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TaxNewsFlash Canada

Tax Accounting — 2019 Tax Rates and Other Changes

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If you are involved in preparing financial reports for corporations or other organizations, certain 2019 Canadian income tax rate and other changes may need to be reflected in your year-end financial statements under International Financial Reporting Standards (IFRS), Accounting Standards for Private Enterprises (ASPE) or U.S. generally accepted accounting principles (U.S. GAAP).

When do new tax measures have to be taken into account?
Under IFRS and ASPE, the tax effect of changes in tax law and rates is recognized in the period that includes the date that the changes were substantively enacted. Under U.S. GAAP, tax law and rate changes are recognized in the period that includes the date that the changes were enacted.

This *TaxNewsFlash-Canada* reflects the related Canadian federal and provincial income tax legislation substantively enacted or enacted between July 1, 2019 and December 31, 2019. It also includes a summary of certain outstanding corporate income tax measures that have been announced, but are not yet substantively enacted, including certain 2019 federal budget measures and Quebec's enhanced CCA measures announced in the Quebec 2018 Fall Economic Update.

For 2019 tax legislation enacted before July 1, 2019, see *TaxNewsFlash-Canada* 2019-32, "Tax Accounting — Q2 2019 Update".

Substantively enacted corporate tax rates for 2019

Although the federal general income tax rate for 2019 has not changed, Alberta decreased its general corporate income tax rate beginning on July 1, 2019, with subsequent decreases on January 1 of each year from 2020 through 2022. In addition, Quebec has decreased its general corporate income tax rate in 2019, pursuant to previously enacted reductions to take place each year from 2017 through 2020. For 2019 and future years, both the federal and provincial general corporate income tax rates will remain unchanged for all provinces.

The federal small business income tax rate has decreased for 2019 (compared to 2018), as have the small business income tax rates in Quebec, Prince Edward Island and Nunavut. The small business income tax rate in Ontario, Quebec and Prince Edward Island will decrease in 2020. Quebec will continue to decrease its small business income tax rate until 2021.

General corporations

The following federal and provincial corporate tax rates for active business income earned by a general corporation are substantively enacted and enacted as of December 31, 2019:

Tax Rates for Active Business Income Earned by a General Corporation Substantively Enacted and Enacted as of December 31, 2019[1]		
	2019	**2020 and beyond**
Federal rate	15.0%	15.0%
Provincial rates		
British Columbia	12.0%	12.0%
Alberta[2]	12.0/11.0%	10.0/9.0/8.0%
Saskatchewan	12.0%	12.0%
Manitoba	12.0%	12.0%
Ontario	11.5%	11.5%
Quebec[3]	11.6%	11.5%
New Brunswick	14.0%	14.0%
Nova Scotia	16.0%	16.0%
Prince Edward Island	16.0%	16.0%
Newfoundland and Labrador	15.0%	15.0%
Territorial rates		
Yukon	12.0%	12.0%
Northwest Territories	11.5%	11.5%
Nunavut	12.0%	12.0%

[1] The rates in the table are substantively enacted as at December 31, 2019 for ASPE and IFRS purposes and are also enacted as at December 31, 2019 for U.S. GAAP purposes.

[2] Alberta's general corporate income tax rate decreased to 11% (from 12%) effective July 1, 2019. The corporate tax rate will further decrease to 10% on January 1, 2020, 9% on January 1, 2021 and 8% on January 1, 2022.

[3] Quebec's general corporate income tax rate decreased to 11.6% effective January 1, 2019 and will further decrease to 11.5% effective January 1, 2020.

