TaxNewsFlash
Canada

Tax Accounting — 2023 Tax Rates and Other Changes

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If you are involved in preparing financial reports for corporations or other organizations, certain 2023 Canadian income tax rate and other changes may need to be reflected in your year-end financial statements under IFRS Accounting Standards, Accounting Standards for Private Enterprises (ASPE) or U.S. generally accepted accounting principles (U.S. GAAP).

When do new tax measures have to be taken into account?
Under IFRS Accounting Standards and ASPE, the tax effect of changes in tax law and rates is recognized in the period that includes the date that the changes were substantively enacted. Under U.S. GAAP, tax law and rate changes are recognized in the period that includes the date that the changes were enacted.

This *TaxNewsFlash-Canada* reflects Canadian federal and provincial income tax legislation substantively enacted or enacted between July 1, 2023 and December 31, 2023. This publication also includes a summary of certain outstanding business income tax measures that have been announced, but are not yet substantively enacted, including 2023 federal budget measures to introduce several clean economy investment tax credits, 2022 federal budget measures to eliminate the tax deferral for investment income earned by “substantive Canadian-controlled private corporations” (substantive CCPCs), and several outstanding 2021 federal budget measures, such as the new excessive interest and financing expenses limitation (EIFEL) rules. For 2023 tax legislation enacted before July 1, 2023, see *TaxNewsFlash-Canada* 2023-25, "Tax Accounting — Q2 2023 Update".

Substantively enacted and enacted corporate tax rates for 2023

For 2023 and future years, the federal and provincial general corporate income tax rates remain unchanged for all provinces.

The federal small business income tax rate has not changed in 2023. However, Saskatchewan's small business income tax rate increased to 1% (from 0%) on July 1, 2023 and is scheduled to increase again to 2% on July 1, 2024.

General corporations

The following federal and provincial corporate tax rates for active business income earned by a general corporation are substantively enacted and enacted as of December 31, 2023:

Tax Rates for Active Business Income Earned by a General Corporation Substantively Enacted and Enacted as of December 31, 2023[1]		
	2023	**2024 and beyond**
Federal rate[2,3]	15.0%	15.0%
Provincial rates		
British Columbia	12.0%	12.0%
Alberta	8.0%	8.0%
Saskatchewan	12.0%	12.0%
Manitoba	12.0%	12.0%
Ontario	11.5%	11.5%
Quebec	11.5%	11.5%
New Brunswick	14.0%	14.0%
Nova Scotia	14.0%	14.0%
Prince Edward Island	16.0%	16.0%
Newfoundland and Labrador	15.0%	15.0%
Territorial rates		
Yukon	12.0%	12.0%
Northwest Territories	11.5%	11.5%
Nunavut	12.0%	12.0%

[1] The rates in the table are substantively enacted as at December 31, 2023 for purposes of ASPE and IFRS Accounting Standards and are also enacted as at December 31, 2023 for U.S. GAAP purposes.

[2] The federal general corporate tax rate has been temporarily reduced to 7.5% (from 15%) on eligible zero-emission technology manufacturing and processing income for taxation years beginning after 2021. The reduced rates are gradually phased out for taxation years that begin in 2029 and are fully phased out for taxation years that begin after 2031.

[3] Bank and life insurer groups are also subject to an additional 1.5% tax on taxable income earned in excess of a $100 million taxable income exemption to be allocated among the group, for taxation

years ending after April 7, 2022. A group includes a bank or life insurer and any other financial institution for the purposes of Part VI tax that is related to the bank or life insurer. The additional tax is pro-rated for the number of days after April 7, 2022 for taxation years that straddle this date.

Canadian-controlled private corporations

The following federal and provincial corporate tax rates for general active business income earned by a CCPC on its income that is eligible for the small business deduction are substantively enacted and enacted as of December 31, 2023:

Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of December 31, 2023[1]

	2023	**2024 and beyond**
Federal rate[2]	9.0%	9.0%
Provincial rates		
British Columbia	2.0%	2.0%
Alberta	2.0%	2.0%
Saskatchewan[3]	0.0%/1.0%	1.0%/2.0%
Manitoba	0.0%	0.0%
Ontario	3.2%	3.2%
Quebec[4]	3.2%	3.2%
New Brunswick	2.5%	2.5%
Nova Scotia	2.5%	2.5%
Prince Edward Island	1.0%	1.0%
Newfoundland and Labrador	3.0%	3.0%
Territorial rates		
Yukon	0.0%	0.0%
Northwest Territories	2.0%	2.0%
Nunavut	3.0%	3.0%

[1] The rates in the table are substantively enacted as at December 31, 2023 for purposes of ASPE and IFRS Accounting Standards and are also enacted as at December 31, 2023 for U.S. GAAP purposes.

