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Canadian Tax and Legal alert
2024 Fall Economic Statement
Tax Highlights

December 17, 2024

The Government of Canada tabled the 2024 Fall Economic Statement in the House of Commons on December 16, 2024. The preparation of the Fall Economic Statement had been overseen by the former Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland, who resigned from cabinet hours before the scheduled tabling of the Fall Economic Statement. Late in the day, the Honourable Dominic LeBlanc was sworn in as the Minister of Finance.

The House of Commons is scheduled to rise on December 17, 2024, and return on January 27, 2025. The ultimate implementation of the proposed tax measures into law will be dependent on the Government's ability to pass legislation in the House of Commons, which has been limited in recent months. Under the Canada Elections Act, a federal election is scheduled for October 20, 2025, however there is continued speculation in the media around the possibility of an earlier federal election.

The Fall Economic Statement announced no new taxes or changes in rates. A summary of the highlights contained in the Fall Economic Statement is provided below.

Extension of the Capital Cost Allowance Accelerated Investment Incentives

The Fall Economic Statement proposes the extension of several measures to permit faster write-offs for depreciable property through the capital cost allowance (CCA) system. The investment, at $17.4 billion over five years, represented more than 70% of the new investments announced in the Fall Economic Statement.

In particular, the Accelerated Investment Incentive is proposed to be fully restored for property acquired on or after January 1, 2025, that becomes available for use before 2030, with the program phase-out occurring over a four-year period after 2029 and being fully eliminated for property that becomes available for use after 2033. The effect of this change provides for faster CCA deductions than were previously scheduled, with an extended period for depreciable property acquisitions that would qualify for those faster depreciation deductions.

In tandem with restoring the Accelerated Investment Incentive regime, it is proposed to also bring back immediate expensing measures that were otherwise scheduled to be phased out related to manufacturing or processing equipment, as well as certain clean energy equipment and zero-emission vehicles. Those measures would generally result in a 100% deduction for property of particular classes that is acquired on or after January 1, 2025, and becomes available for use before 2030. This incentive would also be phased out starting in 2030 and be fully eliminated post-2033.

The net effect may be summarized as follows:

Year	Property subject to half-year rule		M&P equipment and certain clean technology equipment	
	Current first year allowance	Proposed first year allowance	Current first year allowance	Proposed first year allowance
2023	Up to 3x normal rate		100%	
2024	Up to 2x normal rate		75%	
2025	Up to 2x normal rate	Up to 3x normal rate	75%	100%
2026	Up to 2x normal rate	Up to 3x normal rate	55%	100%
2027	Up to 2x normal rate	Up to 3x normal rate	55%	100%
2028	Normal rate	Up to 3x normal rate	Normal rate	100%
2029	Normal rate	Up to 3x normal rate	Normal rate	100%
2030 to 2031	Normal rate	Up to 2x normal rate	Normal rate	75%
2032 to 2033	Normal rate	Up to 2x normal rate	Normal rate	55%
2034 onward	Normal rate	Normal rate	Normal rate	Normal rate

Source: Department of Finance

Reform of the Scientific Research and Experimental Development (SR&ED) program

The Fall Economic Statement proposed important enhancements to the SR&ED program, with an estimated investment of $1.9 billion over six years. These changes represent an increase of approximately 8% to the funding for SR&ED and built on a SR&ED consultation period which closed on April 15, 2024. Following the completion of a consultation, the Government announced its intent to implement a patent box regime, with details to be announced in Budget 2025.

The following measures would apply for taxation years that begin on or after December 16, 2024:

- Canadian-controlled private corporations (CCPCs) will continue to benefit from a 35% refundable investment tax credit. The maximum annual qualifying SR&ED expenditures will increase to $4.5 million from $3.0 million.

- **The taxable capital phase-out**, to determine the amount of the enhanced refundable tax credit of 35% for CPCCs, will be increased from an initial phase out of $10 million to $15 million, and a complete phase out from $50 million to $75 million. CCPCs will also have the ability to opt into a gross revenue phase-out structure, described below, as opposed to the taxable capital phase-out structure.