Canadian-controlled private corporations

The following federal and provincial corporate tax rates for general active business income earned by a Canadian-controlled private corporation (CCPC) on its income that is eligible for the small business deduction are substantively enacted and enacted as of December 31, 2019:

Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of December 31, 2019[1]

	2019	2020 and beyond
Federal rate[2]	9.0%	9.0%
Provincial rates		
British Columbia	2.0%	2.0%
Alberta	2.0%	2.0%
Saskatchewan[3]	2.0%	2.0%
Manitoba[4]	0.0%	0.0%
Ontario[5]	3.5%	3.2%
Quebec[6]	6.0%	5.0/4.0%
New Brunswick	2.5%	2.5%
Nova Scotia	3.0%	3.0%
Prince Edward Island[7]	3.5%	3.0%
Newfoundland and Labrador	3.0%	3.0%
Territorial rates		
Yukon	2.0%	2.0%
Northwest Territories	4.0%	4.0%
Nunavut[8]	4.0/3.0%	3.0%

[1] The rates in the table are substantively enacted as at December 31, 2019 for ASPE and IFRS purposes and are also enacted as at December 31, 2019 for U.S. GAAP purposes.

[2] The federal government decreased the small business income tax rate to 9% (from 10%) effective January 1, 2019.

[3] Saskatchewan's small business threshold is $600,000. Therefore, Saskatchewan's combined tax rate on active business income between $500,000 and $600,000 is 17% (i.e., 15% federally and 2% provincially).

[4] Manitoba increased its small business income threshold to $500,000 (from $450,000) effective January 1, 2019.

[5]Ontario decreased its small business income tax rate to 3.2% (from 3.5%) effective January 1, 2020.
[6]Quebec decreased its small business income tax rate to 6% (from 7%) effective January 1, 2019. The rate will further decrease to 5% in 2020 and 4% in 2021. The rate reductions will be effective January 1 of each year. Quebec's earlier decrease in its small business income tax rate to 7% (from 8%), effective March 28, 2018 was also substantively enacted in 2019. Quebec's small business deduction is generally available to corporations only if their employees were paid for at least 5,500 hours in the taxation year or if their employees and those of their associated corporations were paid for at least 5,500 hours in the previous taxation year, to a maximum of 40 hours a week per employee (excluding the hours paid to a subcontractor). Small and medium-sized businesses in the primary (i.e., agriculture, forestry, fishing, hunting, mining, quarrying and, oil and gas extraction) and manufacturing sectors in Quebec may be able to claim an additional deduction if they meet certain criteria. The maximum rate of the additional deduction as at January 1, 2019 is 2%, and will be gradually reduced until it is eliminated. The rate will decrease to 1% on January 1, 2020 and nil on January 1, 2021.
[7] Prince Edward Island decreased its small business income tax rate to 3.5% (from 4%) effective January 1, 2019. The rate will further decrease to 3.0% effective January 1, 2020.
[8] Nunavut decreased its small business income tax rate to 3.0% (from 4.0%) effective July 1, 2019.

The latest rates and small business deduction thresholds are always available on our Canadian Corporate Tax Tables page on the KPMG Canada site.

Status of recent tax legislation at December 31, 2019

The tables below provide more information on selected 2019 federal and provincial corporate income tax measures that may have an impact on your December 31, 2019 financial statements.

For more information about these changes, contact your KPMG adviser or see the editions of *TaxNewsFlash-Canada* or *TaxNewsNow* noted below.

Federal legislation

Canada completed its ratification procedures and deposited its ratification instrument for the Multilateral Instrument (MLI) with the OECD on August 29, 2019. As a result, the MLI will need to be read alongside a significant portion of Canada's treaties beginning in 2020. Note that these changes do not impact the Canada-U.S. Treaty.

For details of the effect of the MLI, see *TaxNewsFlash-Canada* 2019-52, "Upcoming Treaty Changes – Review Withholding Obligations Now" and *TaxNewsFlash-Canada* 2019-37, "MLI to Modify Canadian Tax Treaties in 2020".

Outstanding federal legislation

The Liberal Party of Canada formed a minority government following the results of the 2019 federal election. The following measures were announced as part of the 2019 budget by the previous Liberal majority government and have not yet been included in a bill.

Outstanding June 17, 2019 draft legislation

Finance released draft legislation on June 17, 2019 further to its 2019 federal budget proposal to institute a $200,000 annual cap for certain employment stock options that qualify for a stock option deduction. Under the proposed legislation, if an employee is not entitled to the stock option deduction, then a qualifying employer may be able to claim a corporate tax deduction that equals the employee's stock option benefit, where certain conditions are met. Originally, these rules were proposed to apply as of January 1, 2020, but Finance recently announced that this coming-into-force date has been delayed. Finance says it will indicate how it will move forward with these rules and when they will apply at the 2020 federal budget.

