2019.

Ontario

Although there were no direct corporate tax changes announced in the Budget, the government announced that it would move forward on several issues that could affect the business community, namely:

- elimination of the Drive Clean Emission Test fee;
- granting municipalities the authority to levy a hotel tax;
- supporting renewable biodiesel in the coloured fuel market;
- addressing the underground economy by introducing various new compliance initiatives;
- eliminating the EHT exemption for designated members of a partnership;
- encouraging small-scale agri-food business on farms;
- continuing with the provincial land tax reform; and
- continuing with the development of an effecting carbon pricing system

As well, the government introduced various measures to address the issue of affordable housing in Ontario. These measures were announced on April 21, 2017, and included the announcement that it would introduce a non-resident speculation tax, among other measures.

Yukon

The 2017 Yukon Budget proposed reductions to the corporate tax rate. The general corporate tax rate will decrease from 15% to 12%, and the corporate tax rate for small corporations will decrease from 3% to 2%.

New Brunswick

The sole tax measure announced was a reduction in the small business corporate income tax rate, which will be reduced from 3.5% to 3%, effective April 1, 2017. The government also confirmed its previous commitment to reduce the small business rate to 2.5% by 2018.

Nova Scotia

Budget 2017 proposed to increase the threshold for the small business corporate income tax rate from $350,000 to $500,000, effective January 1, 2017.

Other Provinces/Territories

No notable business income or sales tax measures were announced in these provinces/territories in the 2017 Budget season.