[2] The federal small business tax rate has been temporarily reduced to 4.5% (from 9%) on eligible zero-emission technology manufacturing and processing income for taxation years beginning after 2021. The reduced rates are gradually phased out for taxation years that begin in 2029 and are fully phased out for taxation years that begin after 2031.

[3] Saskatchewan temporarily reduced the province's small business income tax rate to 0% (from 2%) effective October 1, 2020 to June 30, 2023. The small business income tax rate increased to 1% (from 0%) beginning July 1, 2023 and will be further increased to 2% (from 1%) beginning July 1, 2024.The small business income threshold is $600,000 in Saskatchewan. Therefore, Saskatchewan's combined income tax rate on active business income between $500,000 and $600,000 is 15% (i.e., 15% federally and 0% provincially) until June 30, 2023, followed by 16% (i.e., 15% federally and 1%

provincially) effective July 1, 2023 to June 30, 2024 and 17% (i.e., 15% federally and 2% provincially) effective July 1, 2024.

[4] Quebec's small business deduction is generally available to corporations only if their employees were paid for at least 5,500 hours in the taxation year (proportionally reduced for short taxation years) or if their employees and those of their associated corporations were paid for at least 5,500 hours in the previous taxation year, to a maximum of 40 hours a week per employee (excluding the hours paid to a subcontractor). The small business deduction is reduced linearly between 5,500 and 5,000 hours and falls to zero at 5,000 hours.

The latest rates and small business deduction thresholds are available on our Canadian Corporate Tax Tables page on the KPMG Canada site.

Status of recent tax legislation at December 31, 2023

This publication summarizes the status of selected federal and provincial business income tax measures that may affect your December 31, 2023 financial statements, including an overview of significant measures that became substantively enacted or enacted during the second half of 2023, as well as key measures that remained outstanding as at December 31, 2023.

For more information about these changes, contact your KPMG adviser or see the editions of *TaxNewsFlash-Canada* or *TaxNewsNow* noted below.

Outstanding federal legislation

The following federal business income tax measures have been announced but are not substantively enacted for purposes of IFRS Accounting Standards or ASPE (or enacted for purposes of U.S. GAAP) as of December 31, 2023.

Bill C-59

Bill C-59 was in second reading in the House of Commons when the House adjourned for the year until January 29, 2024. The business income tax measures in Bill C-59 will not be considered substantively enacted for purposes of IFRS Accounting Standards or ASPE until the bill passes third reading in the House of Commons (as Canada has a minority government). The measures will not be enacted for purposes of U.S. GAAP until the bill receives Royal Assent.

Bill C-59 includes several previously announced income tax measures from the 2021, 2022 and 2023 federal budgets to:

- Introduce additional interest deductibility limitations (i.e., the EIFEL rules) for taxation years beginning on or after October 1, 2023
- Introduce hybrid mismatch arrangement rules, generally applicable for payments arising on or after July 1, 2022

- Introduce a 2% tax on the net value of all types of equity repurchases by certain public entities in Canada, in respect of repurchases and issuances of equity that occur on or after January 1, 2024

- Deny the dividend received deduction for dividends received by Canadian financial institutions on certain shares that are mark-to-market property, after 2023

- Enhance the general corporate and small business income tax rate reductions on eligible profits earned by businesses that manufacture zero-emission technologies, including to:

    - Expand the eligible activities that qualify for the reduced tax rates to include certain nuclear manufacturing and processing activities for taxation years beginning after 2023

    - Extend the rate reduction by three years (i.e., the reduction will gradually phase out for taxation years that begin in 2032 (instead of starting in 2029) and fully phase out for taxation years that begin after 2034 (instead of 2031))

- Eliminate the tax deferral for investment income earned by “substantive CCPCs”, for taxation years that end on or after April 7, 2022

- Introduce a refundable Carbon Capture, Utilization and Storage (CCUS) Investment Tax Credit for up to 60%/50%/37.5% of the capital cost of certain eligible investments available from January 1, 2022

- Introduce a refundable Clean Technology Investment Tax Credit for up to 30% of the capital cost of certain eligible clean technology equipment available from March 28, 2023

- Amend the general anti-avoidance rule (GAAR) by introducing a preamble, changing the avoidance transaction standard, introducing an economic substance test, introducing a penalty and extending the reassessment period in certain circumstances, for transactions after 2023

- Allow expenditures incurred in the exploration and development of all lithium to qualify as Canadian exploration expenses and Canadian development expenses, effective March 28, 2023

- Facilitate the transfer of a qualifying business to an Employee Ownership Trust, effective January 1, 2024

- Replace the revenue test in the definition of “credit union” to align the definition with the relevant federal or provincial requirements, effective January 1, 2016.