For details of these measures, see *TaxNewsFlash-Canada* 2019-60, "New Stock Option Rules Delayed" and *TaxNewsFlash-Canada* 2019-29, "Finance Reveals More Details on Stock Option Deduction Cap".

Outstanding July 30, 2019 draft legislation

Finance released draft legislation on July 30, 2019 to implement outstanding tax measures from the 2019 federal budget. The draft legislation also includes amendments to clarify the accelerated investment incentive for resource expenditures and depreciable property that were enacted in June 2019. The measures in the draft legislation have not yet been included in a bill.

The draft legislation includes corporate tax measures proposed in the 2019 budget regarding:

- Character conversion transactions
- Mutual funds — Allocation to redeemers methodology
- Foreign affiliate dumping
- Cross-border share lending arrangements
- Transfer pricing (ordering of rules and reassessment period).

For details of these measures, see *TaxNewsFlash-Canada* 2019-09, "2019 Federal Budget Highlights" and *TaxNewsNow*, "Finance Releases Draft Legislation for Budget Bill #2".

Provincial tax legislation

Alberta

Alberta Bill 20	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
October 28, 2019	December 5, 2019

Alberta Bill 20 includes the corporate tax measures announced in the province's 2019 budget. This bill eliminates the SR&ED Tax Credit starting in 2020. In addition, the bill cancels the following tax credits and stopped allowing new approvals for the credits after October 24, 2019:

- The Alberta Investor Tax Credit
- Community Economic Development Corporation Tax Credit
- Capital Investment Tax Credit
- Interactive Digital Media Tax Credit.

The bill also includes a new film and television tax credit for eligible companies that was announced in Alberta's 2019 budget.

For further details, see *TaxNewsFlash-Canada* 2019-44, "Highlights of the 2019 Alberta Budget" and *TaxNewsNow*, "Alberta's 2019 Budget Bill Receives Royal Assent".

Ontario

Ontario Bill 138	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
November 6, 2019	December 10, 2019

Ontario Bill 138 includes the corporate tax measure announced in the province' 2019 Fall Economic Update. The bill reduces Ontario's small business corporate income tax rate to 3.2% (from 3.5%) effective January 1, 2020. The tax rate reduction is prorated for taxation years straddling January 1, 2020.

For further details, see *TaxNewsFlash-Canada* 2019-45, "Ontario Drops Small Business Tax Rate for 2020".

Quebec

Quebec Bill 42	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
May 9, 2018 / November 7, 2019	Not enacted

Quebec Bill 42 contains measures previously announced in Quebec's 2019 budget and in various information bulletins published in 2017, 2018 and 2019.

Substantively enacted — May 9, 2018

Quebec Bill 42 re-introduces additional CCA measures for certain eligible property acquired after March 28, 2017 or after March 27, 2018, which were originally included in former Quebec Bill 175 and were already substantively enacted. Former Quebec Bill 175 died on the order paper ahead of Quebec's provincial general election on October 1, 2018, but these measures continue to be substantively enacted for purposes of IFRS and Accounting Standards for Private Enterprise (ASPE) as of May 9, 2018, the date former Quebec Bill 175 received first reading.

The re-introduced measures previously announced allow additional CCA of 35% or 60%. More specifically:

- A taxpayer may deduct an additional 35% CCA where certain property is acquired after March 28, 2017, but before March 28, 2018 (included in former Quebec Bill 175)
- A taxpayer may deduct an additional 60% CCA where certain property is acquired after March 27, 2018 (included in former Quebec Bill 175). Quebec Bill 42 further clarifies that the additional 60% CCA deduction only applies to property acquired:
    - Before December 4, 2018 or
    - Before July 1, 2019, if
        - The property was acquired pursuant to an obligation in writing entered into before 4 December 2018, or
        - The construction of the property, by or on behalf of the taxpayer, began before 4 December 2018.

