FEDERAL BUDGET 2014: TAX CHANGES FOR BUSINESS

The 2014-15 federal Budget brought down by Minister of Finance Jim Flaherty on February 11, 2014, contained relatively few tax measures affecting Canadian businesses. There were no current or future changes to small business or general corporate tax rates announced in the Budget.

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The Budget measure which will affect the largest number of Canadian businesses is an administrative change to the payroll remittance system. That change will reduce the compliance burden imposed on many businesses, as the thresholds which determine the frequency with which payroll deductions must be remitted were increased significantly.

Changes to remittance thresholds for employer source deductions

All Canadian businesses which have employees are required to withhold amounts (known as source deductions) from the income of those employees for payment of income tax, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums. Those employee source deductions, together with the required employer contribution for CPP and EI, must then be remitted to the federal government. The frequency with which such remittances must be made is based on the employer's total average amount of source deductions in the second previous calendar year, as follows.

- Employers who had total average monthly withholding amounts of at least $15,000 but less than $50,000 are required to remit source deductions up to twice per month.
- Employers who had total average monthly withholding amounts of at least $50,000 are required to remit source deductions up to four times per month.

As part of the government's efforts to reduce the compliance burden imposed on businesses, the Budget includes a proposal to change the threshold amounts which determine the frequency with which an employer must remit. Effective for source deductions withheld after 2014, the following changes will be made.

- The threshold level of average monthly withholdings at which employers are required to remit up to twice a month is increased from $15,000 to $25,000.
- The threshold level of average monthly withholdings at which employers are required to remit up to four times a month is increased from $50,000 to $100,000.

Changes to capital cost allowance for clean energy generation equipment

The capital cost allowance (CCA) system permits owners of property and equipment to claim an annual depreciation allowance on each such asset for tax purposes, with the percentage allowance claimable dependent on the class into which the particular asset falls. Under the CCA system, clean energy generation and energy conservation equipment are placed into a special class, Class 43.2, for which accelerated depreciation (50% per year, on a declining balance basis) can be claimed.

For purposes of inclusion in the special class, qualifying equipment is defined as equipment that conserves or generates energy by using a renewable energy source, using a fuel from waste or making efficient use of fossil fuels. This year's Budget includes a proposal to add water-current energy equipment and equipment used to gasify eligible waste fuel to the list of equipment eligible for inclusion in Class 43.2.

For this purpose, water-current energy equipment is equipment which uses the kinetic energy of flowing water to generate electricity without the use of physical barriers, such as a dam or flow diversion. Eligible equipment will include support structures, submerged cables, transmission equipment, and control, conditioning, and battery storage equipment, but not buildings, distribution equipment, or auxiliary electricity generating equipment.

Gasification is a process by which organic or fossil-based materials are converted into hydrogen, carbon monoxide, and carbon dioxide to produce a fuel known as "producer gas" (or "syngas"). The changes announced in the Budget will provide that gasification equipment used to gasify eligible waste fuel which will be used, for example, to sell syngas for domestic or commercial use will be eligible for inclusion in Class 43.2. Eligible equipment will include equipment used to produce such gas, including related piping, storage equipment, feeding equipment, ash-handling equipment, and equipment to remove non-combustibles and contaminants from the syngas, but will not include buildings or heat rejection equipment.

For both types of equipment, the change will apply to equipment acquired on or after February 11, 2014, if that equipment was not previously used or acquired for use.

Consultation on changes to the tax treatment of intangible assets

The tax treatment of certain types of business assets (generally intangible assets such as franchise rights, patents, and goodwill) are governed by a separate set of rules known as the eligible capital property rules. In the government's view, those rules have, over the years, become excessively complex. This year's Budget included a proposal to reduce such complexity.

Specifically, the federal government is considering a change in which the eligible capital property rules would be replaced, and the kinds of property currently classified as eligible capital property to change into a new, separate class of property under the existing capital cost allowance system. The full cost of such property would be included in that new class and depreciated at a rate of 5% per year for tax purposes. All other rules which currently govern the capital cost allowance system would apply to property in the new class.

Before making any such changes, the government intends to carry out a public consultation process on the proposal. It has committed to releasing draft legislative proposals in the near future, after which the consultation process will take place. The implementation date of the change would be determined following that consultation process.

Measures affecting charities and non-profit organizations

In recent years, the federal government has increased its scrutiny of organizations in the charitable and non-profit sectors. Measures announced in this year's Budget reflect that continued focus.

Charitable donations from state supporters of terrorism

While no background details are provided in the Budget papers, there is apparently a concern with respect to the potential for abuse of the charitable sector by foreign state supporters of terrorism. Consequently, effective for donations accepted on or after February 11, 2014, where a charity or a Canadian amateur athletic association accepts a donation from a foreign state listed under Canadian law as a supporter of terrorism, the Minister of National Revenue will be empowered to refuse to register that charity or athletic association, or to revoke its registration.

Tax treatment of non-profit organizations

Non-profit organizations (NPOs) are generally clubs or other associations which are organized and operated exclusively for social welfare or civic improvement or similar purposes but not for profit. Organizations which meet those criteria and qualify as NPOs are exempt from income tax and have limited reporting obligations.

The federal government intends to carry out a review and consultation process to determine whether the current tax treatment and reporting obligations of NPOs remains appropriate. Specifically, there is a concern that some NPOs may be earning profits which are not incidental to carrying out their non-profit purposes, or are making income available for the personal benefit of members or maintaining "disproportionately" large reserves for the organization.

The Budget papers specify that the review will not extend to registered charities or registered Canadian amateur athletic associations.