The bill also includes legislation for several indirect tax measures, including the new *Digital Services Tax Act* ((DSTA). Once effective, the DSTA would introduce a new 3% tax on certain digital services revenue earned as of 2022. For details of these and other measures included in Bill C-59, see *TaxNewsNow*, "2023 federal budget bill #2 receives first reading").

Draft legislation released for comment – December 20, 2023

Finance released draft legislation for several previously announced business income tax measures from the 2022 and 2023 Fall Economic Updates and 2023 federal budget on December 20, 2023. Finance will accept comments on the draft legislation until February 5, 2024. These measures have not yet been included in a bill. The draft legislation includes measures to:

- Introduce a refundable Clean Hydrogen Investment Tax Credit up to a maximum rate of 40% for the cost of purchasing and installing eligible clean hydrogen property, available as of March 28, 2023
- Introduce a refundable Clean Technology Manufacturing Investment Tax Credit for up to 30% of the capital cost of certain machinery and equipment used to manufacture or process clean technologies, and extract or process certain critical minerals, available as of January 1, 2024
- Deny income tax deductions for expenses incurred on or after January 1, 2024 for non-compliant short-term rentals
- Clarify that concessional loans from public authorities with reasonable repayment terms will generally not be considered government assistance, effective November 21, 2023
- Exempt international shipping income of Canadian resident companies from income tax, effective December 31, 2023.

For details of these measures, see "Highlights of the 2023 Federal Fall Economic Update", *TaxNewsFlash-Canada* 2023-17, "2023 Federal Budget Highlights and *TaxNewsFlash-Canada* 2022-48, "Highlights of the 2022 Federal Fall Economic Update".

Federal fall economic update – November 21, 2023 tax measures

In its 2023 Fall Economic Update, Finance announced additional business income tax measures that have not yet been included in draft legislation or a bill, including proposed changes to:

- Introduce a temporary tax exemption for the first $10 million of capital gains realized on the sale of business to an Employee Ownership Trust, subject to certain conditions, effective for the 2024, 2025, and 2026 tax years
- Enhance the Canadian Journalism Labour Tax Credit by increasing the cap on labour expenditures per eligible newsroom employee to $85,000 (from $55,000) and temporarily increasing the journalism labour tax credit rate to 35% (from 25%) for four years for qualifying labour expenditures incurred on or after January 1, 2023.

Finance also proposed several relieving amendments to the Underused Housing Tax, among other changes. For details of these measures, see "Highlights of the 2023 Federal Fall Economic Update".

2023 and 2022 federal budget tax measures

Several significant 2023 and 2022 federal budget tax measures have not yet been included in a bill, including proposed changes to:

- Introduce a refundable Clean Electricity Investment Tax Credit for 15% of eligible investments in new projects and the refurbishment of existing facilities, available as of the day of the 2024 federal budget for projects that did not begin construction before March 28, 2023
- Eliminate the tax deferral for CCPCs and substantive CCPCs earning investment income through controlled foreign affiliates, for taxation years that begin on or after April 7, 2022
- Introduce a domestic minimum top-up tax that would apply to Canadian entities of MNEs that are within the scope of the OECD's Pillar Two proposal, applicable for fiscal years beginning on or after December 31, 2023 (draft legislation for this measure was released for consultation on August 4, 2023).

For further details of these measures, see *TaxNewsFlash-Canada* 2023-31, "Multinationals — Act Now to Meet Pillar Two Obligations"), *TaxNewsFlash-Canada* 2023-17, "2023 Federal Budget Highlights".

Provincial tax legislation

Ontario

Ontario Regulation 306/23
Published in the Ontario Gazette September 9, 2023

Ontario Regulation 306/23 extends eligibility for the Ontario Film and Television Tax Credit and the Ontario Production Services Tax Credit to professional film and television productions distributed exclusively online.