For more details of the measures included former Quebec Bill 175, see *TaxNewsNow*, "Quebec Bill 175—Additional CCA and More".

Substantively enacted — November 7, 2019

Quebec Bill 42 also introduces an additional 30% CCA on certain depreciable property acquired after December 3, 2018 and indicates that a separate class will be created for all property subject to the additional 30% CCA (i.e., Class 43.1, 43.2, 50, 53, 14, 14.1 and 44).

Quebec Bill 42 introduces and amends several tax credits, including:

- A temporary enhancement of the refundable tax credit for investments relating to manufacturing and processing equipment
- A new refundable tax credit for small and medium-sized businesses to foster the retention of experienced workers
- Amendments to the refundable tax credit for reporting of tips.

Quebec Bill 42 includes corporate tax measures to:

- Reduce the capital investment threshold applicable to a large investment project carried out in a remote region, from $75,000,000 to $50,000,000, where the initial qualification certificate is filed after March 21, 2019
- Introduce the sustainable development certification allowance under the *Mining Tax Act.*

Quebec Bill 42 enacts harmonization measures that were announced in Information Bulletins published in 2017 and 2018, including those that:

- Reduce the small business limit for CCPCs with passive investment income above $50,000
- Allow switch fund corporations and segregated funds to reorganize on a tax-deferred basis, in certain circumstances
- Clarify the concept of "factual control"
- Extend the base erosion rules to foreign branches of life insurers
- Amend the dividend stop-loss rule on share repurchase transactions.

For details of the March 21, 2019 Quebec budget announcements, see *TaxNewsFlash-Canada* 2019-12, "Highlights of the 2019-2020 Quebec Budget".

For more details of the measures included Quebec Bill 42, see *TaxNewsNow*, "Quebec Bill 42 Receives First Reading" and *TaxNewsNow* "Quebec Will Align with Federal Passive Income Regime".

Prince Edward Island

Prince Edward Island Bill 12	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
July 12, 2019	July 12, 2019

Prince Edward Island Bill 12 implements the corporate tax change announced in the province's 2019 budget to reduce its small business corporate income tax rate to 3.0% (from 3.5%), effective January 1, 2020. The tax rate reduction is prorated for taxation years straddling January 1, 2020.

For details of the Prince Edward Island 2019 budget announcements, see *TaxNewsFlash-Canada* 2019-31, "Highlights of the 2019 P.E.I. Budget".

Nunavut

Nunavut Bill 26	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
November 6, 2019	November 7, 2019

Nunavut's Bill 26 implements the decrease of the small business corporate income tax rate to 3% (from 4%), effective July 1, 2019. The tax rate reduction is prorated for taxation years straddling July 1, 2019.

For details of Nunavut's Bill 26, see *TaxNewsNow*, "Nunavut's Bill 26 Receives Royal Assent".

Outstanding provincial budget and other corporate income tax measures

The following provincial tax measures have been announced, but are not substantively enacted for IFRS or ASPE purposes, nor are they enacted for purposes of U.S. GAAP as of December 31, 2019.

Quebec 2019 budget

Quebec has not yet tabled a bill to enact certain tax changes announced in the province's 2019 budget, including measures to:

- Harmonize with the federal measures from the 2018 federal Fall Economic Update to accelerate the deduction for Canadian development expenses and Canadian oil and gas property expenses.

For details of the Quebec 2019 budget announcements, see *TaxNewsFlash-Canada* 2019-12, "Highlights of the 2019-2020 Quebec Budget".

Quebec 2018 budget

Quebec has not yet tabled a bill to enact certain tax changes announced in the province's 2018 budget, including:

- International tax measures governing foreign affiliates
- Measures to prevent taxpayers from sustaining artificial losses using equity-based financial arrangements.

For details of the Quebec 2018 budget announcements, see *TaxNewsFlash-Canada* 2018-15, "Highlights of the 2018-2019 Quebec Budget".

