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Tax Alert – Canada

Federal Fall Economic Statement 2024

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 16 December 2024, following the surprising resignation of federal Deputy Prime Minister and Finance Minister Chrystia Freeland, Government House Leader Karina Gould tabled the federal government's *Fall Economic Statement 2024*. The *Fall Economic Statement 2024* (FES) contains several tax measures affecting individuals and corporations.

As set out in Table A, the government anticipates a deficit of $48.3b for 2024-25 and projects deficits for each of the next five years totalling approximately $154.4b.

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Table A: Projections of federal budgetary deficit*

	2023–24 $b	2024–25 $b
Federal budget 2024 (Budget 2024) balance	**(40.0)**	**(39.8)**
Economic and other fiscal developments	(21.8)	(3.0)
Budgetary balance before policy actions and measures	**(61.9)**	**(42.8)**
Policy actions since Budget 2024 and measures in this FES	–	(5.5)
Final budgetary balance (i.e., deficit)	**(61.9)**	**(48.3)**
Budgetary balance (percent of GDP)	(2.1%)	(1.6%)
Federal debt (percent of GDP)	42.1%	41.9%

*Numbers represent the government's baseline scenario and may not add due to rounding.

Business income tax measures

The following is a summary of the business support measures announced:

Corporate tax rates

No changes are proposed to the corporate income tax rates or to the $500,000 small-business income limit of a Canadian-controlled private corporation (CCPC). The enacted Canadian federal corporate income tax rates are summarized in Table B.

Table B: Federal corporate income tax rates*

	2024	2025
General corporate rate**	15.0%	15.0%
Small-business rate	9.0%	9.0%

* The corporate income tax rate for zero-emission technology manufacturers is reduced to 7.5% for eligible income otherwise subject to the 15% general corporate income tax rate, or 4.5% for eligible income otherwise subject to the 9% small-business corporate income tax rate, applicable for taxation years beginning after 2021. The reduced tax rates are scheduled to be gradually phased out beginning in 2032 and fully phased out for taxation years beginning after 2034.

**An additional tax on banks and life insurers at a rate of 1.5% on taxable income (subject to a $100 million exemption to be shared by group members) applies for taxation years ending after 7 April 2022 (prorated for taxation years straddling this effective date). These rates are not reflected in the rates shown in the table above.

Other business tax measures

The government also proposed the following business income tax measures:

Scientific research and experimental development (SR&ED) program – As previously announced on 13 December 2024, various proposed enhancements to the SR&ED tax incentive program, generally coming into force for taxation years beginning on or after 16 December 2024, are included in the FES. More specifically, the FES confirmed or announced the following proposed enhancements, which follow from consultations launched by the Department of Finance earlier this year:

- ***Expenditure limit*** – Increase, from $3 million to $4.5 million, in the annual expenditure limit on which CCPCs are entitled to earn a 35% SR&ED investment tax credit (ITC).
- ***Phase-out thresholds*** – Increase, from $10 million and $50 million, to $15 million and $75 million, respectively, in the prior-year taxable capital phase-out thresholds for purposes of determining the annual expenditure limit. In addition, CCPCs will have the option to have their annual expenditure limit determined based on gross revenue instead of taxable capital, as proposed for Canadian public corporations (see below).
- ***Refundability*** – Extension of the 35% refundable SR&ED ITC to eligible Canadian public corporations, up to the increased $4.5 million annual expenditure limit. However, unlike for CCPCs, the $15 million and $75 million phase-out thresholds for determining the annual expenditure limit will be based on the corporation's gross revenue instead of its taxable capital. In addition, also unlike for CCPCs, qualifying expenditures in excess of an eligible Canadian public corporation's annual expenditure limit will not be eligible for a partially refundable SR&ED ITC.
- ***Capital expenditures*** – Reinstatement of the pre-2014 eligibility of capital expenditures (for property acquired after 15 December 2024 or lease costs first becoming payable after that date) to both the SR&ED income deduction and the SR&ED ITC. Qualifying CCPCs eligible to earn a 35% SR&ED ITC will be entitled to partial refundability of the credit at a rate of 40% on their capital expenditures.

The FES further indicates that the proposed changes represent the first of further reforms related to the SR&ED tax incentive program, as well as to promoting innovation, that the government intends to advance and that more details on the program and updates to qualified expenses will be announced in Budget 2025.

Patent box regime – Following from consultations launched by the Department of Finance earlier this year, the FES announced the government's intention to implement a patent box regime to encourage the development and retention of intellectual property in Canada. Details on the regime are to be announced in Budget 2025.

