Fall Economic Statement 2018

November 2018

In its Fall Economic Statement for 2018, the federal government announced a number of tax and economic policy initiatives intended to make Canada more competitive globally, as well as measures seeking to bolster areas of social capital. We have outlined some of the most significant changes that may offer new opportunities for Canadian businesses below.

The Canadian economy has generally been performing well, though it faces potential challenges. Acknowledging this, the government has laid out several measures designed to increase the nation's competitiveness. The Economic Statement did not, as some had hoped, include any changes to corporate tax rates, but instead focused on measures that would encourage new business investment and export growth.

These include tax incentives for business that make significant capital investments – designed with an eye towards the competitive challenge posed by the recent corporate tax reforms in the United States. In addition, the government announced investments targeted towards increasing Canadian exports to Asian and European markets, a portion of which will be set aside for small and medium-sized businesses. These investments are intended to help businesses grow and diversify their exports, taking advantage of international trade agreements, while also reducing the risks associated with bilateral trade disputes that may arise in the future.

The initiatives intended to strengthen social capital include tax credits to support Canadian journalism, as well as the creation of a Social Finance Fund to support charitable, non-profit or other social endeavors.

Increasing competitiveness

Tax measures to encourage investment

Corporate tax rates

No changes to corporate tax rates have been proposed. The federal corporate tax rates for 2018 and 2019 are summarized in Table A below:

Table A
2018-2019 Federal corporate tax rates

	2018	2019
Small business tax rate	10%	9%
General corporate tax rate	15%	15%
Manufacturing and processing tax rate	15%	15%

Accelerated write-offs for capital investments

In what appears to be a direct response to the changes in accelerated write-offs of capital investments introduced in the US earlier this year, the federal government will be introducing three significant changes to the federal capital cost allowance (CCA) rules that govern the write-off of depreciable capital properties, both tangible and intangible.

Manufacturing and processing assets

The federal government is proposing a full tax write-off of machinery and equipment in the year it is put in use. Machinery and equipment[1] acquired after November 20, 2018 will be eligible for a full (i.e. 100%) write-off if purchased in a year prior to 2024, with the full write-off being gradually phased out by 2027.

This effectively increases the write-off of machinery and equipment from the current rate of either 15% or 25%[2] in the year of acquisition to 100%.

Clean energy assets

A full tax write-off in the year of acquisition is also proposed for equipment that is considered "specified clean energy equipment"[3] in the year it is put in use.

These rules would mirror the new accelerated write-off rules for machinery and equipment in that the full write-off is available for assets acquired after November 20, 2018 and before 2024, with the full write-off being gradually phased out by 2027.

Accelerated Investment Incentive

In an effort to support all businesses making capital investments, the federal government is proposing to increase the tax write-off that is available by up to three times in the first year an asset is put in use. This rule would apply, in general, to all tangible and intangible assets acquired after November 20, 2018, with certain exceptions:

- Property acquired on a tax-deferred (rollover) basis[4];
- Property acquired where its value was reduced by the amount that its tax value exceeds its original cost[5]; and
- Property acquired from a non-arm's length person.

The accelerated first-year write-off will also be gradually phased out by 2027.

Incentives for resource-based sectors

The federal government is proposing to extend the period for tax incentives available to investors in certain resource-based industries.

[1] Capital additions to CCA classes 43 or 53 qualify for this accelerated write-off.
[2] Fifteen percent is the CCA rate applicable to class 43 in the first year (i.e. 30%/2). Twenty-five percent is the CCA rate applicable to class 50 in the first year.
[3] Capital additions to CCA classes 43.1 or 43.2 qualify for this accelerated write-off.
[4] For example, property transferred to a corporation under section 85 of the *Income Tax Act*.
[5] For example, property acquired in an amalgamation of corporations subject to section 87 of the *Income Tax Act*.

Extension of Mineral Exploration Tax Credit

The Mineral Exploration Tax Credit (METC), which was set to expire on March 31, 2019, has been extended for five years to March 31, 2024. The METC is a non-refundable tax credit available to individuals who invest in flow-through shares of mining corporations that incur eligible exploration expenses[6]. The tax credit is equal to 15% of eligible exploration expenses.

The METC tends to benefit junior exploration companies, most, which can find it difficult to raise the required capital needed to fund exploration costs. The extension of this tax credit for an additional five years may provide greater stability to these companies as they attempt to attract investment to fund long-term projects. The extension of the METC is estimated to result in reduced tax revenues of $365 million over the 2019-20 to 2023-24 period.

Canadian development expenses

The Notice of Ways and Means Motion released in conjunction with the 2018 Fall Economic Statement provides an additional 15% deduction for expenses that qualify as "accelerated Canadian development expenses."[7] This is in addition to the 30% deduction that is available on the year-end balance in a business' cumulative Canadian development expense pool.

Canadian oil & gas expenses

Similar to the additional deduction for Canadian development expenses, the Notice of Ways and Means Motion also provides an additional 5% deduction for expenses that qualify as "accelerated Canadian oil and gas property expenses."[8] This is in addition to the 10% deduction that is available on the year-end balance in a business' cumulative Canadian oil and gas property expense pool.

Additional funding and trade measures

Expanding into the global market

As part of its efforts to increase Canadian competitiveness in the global market and mitigate long-term risks associated with bilateral trade disputes, an export diversification strategy has been proposed that would see $1.1 billion being provided over the next six years (beginning in 2018-19) to help Canadian businesses increase exports to overseas markets in the Asia-Pacific region (through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP")) and Europe (through the Comprehensive Economic and Trade Agreement ("CETA")) and reduce reliance on trade with the United States. The goal of this strategy is to increase Canada's overseas exports by 50% by 2025.

