*Corporate Tax Rates and Legislation / Issue 1 / April 3, 2013*
*From Tax Management and Accounting Services*

# Q1 2013 Accounting status

This quarterly update discusses developments related to the accounting for income taxes in Canada. This edition includes:

- **Legislative changes**—January 1, 2013, to March 31, 2013
- **Federal and provincial/territorial bills**—tabled or received royal assent in 2013
- **Corporate income tax rates**—accounting status (January 1, 2010, to March 31, 2013)
- **Appendix**—determining the accounting status of income tax changes

## Legislative changes—January 1 to March 31, 2013

Legislative developments from January 1 to March 31, 2013, that affect income taxes are outlined below.

### 2013 Federal budget

The federal government's March 21, 2013, budget does not change corporate tax rates.

Key budget measures:

- extend the thin capitalization rules to Canadian-resident trusts and to non-resident corporations and trusts that operate in Canada
- introduce an anti-avoidance measure to support the restrictions on the deductibility of losses, and the use of certain other tax benefits, after certain share acquisition transactions

- extend the accelerated capital cost allowance deduction for investments in eligible manufacturing and processing machinery and equipment for two years
- eliminate certain tax benefits related to two leveraged life insurance arrangements known as 'leveraged insured annuities' and '10/8 arrangements'

For more information, see our *Tax memo* '2013 Federal budget: Staying the course' at www.pwc.com/ca/budget.

**Status**: As of March 31, 2013, the 2013 federal budget measures had not been tabled in the House of Commons, and therefore are not substantively enacted or enacted.

## *Federal and provincial/territorial bills*

**Table 1** lists key bills that include income tax rate changes or other income tax changes (e.g., for research and development), and that were:

- tabled or received royal assent during 2013, or
- tabled before 2013, but did not receive royal assent before 2013

*Shaded rows indicate a change in status from January 1 to March 31, 2013.*

**Table 1: Federal and provincial/territorial bills**

| | Legislation | | Recognized for accounting purposes | |
|---|---|---|---|---|
| | Bill # | Bill name | Canada[1] | US GAAP |
| **Federal** | C-48[2] | *An Act to amend the Income Tax Act, the Excise Tax Act, the Federal-Provincial Fiscal Arrangements Act, the First Nations Goods and Services Tax Act and related legislation* | November 21/12 | Not as of March 31/13 |
| **British Columbia** | 9 | *Budget Measures Implementation Act, 2013* | Not as of March 31/13[3] | Not as of March 31/13 |
| **Quebec** | 18 | *An Act to An Act to amend the Taxation Act and other legislative provisions* | Not as of March 31/13[4] | Not as of March 31/13 |

1. See the **Appendix** for information on when income tax changes are considered substantively enacted for accounting purposes for Canadian GAAP.
2. Bill C-48 (2012) includes the income tax technical proposals released by the Department of Finance on July 16, 2010. The July 16, 2010, proposals had reintroduced amendments included in Bill C-10 (2007), *An Act to amend the Income Tax Act, including amendments in relation to foreign investment entities and non-resident trusts, and to provide for the bijural expression of the provisions of that Act,* and were largely identical to those in Bill C-10 (2007).

   However, amendments included in Bill C-10 (2007) but absent from the July 16, 2010, proposals included those pertaining to:
   - non-resident trusts and offshore investment fund rules
   - the Canadian Film or Video Production Tax Credit

   Bill C-10 (2007) had died on the parliamentary order paper on September 7, 2008, when the October 14, 2008, federal election was called.

   **Status:** Measures in Bill C-48 (2012) that were previously in Bill C-10 (2007) continue to be substantively enacted for Canadian GAAP purposes as of June 15, 2007, the date that Bill C-10 (2007) is considered to be substantively enacted. However, the date of substantive enactment for measures in Bill C-10 (2007) that are modified by Bill C-48 must be evaluated to determine if the date of substantive enactment remains June 15, 2007.
3. **Status:** British Columbia's Bill 9, which was tabled for first reading on February 19, 2013, is not considered substantively enacted for IFRS. Uncertainty exists as to whether the bill will be enacted before the mandatory May 14, 2013, provincial election, so the criteria in International Accounting Standards (IAS) 12 for the use of substantively enacted tax rates have not been met.
4. **Status:** Quebec's Bill 18 was adopted in principle (i.e. received second reading) on March 19, 2013. Because Quebec has a minority government, Bill 18 must receive third reading before it is considered substantively enacted for IFRS.

