



TaxNewsFlash

Canada

Tax Accounting — 2021 Tax Rates and Other Changes

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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 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, 2021 and December 31, 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 2021 tax legislation enacted before July 1, 2021, see *TaxNewsFlash-Canada* 2021-40, "[Tax Accounting — Q2 2021 Update](#)".

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 Prince Edward Island, Yukon and Northwest Territories decreased effective January 1, 2021. In addition, the small business income tax rate in Quebec decreased effective January 1, 2021, and again effective March 26, 2021. 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. The small business income tax rate in Prince Edward Island further decreased to 1% (from 2%), effective January 1, 2022.

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, 2021:

Tax Rates for Active Business Income Earned by a General Corporation Substantively Enacted and Enacted as of December 31, 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 December 31, 2021 for ASPE and IFRS purposes and are also enacted as at December 31, 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 December 31, 2021:

Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of December 31, 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	4.0/3.2%	3.2%
New Brunswick	2.5%	2.5%
Nova Scotia	2.5%	2.5%
Prince Edward Island ⁴	2.0%	1.0%
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 December 31, 2021 for ASPE and IFRS purposes and are also enacted as at December 31, 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 further decreased the small business income tax rate to 3.2% (from 4%) effective after March 25, 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 introduced an option to allow corporations to compute remunerated hours for the purposes of the small business deduction based on the number of remunerated hours for its preceding taxation year, effective for taxation years ending after June 30, 2020 and before July 1, 2021.

⁴ Prince Edward Island decreased its small business income tax rate to 2% (from 3%), effective January 1, 2021. The province's small business income tax rate further decreased to 1% (from 2%) effective January 1, 2022.

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 December 31, 2021

The tables below provide more information on selected 2021 federal and provincial corporate income tax measures that may have an impact on your December 31, 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

COVID-19 subsidy support for businesses

The federal government has announced several extensions and modifications to COVID-19 support programs for businesses since June 30, 2021, including to the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Rent Subsidy (CERS) and Lockdown Support, as well as the Canada Recovery Hiring Program (CHRP). In particular, the government extended the CEWS, CERS and Lockdown Support to October 23, 2021, with modifications to the amount of subsidy that could be claimed for certain qualifying periods, and other technical changes. Regulations to enact these changes were published in the Canada Gazette, Part II on September 1, 2021.

For further details, see *TaxNewsNow*, "[Extensions to federal COVID-19 relief now law](#)".

The CEWS, CERS and Lockdown Support were effectively replaced with more targeted wage and rent subsidies under the new Tourism and Hospitality Recovery Program and the Hardest-Hit Business Recovery Program, beginning October 24, 2021. These new programs were announced on October 21, 2021, along with a Local Lockdown Program to provide subsidy support for eligible organizations subject to a qualifying public health restriction and are currently available until May 7, 2022. The CRHP was also extended until May 7, 2022 (from November 20, 2021), with certain modifications. In addition to extending the executive compensation repayment rules for eligible entities, additional restrictions were added for wage subsidy claims for a publicly traded company or a subsidiary of a

publicly traded company that paid taxable dividends to an individual holder of common shares during a qualifying period. These measures were enacted into law when Bill C-2 received Royal Assent on December 17, 2021.

For more details, see *TaxNewsFlash-Canada* 2021-57, "[Canada Rolls Out New COVID-19 Business Support Programs](#)" and *TaxNewsFlash-Canada* 2021-49, "[COVID-19 – Changes Ahead for Business Support Programs](#)".

Finance recently announced that it intends to temporarily expand the new Local Lockdown Program to include employers subject to capacity-limiting restrictions of 50% or more and to reduce the revenue decline threshold requirement to qualify for the subsidy. In its announcement on December 22, 2021, Finance noted that updated regulations to reflect these changes will apply from December 19, 2021 to February 12, 2022. These regulations were not published in the Canada Gazette as of December 31, 2021.

For more details, see *TaxNewsFlash-Canada* 2021-65, "[COVID-19 — Canada Expands Support for Capacity Limits](#)".

Federal fall economic update – December 14, 2021

Finance's 2021 Fall Economic Update introduced a temporary refundable tax credit for small businesses that undertake certain expenditures for air quality improvements and a refundable tax credit for certain farming businesses. Bill C-8, which includes these measures, received first reading in the House of Commons on December 15, 2021. However, these measures are not considered substantively enacted for purposes of IFRS or ASPE or enacted for purposes of U.S. GAAP until the bill passes third reading in the House of Commons (since the federal government is a minority government).

For details of these and other measures included in the Update, see *TaxNewsFlash-Canada* 2021-62, "[Highlights of the 2021 Federal Fall Economic Update](#)".