Quebec

Quebec Bill 27	
Date "substantively enacted" under ASPE/IFRS Accounting Standards	**Date "enacted" under U.S. GAAP**
May 30, 2023	September 26, 2023

Quebec Bill 27 contains measures previously announced in various information bulletins published in 2021, 2022 and 2023. The bill includes changes to harmonize with various federal budget measures, as announced in Information Bulletin 2022-4. These changes are intended to:

- Broaden eligibility for the small business deduction by increasing the upper limit of the range to $50 million (from $15 million) of taxable capital employed in Canada before the small business deduction is reduced to nil
- Expand the GAAR to apply to tax attributes that have not yet become relevant to the computation of tax
- Support the use of the new international accounting standard for insurance contracts (IFRS 17) for income tax purposes, subject to certain adjustments
- Update the rules that address tax planning related to allocations to redeeming fund unit holders in the mutual fund industry
- Eliminate the flow-through share regime for oil, gas and coal activities.

Quebec Bill 27 also includes certain provincial corporate tax changes that correspond to the federal expansion of the small business deduction, as announced in Information Bulletin 2022-4, to:

- Expand the additional deduction for transportation costs incurred by remote small and medium-sized businesses by increasing the upper limit to $50 million (from $15 million) of paid-up capital before the additional deduction is reduced to nil, for taxation years that begin after April 6, 2022
- Expand access to the income-averaging mechanism for forest producers, for taxation years that begin after April 6, 2022.

For further details, see *TaxNewsNow*, "Quebec — 2022 Economic Update measures and more now law.

Quebec Regulation (Reg. O.C. 1726-2023)
Published in the Quebec Gazette December 13, 2023

Quebec amended the regulations respecting the Quebec Taxation Act to harmonize with the 2022 federal budget measure to expand access to the accelerated CCA for certain air-source heat pumps (Class 43.1) The amending regulations were published in the Quebec Gazette on December 13, 2023. Quebec previously announced this change in Information Bulletin 2022-4.

Outstanding provincial budget and other business income tax measures

The following provincial business income tax measures have been announced but are not substantively enacted for purposes of IFRS Accounting Standards or ASPE. They are also not enacted for purposes of U.S. GAAP as of December 31, 2023.

Quebec

Quebec has not yet tabled a bill to enact certain tax changes announced in the province's 2023 budget, including measures to:

- Introduce a new 10-year tax holiday for qualifying large investment projects carried out in Quebec after March 21, 2023
- Introduce changes to the refundable tax credit for Quebec film or television production
- Enhance the refundable tax credit for book publishing
- Enhance the refundable tax credit for the production of multimedia events or environments presented outside Quebec.

For further details, see *TaxNewsFlash-Canada* 2023-12, "Highlights of the 2023 Quebec Budget".

Quebec 2023 Information Bulletins

Quebec has not yet tabled a bill to enact certain business income tax harmonization measures and other measures announced in recent provincial Information Bulletins. Quebec announced in Information Bulletin 2023-1, which was published January 30, 2023, that it will harmonize with certain federal measures to:

- Increase the ceiling on the capital cost of passenger vehicles for CCA purposes to \$36,000 (from \$34,000) for new and used vehicles purchased after 2022
- Increase the ceiling on the capital cost of eligible zero-emission passenger vehicles for CCA purposes to \$61,000 (from \$59,000) for new and used vehicles purchased after 2022.

Quebec further announced in Information Bulletin 2023-4, which was published June 27, 2023, that it will harmonize with various federal business income tax measures announced in the 2023 federal budget, including measures that:

- Amend the GAAR by introducing a preamble, changing the avoidance transaction standard and introducing an economic substance test
- Deny the dividend received deduction for dividends received by financial institutions on shares that are mark-to-market property, after 2023
- Relate to the income tax treatment of credit unions.

Quebec also announced in Information Bulletin 2023-4 that it would harmonize with several previously announced federal income tax technical amendments included in Bill C-47, including changes to Canadian exploration expenses, clarifications to amounts deductible for mining taxes and certain international corporate tax measures.

Quebec also announced provincial corporate tax changes in Information Bulletin 2023-4 to:

- Amend the small business deduction rules to introduce a special rule related to the number of remunerated hours for the first taxation year of a new corporation resulting from an amalgamation, for taxation years that end after June 27, 2023

- Modify the list of territories with low economic vitality for purposes of the tax credit relating to investment and innovation (C3i) and the new 10-year tax holiday.

