2019 FEDERAL BUDGET — BUSINESS TAX CHANGES

The 2019-20 federal Budget brought down on March 19, 2019 by Minister of Finance Bill Morneau included some business tax measures and most of those were of a relieving nature.

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Canadian journalism organizations will benefit from three new tax credit measures, for themselves and their subscribers. As well, the government has continued its commitment to green energy by providing enhanced deductions for taxpayers acquiring zero emission vehicles. Finally, small and medium sized businesses will benefit from changes to the eligibility rules for claiming deductions related to research and development activities and the small business deduction.

Measures affecting Canadian journalism organizations

The Budget includes three measures intended to provide indirect financial support to Canadian journalism organizations. To qualify for any of those measures, an organization must meet the definition of a "Qualified Canadian Journalism Organization" which operates in Canada, and the requirements which must be satisfied in order to qualify are as follows.

- The organization must be a corporation, partnership or trust.
- A corporation must be incorporated and resident in Canada, and its chairperson and at least 75% of its directors must be Canadian citizens. For a partnership or trust to qualify, such qualifying corporations, along with Canadian citizens, must own a minimum of 75% of the interests in the partnership or trust.
- Any organization seeking to qualify as a QCJO must be primarily engaged in the production of original, general interest news content, must employ at least two journalists and must not be engaged in the production of content designed to promote the interests of a particular organization, particular goods or services or any government agency.

Obtaining status as a qualified donee

Organizations that qualify as QCJOs may obtain registration as a tax-exempt qualified donee. Such registration will mean that donations made to the QCJO may be claimed as charitable donation deductions (by corporations) or as qualifying donations for purposes of the charitable donations tax credit (by individuals).

To obtain registration as a tax-exempt qualified done, a QCJO must meet additional requirements. Generally, that will require that the organization be a corporation or a trust having purposes that relate exclusively to journalism, and that any business activity (for example, the sale of news content and advertising) be related to those purposes. As well, in order to ensure its independence, the organization must meet certain ownership requirements, and will not be permitted to receive, from any single source, gifts exceeding 20% of its total revenue for the taxation year.

As is the case with any organization having registered charity status, QCJOs will be required to issue official donation receipts, to maintain proper books and records and to file annual information returns, in which the names of any donors who made donations over $5,000 are disclosed.

This measure will be effective as of January 1, 2020.

Refundable labour tax credit

An organization that qualifies as a QCJO, that employs print journalists and that is primarily engaged in the production of original written news content will be able to claim a refundable labour tax credit with respect to salaries paid to those journalists. The credit is not available to a QCJO carrying on a broadcasting undertaking.

Specifically, the Budget proposes that a qualifying QCJO may claim a 25% refundable tax credit on salary or wages paid to eligible newsroom employees, with a cap of $55,000 in salary per eligible employee. The maximum per employee credit is therefore $13,750.

In order to be eligible for the credit, an QCJO that is a corporation must meet certain requirements related to Canadian ownership. As well, employees in respect of whom the credit is claimed must have an average minimum 26 hour work week for at least 40 consecutive weeks, and must spend at least 75% of their time engaged in the production of news content.

The refundable labour tax credit is available for qualifying expenditures made on or after January 1, 2019.

Personal tax credit for digital subscriptions

A temporary non-refundable tax credit will be provided on amounts paid by individuals for eligible digital news subscriptions. The credit will be equal to 15% of up to $500 in such costs incurred during a year, and the maximum tax credit claimable each year will be $75.

For purposes of the credit, an eligible digital subscription is defined a one which entitles the subscriber to access content provided in a digital form by a QCJO which primarily provides written news content The credit is not available for the cost of subscriptions with a QCJO carrying on a broadcasting undertaking.

The tax credit for digital subscriptions is to be provided for eligible amounts paid after 2019 and before 2025.

Enhanced capital cost allowance for zero-emission vehicles

Businesses are entitled to claim a deduction each year equal to a specified percentage of the capital cost of qualifying assets which they own. That deduction, known as the capital cost allowance, or CCA, is intended to recognize, for tax purposes, the depreciating value of an asset as it ages.

The CCA system allocates assets to a particular class, and prescribes the percentage rate of depreciation which can be claimed for the assets in that class each year.

The Budget proposes to allow a temporary CCA rate of 100% for zero-emissions vehicles between March 19, 2019 and December 31, 2023, meaning that the entire cost of such a vehicle will be deductible in the year in which it is acquired. That depreciation rate will decline to 75% in 2024-25 and then to 55% in 2026-27. There will be a limit of $55,000 (plus sales tax) on the amount which can be deducted for each qualifying vehicle.

As well, to qualify for the enhanced CCA rate, a vehicle must be a motor vehicle (defined as one for use on roads or streets), must be fully electric, a plug-in hybrid with a battery capacity of at least 15 kWh, or fully powered by hydrogen. It must also be a new vehicle when purchased. Finally, vehicles for which assistance was paid under the federal government's purchase incentive will be ineligible.

The enhanced CCA treatment will be provided for eligible vehicles acquired on or after March 19, 2019 and before 2028.

Measures affecting small business corporations

The Budget proposes two measures which will provide increased access by certain small business corporations to existing tax incentive programs.

Scientific research and experimental development

Corporations which carry out qualifying scientific research and experimental development activities are entitled to claim deductions and credits in respect of that work. Deduction and credit rates are enhanced for Canadian-controlled private corporations (CCPCs), where the taxable income of such corporations (and any associated corporations) is below a specified level. For such corporations, the amount of SR&ED credits is reduced as taxable income approaches the cut-off point.

The Budget proposes to repeal the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced SR&ED tax credit. The result of such change will be that small CCPC's with taxable capital of up to $10 million will benefit from unreduced access to the enhanced SR&ED tax credits, regardless of their taxable income.

The change will apply to corporate taxation years that end on or after March 19, 2019.

Farming and fishing corporations

Under general tax rules, income from an active business carried on by a CCPC is eligible for a reduced tax rate. In 2019, up to $500,000 in such income is taxed at a federal tax rate of 9%, as compared to the 15% general federal corporate income tax rate. A number of anti-avoidance rules are in place to prevent unintended access to that small business deduction.

Exceptions to those anti-avoidance rules are provided in some circumstances, and the Budget proposes to extend the scope of one of those exceptions. Under current tax rules, a type of income known as "specified corporate income" is disqualified from eligibility for the small business deduction. However, certain income of a CCPC's farming or fishing business that arises from sales to a farming or fishing co-operative is excluded from the definition of specified corporate income, such that it remains eligible for the small business deduction. The Budget proposes to eliminate the requirement that sales be to a farming or fishing cooperative corporation in order to qualify for the exclusion from specified corporate income. Consequently the exclusion from the definition of specified corporate income will apply to income of a CCPC from sales of the farming products or fishing catches of its farming or fishing business to any arm's length purchaser.

This Budget measure will have retroactive application, applying to taxation years that began after March 21, 2016.

Detailed information on any of the Budget provisions affecting businesses can be found in 2019-20 Budget Papers, which are available on the Finance Canada website at https://www.budget.gc.ca/2019/docs/tm-mf/si-is-en.html.