

Clause 1

Canadian development expense

ITA

66.2

Section 66.2 of the *Income Tax Act* (the “Act”) provides rules relating to the deduction of “Canadian development expense,” as defined in subsection 66.2(5).

ITA

66.2(2)

Subsection 66.2(2) of the Act allows a taxpayer a deduction for a taxation year in respect of its “cumulative Canadian development expense” (CCDE) at the end of the year, as determined under that definition in subsection 66.2(5). A taxpayer's CCDE represents the cumulative total of the additions to the taxpayer's CCDE (elements A to D.1, which include Canadian development expenses incurred in element A) less reductions to the taxpayers CCDE (elements E to O, which include deductions in respect of CCDE in element E). A taxpayer is permitted a deduction with respect to a positive CCDE balance. A negative CCDE balance is included in a taxpayer's income under subsection 66.2(1).

Subsection 66.2(2) is amended by introducing new paragraph (d), which provides for a deduction in respect of a taxpayer's “accelerated Canadian development expense,” as defined in subsection 66.2(5).

ITA

66.2(2)(d)

New paragraph 66.2(2)(d) of the Act provides an additional first-year Canadian development expense deduction to a taxpayer in respect of its accelerated Canadian development expenses. The amount of the deduction for a taxation year is determined by the formula $A(B - C)$.

Variable A of the formula provides for deduction rates as follows:

- 15% for taxation years that end before 2024;
- 7.5% for taxation years that begin after 2023: and
- A proration of the two rates for taxation years that straddle the end of 2023, based on the amount of expenses incurred before and after the end of 2023.

Variable B of the formula is the total of all accelerated Canadian development expenses incurred by the taxpayer in the taxation year.

Variable C is determined by the formula $(D - E) - (F - G - H)$.

The amount that a taxpayer can claim in respect of CCDE is determined by subtracting the reductions to CCDE from the additions to CCDE (which will include accelerated Canadian development expenses incurred in the year). The formula for Variable C ensures that reductions $(D - E)$ to CCDE in the taxation year are first applied against additions $(F - G)$ to CCDE in the

taxation year other than accelerated Canadian development expenses (H) incurred in the taxation year.

Definitions

ITA

66.2(5)

Subsection 66.2(5) of the Act contains the definitions “Canadian development expense” and “cumulative Canadian development expense”.

Subsection 66.2(5) is amended by introducing the new definition “accelerated Canadian development expense”.

“accelerated Canadian development expense”

The definition “accelerated Canadian development expense” is relevant for the purpose of calculating the deduction under new paragraph 66.2(2)(d).

The definition provides the start and end dates for expenses that can qualify for the deduction under new paragraph 66.2(2)(d). An accelerated Canadian development expense is generally a Canadian development expense of a taxpayer that is actually incurred after November 20, 2018 and before 2028.

An accelerated Canadian development expense does not include an expense that is a successored Canadian development expense, or that is a cost in respect of a Canadian resource property acquired by the taxpayer, or a partnership in which the taxpayer is a member, from a person or partnership with which the taxpayer does not deal at arm’s length.

In addition, an accelerated Canadian development expense includes a Canadian development expense that has been renounced to a shareholder under a flow-through share agreement, if the flow through share agreement has been entered into after November 20, 2018.

Clause 2

Canadian oil and gas property expense

ITA

66.4

Section 66.4 of the Act provides rules relating to the deduction of “Canadian oil and gas property expense,” as defined in subsection 66.4(5).

ITA

66.4(2)

Subsection 66.4(2) of the Act allows a taxpayer a deduction for a taxation year in respect of its “cumulative Canadian oil and gas property expense” (CCOGPE) at the end of the year, as determined under that definition in subsection 66.4(5).

Subsection 66.4(2) is amended by introducing new paragraph (c), which provides for a deduction in respect of a taxpayer's "accelerated Canadian oil and gas property expense" as defined in subsection 66.4(5).

The amendments to this section parallel those made to section 66.2 relating to the accelerated Canadian development expense.

ITA

66.4(2)(c)

New paragraph 66.4(2)(c) of the Act provides an additional first-year Canadian oil and gas property expense deduction to a taxpayer in respect of accelerated Canadian oil and gas property expenses. The amount of the deduction is determined by the formula $A(B - C)$.

Variable A of the formula provides for the deduction rates as follows:

- 5% for taxation years that end before 2024;
- 2.5% for taxation years that begin after 2023; and
- A proration of the two rates for taxation years that straddle the end of 2023, based on the amount of expenses incurred before and after the end of 2023.

Variable B of the formula is the total of all accelerated Canadian oil and gas property expenses incurred by the taxpayer in the taxation year.