For details, see *TaxNewsNow*, "Quebec Harmonizes with 2023 Federal Budget Measures and More".

Quebec has not yet tabled a bill to enact certain corporate tax measures announced in the province's 2023 fall economic update. These changes were published in Information Bulletin 2023-6 and include measures to:

- Extend the C3i tax credit by five years, to specified expenses incurred before January 1, 2030 (from January 1, 2025) and introduce various enhancements to the credit, including measures to:

    - Extend the temporary enhancement of the C3i rate applicable after December 31, 2023

    - Make the C3i tax credit fully refundable for a qualified corporation regardless of its assets or its gross income

    - Amend the calculation of the balance of the cumulative specified expense limit for purposes of the C3i tax credit

    - Remove certain regional county municipalities from the definition of "territory with low economic vitality" for specified expenses incurred after June 30, 2025

    - Amend the definition of "specified expenses"

    - Extend the deadline for submitting the prescribed form containing prescribed information to claim the credit

- Eliminate the additional capital cost allowance of 30% for investments in manufacturing and processing equipment, clean energy generation equipment, computer hardware and certain intellectual property, effective January 1, 2024.

For details, see *TaxNewsFlash-Canada* 2023-42, "Highlights of the 2023 Quebec Fall Economic Update".

Quebec has not yet tabled a bill to enact certain provincial corporate tax measures announced in Information Bulletin 2023-7, which was published on December 19, 2023. These changes include measures to:

- Amend the Incentive Deduction for the Commercialization of Innovations (IDCI) in Quebec effective for taxation years that begin after December 31, 2023 to:
    - Provide that the R&D expenditures considered in the calculation of the Quebec nexus ratio with regard to a particular qualified intellectual property asset (QIPA) must have contributed directly to the creation, development or improvement of the QIPA and that such expenditures must be tracked in the form of a cumulative ratio calculated on a historical basis
    - Introduce definitions of the expressions “adjusted income” and “adjusted gross revenue” to replace the expressions “income” and “gross revenue”
- Extend the deadline for electing to use the new alternative calculation method under the new tax holiday for certain large investment projects under the former tax holiday to December 31, 2024 (from March 31, 2024)
- Extend the refundable tax credit for the digital transformation of print media to December 31, 2024 (previously scheduled to end on December 31, 2023)
- Reduce the proportion of an eligible individual’s required work time in a qualified establishment of the corporation to 40% (from 50%) for purposes of the tax credits for international financial centres, effective for taxation years that begin after December 19, 2023.

Quebec 2022 Information Bulletins

Quebec has not yet tabled a bill to enact certain business income tax harmonization measures announced in certain provincial Information Bulletins issued in 2022. Quebec announced in Information Bulletin 2022-1, which was published February 4, 2022, that it will harmonize with certain federal measures to:

- Increase the ceiling on the capital cost of passenger vehicles for CCA purposes to $34,000 (from $30,000) for new and used vehicles purchased after 2021 and before 2023
- Increase the ceiling on the capital cost of eligible zero-emission passenger vehicles for CCA purposes to $59,000 (from $55,000) for new and used vehicles purchased after 2021 and before 2023.

Quebec further announced in Information Bulletin 2022-4, which was published June 9, 2022, that it will harmonize with various federal business income tax measures announced in the 2019, 2021 and 2022 federal budgets, including certain measures that:

- Introduce limitations on the deductibility of interest and other financing expenses (i.e., the EIFEL rules)
- Introduce hybrid mismatch arrangement rules
- Introduce reporting requirements for uncertain tax treatments
- Eliminate the tax deferral for investment income earned by certain non-CCPCs (substantive CCPCs) and the tax deferral for CCPCs and substantive CCPCs earning investment income through controlled foreign affiliates (to be harmonized in part)
- Add CCA classes for carbon capture, utilization and storage equipment, including eligibility for the Accelerated Investment Incentive
- Add CCA classes for intangible exploration expenses and development expenses for storing carbon dioxide
- Introduce a new borrowing limit imposed on defined benefit pension plans
- Prevent taxpayers from claiming certain tax deductions related to hedging and short selling arrangements.

We can help

KPMG’s tax accounting and audit support professionals can help you assess the impact these changes in tax law will have on your organization’s financial statements. We can also help your organization understand and manage your obligations under the Canadian, U.S. and international financial reporting standards for income tax accounts and disclosures. For details, contact your KPMG adviser.