



TaxNewsFlash

Canada

Tax Accounting — Q2 2021 Update

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If you are involved in preparing financial reports for corporations or other organizations, certain 2021 Canadian income tax rate and other changes may need to be reflected in your interim 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 January 1, 2021 and June 30, 2021. This publication also includes a summary of certain outstanding corporate income tax measures that have been announced, but are not yet substantively enacted, including certain 2021 federal budget measures, such as new interest deductibility limits, new rules to address hybrid mismatch arrangements and immediate expensing of eligible property for Canadian-controlled private corporations (CCPCs).

For 2020 tax legislation enacted before January 1, 2021, see *TaxNewsFlash-Canada* 2021-01, "[Tax Accounting — 2020 Tax Rates and Other Changes](#)".

Substantively enacted and enacted corporate tax rates for 2021

For 2021 and future years, the federal and provincial general corporate income tax rates remain unchanged for all provinces.

The federal small business income tax rate has not changed in 2021. However, the small business income tax rates in Quebec, Prince Edward Island, Yukon and Northwest Territories decreased in 2021. In addition, although the small business income tax rate in Saskatchewan decreased to 0% (from 2%), effective October 1, 2020 to June 30, 2022, the decrease is temporary, and is currently scheduled to gradually return to its original rate of 2% by July 1, 2023.

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 June 30, 2021:

Tax Rates for Active Business Income Earned by a General Corporation Substantively Enacted and Enacted as of June 30, 2021¹		
	2021	2022 and beyond
Federal rate	15.0%	15.0%
Provincial rates		
British Columbia	12.0%	12.0%
Alberta	8.0%	8.0%
Saskatchewan	12.0%	12.0%
Manitoba	12.0%	12.0%
Ontario	11.5%	11.5%
Quebec	11.5%	11.5%
New Brunswick	14.0%	14.0%
Nova Scotia	14.0%	14.0%
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 June 30, 2021 for ASPE and IFRS purposes and are also enacted as at June 30, 2021 for U.S. GAAP purposes.

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 June 30, 2021:

Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of June 30, 2021¹		
	2021	2022 and beyond
Federal rate	9.0%	9.0%
Provincial rates		
British Columbia	2.0%	2.0%
Alberta	2.0%	2.0%
Saskatchewan ²	0.0%	0.0%/1.0%/2.0%
Manitoba	0.0%	0.0%
Ontario	3.2%	3.2%
Quebec ³	4.0%	4.0%
New Brunswick	2.5%	2.5%
Nova Scotia	2.5%	2.5%
Prince Edward Island ⁴	2.0%	2.0%
Newfoundland and Labrador	3.0%	3.0%
Territorial rates		
Yukon ⁵	0.0%	0.0%
Northwest Territories ⁶	2.0%	2.0%
Nunavut	3.0%	3.0%

¹ The rates in the table are substantively enacted as at June 30, 2021 for ASPE and IFRS purposes and are also enacted as at June 30, 2021 for U.S. GAAP purposes.

² Saskatchewan temporarily reduced the province's small business income tax rate to 0% (from 2%) effective October 1, 2020 to June 30, 2022. The small business income tax rate will increase to 1% (from 0%) beginning July 1, 2022 and will be further increased to 2% (from 1%) beginning July 1, 2023. The small business threshold is \$600,000 in Saskatchewan. Therefore, Saskatchewan's combined income tax rate on active business income between \$500,000 and \$600,000 is 15% (i.e., 15% federally and 0% provincially) effective October 1, 2020 to June 30, 2022.

³ Quebec decreased its small business income tax rate to 4% (from 5%) effective January 1, 2021. Quebec's 2021-2022 budget proposed to further reduce the small business income tax rate to 3.2% (from 4%) effective after March 25, 2021. However, this further reduction is not substantively enacted as of June 30, 2021. 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 (proportionally reduced for short taxation years) 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). The small business deduction is reduced linearly between 5,500 and 5,000 hours and falls to zero at 5,000 hours. Quebec's 2021-2022 budget proposed that for a given taxation year that ended after June 30, 2020, but before July 1, 2021, a corporation may apply for the number of remunerated hours that were used to determine whether it was eligible for the small business deduction, or to establish its small business deduction rate for its preceding taxation year.