## *Corporate income tax rates—accounting status (January 1, 2010, to March 31, 2013)*

The following information excludes Canadian-controlled private corporation small business rates and thresholds.

*Shaded rows indicate a change in status from January 1 to March 31, 2013.*

### Table 2: Corporate income tax rates—accounting status

| | | Effective date | Rate | Recognized for accounting purposes: Canada | Recognized for accounting purposes: US GAAP | Bill # |
|---|---|---|---|---|---|---|
| **Federal** | General and manufacturing and processing (M&P) | January 1/10 | 18% | Before January 1/10 | | N/A |
| | | January 1/11 | 16.5% | | | |
| | | January 1/12 | 15% | | | |
| | Provincial SIFT tax factor/rate[1] | Before January 1/10 | Varies[1] | | | |
| **Alberta** | General and M&P | Before January 1/10 | 10% | Before January 1/10 | | N/A |
| **British Columbia** | General and M&P | January 1/10 | 10.5% | Before January 1/10 | | N/A |
| | | January 1/11 | 10% | | | |
| | | April 1/13[2] | 11%[2] | Not as of March 31/13[2] | | 9[2] |
| **Manitoba** | General and M&P | Before January 1/10 | 12% | Before January 1/10 | | N/A |
| | | No date announced | 11% | Not as of March 31/13 | | None |
| **New Brunswick** | General and M&P | Before July 1/10 | 12% | Before January 1/10 | | N/A |
| | | July 1/10 | 11% | | | |
| | | July 1/11 | 10% | | | |
| | | July 1/12 | 8% | | | |
| | | | 10% | June 7/11 | June 10/11 | 53 |
| | | July 1/13 | 12% | Not as of March 31/13 | | None |
| **Newfoundland and Labrador** | General | Before January 1/10 | 14% | Before January 1/10 | | N/A |
| | M&P | | 5% | | | |
| **Northwest Territories** | General and M&P | Before January 1/10 | 11.5% | Before January 1/10 | | N/A |
| **Nova Scotia** | General and M&P | Before January 1/10 | 16% | Before January 1/10 | | N/A |
| **Nunavut** | General and M&P | Before January 1/10 | 12% | Before January 1/10 | | N/A |
| **Ontario** | General | Before July 1/10 | 14% | Before January 1/10 | | N/A |
| | | July 1/10 | 12% | | | |
| | | July 1/11 | 11.5% | | | |
| | | July 1/12 | 11% | | | |
| | | | 11.5% | June 20/12 | | 114 |
| | | July 1/13 | 10% | Before January 1/10 | | N/A |
| | | | 11.5% | June 20/12 | | 114 |
| | M&P | Before July 1/10 | 12% | Before January 1/10 | | N/A |
| | | July 1/10 | 10% | | | |
| | Corporate Minimum Tax (CMT)[3] | Before July 1/10 | 4% | | | |
| | | July 1/10 | 2.7%[3] | | | |
| **Prince Edward Island** | General and M&P | Before January 1/10 | 16% | Before January 1/10 | | N/A |
| **Quebec** | General and M&P[4] | Before January 1/10 | 11.9% | Before January 1/10 | | N/A |
| | SIFT Distribution Tax | | | | | |
| **Saskatchewan** | General | Before January 1/10 | 12% | Before January 1/10 | | N/A |
| | | No date announced[5] | 10%[5] | Not as of March 31/13 | | None |
| | M&P | Before January 1/10 | 10% | Before January 1/10 | | N/A |
| **Yukon** | General | Before January 1/10 | 15% | Before January 1/10 | | N/A |
| | M&P | | 2.5% | | | |

1. Except for Quebec, the 'provincial Specified Investment Flow-Through (SIFT) tax rate' will be:
   - based on the general provincial corporate income tax rate for each province in which the SIFT has a permanent establishment
   - 10% for SIFTs that do not have a permanent establishment in a province
2. British Columbia's Bill 9 (February 19, 2013 budget bill) accelerates the general and M&P rate increase to 11% by one year (the 2012 budget had announced that the increase would occur on April 1, 2014, and would be triggered only if the province's fiscal situation worsened). Table 1 on page 2 provides more on the status of Bill 9 and the bill name.
3. For Ontario, the thresholds at which the Corporate Minimum Tax (CMT) applies (on an associated basis) are revised as follows:

| | | **Taxation years ending** | |
|---|---|---|---|
| | | **before July 1/10** | **after June 30/10** |
| **Thresholds for CMT to apply** | Total assets | > $5 million | ≥ $50 million |
| | | or | and |
| | Annual gross revenues | > $10 million | ≥ $100 million |
| **Date recognized for accounting purposes** | Canada | Before January 1/10 | |
| | US GAAP | | |
| **Bill #** | | N/A | |