Variable C is determined by the formula $(D - E) - (F - G - H)$.

The amount that a taxpayer can claim in respect of CCOGPE is determined by subtracting the reductions to CCOGPE from the additions to CCOGPE (which will include accelerated Canadian oil and gas property expenses incurred in the year). The formula for Variable C ensures that reductions $(D - E)$ to the CCOGPE in the year are first applied against additions $(F - G)$ to CCOGPE in the year other than accelerated Canadian oil and gas property expense (H) incurred in the year.

Definitions

ITA

66.4(5)

Subsection 66.2(5) of the Act contains the definitions "Canadian oil and gas property expense" and "cumulative Canadian oil and gas property expense".

Subsection 66.2(5) is amended by introducing the new definition "accelerated Canadian oil and gas property expense".

"accelerated Canadian oil and gas property expense"

The definition "accelerated Canadian oil and gas property expense" is relevant for the purpose of calculating the deduction under new paragraph 66.4(2)(c).

The definition provides the start and end dates for expenses that can qualify for the deduction under new paragraph 66.4(2)(c). An accelerated Canadian oil and gas property expense is

generally a Canadian oil and gas property expense that is incurred after November 20, 2018 and before 2028.

An accelerated Canadian oil and gas property expense does not include an expense that is a successored Canadian oil and gas property expense, or is a cost in respect of a Canadian resource property acquired by the taxpayer, or a partnership in which the taxpayer is a member, from a person or partnership with which the taxpayer does not deal at arm's length.

Clause 3

Capital cost allowance

ITR

1100

A portion of the capital cost of depreciable property is deductible as capital cost allowance (CCA) each year. Section 1100 of the *Income Tax Regulations* (the "Regulations") provides rules relating to the deduction of CCA.

Section 1100 is amended to introduce the Accelerated Investment Incentive for certain capital property of a taxpayer.

ITR

1100(1)

Subsection 1100(1) of the Regulations provides the CCA rates that taxpayers may claim with respect to specified classes of depreciable property. Paragraph 1100(1)(a) lists the prescribed rates that apply to properties in a Class in Schedule II.

Class 13 - Leasehold interest

ITR

1100(1)(b)

Paragraph 1100(1)(b) of the Regulations provides for a deduction in respect of the capital cost of property that is a leasehold interest and included in Class 13 of Schedule II. Schedule III of the Regulations provides for the determination of the amount that may be deducted in respect of the leasehold interest of a taxpayer each year.

Subparagraph 1100(1)(b)(i) is amended to provide an enhanced first-year CCA deduction in respect of accelerated investment incentive property of a taxpayer. In particular, it is amended to provide the three following first-year rates in respect of property the capital cost of which is incurred in a taxation year:

- 150% of the amount calculated in accordance with Schedule III (up to the undepreciated capital cost), for accelerated investment incentive property the cost of which is incurred before 2024;

- the amount calculated in accordance with Schedule III, for accelerated investment incentive property the cost of which is incurred after 2023 (such property is not mentioned in clause (A) or (B) and so, the general rate applies); and
- 50% of the amount calculated in accordance with Schedule III for property that is not accelerated investment incentive property and is not described in any of subparagraphs (b)(iii) to (v) of the description of R in subsection (2) (*i.e.*, the current “half-year” rule).

For more information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4) and Schedule III.

Class 14 – Patent, Franchise, concession or license for a limited period

ITR

1100(1)(c)

Paragraph 1100(1)(c) of the Regulations provides for a deduction in respect of the capital cost of property that is a patent, franchise, concession or license for a limited period in respect of the property that is included in Class 14 of Schedule II.

The deduction under paragraph 1100(1)(c) in respect of a property of Class 14 is calculated as the lesser of the subparagraph (c)(i) and (ii) amounts. The amount under subparagraph (c)(i) is determined by apportioning the capital cost of the property over the life of the property remaining at the time the cost was incurred. The subparagraph (c)(ii) amount is the undepreciated capital cost of the property of Class 14 at the end of the taxation year.

Subparagraph (c)(i) is amended to provide the following additional first-year CCA deductions (in subclauses (B)(I) and (II)) in respect of accelerated investment incentive property of a taxpayer that is included in Class 14:

- 50%, for accelerated investment incentive property acquired before 2024; and
- 25%, for accelerated investment incentive property acquired after 2023.

Subclause (i)(A) preserves the existing general rule.

In all cases, because of subparagraph (c)(ii), CCA deducted cannot exceed the undepreciated capital cost of Class 14 property. For more information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4).