⁴ Prince Edward Island decreased its small business income tax rate to 2% (from 3%), effective January 1, 2021. Prince Edward Island's 2021 budget proposed to further decrease the province's small business income tax rate to 1% (from 2%) effective January 1, 2022. However, this further reduction is not substantively enacted as of June 30, 2021.

⁵ Yukon decreased its small business income tax rate to 0% (from 2%) effective January 1, 2021.

⁶ Northwest Territories decreased its small business income tax rate to 2% (from 4%) effective January 1, 2021.

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 June 30, 2021

The tables below provide more information on selected 2021 federal and provincial corporate income tax measures that may have an impact on your June 30, 2021 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

Federal Bill C-30	
Date "substantively enacted" under ASPE/IFRS	Date "enacted" under U.S. GAAP
June 23, 2021	June 29, 2021

Federal Bill C-30 includes tax measures that were announced in the 2021 federal budget and other previously announced measures including measures from the 2020 Fall Economic Update and the 2019 federal budget.

Bill C-30 includes corporate income tax measures from the 2021 federal budget to:

- Introduce the Canada Recovery Hiring Program
- Extend the Canada Emergency Wage Subsidy (CEWS), and Canada Emergency Rent Subsidy (CERS), including Lockdown Support, until September 25, 2021 (with certain revisions to eligibility requirements and subsidy levels)
- Introduce a CEWS repayment obligation for certain public corporations if aggregate compensation for specified executives during the 2021 calendar year exceeds such compensation for the 2019 calendar year.

For more information, please see *TaxNewsFlash-Canada* 2021-23, "[Budget Brings Hiring Subsidy & Extends COVID-19 Support](#)" and *TaxNewsFlash-Canada* 2021-21, "[2021 Federal Budget Highlights](#)".

Bill C-30 also includes corporate income tax measures included in the 2020 Fall Economic Update to:

- Extend the income tax deferral available for certain patronage dividends paid in shares by an agricultural cooperative to payments made before 2026
- Limit the employee stock option deduction for certain employees and allow a corporate deduction if certain conditions are met.

For more information, please see *TaxNewsFlash-Canada* 2020-87, "[Highlights of the 2020 Federal Fall Economic Update](#)" and *TaxNewsFlash-Canada* 2021-35, "[New Stock Option Regime — Takes Effect July 1, 2021](#)".

Bill C-30 includes outstanding tax measures from the 2019 federal budget, including measures related to:

- 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](#)".

Other previously announced corporate income tax changes included in Bill C-30 include measures to:

- Temporarily provide flow-through share issuers with additional time to incur eligible expenses
- Apply the short taxation year rule to the accelerated investment incentive for resource expenditures among other technical changes
- Broaden eligibility for the enhanced capital cost allowance to additional zero-emission vehicles
- Amend support measures for Canadian journalism.

For further details of these measures, see *TaxNewsNow* "[Finance pushes ahead with relief for flow-through share issuers](#)", *TaxNewsNow* "[Zero-emission vehicles – Finance drives ahead CCA expansion](#)" and *TaxNewsFlash-Canada* 2020-43 "[Canadian News Media — Labour Tax Credit Expanded](#)" and *TaxNewsNow* "[2021 federal budget Bill C-30 now law](#)".

Federal Bill C-14	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
April 15, 2021	May 6, 2021

Bill C-14 includes measures that clarify that claimants can access the CERS prior to the payment of certain eligible expenses if certain conditions are met. These measures deem an eligible entity to have paid the eligible expense on the date it first became due, as long as the eligible entity attests that it intends to (and does) pay the amount within 60 days of receiving the subsidy.

For further details on these CERS measures, see *TaxNewsNow* “[Fall Economic Statement Bill receives Royal Assent](#)”.

