Corporate Income Tax – What's new for the 2016 taxation year

Certain of the significant changes are listed below:

Schedule 89, Request for Capital Dividend Account (CDA) Balance Verification

If you are a private corporation, this schedule is available to summarize the components making up your CDA balance as at a date specified. Use this schedule to request a CDA balance verification, or attach it to Form T2054, Election for a Capital Dividend Under Subsection 83(2), if you are paying out a capital dividend from your CDA. Mail one completed copy of this schedule, separate from any other return, to your tax services office. Please note, we verify your CDA balance as a matter of courtesy. You can only request a CDA balance verification once every three years **unless filed with Form T2054**.

Avoidance of the business limit and taxable capital limit

For tax years that begin after March 21, 2016, where two corporations (Corps A and B) are deemed to be associated because they are associated with the same third corporation (Corp C), but because of an exception, they are not associated for determining the small business deduction:

- investment income from an associated corporation's active business will be ineligible for the small business deduction and be taxed at the general corporation income rate;
- Corps A and B must calculate their respective small business deductions as if each corporation were still associated with Corp C (that is, it must include the taxable capital limit of Corp C).

This is to close a loophole that some Canadian-controlled private corporations are currently using to multiply their small business limit and reduce their taxable capital limit (and consequently increase their small business deduction).

Capital cost allowance

Electric energy storage

Currently, stand-alone electrical energy storage equipment not associated with a class 43.1 or class 43.2 generation source is generally included in class 8 and is eligible for a 20% declining balance capital cost allowance (CCA) rate.

For property acquired for use after March 21, 2016 that has not been used or acquired for use before March 22, 2016:

- if the storage equipment is part of an electricity generation system that is eligible for class 43.1 (that is, a mid-efficiency cogeneration system), it will be included in class 43.1. This class allows for a 30% declining balance CCA rate;
- if the storage equipment is part of an electricity generation system that is eligible for class 43.2 (for example, an eligible renewable, waste-fueled or high-efficiency cogeneration system), it will be included in class 43.2. This class allows for a 50% declining balance CCA rate.

Electric vehicle charging stations

Currently, electric vehicle charging stations (EVCSs) are generally included in class 8 and are eligible for a 20% declining balance CCA rate.

For property acquired for use after March 21, 2016 that has not been used or acquired for use before March 22, 2016:

- EVCSs set up to supply more than 10 kilowatts but less than 90 kilowatts of continuous power will be eligible for inclusion in class 43.1 (which allows for a 30% declining balance CCA rate);
- EVCSs set up to supply at least 90 kilowatts of continuous power will be eligible for inclusion in class 43.2 (which allows for a 50% declining balance CCA rate).
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Eligible capital property

On January 1, 2017, the eligible capital property regime will be replaced with a new capital cost allowance (CCA) class available to businesses. Under the old regime, eligible capital expenditures are added to the cumulative eligible capital pool at a 75% inclusion rate, and the rate of depreciation of those expenditures is 7% on a declining-balance basis. Under the new regime, newly-acquired eligible properties will be included in a new CCA class at a 100% inclusion rate with a 5% CCA rate on a declining-balance basis. The existing CCA rules will generally apply. Transitional rules will be provided.

Measures related to international taxation

Changes were announced concerning **back-to-back arrangements**, **base erosion and profit shifting**, and **cross-border surplus stripping**.

Back-to-back arrangements

Existing back-to-back loan rules will be expanded. These rules prevent taxpayers from inserting an intermediary between a Canadian borrower and a foreign lender in an attempt to avoid the tax consequences that would result from a direct loan.

Base erosion and profit shifting (BEPS)

The Government announces it is moving forward with a number of initiatives to address base erosion and profit shifting by:

- introducing country-by-country reporting for large multinational enterprises;
- applying revised international guidance on transfer pricing;
- addressing treaty abuse;
- providing spontaneous exchange of tax rulings.

Cross-border surplus stripping

For dispositions that occur after March 21, 2016, the application of an anti-surplus stripping rule will be generally expanded to prevent a non-resident shareholder of a Canadian corporation from extracting (either now or in the future), free of withholding tax, the corporation's retained earnings that exceed the amount of capital that has been contributed to the corporation by the shareholder.

Multiplication of the small business deduction

For tax years that begin after March 21, 2016, to prevent the multiplication of the small business deduction (SBD), the specified partnership rules will also apply to partnership structures in which a Canadian-controlled private corporation (CCPC) provides services or property to a partnership during the tax year of the CCPC where the CCPC or a shareholder of the CCPC is a member of the partnership. A similar measure will also apply for corporate structures that multiply access to the SBD.

Personal service business income

For tax years that end before 2016, personal service business income earned by corporations is taxed, after the tax abatement, at a rate of 28%. For tax years that end after 2015, a corporation must add to its Part I tax payable for a year an amount equal to 5% of the corporation's taxable income for the year from a personal services business. This results in a tax rate of 33% on this type of income. The additional tax is prorated for tax years that straddle December 31, 2015.

Small business tax rate

For tax years ending after 2016, the small business tax rate will remain at the 2016 level of 10.5%.