

# ***Q1 2014 Accounting status***



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

- **Legislative changes**—January 1, 2014, to March 31, 2014
- **Federal and provincial/territorial bills**—tabled or received royal assent in 2014
- **Corporate income tax rates**—accounting status (January 1, 2011, to March 31, 2014)
- **PwC contacts**

## ***Legislative changes— January 1 to March 31, 2014***

Legislative developments from January 1 to March 31, 2014, that affect income taxes are outlined below.

### ***2014 Federal budget***

The federal government's February 11, 2014 budget does not change corporate tax rates.

### **Key budget measures:**

- introduce a domestic anti-treaty shopping rule that uses a general approach focused on avoidance transactions and contains specific provisions setting out its application
- target certain 'back-to-back' loan arrangements that have been undertaken by taxpayers with an unrelated third party

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to avoid the application of Part XIII withholding tax and/or the thin capitalization rules, by:

- introducing a specific anti-avoidance rule relating to withholding tax on interest payments, for amounts paid or credited after 2014
- amending an existing anti-avoidance provision in the thin capitalization rules, for taxation years that begin after 2014
- amend the ‘regulated foreign financial institution exception’ to the foreign accrual property income (FAPI) regime to ensure the exception does not apply to non-financial institutions, for taxation years beginning after 2014
- clarify that an anti-avoidance rule in the FAPI regime intended to prevent financial institutions from shifting income from the insurance of Canadian risks offshore applies to certain tax planning arrangements referred to as ‘insurance swaps,’ for taxation years beginning after February 10, 2014

In addition, the budget:

- invites input on issues related to international tax planning by multinational enterprises
- announces a public consultation to replace the eligible capital property regime with a new capital cost allowance (CCA) class for businesses

For more information, see our *Tax Insights* ‘2014 Federal budget: More tightening, few tax breaks’ at [www.pwc.com/ca/budget](http://www.pwc.com/ca/budget).

**Status:** As of March 31, 2014, the key 2014 federal budget measures had not been tabled in the House of Commons, and therefore are not substantively enacted or enacted. For the status of other 2014 federal budget measures, see Federal Bill C-31 in Table 1.

### *Provincial/territorial budgets*

The following provinces and territories introduced budgets from January 1 to March 31, 2014. None revise general corporate or manufacturing and processing income tax rates. Visit [www.pwc.com/ca/budget](http://www.pwc.com/ca/budget) for key changes respecting:

- Alberta – No key changes
- British Columbia – See our *Tax Insights* ‘2014 British Columbia budget: Tax highlights’ and ‘British Columbia unveils its liquefied natural gas (LNG) tax’
- Manitoba – See our *Tax Insights* ‘2014 Manitoba budget: Tax highlights’
- New Brunswick – No key changes
- Newfoundland and Labrador – No key changes
- Northwest Territories – No key changes
- Quebec<sup>1</sup> – See our *Tax Insights* ‘2014 Quebec budget – Tax highlights’ and ‘2014 Quebec budget’
- Saskatchewan – No key changes
- Yukon – No key changes

**Status:** As of March 31, 2014, only British Columbia had tabled legislation to implement key budget measures. See Table 1 for the status of the legislation.

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1. Subsequent to its budget, Quebec called an election for April 7, 2014.

## IAS 12, Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The IFRS Interpretation Committee has recommended amending International Accounting Standards (IAS) 12, *Income Taxes*, to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. A draft amendment will be mainly an illustrative example and is expected to be published for comment in the second quarter of 2014.

## 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 2014, or
- tabled before 2014, but did not receive royal assent before 2014

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

	Legislation		Recognized for accounting purposes	
	Bill #	Bill name	Canada <sup>1</sup>	US GAAP
<b>Federal</b>	C-31 <sup>2</sup>	<i>An Act to implement certain provisions of the budget tabled in Parliament on February 11, 2014 and other measures</i>	March 28/14	Not as of March 31/14
<b>British Columbia</b>	8	<i>Budget Measures Implementation Act, 2014</i>	February 18/14	March 24/14
<b>New Brunswick</b>	39	<i>An Act to Amend the Small Business Investor Tax Credit Act</i>	February 20/14	Not as of March 31/14
<b>Quebec</b>	34	<i>An Act giving effect to the Budget Speech delivered on 20 November 2012 and amending various legislative provisions</i>	Not as of March 31/14 <sup>3</sup>	
	59	<i>An Act to amend the Taxation Act, the Act respecting the Quebec sales tax and various legislative provisions</i>	Not as of March 31/14 <sup>3</sup>	

Shaded rows indicate a change in status from January 1 to March 31, 2014.

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](http://www.pwc.com/ca/tmas).
2. Federal Bill C-31 (2014 budget bill) implements the measures in a Notice of Ways and Means Motion that was tabled on March 24, 2014, as well as other measures, but does not contain the key 2014 federal budget measures that are mentioned on pages 1 and 2.
3. **Status:** At March 31, 2014, Quebec has a minority government. Therefore, Bill 34 and Bill 59 must receive third reading to be considered substantively enacted in Canada. However, Quebec will have an election on April 7, 2014.

## Corporate income tax rates—accounting status (January 1, 2011, to March 31, 2014)

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 January 1 to March 31, 2014.*

		Effective date	Rate	Recognized for accounting purposes		Bill #
				Canada	US GAAP	
<b>Federal</b>	General and manufacturing and processing (M&P)	January 1/11	16.5%	Before January 1/11		N/A
		January 1/12	15%			
	Provincial SIFT tax factor/rate <sup>1</sup>	Before January 1/11	Varies <sup>1</sup>			
<b>Alberta</b>	General and M&P	Before January 1/11	10%	Before January 1/11		N/A
<b>British Columbia</b>	General and M&P	January 1/11	10%	Before January 1/11		N/A
		April 1/13	11%	June 27/13	July 25/13	2
<b>Manitoba</b>	General and M&P	Before January 1/11	12%	Before January 1/11		N/A
<b>New Brunswick</b>	General and M&P	Before July 1/11	11%	Before January 1/11		N/A
		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
<b>Newfoundland and Labrador</b>	General	Before January 1/11	14%	Before January 1/11		N/A
	M&P		5%			
<b>Northwest Territories</b>	General and M&P	Before January 1/11	11.5%	Before January 1/11		N/A
<b>Nova Scotia</b>	General and M&P	Before January 1/11	16%	Before January 1/11		N/A
<b>Nunavut</b>	General and M&P	Before January 1/11	12%	Before January 1/11		N/A
<b>Ontario</b>	General	Before July 1/11	12%	Before January 1/11		N/A
		July 1/11	11.5%			
			11%			
		July 1/12	11.5%	June 20/12		114
		July 1/13	10%	Before January 1/11		N/A
			11.5%	June 20/12		114
	M&P	Before January 1/11	10%	Before January 1/11		N/A
	Corporate Minimum Tax (CMT)		2.7%			
<b>Prince Edward Island</b>	General and M&P	Before January 1/11	16%	Before January 1/11		N/A
<b>Quebec</b>	General and M&P SIFT Distribution Tax	Before January 1/11	11.9%	Before January 1/11		N/A
<b>Saskatchewan</b>	General	Before January 1/11	12%	Before January 1/11		N/A
	M&P		10%			
<b>Yukon</b>	General	Before January 1/11	15%	Before January 1/11		N/A
	M&P		2.5%			

- Except for Quebec, the 'provincial Specified Investment Flow-Through (SIFT) tax rate' is:
  - 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

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## ***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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