Accelerated investment incentive and immediate expensing – The FES proposes to reinstate the accelerated investment incentive (AII) and immediate expensing measures (under the capital cost allowance (CCA) rules) for qualifying property acquired on or after 1 January 2025 and that becomes available for use before 2030. Under current legislation, these measures are in the process of being phased out for property (acquired after 20 November 2018) that becomes available for use after 2024, and fully phased out for property that becomes available for use after 2027.

As proposed in the FES, the AII measure will be reinstated so that eligible property acquired on or after 1 January 2025, and available for use before 2030, will qualify for an enhanced CCA deduction equal to three times the normal first-year deduction if the property is normally subject to the half-year rule, and equal to one-and-a-half times the normal first-year allowance if the property is not normally subject to the half-year rule. The enhanced allowance is phased out for property that becomes available for use after 2029 and before 2034, so that the enhanced deduction is equal to two times the normal first-year allowance for property normally subject to the half-year rule, and to one-and-a-quarter times the normal first-year allowance for property not normally subject to the half-year rule. Property that becomes available for use after 2033 will no longer be eligible for an enhanced deduction.

Similarly, immediate expensing will be reinstated for manufacturing or processing machinery and equipment included in Class 53, clean energy generation and energy conservation equipment included in Class 43.1, and zero-emission vehicles included in Classes 54, 55 and 56, so that this equipment will be eligible for a first-year 100% deduction if acquired on or after 1 January 2025 and available for use before 2030. The first-year enhanced deduction will be phased out for property that becomes available for use after 2029 and before 2034, so that the enhanced deduction is reduced to 75% for property available for use after 2029 and before 2032, and to 55% for property available for use after 2031 and before 2034. Property available for use after 2033 will be subject to the normal CCA rate.

New electric vehicle (EV) supply chain ITC – additional design details – The FES provides additional design details on the new 10% EV supply chain ITC for the cost of eligible buildings used in key segments of the EV supply chain, which was first announced in Budget 2024. To qualify for the ITC, the taxpayer must be a taxable Canadian corporation that invests directly in eligible property. Investments by partnerships and trusts will not be eligible for the credit.

Eligible property will include buildings and any component parts included in Class 1(q) for CCA purposes that are used all or substantially all in one or more of three qualifying supply chain segments (EV assembly, EV battery production and cathode active material production). In addition, a corporation (by itself or as part of a related group) will be required to invest at least $100 million in each of the three supply chain segments. This requirement will be met if the corporation (and related group members) acquires at least $100 million in property that is eligible for the clean technology manufacturing ITC and has become available for use in all three of the specified segments, or in two out of three of the specified segments and the corporation (and related group members) holds at least a qualifying minority interest in another corporation that acquires at least $100 million in property eligible for the clean technology manufacturing ITC in the third segment.

Recapture rules similar to those that apply for the clean technology manufacturing ITC will also apply, and the credit may be repayable if the corporation ceases to meet the conditions described above. Other design elements will, where applicable, be based on the clean technology manufacturing ITC.

As previously announced, the EV supply chain ITC will apply to property that is acquired and becomes available for use on or after 1 January 2024. The credit will be reduced to 5% for 2033 and 2034 and will no longer in be in effect after 2034. The FES indicates that draft legislation for the EV supply chain ITC will soon be released (in 2025).

Clean hydrogen ITC – The FES proposes to expand the clean hydrogen ITC to include methane pyrolysis as an eligible production pathway, effective for property that is acquired and becomes available for use in an eligible project on or after 16 December 2024. As a result, projects that produce hydrogen from pyrolysis of natural gas and other eligible hydrocarbons (i.e., methane pyrolysis) will be eligible for the clean hydrogen ITC. To qualify, the pyrolysis process would not be required to capture carbon dioxide (CO_2) emissions using a carbon capture, utilization and storage (CCUS) process; however, dual-use heat and power equipment would still be required to capture CO_2 using a CCUS process.

Eligible equipment includes property that is used to produce all or substantially all hydrogen from methane pyrolysis (determined without reference to any solid carbon that is produced), such as pyrolysis reactors, heat exchangers, separation equipment and purifiers, and compression and on-site storage equipment. Dual-use electricity and heat equipment, project support equipment, ammonia production equipment and oxygen production equipment will also be eligible provided they satisfy existing requirements under the clean hydrogen ITC. Equipment downstream of the point where hydrogen and solid carbon are separated will not be eligible.

To ensure the clean hydrogen ITC is targeted towards clean hydrogen production rather than solid carbon production, the ITC support in respect of pyrolysis reactor systems will be limited to $3,000 per tonne of annual hydrogen production capacity. Various other conditions apply.

The government will also continue to review eligibility for other low-carbon hydrogen production pathways.

