TAXTALK

2018 FALL ECONOMIC STATEMENT

On November 21, 2018, Canada's Finance Minister Bill Morneau presented the federal government's Fall Economic Statement. The Fall Economic Statement proposes the following two immediate changes:

- Accelerated Investment Incentive (AII);
- Enhanced deduction of 100% for Manufacturing and Processing (M&P) Equipment and specified clean energy equipment

Accelerated Investment Incentive (AII)

The proposed AII will provide an enhanced first year deduction for eligible capital property (tangible and intangible) acquired after November 20, 2018 that becomes available for use before 2028 that is subject to capital cost allowance (CCA) rules. It will suspend the half-year rule and replace it by applying the CCA rate for a class to one and a half times the net addition to the class for that year.

As a result, the property currently subject to the half year rule will qualify for an enhanced CCA rate equal to three times the normal first year deduction in the first year and the property not subject to half-year rule will qualify for an enhanced CCA equal to one and a half times the normal CCA deduction.

Eligible property that becomes available for use during the 2024-2027 phase-out period and eligible for the half-year rule will qualify for an enhanced deduction of two-times the normal first-year deduction. Eligible property that becomes available for use during the 2024-2027 phase-out period and not eligible for half-year rule will qualify for an enhanced deduction of one-and-a- quarter times the normal first-year deduction.

For short taxation years, the Accelerated Investment Incentive will apply in respect of an eligible property on a prorated basis.

These rules will not apply to

- manufacturing and processing and clean energy equipment,
- purchases from a non-arm's length person or
- property has been transferred on a tax-deferred basis.

Manufacturing and Processing (M&P) Equipment and Clean Energy Equipment

The Fall Economic Statement proposes an enhanced deduction of 100% for both machinery and equipment used in M&P currently qualifying under class 53 and specified clean energy equipment included in class 43.1 or 43.2 acquired after November 20, 2018 and becomes available for use before 2028.

The enhanced deduction will initially provide a 100% deduction with a phase-out for property that becomes available for use after 2023. The half-year rule will be effectively suspended for property eligible under this measure.

The table below sets out the changes:

	Current First Year Deduction (half –year rule) Class 53	**Current First Year Deduction (half –year rule) Class 43.1**	**Current First Year Deduction (half –year rule) Class 43.2**	**Proposed First-year Enhanced Deduction**
Implementation to 2023	25	15	25	100
2024	25	15	25	75
2025	25	15	-	75
2026	15	15	-	55
2027	15	15	-	55
2028 onward	15	15	-	-

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