Quebec 2019 Information Bulletins

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in the province's 2019 Information Bulletins 2019-7, 2019-9 and 2019-11. Information bulletin 2019-7 includes corporate tax changes to harmonize with various federal corporate provisions proposed in the 2019 federal budget, among other measures. Quebec will harmonize with measures that relate to:

- New temporary enhanced first-year CCA of 100% for zero-emission vehicles (new Classes 54 and 55)

- Modification of the definition of "specified corporate income" to exclude income from sales of farming products or fishing catches of farming and fishing businesses to arm's-length purchaser corporations
- Character conversion transactions
- Transfer pricing (ordering of rules and reassessment period)
- Foreign affiliate dumping amendments
- Modification of the allocation to redeemers methodology for mutual funds.

Information bulletins 2019-9 and 2019-11 also include provincial measures that:

- Introduce a new 35% refundable tax credit on qualified wages for print media companies, and expand the credit for 2019 only, so that certain subsidiaries may be considered as "eligible employees"
- Extend the eligibility for the refundable tax credit to support digital transformation of print media companies to December 31, 2023 (from December 31, 2022)
- Amend the refundable tax credits for the production of Multimedia titles
- Extend the refundable tax credit relating to information technology integration
- Permit that any provision recorded in connection with the redemption of retractable or mandatory redeemable shares be included in the calculation of tax paid-up capital (regardless of financial statement presentation).

For further details, see *TaxNewsNow,* "Quebec Announces Tax Harmonization Measures with 2019 Federal Budget" and *TaxNewsNow,* "Quebec restricts Dividend Tax Credit and amends PUC".

Quebec 2018 Information Bulletins

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in the province's 2018 Information Bulletins 2018-6 and 2018-9. The bulletins include tax changes to harmonize with various federal corporate provisions proposed in the 2018 federal budget and 2018 federal Fall Economic Update, among other measures.

The information bulletins include corporate tax measures to:

- Harmonize with the 2018 federal budget measures to:
    - Extend the accelerated CCA for certain investments in equipment for the generation and conservation of clean energy
    - Change the at-risk rules for tiered limited partnerships, such that the at-risk rules apply to a partnership that is itself a limited partner of another partnership
- Harmonize with federal measures announced at the 2018 federal Fall Economic Update to:
    - Allow businesses to write off 100% of eligible capital costs related to machinery and equipment used in manufacturing and processing and clean energy generation equipment in the year the assets are available for use

(applicable to assets acquired after November 20, 2018, with a gradual phase-out of the incentive for assets that become available for use after 2023 and before 2028)
  - Introduce a new Accelerated Investment Incentive to allow businesses to claim up to three times the amount of the CCA that normally applies in the first year an asset becomes available for use on other assets (applicable to assets acquired after November 20, 2018, with a gradual phase-out of the incentive for assets that become available for use after 2023 and before 2028)
- Allow businesses to qualify for a 100% CCA deduction in the first year where qualifying intellectual property and general-purpose electronic data processing equipment becomes available for use before 2024 (applicable to assets acquired after December 3, 2018).

For further details, see *TaxNewsNow* "Quebec Announces Tax Harmonization Measures", and *TaxNewsFlash-Canada* 2018-52, "Highlights of the 2018 Quebec Fall Economic Update".

Quebec 2017 Information Bulletins

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in the province's 2017 Information Bulletin 2017-6. The bulletin includes tax changes to harmonize with various federal corporate tax provisions proposed in the 2017 federal budget, including measures to:

- Eliminate billed-basis accounting elections
- Introduce a new anti-avoidance rule to target straddle transactions that allow taxpayers to selectively realize gains and losses on derivatives
- Re-classify expenses renounced to flow-through share investors
- Make changes to investments in specified clean energy generation and conservation equipment under the CCA regime.

The bulletin also includes tax changes to harmonize with various proposed measures announced in the draft legislation released by Finance on September 16, 2016, including:

- Changes related to reverse takeovers of trusts or partnerships by a loss corporation
- New rules for banks and Federal Credit Union allocations to other provinces.

We can help

KPMG's tax accounting and audit support professionals can help you assess the impact these changes in tax law will have on your organization's financial statements. We can also help your organization understand and manage your obligations under the Canadian, U.S.

and international financial reporting standards for income tax accounts and disclosures. For details, contact your KPMG adviser.

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