Intergenerational transfers — Bill C-208

Bill C-208, which includes measures intended to address certain intergenerational transfers of shares, received Royal Assent on June 29, 2021. In addition to personal tax changes, Bill C-208 includes a corporate income tax measure to provide greater flexibility for restructuring family businesses involving siblings under section 55 of the Act. In an announcement on June 30, 2021, Finance stated that it intends to introduce legislation to delay the application date of these rules to January 1, 2022, although these rules came into force on June 29, 2021 (the day Bill C-208 received Royal Assent).

For more information, please see *TaxNewsFlash-Canada* 2021-39, “[Intergenerational Transfers — Finance Proposes Delay to 2022](#)”.

Outstanding federal legislation

The following federal corporate tax measures have been announced, but have not been included in a bill and are not substantively enacted for IFRS or ASPE purposes, nor are they enacted for purposes of U.S. GAAP as of June 30, 2021.

2021 Federal Budget Tax Measures

Several significant 2021 federal budget tax measures have not yet been included in a bill. Many of these measures are subject to further consultation or comment, and include proposed changes related to:

- Interest deductibility limits
- Hybrid mismatch arrangements
- Mandatory disclosure rules
- Reduced tax rates for zero-emission technology manufacturing

- Investment tax credit for carbon capture, utilization and storage
- Immediate expensing of eligible property for CCPCs
- Changes to CCA for clean energy equipment (class 43.1 and 43.2)
- Digital services tax
- Tax debt avoidance.

For further details of these measures, please see *TaxNewsFlash-Canada* 2021-21, "[2021 Federal Budget Highlights](#)".

Provincial tax legislation

British Columbia

British Columbia Bill 4	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
April 20, 2021	June 17, 2021

British Columbia Bill 4 includes an extension of the book publishing tax credit by five years to March 31, 2026 (from 2021), as announced in the province’s 2021 budget. Bill 4 also includes previously announced measures to introduce the increased employment incentive and extend deadlines that applied to certain tax credit claims originally due on or after March 13, 2020 to the earlier of either six months from the original due date or December 31, 2020.

For further details, see *TaxNewsFlash-Canada* 2021-22, "[Highlights of the 2021 British Columbia budget](#)" and *TaxNewsNow*, "[British Columbia Bill 4 receives Royal Assent](#)".

Ontario

Ontario Bill 269	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
March 24, 2021	April 27, 2021

Ontario Bill 269 enacts income tax measures from the 2021 Ontario budget to temporarily increase the Regional Opportunities Investment Tax Credit to 20% (from 10%) for qualifying investments that become available for use in the period from March 24, 2021 to December 31, 2022.

For further details, see *TaxNewsFlash-Canada* 2021-12, "[Highlights of the 2021 Ontario Budget](#)" and *TaxNewsNow*, "[Ontario’s 2021 budget bill receives royal assent](#)".

Quebec

Select Quebec CCA Regulations (Reg. O.C. 164-2021)	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
March 10, 2021	March 10, 2021

The amendments for the Accelerated Investment Incentive for depreciable assets announced in Quebec Information Bulletins 2020-12 as well as 2018-6 and 2018-9 were published in the *Gazette Officielle du Quebec* on March 10, 2021, and enacted on that date. These changes:

- Extend the accelerated CCA for certain investments in equipment for the generation and conservation of clean energy (harmonization with 2018 federal budget measures)
- 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 (harmonization with 2018 federal Fall Economic Update)
- 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 (harmonization with 2018 federal Fall Economic Update)
- 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 enacts accelerated CCA](#)".

Quebec Bill 90	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
May 4, 2021	June 4, 2021

Quebec Bill 90 contains measures previously announced in Quebec's 2020 budget and in various information bulletins published in 2019 and 2020. Quebec Bill 90 includes corporate measures to:

- Introduce a non-refundable synergy capital tax credit for qualified investors that subscribe for shares of qualified corporations in certain sectors
- Amend the enhanced CCA rate for certain zero-emission vehicles (class 54 and 55) for the year in which they become available for use
- Amend the accelerated investment incentive for Canadian development expenses and Canadian oil and gas property expenses to harmonize with the federal measures from the 2018 federal Fall Economic Update
- Allow more journalism organizations to benefit from the income tax exemption and qualified donee status
- Adjust tax measures to prevent taxpayers from sustaining artificial losses using equity-based financial arrangements.

