Corporate Income Tax - What's new for the 2015 taxation year

Certain of the significant changes at the Federal level are listed below, including income tax changes that were announced, in addition to enacted in the April 2015 Federal Budget :

Capital cost allowance

Accelerated capital cost allowance (CCA): Manufacturing and processing machinery and equipment – Eligible machinery and equipment acquired after 2015 and before 2026 for use in Canada primarily for the manufacturing and processing of goods for sale or lease will be included in a new class 53. This class will provide an accelerated CCA rate of 50% on a declining-balance basis and will be subject to the half-year rule. These assets will be qualified property for the purposes of the Atlantic investment tax credit. The assets acquired before 2016 currently qualify for a temporary accelerated CCA rate of 50%, on a straight-line basis under class 29.

Captive insurance

The foreign accrual property income (FAPI) rules ensure that profits of a Canadian taxpayer from the insurance of specified Canadian risk (typically a risk insured through a life, property or business insurance policy) remains taxable in Canada. These rules will be strengthened.

Donations involving private corporations share or real estate

For donations made in respect of dispositions after 2016, capital gains arising from the disposition of private corporation shares or real estate will be exempt from tax where the monetary proceeds are donated to a qualified donee within 30 days after the disposition. Both the donor and the qualified donee must deal at arm's length with the purchaser. Anti-avoidance rules will apply in certain circumstances within the five year period after the disposition.

Gifts to foreign charitable foundations

Currently, a charitable organization outside Canada to which Her Majesty in right of Canada made a gift is the only foreign organization that may be registered as a qualified donee, provided certain conditions are met. Foreign charitable foundations are not eligible for qualified donee status. For applications made on or after Royal Assent, any foreign charity (including foreign foundations) will be allowed to be registered as a qualified donee if all the other conditions are met.

Repeated failure to report income penalty

For tax years that begin after 2014, the penalty will only apply where the amount of unreported income by the corporation for each failure is $500 or more. The calculation will be modified such that the penalty is not more than the gross negligence penalty (if it had applied) while also taking into account any tax withheld related to the unreported income.

Small business tax rate

For tax years that end after 2015, the small business tax rate will be reduced from 11% to 9% over four years as follows:

- 10.5% effective January 1, 2016;
- 10% effective January 1, 2017;
- 9.5% effective January 1, 2018; and
- 9% effective January 1, 2019.

The tax rate reduction will be prorated for tax years that straddle calendar years.

Streamlining reporting requirements for foreign assets

Currently, corporations that are required to file Form T1135, Foreign Income Verification Statement, have to provide detailed information concerning each of their specified foreign properties. For tax years that begin after 2014, the information reporting requirements will be streamlined for those corporations that own specified foreign property with a total cost of less than $250,000 throughout the year.

Synthetic equity arrangements

A corporation is allowed to deduct, subject to certain exceptions, taxable dividends received in computing its taxable income. This deduction will be denied on certain arrangements between a corporation (typically a financial institution) and an investor that does not pay any Canadian income tax.

Tax avoidance of corporate capital gains (Section 55)

A corporation is allowed to deduct, subject to certain exceptions, taxable dividends received in computing its taxable income. Where these dividends significantly reduce the capital gain on a share of a corporation, an anti-avoidance rule deems them to be a capital gain, and they are taxed accordingly. This rule will be expanded so that it also applies where one of the purposes of this type of dividend is to increase a loss.

Canadian exploration expenses (CEE)

[For expenses incurred after February 2015, the costs associated with undertaking environmental studies and community consultations that are required in order to obtain an exploration permit or licence will be eligible for CEE treatment.