Vessels

ITR

1100(1)(v)

Paragraph 1100(1)(v) of the Regulations provides for a deduction in respect of the capital cost of property that is, in general terms, a “Canadian vessel” to which Class 7 applies. Most Canadian vessels are described in paragraph 1101(2a) and included in a separate Class 7. These vessels are

constructed and registered in Canada and have not been used for any purpose before being acquired by the taxpayer.

Currently, the CCA rate that a taxpayer may claim annually under paragraph 1100(1)(v) for a “Canadian vessel” is 33 1/3% of the capital cost of the vessel, subject to a reduced rate of 16 2/3% in the year the vessel first becomes available for use.

Paragraph 1100(1)(v) is amended to provide an enhanced first-year CCA deduction in respect of accelerated investment incentive property of a taxpayer. In particular, it is amended to provide the three following first-year rates in respect of property acquired in a taxation year:

- 50% for accelerated investment incentive property acquired before 2024;
- 33 1/3% for accelerated investment incentive property acquired after 2023 (such property is not mentioned in clause (A) or (B) and so, the general rate in clause (C) applies); and
- 16 2/3% for property that is not accelerated investment incentive property and is not described in any of subparagraphs (b)(iii) to (v) of the description of R in subsection (2) (*i.e.*, the current “half-year” rule).

In subsequent years, a taxpayer may deduct 33 1/3% of the capital cost of the property to the taxpayer, up to the undepreciated capital cost of property of the Class.

For more information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4).

Property acquired in the year

ITR 1100(2)

Subsection 1100(2) of the Regulations is the general provision relating to the “half-year rule.” This rule provides that the CCA allowed in the first year that a taxpayer’s capital property is available for use is generally limited to half the amount that would otherwise be available in respect of that property. The half-year rule applies to the amount by which the cost of any depreciable property of a prescribed class acquired by a taxpayer exceeds the lesser of the capital cost of each property of the Class disposed of in the year and its proceeds of disposition.

Subsection 1100(2) is amended to provide an enhanced first-year CCA deduction in respect of accelerated investment incentive property of a taxpayer. For more information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4).

The following formula, which incorporates the existing half-year rule and provides for the new enhanced first-year allowance, is introduced to subsection 1100(2):

$$A(B) + C(D) + E(F) + G(H) - 0.5(I)$$

The opening words of subsection 1100(2) are amended to provide that the amount that a taxpayer may deduct in respect of a Class under subsection (1) is to be determined as if the undepreciated capital cost of property of the Class were adjusted by adding the positive or negative amount

determined by the formula (*i.e.*, if the formula produces a negative result, that amount would be subtracted).

The formula in subsection 1100(2) is comprised of five main components, which provide different adjustments in respect of different properties, each of which is described below.

A(B): accelerated investment incentive – general rule

In general terms, Elements A and B provide for an enhanced first-year allowance for accelerated investment incentive property currently included in most Classes in Schedule II.

Element A provides a factor to increase the CCA deduction otherwise computed under subsection 1100(1) depending on when the property becomes available for use. The factor is

- 50%, in respect of property that becomes available for use before 2024, and
- 0%, in respect of property that becomes available for use after 2023.

Because the half-year rule (see element I) does not apply in respect of accelerated investment incentive property, the 0% rate for element A effectively provides that the general CCA rate (*i.e.*, without the half-year rule) applies for first year a relevant accelerated investment incentive property becomes available for use after 2023.

Element B is, in general terms, the net capital cost additions to the relevant Class, expressed as the formula J - K.

Element J is generally the amount added to the undepreciated capital cost of the relevant Class in respect of accelerated investment incentive property that becomes available for use in the year. Classes 12, 13, 14, 15, 43.1, 43.2 and 53 are excluded from the description of J. “Canadian vessels,” which are included in paragraph (1)(v), are also excluded. Additional allowances are provided elsewhere in respect of Canadian vessels and property in these Classes, except in the case of Class 12, which is already eligible for a 100% CCA rate. Note that accelerated investment incentive property will not be subject to the half-year rule because of subparagraph (a)(i) of the description of R in the description of I.

Element K is computed as the amount by which the amount determined for S exceeds the amount determined for R. It, together with the formula R – S in the description of I, generally provides that where the undepreciated capital cost of a Class is increased in a year by both the cost of accelerated investment incentive property and non-accelerated investment incentive property and an amount (*e.g.*, a disposition) reduces the undepreciated capital cost of the Class, the reduction first offsets non-accelerated investment incentive property before reducing the amount available for the enhanced CCA deduction.