For details, see *TaxNewsNow*, "[Quebec — Outstanding 2020 budget measures \(and more\) receive Assent](#)".

Quebec Bill 74	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
December 2, 2020	June 2, 2021

Quebec Bill 74 contains measures previously announced in Quebec's 2020 budget and in various information bulletins published in 2017, 2018, 2019 and 2020. Quebec Bill 74 includes corporate measures to:

- Introduce a new refundable tax credit for investments and innovation
- Allow companies with large investment projects more time to submit or amend applications for initial qualification certificates for Quebec's tax holiday
- Introduce an incentive deduction for the commercialization of innovations in Quebec
- Eliminate the exclusion threshold for certain income tax credits for research and development
- Introduce a refundable tax credit for employer contributions in respect of persons with a severely limited capacity for employment
- Amend the Quebec film or television production refundable tax credit rules
- Raise the limit on labour expenditures eligible for the refundable tax credit for sound recordings

- Raise the limit of the qualified labour expenditures for the refundable tax credit for the production of performances
- Amend the eligibility requirement for the refundable tax credits for multimedia titles
- Amend the eligibility requirements for the tax credits for development of e-business
- Introduce three new entities which will be subject to compensation tax for financial institutions at specific rates
- Eliminate the deduction for innovative manufacturing corporations for corporations whose taxation year begins after December 31, 2020
- Extend the income-averaging mechanism for certified forest producers of private forests for a five-year period, and increase the carry-over period to ten years
- Extend the provincial manufacturing and processing equipment tax credit to certain property acquired before January 1, 2021
- Temporarily adjust the calculation of remunerated hours for the small business deduction due to the COVID-19 pandemic
- Introduce a 35% refundable tax credit on qualified wages for print media companies, and allow certain subsidiaries to be considered as “eligible employees” for 2019 only
- 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
- Allow any provision recorded in connection with the redemption of retractable or mandatory redeemable shares to be included in the calculation of tax paid-up capital (regardless of financial statement presentation).

Quebec Bill 74 also enacts harmonization measures announced in Information Bulletins published in 2017, 2018 and 2019 to:

- Modify the definition of “specified corporate income” to exclude income from certain farm and fishing related sales to arm’s-length purchaser corporations
- Change the rules for character conversion transactions
- Change the at-risk rules for tiered limited partnerships to apply to a partnership that is a limited partner of another partnership
- Eliminate the billed-basis accounting elections

- Change the reverse takeover rules for trusts or partnerships by a loss corporation.

For details, see *TaxNewsNow*, "[Quebec — Outstanding 2020 budget measures \(and more\) receive Assent](#)".

Saskatchewan

Saskatchewan Bills 30 and 35	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
April 14, 2021 (Bill 30) & April 20, 2021 (Bill 35)	May 13, 2021

Saskatchewan’s Bill 30 extends the Saskatchewan Technology Start-up Incentive credit through to March 31, 2026. Saskatchewan’s Bill 35 includes a measure to lengthen the carry-forward period for the credit to seven years (from four years), effective January 1, 2021. These changes were announced in Saskatchewan’s 2021 budget.

For further details see *TaxNewsFlash – Canada*, 2021-15, "[Highlights of the 2021 Saskatchewan budget](#)", and *TaxNewsNow*, "[Changes to Saskatchewan's Tech Start-Up Incentive - Now Law](#)".

Northwest Territories

Northwest Territories Bill 16	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
March 12, 2021	March 31, 2021

Northwest Territories Bill 16 reduces the small business corporate income tax rate to 2% (from 4%), effective January 1, 2021.

For further details, see *TaxNewsNow*, "[Northwest Territories small business tax rate drop now law](#)".

Outstanding provincial budget and other corporate income tax measures

The following provincial and territorial corporate income tax measures have been announced but are not substantively enacted for IFRS or ASPE purposes. They are also not enacted for purposes of U.S. GAAP as of June 30, 2021.