This strategy is broken up into three components:

1. Strengthening trade corridors to Asia and Europe;
2. Providing Canadian businesses with resources to execute their export plans; and
3. Enhancing trade services for Canadian exporters.

Of particular interest to small and medium sized enterprises (SMEs) will be the federal government's commitment to provide $198 million over 6 years to fund the following:

- An additional $100 million over 6 years provided to the CanExport program, which may provide funding to support participation in trade shows, trade missions, market research, etc. for businesses looking to enter CETA and CPTPP markets.
- $13.5 million over five years to establish a mentorship program for Canadian entrepreneurs looking to move into overseas markets.
- $17 million over five years to expand the existing Canadian Technology Accelerator program, which provides support, connections and guidance to Canadian technology firms.
- $7 million over five years to establish certain internship programs that would give entrepreneurs in-person opportunities to connect with potential international clients and investors.
- $10 million over 3 years targeted towards businesses that have a high potential to export products and services in markets where Canada

[6] Generally includes expenses incurred in locating a mineral resource in Canada.
[7] Generally, these include expenses associated with drilling or converting/completing an oil or gas well and other such costs.
[8] Generally, these include intangible expenses associated with the acquisition of an oil or gas well or any right to explore for, drill for, or take petroleum, natural gas or related hydrocarbons in Canada and other such costs.

has gained a competitive advantage under the CETA and CPTPP agreements to support export readiness and export capacity building initiatives.

Removing trade barriers within Canada

Building off of the recent Canadian Free Trade Agreement that came into force in July 2017, trade within Canada is also being encouraged through the following initiatives that aim to:

- Remove barriers in the trucking industry, such as tire requirements and spring weight limits, that hinder the efficient movement of goods between provinces and territories;
- Harmonize food regulations and inspection rules throughout Canada;
- Align regulations in the construction sector with the aim of producing one set of rules, nation-wide, that cover the design and product requirements for building construction and make these rules freely available; and
- Facilitate greater trade of alcohol across the country.

Supporting Canada's fisheries

In light of the decline of Sockeye Salmon in the Fraser River in BC, as well as an acknowledgement that Canada's fisheries provide a viable employment source in coastal communities, the federal government has proposed the following funding to promote innovation, productivity and sustainability within this important industry:

- Beginning in 2019-20, $30 million will be provided over five years for a Quebec Fisheries Fund.
- Beginning in 2018-19, $105 million over six years will be provided for a British Columbia Salmon Restoration and Innovation Fund. This includes a $5 million contribution to the Pacific Salmon Endowment Fund.
- To support the sustainability of priority fish stocks (including Pacific salmon) $107.4 million will be invested over 5 years starting in 2019-20, as well as $17.6 million per year, on an ongoing basis, to support the implementation of stock assessment and rebuilding provisions in the *Fisheries Act*.

Investing in social capital

Tax incentives related to Canadian journalism

Three new tax incentives have been introduced that aim to promote and benefit Canadian journalism. These tax incentives are being implemented at an estimated cost to the government of $595 million.

Allowing certain news organizations to issue donation receipts

Organizations that are considered "qualified donees" can issue charitable tax receipts to taxpayers that make donations to the organization. Currently, this includes organizations such as registered charities, hospitals and universities. The federal government proposes to extend this definition to "eligible non-profit journalism organizations," which would allow them to issue tax receipts for donations.

Refundable tax credit for qualifying news organizations

A new refundable tax credit is being introduced for qualifying news organizations, both non-profit and for-profit. An independent panel from the news and journalism community will be established to determine eligibility for this tax credit. The tax credit will be effective January 1, 2019.

Tax credit for subscribers to Canadian digital news media

A non-refundable tax credit is being introduced, on a temporary basis. It will provide a 15% credit to "qualifying subscribers of eligible digital news media."[9]

[9] Additional details on this tax credit will likely be provided when the federal government releases its Budget in 2019.

Social Finance Fund

As part of the federal government's efforts to address certain socio-economic disparities in the country, a new Social Finance Fund has been proposed that would help organizations that deliver positive social outcomes access funding for their initiatives and drive positive social change. This would be accomplished by a commitment of up to $755 million in cash funding over the next 10 years to both establish new funds in the social finance market and further support existing funds (such as the Saint John Community Loan Fund in New Brunswick and the Alberta Social Enterprise Fund in Alberta). An additional $50 million over two years has been proposed to support any additional assistance required by social purpose organizations so that they may successfully participate in the social finance market.

The intention with this fund is to target organizations that support groups such as indigenous peoples, seniors, youth, immigrants, persons with disabilities, members of LGBTQ2+ communities and women fleeing violence to succeed and reach their full potential, and it is estimated that the funding may generate up to $2 billion in economic activity and create as many as 100,000 jobs over the next ten years.

The federal government expects that the fund will also attract investment from private investors, allowing both parties to share in the risks and rewards associated with any investments. Additionally, the fund would only support investments that are not yet viable in the commercial market. Additional details regarding the Fund will be available in early 2019.

Summary

Taken as a whole, the announced changes are expected to boost the country's economic growth over the next several years. This growth will come at the expense of larger federal budget deficits, though the government is calculating that this investment will be worth the cost.

If your business plans include capital investments, expanded exports or social business initiatives, these changes may present an opportunity worth pursuing.

Please contact your Grant Thornton advisor should you have any questions or concerns regarding these measures.