

Q4 2013 Accounting status



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

- **Legislative changes**—October 1, 2013, to December 31, 2013
- **Federal and provincial/territorial bills**—tabled or received royal assent in 2013
- **Corporate income tax rates**—accounting status (January 1, 2010, to December 31, 2013)
- **PwC contacts**

Legislative changes— October 1 to December 31, 2013

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

Bill C-4 (2013 federal budget bill)

Bill C-4, *Economic Action Plan 2013 Act, No. 2*,¹ received royal assent on December 12, 2013. Bill C-4 implements the 2013 federal budget proposals that were in the September 13, 2013 draft legislative proposals and later in the October 18, 2013 Notice of Ways and Means

1. Long title, *A second act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures.*

Motion. Key measures in Bill C-4:

- 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
- eliminate certain tax benefits related to leveraged life insurance arrangements known as ‘leveraged insured annuities’ and ‘10/8 arrangements’
- phase out the accelerated capital cost allowance for capital assets used in new mines and certain mine expansions, and reduce the deduction rate for pre-production mine development expenses

Federal Bill C-60 (see Table 1) implements the 2013 federal budget measure that extends the 50% straight-line accelerated capital cost allowance rate, for two years, to eligible manufacturing and processing machinery and equipment acquired before 2016.

For more information, see:

- *Tax memos* at www.pwc.com/ca/taxmemo:
 - ‘2013 Federal budget: Staying the course’
 - ‘2013 Federal budget: Alert for mining companies’
- *Tax Insights*, ‘Alert for financial services industry: Measures of interest in Bill C-4 (2013 budget bill)’ at www.pwc.com/ca/taxinsights

Status: Bill C-4 is considered ‘substantively enacted’ for Canadian GAAP purposes as of October 22, 2013, and ‘enacted’ for US GAAP purposes as of December 12, 2013. See also Table 1.

Quebec Information Bulletins

Quebec’s ministère des Finances et de l’Économie released:

- Information Bulletin 2013-10 ‘Fiscal Measures Designed to Stimulate Investment by Individuals and Businesses’ on October 7, 2013; it includes tax measures to foster investment by Quebec small- and medium-sized enterprise manufacturers
- Information Bulletin 2013-11 ‘Adjustment of the Exemption Thresholds Under Public Prescription Drug Insurance Plan and Harmonization with Certain Federal Tax Measures Pertaining to R&D’ on November 8, 2013

Status: As of December 31, 2013, the measures implemented by Information Bulletin 2013-10 and 2013-11 had not been tabled in the Quebec parliament, 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) that were:

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

Table 1: Federal and provincial/territorial bills

	Legislation		Recognized for accounting purposes	
	Bill #	Bill name	Canada ¹	US GAAP
Federal	C-48 ²	<i>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</i>	November 21/12	June 26/13
	C-60	<i>An Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures</i>	April 29/13	June 26/13
	C-4	<i>A second act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures</i>	October 22/13	December 12/13
Alberta	23	<i>Tax Statutes Amendment Act, 2013</i>	May 6/13	May 27/13
British Columbia	2 ³	<i>Budget Measures Implementation Act, 2013</i>	June 27/13	July 25/13
Manitoba	47	<i>The Budget Implementation and Tax Statutes Amendment Act, 2013</i>	May 30/13	December 5/13
New Brunswick	51	<i>An Act to Amend the New Brunswick Income Tax Act</i>	May 22/13	June 21/13
Nova Scotia	51	<i>Financial Measures (2013) Act</i>	April 18/13	May 10/13
Prince Edward Island	47	<i>An Act to Amend the Income Tax Act</i>	April 23/13	May 8/13
Quebec	18	<i>An Act to amend the Taxation Act and other legislative provisions</i>	May 29/13	June 5/13
	34	<i>An Act giving effect to the Budget Speech delivered on 20 November 2012 and amending various legislative provisions</i>	Not as of December 31/13 ⁴	
	59	<i>An Act to amend the Taxation Act, the Act respecting the Quebec sales tax and various legislative provisions</i>	Not as of December 31/13 ⁴	

1. For information on when income tax changes are considered substantively enacted for accounting purposes for Canadian GAAP, see the **Appendix** in 'Q1 2013 Accounting status' at www.pwc.com/ca/tmas.
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 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 bilingual 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) 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

Shaded rows indicate a change in status from October 1 to December 31, 2013.

for measures in Bill C-10 (2007) that are modified by Bill C-48 must be evaluated to determine if it remains June 15, 2007.

3. British Columbia's Bill 2 implements measures in the province's June 27, 2013 budget. It replaces Bill 9, *Budget Measures Implementation Act, 2013*, which implemented measures in BC's February 19, 2013 budget. Bill 9 was tabled for first reading on February 19, 2013, but was not considered substantively enacted for IFRS on that date because the criteria in International Accounting Standards (IAS) 12 for the use of substantively enacted tax rates were not met. Bill 9 died on the parliamentary order paper when the BC legislature was dissolved for the May 14, 2013 provincial election.
4. **Status:** Because Quebec has a minority government, Bill 34 and Bill 59 must receive third reading to be considered substantively enacted in Canada.

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

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

Table 2: Corporate income tax rates—accounting status

There were no changes in status from October 1 to December 31, 2013.

		Effective date	Rate	Recognized for accounting purposes		Bill #
				Canada	US GAAP	
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	11%	June 27/13	July 25/13	2 ²
Manitoba	General and M&P	Before January 1/10	12% ³	Before January 1/10		N/A
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%	May 22/13	June 21/13	51
Newfoundland and Labrador	General M&P	Before January 1/10	14% 5%	Before January 1/10		N/A
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
	M&P		11.5%	June 20/12		114
		Before July 1/10	12%	Before January 1/10		N/A
		July 1/10	10%			
		Corporate Minimum Tax (CMT) ⁴	4%			
		July 1/10	2.7% ⁴			
Prince Edward Island	General and M&P	Before January 1/10	16%	Before January 1/10		N/A
Quebec	General and M&P ⁵	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 ⁶	10% ⁶	Not as of December 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 2 (June 27, 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 3 provides more on the status of Bill 2 and the bill name.
3. Manitoba's general and M&P rate was scheduled to decrease from 12% to 11%, at a date to be determined, subject to balanced budget requirements. Manitoba is no longer considering this reduction.
4. 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
	Annual gross revenues	or > \$10 million	and ≥ \$100 million
Recognized for accounting purposes	Canada	Before January 1/10	
	US GAAP		
Bill #		N/A	

5. 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

6. 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.

Let's talk

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

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