Manitoba

Manitoba has not yet tabled a bill to enact the corporate income tax changes announced in the province’s 2021 budget. The 2021 budget included the following corporate tax measures:

- Expand the Interactive Digital Media Tax Credit to include new eligible activities, including add-on digital media and content that is complementary to the main product being developed
- Make the Interactive Digital Media Tax Credit permanent (previously scheduled to expire on December 31, 2022)
- Enhance the Small Business Venture Capital Tax Credit
- Suspend the 10% frequent filming bonus, which is part of the Film and Video Production tax Credit, until March 31, 2022 due to the COVID-19 pandemic
- Make the Book Publishing Tax Credit permanent (previously scheduled to expire on December 31, 2024)
- Extend the Cultural Industries Printing Tax Credit to December 31, 2022 (from December 31, 2021)
- Extend the Community Enterprise Development Tax Credit to December 31, 2022 (from December 31, 2021).

For further details see *TaxNewsFlash – Canada* 2021-16, "[Highlights of the 2021 Manitoba Budget](#)".

Prince Edward Island (PEI)

PEI has not yet tabled a bill to enact the 2021 budget proposal to reduce the small business corporate income tax rate to 1% (from 2%), effective January 1, 2022.

For further details see *TaxNewsFlash -Canada* 21-08, "[Highlights of the 2021 P.E.I. Budget](#)".

Quebec

Quebec has not yet tabled a bill to enact certain tax changes announced in the province's 2021 budget, including measures to:

- Effectively decrease the small business income tax rate to 3.2% (from 4%) by increasing the small business deduction, effective March 25, 2021
- Temporarily double the investment and innovation tax credit (C3i)
- Extend eligibility for the tax holiday for large investment projects
- Temporarily enhance the refundable tax credit for on-the-job training periods

- Extend the compensation tax for financial institutions beyond March 21, 2024.

For details of all corporate tax measures announced in the Quebec 2021 budget, see *TaxNewsFlash-Canada* 2021-14, "[Highlights of the 2021-2022 Quebec Budget](#)".

Quebec 2020 budget

Quebec has not yet tabled a bill to enact certain tax changes announced in the province's 2020 budget, including measures to:

- Eliminate the refundable tax credit relating to IT integration
- Eliminate the tax-free reserve for Quebec shipowners.

For details of all corporate tax measures announced in the Quebec 2020 budget, see *TaxNewsFlash-Canada* 2020-08, "[Highlights of the 2020-2021 Quebec Budget](#)".

Quebec 2021 Information Bulletin

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in its provincial Information Bulletin 2021-5, published on June 30, 2021.

Information Bulletin 2021-5 announces harmonization measures with certain federal changes. Specifically, Quebec will harmonize with federal measures related to:

- Limit the employee stock option deduction for certain employees and allow a corporate deduction if certain conditions are met
- Temporary immediate expensing of eligible property for CCPCs
- Changes to CCA for clean energy equipment (class 43.1 and 43.2).

Quebec 2020 Information Bulletins

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in provincial Information Bulletins 2020-12 and 2020-15.

Information bulletin 2020-12 announces harmonization measures with certain federal changes. Specifically, Quebec will harmonize with federal measures to:

- Grant an additional 12-month time limit to corporations that issue flow-through shares to spend the capital obtained by means of the issuance of such shares
- Grant a temporary enhanced CCA rate for certain zero-emission automotive vehicles and equipment that do not already benefit from the temporary 100% enhanced CCA rate for the year in which they become available for use.

Information bulletin 2020-15 announces measures to:

- Change eligibility for the refundable tax credits to support print media companies and the digital transformation of print media companies.

Quebec 2019 Information Bulletins

Quebec has not yet tabled a bill to enact certain corporate tax changes announced in the province's Information Bulletin 2019-7. This bulletin includes corporate tax changes to harmonize with federal proposals in the 2019 federal budget, among other measures. Quebec will harmonize with federal measures related to:

- Foreign affiliate dumping amendments
- Transfer pricing (ordering of rules and reassessment period)
- Modification of the allocation to redeemers methodology for mutual funds.

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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