For example, if a taxpayer incurs \$100 in respect of accelerated investment incentive property included in Class 10 (30% CCA rate) in 2019 and it becomes available for use in that year (assume no reductions in the Class for the year), the taxpayer may deduct \$45 instead of the \$15 that would normally be available in the first year because of the half-year rule, as calculated below:

<i>Undepreciated capital cost at the end of the year</i>	<i>\$100</i>
<i>A(B) addition (0.5(\$100))</i>	<i>\$50</i>

<i>Adjusted undepreciated capital cost</i>	<i>\$150</i>
<i>CCA rate</i>	<i>30%</i>
<i>Enhanced first year CCA deduction (\$150 x 30%)</i>	<i>\$45</i>
<i>Undepreciated capital cost after CCA deduction</i>	<i>\$55</i>

In the following year, assuming no new acquisitions, the taxpayer may deduct 30% of the \$55 UCC and no additional amount for accelerated investment incentive property.

C(D): accelerated investment incentive – Class 43.1

The C(D) component of the formula relates to accelerated investment incentive property included in Class 43.1.

In general terms, element C provides a factor to increase the CCA deduction otherwise computed under subsection 1100(1) depending on when the property becomes available for use. The factor is

- 2 1/3, in respect of property that becomes available for use before 2024,
- 1 1/2, in respect of property that becomes available for use in 2024 or 2025, and
- 5/6, in respect of property that becomes available for use after 2025.

Element D is, in general terms, the net capital cost additions to Class 43.1 for eligible property. Element D is computed by reference to the formula L – M, where

- Element L is generally the amount added to the undepreciated capital cost of Class 43.1 in respect of accelerated investment incentive property that becomes available for use in the year, and
- Element M is the amount by which the amount determined for S exceeds the amount determined for R. As with element K, element M essentially provides that reductions to Class 43.1 in the year are first applied against non-accelerated investment incentive property.

For example, if a taxpayer incurs \$100 in respect of accelerated investment incentive property included in Class 43.1 in 2019 and it becomes available for use in that year (assume no reductions in the Class), the taxpayer may deduct

<i>Undepreciated capital cost at the end of the year</i>	<i>\$100</i>
<i>C(D) addition (2 1/3(\$100))</i>	<i>\$233</i>
<i>Adjusted undepreciated capital cost</i>	<i>\$333</i>
<i>CCA rate</i>	<i>30%</i>
<i>Enhanced first year CCA deduction (\$333 x 30%)</i>	<i>\$100</i>
<i>Undepreciated capital cost after CCA deduction</i>	<i>\$0</i>

The result is the taxpayer is entitled to fully deduct the capital cost of eligible Class 43.1 property in the first year.

E(F): accelerated investment incentive – Class 43.2

The E(F) component of the formula relates to accelerated investment incentive property included in Class 43.2.

In general terms, element E provides a factor to increase the CCA deduction otherwise computed under subsection 1100(1) depending on when the property becomes available for use. The factor is

- 1, in respect of property that becomes available for use before 2024, and
- 0.5, in respect of property that becomes available for use in 2024.

Class 43.2 is available only in respect of property acquired before 2025. The calculations of elements F, N and O are substantially similar to those described for elements D, L and M in respect of Class 43.1 described above.

G(H): accelerated investment incentive – Class 53

The G(H) component of the formula relates to accelerated investment incentive property included in Class 53.

In general terms, element G provides a factor to increase the CCA deduction otherwise computed under subsection 1100(1) depending on when the property becomes available for use. The factor is

- 1, in respect of property that becomes available for use before 2024,
- 1/2, in respect of property that becomes available for use in 2024 or 2025, and
- 5/6, in respect of property that becomes available for use after 2025.

The enhanced allowance will effectively provide a full deduction in respect of property that becomes available for use before 2024, with a phase-out for property that becomes available for use after 2023.

The calculations of the elements H, P and Q are similar to those described for elements D, L and M in respect of Class 43.1 described above.

0.5(I): property subject to half-year rule

Property that is not accelerated investment incentive property will continue to be subject to the half-year rule. The current half-year rule mechanism contained in paragraphs 1100(2)(a) and (b) has been reorganized and included in the formula as 0.5(I).

Clause 4

Division V

Interpretation

ITR

1104

Section 1104 of the Regulations sets out various definitions and interpretation rules that apply for the purpose of determining the CCA rate for a taxation year in respect of depreciable property of a taxpayer.

Accelerated investment incentive property

ITR

1104(4)

New subsection 1104(4) of the Regulations defines “accelerated investment incentive property” for the purposes of Part XI and Schedules II to VI of the Regulations.

