Ford Keast LLP
Chartered Professional Accountants

IMMEDIATE EXPENSING OF CAPITAL ASSETS

As part of the April 18, 2021, Federal Budget, The Department of Finance introduced temporary measures to allow for the immediate expensing of certain capital assets which are purchased or become available for use after April 18, 2021, and before January 1, 2024.

Immediate Expensing:

The immediate expensing of eligible depreciable property is available to Canadian-controlled private corporations (CCPCs) and is limited to $1.5 million per taxation year, a limit which must be shared amongst all members of a group of associated CCPCs. Immediate expensing is only available in the year the property becomes available for use, there is not opportunity to carry forward this deduction to a subsequent taxation year.

Immediate expensing under this new rule would not change the total amount that can be deducted over the life of a property. Instead, it allows for a larger deduction to be taken in the first year which would later be offset by a smaller deduction, if any, in respect of the property in future years.

Eligible Properties:

Eligible properties under these new measures include capital property that is subject to normal existing Capital Cost Allowance (CCA) rules, other than property included in CCA Classes 1 to 6, 14.1, 17, 47, 49 and 51. Assets in these excluded classes typically include long lived assets such as buildings and goodwill.

Immediate expensing is only available if both of the following conditions are met:

- The eligible property has not previously been owned by the taxpayer nor a non-arm's length person; and
- The property has not been transferred to the taxpayer on a tax-deferred rollover basis.

Existing legislation which can restrict CCA claims for CCPCs will continue to apply such as rules relating to rental properties, manufacturing and processing equipment, limited partners, and specified energy properties.

Example:

Example of Benefits of Immediate Expensing of $1.5 million: A CCPC invests $2,000,000 in equal amounts for two properties, one falling under CCA Class 7, and the other under Class 10. Under this scenario, the CCPC would be allowed a total first-year deduction of up to $1,725,000 versus $675,000 under the existing rules, as illustrated in the table below. This would represent an additional deduction of $1,050,000 in the first year.

CCA Class (rate)	Cost of Acquisition	Immediate Expensing	1st Year Allowance on Remainder of Class *	Total 1st Year Allowance	Current 1st Year Allowance under Existing CCA Rules
Class 7 (15%)	1,000,000	1,000,000	0	1,000,000	225,000
Class 10 (30%)	1,000,000	500,000	225,000	725,000	450,000
Total	2,000,000	1,500,000	225,000	1,725,000	675,000

**** Assuming eligible for the triple first-year allowance under the Accelerated Investment Incentive***

Planning Considerations:

In light of the ability to immediate expense eligible capital property, it will be important to consider the timing of your capital purchases and its impact on the ability of your CCPC to take advantage of this measure prior to 2024. It will also be necessary to consider the impact of a smaller CCA claim in future years.

Sources for the information above are:

- Canada Revenue Agency Federal Budget Annex 6: Tax Measure – Supplementary Information
- *RSM 2021 Canada Federal Budget: Detailed Commentary*