4. For Quebec, exceptions to the accounting status of the general rate follow:

| | **Effective date** | **Rate** | **Recognized for accounting purposes** | | **Bill #** |
|---|---|---|---|---|---|
| | | | **Canada** | **US GAAP** | |
| **Deposit insurance companies** | Before January 1/10 | 11.9% | Before January 1/10 | April 20/10 | 64 |

5. Saskatchewan's 2013 budget defers the province's general income tax rate decrease from 12% to 10% until it is 'affordable and sustainable, within a balanced budget.' The province is no longer committed to reducing the rate by 2015, as had been announced in its October 25, 2012, throne speech.

# *Appendix—determining the accounting status of income tax changes*

For accounting purposes, knowing which income tax changes are considered substantively enacted for Canadian generally accepted accounting principles (GAAP) purposes and enacted for US GAAP purposes can be important.

Under Canadian GAAP, which includes International Financial Reporting Standards (IFRS), and US GAAP, a deferred tax asset or liability is measured using the future tax rate and tax law expected to apply to taxable income in the periods when the underlying temporary difference is expected to be settled or realized (or simply reversed).

For purposes of calculating deferred tax balances:

- Canadian GAAP requires the use of future tax rates and tax laws that were enacted or substantively enacted at the balance sheet date
- US GAAP requires the use of tax rates and tax laws that are enacted at the balance sheet date

## *IFRS*

For fiscal years beginning after 2010, IFRS is mandatory for publicly accountable enterprises (PAEs), which are Canadian reporting entities. However, private enterprises, not-for-profit organizations and public sector entities to which the *Public Sector Accounting Handbook* applies are excluded. Although an enterprise that is not a PAE is not required to adopt IFRS, it can elect to do so. Mandatory adoption of IFRS has been deferred:

- for entities with rate regulated activities, until fiscal years beginning after 2014
- for investment companies, until fiscal years beginning after 2013

For more information, see our *Tax memos* 'IFRS and Tax: The Rubber has Hit the Road' and 'The Move to IFRS: CRA Guidance' at www.pwc.com/ca/taxmemo.

At an International Accounting Standards Board (IASB) board meeting in February 2005, the IASB noted that substantive enactment occurs when any future steps in the enactment process will not change the outcome. In Canada, this generally occurs when detailed draft legislation has:

- been tabled for first reading in the legislative assembly for a majority government, or
- passed third reading in the legislative assembly for a minority government

However, the status must be evaluated in the context of each particular political situation, for example as noted above for Bill 9 in British Columbia, to determine whether it meets the criteria provided by the IASB.

## *Before IFRS*

Before Canada's adoption of IFRS, substantive enactment did not occur until draft legislation was tabled for first reading. However, in the case of a minority government, proposed income tax amendments were not normally considered substantively enacted until the proposals had passed third reading.

## *Let's talk*

For a deeper discussion of how the accounting status of tax rates and legislation might affect your business, please contact:


John Gotts, *Greater Toronto Area*
*Tax Management and Accounting Services (TMAS) Leader*
+1 (905) 972 4125
john.gotts@ca.pwc.com

Geneviève Groulx, *Calgary*
+1 (403) 441 6350
genevieve.groulx@ca.pwc.com

Kevin Hinz, *Calgary*
+1 (403) 509 7567
kevin.a.hinz@ca.pwc.com

Liam Fitzgerald, *Greater Toronto Area*
+1 (416) 869 2601
liam.m.fitzgerald@ca.pwc.com

Betty Ann Jarrett, *Greater Toronto Area*
+1 (905) 949 7314
betty.ann.jarrett@ca.pwc.com

Spence McDonnell, *Greater Toronto Area*
+1 (416) 869 2328
spence.n.mcdonnell@ca.pwc.com

René Albert, *Montreal*
+1 (514) 205 5077
rene.albert@ca.pwc.com

Christine Girouard, *Montreal*
+1 (514) 205 5284
christine.girouard@ca.pwc.com

Dave Santerre, *Montreal*
+1 (514) 205 5227
dave.santerre@ca.pwc.com

Garry Eng, *Vancouver*
+1 (604) 806 7037
garry.eng@ca.pwc.com

Nicole Inglis, *Vancouver*
+1 (604) 806 7781
nicole.f.inglis@ca.pwc.com