Clean electricity ITC for provincial and territorial Crown corporations – The clean electricity ITC is currently proposed and once enacted would apply effective 16 April 2024. The credit may only be claimed on investments in eligible property located in eligible jurisdictions. Following a consultation process, the FES sets out the two conditions a provincial or territorial government would need to satisfy in order to be designated an eligible jurisdiction for purposes of the tax credit. The first condition requires the jurisdiction to publicly commit to publishing, by the end of 2026, an energy roadmap to achieve net-zero emissions by 2050. The second condition requires the jurisdiction to publicly request that Crown corporations pass on the benefits from the tax credit (such as lower energy prices) to electricity ratepayers in the jurisdiction. The FES also sets out the application process each jurisdiction must follow to obtain designation, as well as the annual reporting requirements for the Crown corporations and related penalties for late filing or failure to file.

Clean electricity ITC and the Canada Infrastructure Bank (CIB) – The FES proposes to amend the clean electricity ITC so that the CIB is an eligible entity for purposes of the credit. As well, the credit will be amended to ensure that financing provided by the CIB does not reduce the cost of eligible property for purposes of computing the tax credit. These amendments will apply to eligible property that is acquired and becomes available for use on or after 16 December 2024.

Canada carbon rebate for small businesses – The FES proposes changes to the design of the Canada carbon rebate, effective in relation to the 2024–25 and later fuel charge years. The scope of the tax credit is being expanded to apply to cooperative corporations and to credit unions. Further, changes are being made to the computation of the tax credit, including introducing a minimum payment for eligible corporations with up to 20 employees and a phase-out of payment amounts for eligible corporations that have between 300 and 500 employees.

Tax measures for individuals and trusts

Personal income tax rates

There are no individual income tax rate or tax bracket changes in this FES. The brackets will continue to be indexed for inflation.

See Table C for the 2024 federal rates.

Table C: Federal personal income tax rates

	2024
Up to $55,867	15.0%
$55,868 to $111,733	20.5%
$111,734 to $173,205	26.0%
$173,206 to $246,752	29.0%
Over $246,752	33.0%

Other personal and trust tax measures

The FES includes the following personal and trust tax measures:

Capital gains rollover – The FES proposes to increase, for purposes of deferring taxation on capital gains realized on the qualifying disposition of eligible small business corporation (ESBC) shares, the period to acquire replacement shares and to expand the definition of an ESBC share for qualifying dispositions that occur after 31 December 2024. Individuals would have until the end of the calendar year following the year of disposition to acquire replacement shares. In addition, ESBC shares would include common and preferred shares, and the limit to the carrying value of the assets of the ESBC and related corporations would increase to $100 million.

Canada disability benefit (CDB) – The FES proposes to exempt amounts received under the CDB from income tax, to ensure that income-tested benefits and programs are not reduced as a result of CDB payments. This measure will apply to 2025 and subsequent taxation years.

Canada carbon rebate – The FES proposes to expand eligibility for the Canada carbon rebate 20% rural supplement to individuals who, within a Census Metropolitan Area, reside in a census rural area with a population below 1,000 or a small population centre with a population below 30,000. This measure follows the government's announcement in Budget 2024 that it would expand rural top-up eligibility to more Canadians. The first payments under the proposed changes will be made in April 2025. The Canada Revenue Agency (CRA) will also be developing guidance and tools to help individuals determine their eligibility for the rural supplement.

Northern residents deductions – The FES proposes to reclassify the islands of Haida Gwaii from the intermediate zone to the northern zone for the purposes of the northern residents deductions, in order to allow residents to claim the full amount — rather than half — of the deductions in computing their taxable income. This measure will apply to 2025 and subsequent taxation years.

Automatic tax filing – The FES proposes a number of steps to move Canada towards broad-based automatic tax filing, such as developing legislation that would allow the CRA to automatically file tax returns on behalf of certain lower-income Canadians using available information, beginning as soon as the 2025 taxation year.

Customs

Measures to combat unfair trade practices – The FES announces Canada's intention to impose tariffs on imports of certain solar products and critical minerals from China, beginning early in 2025. Canada also intends to impose tariffs on semiconductors, permanent magnets and natural graphite from China beginning in 2026. Further details on these tariff measures will be announced soon.

As well, the FES announces the government's intent to introduce legislative amendments to the *Export and Import Permits Act* to allow the government to restrict the importation or exportation of items in response to actions of another country that harm Canada or to create more secure and reliable supply chains.

Other measures

Reporting by non-profit organizations (NPOs) – The FES proposes to require NPOs with total gross revenues exceeding $50,000 to file an annual information return. As well, an NPO that does not meet the threshold for filing the annual information return would be required to file a new, short-form information return that provides basic information about the organization, such as its name and mailing address, its total assets and liabilities and annual revenues, and a description of its activities. These measures will apply for 2026 and subsequent taxation years.

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