- **Select Canadian public corporations will be eligible for the enhanced refundable investment tax credit** of 35% currently available to CCPCs. Eligibility would be reduced on a straight-line basis where average gross revenue for the consolidated group over the preceding three years is between $15 million and $75 million. Eligibility will also extend to corporations where all or substantially all of the shares are owned by one or more eligible Canadian public corporations.

- **Capital expenditures are restored for eligibility, including lease cost and "shared-use equipment"** for both the deduction against income and investment tax credit components. These changes reinstate rules which were in effect up to 2013 prior to their elimination. For CCPCs, capital expenditures would be eligible for partial refundability of up to 40%, as opposed to the full refundability available on current expenses, subject to the expenditure limit.

The introduction of a gross revenue phase-out, as opposed to taxable capital employed in Canada, will be beneficial for many early-stage companies that have raised equity financing, including those in technology sectors.

Continued refinement of Clean Economy Investment Tax Credits

The Government first announced certain clean economy investment tax credits in November 2022. Since that time, additional investment tax credits have been announced along with ongoing refinements through successive Budgets and Fall Economic Statements.

This year's Fall Economic Statement continues this trend with several announcements:

- **Clean Electricity Investment Tax Credit (CEITC)** – Draft legislation for an up to 15% refundable investment tax credit, including for some non-taxable entities, was released on August 12, 2024, building on the announcements made in Budget 2023. Projects will be eligible for the investment tax credit if the respective province where the projects are undertaken commits to certain conditions, including around net-zero targets and passing along resulting electricity savings to ratepayers. The Fall Economic Statement announces the final details of these conditions. On a separate note, the Canada Infrastructure Bank will now be considered eligible for the CEITC and the financing it will provide will no longer reduce the eligible cost of an eligible property.

- **EV Supply Chain Investment Tax Credit** – Budget 2024 announced a 10% refundable investment tax credit, with design and implementation details to follow. Details were announced and included, among other factors, minimum investment levels of $100 million in each of three segments in the supply chain (EV assembly, EV battery production, cathode active material production), including those made by certain related parties and qualified minority interests.

- **Clean Hydrogen Investment Tax Credit** – Legislation for an up to 40% refundable investment tax credit received Royal Assent in June 2024, with additional draft proposals released on August 12, 2024. Eligible projects are expanded to include projects involving the production of hydrogen from methane pyrolysis, with some limitations to ensure that the credit will be targeted towards clean hydrogen production rather than solid carbon production. The Government also expresses its intent to review the eligibility of new low-carbon production pathways in the future for this credit.

Other tax measures

At present, capital gains realized on the sale of certain small business corporation shares can be deferred if the proceeds are used to acquire replacement shares within the year of disposition, or up to 120 days following the end of that year. The Fall Economic Statement proposed an expansion for the ability for individuals to defer taxation under this rule, allowing for the replacement shares to be acquired in the year of disposition as well as the full calendar year after the year of disposition. The types of shares eligible for this treatment are also being expanded to include preferred shares in addition to common shares. In addition, the maximum carrying value of the assets held by the small business corporations before and after the issuance of the shares is increased from $50 million to $100 million. These changes are intended to expand the application of the deferral rules and would take effect for dispositions that occur on or after January 1, 2025.

The Fall Economic Statement proposed additional funding for the Canada Revenue Agency of $451.5 million over the next five years to enhance audit measures, including those on COVID-19 related emergency measures, with an expectation of an additional $2.9 billion in federal revenues.

Previously announced tax measures: Implementation timing remains uncertain

The Fall Economic Statement reaffirmed previously announced tax measures, including the proposal to increase the capital gains inclusion rate from 50% to 66.67% for dispositions on or after June 25, 2024. The Notice of Ways and Means Motion, a required predecessor to the tabling of legislation, was tabled on September 23, 2024, but has not yet been voted on. The Canada Revenue Agency has encouraged taxpayers to file on the basis of draft legislation, although the timing of when, and if, these measures become law remains unclear.

Previously announced draft legislation, including items released on August 12, 2024, were reaffirmed. There was no mention of the Government’s Budget 2024 proposals to enhance audit and enforcement powers for the CRA through the proposed “notices of non-compliance.”

How can Deloitte help you?

Deloitte professionals can help you understand how these measures may impact your business. If you have any questions, please reach out to your Deloitte advisor or any of the individuals noted in this alert.

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