To qualify as accelerated investment incentive property, property must be acquired by a taxpayer after November 20, 2018 and become available for use before 2028. In addition, certain properties are excluded from the definition. First, subparagraph (i) excludes property acquired on a rollover basis. This includes property acquired in circumstances where the taxpayer was deemed to have been allowed or deducted an amount under paragraph 20(1)(a) of the Act when computing income for previous taxation years (*e.g.*, where the property is acquired in a transaction to which section 85 applies). It also includes property acquired in circumstances where the undepreciated capital cost of depreciable property of a prescribed class of the taxpayer was reduced by an amount determined by reference to the amount by which the capital cost of the property to the taxpayer exceeds its cost amount (*e.g.*, where the property is acquired in a transaction to which section 87 applies).

Property is also excluded if it was previously owned or acquired by the taxpayer or by a person or partnership with which the taxpayer did not deal at arm’s length at any time when the property was owned or acquired by the person or partnership. The “or acquired” criterion is intended to be relevant in circumstances where there is an acquisition of property in circumstances where the property is not yet owned, such as in paragraph 16.1(1)(b).

Clause 5

Schedule IV

1(a)

Schedule IV of the Regulations provides for the calculation of the amount that may be deducted for the purposes of paragraph 1100(1)(f) in respect of property in Class 15 of Schedule II. Class 15 generally includes property (other than a timber resource property) that is acquired for the purpose of cutting and removing mercantile timber from a timber limit.

Sections 2 and 3 of Schedule IV are amended to provide for an additional deduction in respect of a taxpayer’s accelerated investment incentive property included in Class 15. For more

information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4).

Paragraph 1(a) of Schedule IV is reorganized into subparagraphs (i) and (ii). New subparagraph (i) provides the following additional deductions in respect of accelerated investment incentive property included in Class 15:

- 50%, for accelerated investment incentive property acquired before 2024; and
- 25%, for accelerated investment incentive property acquired after 2023.

Subparagraph (a)(ii) maintains the current deduction for property other than accelerated investment incentive property.

Clause 6

Schedule IV

2(a)

The amendments to paragraph 2(a) of Schedule IV of the Regulations provide that the additional allowance in the first year (under new subparagraph 1(a)(i) of Schedule IV) does not affect the amount that can be claimed in the second and subsequent years, until the undepreciated capital cost limit is reached.

Clause 7

Schedule V

2

Schedule V of the Regulations provides for the calculation of the amount that may be deducted for the purposes of paragraph 1100(1)(g) in respect of capital cost of a property that is an industrial mineral mine or a right to remove industrial minerals from an industrial mine.

Sections 2 and 3 of Schedule V are amended to provide for an additional deduction in respect of accelerated investment incentive property included in paragraph 1100(1)(g). For more information, see the commentary on the definition “accelerated investment incentive property” in subsection 1104(4).

The amendments to section 2 of Schedule V reorganize the provision into a formula and provide the following additional deductions (in paragraphs (a) and (b) of the description of A) in respect of accelerated investment incentive property included in paragraph 1100(1)(g):

- 50%, for accelerated investment incentive property acquired before 2024; and
- 25%, for accelerated investment incentive property acquired after 2023.

Paragraph (c) of the description of A preserves the current deduction available to property that is not accelerated investment incentive property.

Clause 8

Schedule V

3(a)

The amendments to paragraph 3(a) of Schedule V of the Regulations provide that the additional allowance in the first year under section 2 does not affect the amount that can be claimed in the second and subsequent years, until the undepreciated capital cost limit is reached.

Clause 9

Schedule VI

2

Schedule VI of the Regulations provides for the calculation of the amount that may be deducted for the purposes of paragraph 1100(1)(e) in respect of the capital cost of a property (other than a timber resource property) that is an timber limit or a right to cut timber from a limit.

Sections 2 and 3 of Schedule VI are amended to provide for an additional deduction in respect of a taxpayer's accelerated investment incentive property included in paragraph 1100(1)(e). For more information, see the commentary on the definition "accelerated investment incentive property" in subsection 1104(4).

The amendments to section 2 of Schedule VI reorganize the provision into a formula and provide the following additional deductions (in paragraphs (a) and (b) of the description of A) in respect of accelerated investment incentive property included in paragraph 1100(1)(g):

- 50%, for accelerated investment incentive property acquired before 2024; and
- 25%, for accelerated investment incentive property acquired after 2023.

Paragraph (c) of the description of A preserves the current deduction available to property other than an accelerated investment incentive property.

Clause 10

Schedule VI

3(a)

The amendments to paragraph 3(a) of Schedule VI of the Regulations provide that the additional allowance in the first year under section 2 does not affect the amount that can be claimed in the second and subsequent years, until the undepreciated capital cost limit is reached.