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 December 31, 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 and processing income
- Immediate expensing of eligible property for CCPCs
- Changes to Capital Cost Allowance (CCA) classes 43.1 and 43.2 for clean energy equipment
- Digital Services Tax
- Investment tax credit for carbon capture, utilization and storage.

For further details of these measures, see *TaxNewsFlash-Canada* 2021-21, "[2021 Federal Budget Highlights](#)" and *TaxNewsFlash-Canada* 2021-64, "[Canada Lays out Digital Tax Proposals for Businesses](#)".

Intergenerational transfers — Bill C-208 update

Finance confirmed that new rules for intergenerational transfers are in force as of June 29, 2021 (i.e., the date the bill received Royal Assent), withdrawing a previous statement that the application date would be delayed. However, Finance also stated that it intends to introduce further amendments, subject to consultation. In addition to personal tax changes, these rules include a corporate income tax measure to provide greater flexibility for restructuring family businesses involving siblings under section 55 of the Act. Finance did not provide additional details of potential amendments as of December 31, 2021.

For more information, see *TaxNewsFlash-Canada* 2021-41, "[New Intergenerational Transfer Rules - More Changes Coming](#)".

Provincial tax legislation

Manitoba

Manitoba Bill 74	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
October 6, 2021	October 14, 2021

Manitoba Bill 74 includes corporate income tax measures announced in the province's 2021 budget. The bill makes changes to several existing tax credits, including measures to:

- Expand the Interactive Digital Media Tax Credit to include new eligible activities and make the credit permanent (previously scheduled to expire on December 31, 2022)

- Increase the maximum annual deduction for the Small Business Venture Capital Tax Credit to \$120,000 (from \$67,500) and increase the maximum eligible investment to \$500,000 (from \$450,000)
- Suspend the 10% frequent filming bonus, which is part of the Film and Video Production Tax Credit, for filming interrupted by the COVID-19 pandemic, until the earlier of the first day after March 31, 2020 that principal photography of an eligible film took place and March 31, 2022
- Extend the Cultural Industries Printing Tax Credit by three years (instead of one year as announced in the budget) to December 31, 2024 (from December 31, 2021)
- Extend the Community Enterprise Development Tax Credit by one year to December 31, 2022 (from December 31, 2021)
- Make the Book Publishing Tax Credit permanent (previously scheduled to expire on December 31, 2024).

For further details, see *TaxNewsFlash-Canada* 2021-16, "[Highlights of the 2021 Manitoba Budget](#)" and *TaxNewsNow*, "[Manitoba budget bill receives Royal Assent](#)".

Prince Edward Island (PEI)

Prince Edward Island Bill 37	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
October 26, 2021	November 17, 2021

Prince Edward Island's Bill 37 includes the province's 2021 budget measure to decrease the small business corporate income tax rate to 1% (from 2%) effective January 1, 2022.

For further details, see *TaxNewsFlash-Canada* 2021-08, "[Highlights of the 2021 P.E.I. Budget](#)" and *TaxNewsNow*, "[2021 P.E.I. budget bill receives Royal Assent](#)".

Quebec

Quebec Bill 5	
Date “substantively enacted” under ASPE/IFRS	Date “enacted” under U.S. GAAP
November 2, 2021	December 10, 2021

Quebec Bill 5 contains measures previously announced in the province's 2021 budget and in various information bulletins published since 2019. Quebec Bill 5 includes corporate measures to:

- Effectively decrease the small business income tax rate to 3.2% (from 4%) by increasing the small business deduction, effective after March 25, 2021
- Introduce an option for computing remunerated hours for the purposes of the small business deduction, effective for taxation years ending after June 30, 2020 and before July 1, 2021
- Temporarily enhance the investment and innovation tax credit (C3i)
- Enhance the tax holiday for large investment projects
- Temporarily enhance the refundable tax credit for on-the-job training periods
- Maintain the compensation tax for financial institutions.

Quebec Bill 5 also enacts certain harmonization measures announced in Information Bulletins published in 2019 and 2020 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
- Amend the accelerated investment incentive for resource-related expenditures
- 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
- Change eligibility for the refundable tax credits to support print media companies and the digital transformation of print media companies
- Amend the foreign affiliate dumping rules
- Amend the transfer pricing rules (ordering of rules and reassessment period).

For further details, see *TaxNewsNow*, "[Quebec budget bill receives Assent](#)".

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 December 31, 2021.

Quebec

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. Specifically, Quebec has not yet tabled a bill to harmonize with federal measures to:

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

Quebec 2019 Information Bulletins

Quebec has not yet tabled a bill to enact a certain harmonization measure announced in the province's Information Bulletin 2019-7. This bulletin includes measures to harmonize with the federal measures from the 2019 federal budget to modify 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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