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TaxNewsFlash
CANADA

Tax Accounting — Handy Summary of Tax Rates for 2015-2016

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If you are involved in preparing financial reports for corporations or other organizations, certain 2015 income tax changes may need to be reflected in your year-end financial statements under International Financial Reporting Standards (IFRS), 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 and ASPE, the tax effect of changes in tax law and rates is recognized for accounting purposes 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.

Corporate tax rates for 2015

Only the 2015 federal, Quebec and Alberta budgets announced corporate tax rate changes. While most of the tax rate changes in the 2015 provincial budgets have been enacted, it is noteworthy that Quebec has not yet introduced legislation to implement its planned general corporate tax rate reduction beginning January 1, 2017, which is therefore not yet considered substantively enacted or enacted.

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, 2015:

Tax Rates for Active Business Income Earned by a General Corporation Substantively Enacted and Enacted as of December 31, 2015		
	2014	**2015 and beyond**
Federal Rate	15.0%	15.0%
Provincial rates		
British Columbia	11.0%	11.0%
Alberta[1]	10.0%	10.0/12.0%
Saskatchewan	12.0%	12.0%
Manitoba	12.0%	12.0%
Ontario	11.5%	11.5%
Quebec	11.9%	11.9%
New Brunswick	12.0%	12.0%
Nova Scotia	16.0%	16.0%
Prince Edward Island	16.0%	16.0%
Newfoundland and Labrador	14.0%	14.0%

[1] Alberta Bill 2 (introduced June 18, 2015) increased the general corporate income tax rate for active business to 12% (from 10%), effective July 1, 2015

Canadian-controlled private corporations

As a result of tax measures announced by the 2015 federal budget and the 2015 provincial budgets, the following federal and provincial corporate tax rates for general active business income earned by a Canadian-controlled private corporation (CCPC) on its income which is eligible for the small business deduction are substantively enacted and enacted as of December 31, 2015:

Tax Rates for Active Business Income Earned by a CCPC Eligible for the Small Business Deduction Substantively Enacted and Enacted as of December 31, 2015						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Federal Rate	11.0%	11.0%	10.5%	10.0%	9.5%	9.0%
Provincial rates						
British Columbia	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Alberta	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Saskatchewan	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Manitoba	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ontario	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Quebec	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
New Brunswick	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Nova Scotia	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Prince Edward Island	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Newfoundland and Labrador[1]	4.0/3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

[1] Newfoundland and Labrador's small business tax rate decreased to 3.0% (from 4.0%) effective July 1, 2014.

The latest rates and small business deduction thresholds are always available on our Canadian Corporate Tax Tables page.

Status of recent tax legislation at December 31, 2015

The tables below provide more information on selected 2015 federal and provincial corporate tax measures that may have an impact on your December 31, 2015 year-end financial statements.

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

Federal tax legislation

Federal Bill C-2	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
December 9, 2015	Not enacted

Federal Bill C-2 is the first bill to enact tax changes announced in the Notice of Ways and Means Motion of the new Liberal government. Bill C-2 incorporates two tax rate changes for individuals resulting in changes affecting Canadian controlled private corporations (CCPC) and the concept of integration on their income, including measures to:

- Increase the refundable tax on CCPC's investment income to 10 2/3% (from 6 2/3%), effective for tax years ending after 2015
- Increase the Part IV tax rate to 38 1/3% (from 33 1/3%) for tax years ending after 2015(for tax years beginning before 2016, tax assessable dividends at 38 1/3% if received after 2015 and at 33 1/3% if they are received before 2016)
- Increase the dividend refund rate to 38 1/3% (from 33%) effective for tax years ending after 2015
- Amend the definition of refundable dividends tax on hand (RDTOH) to adjust:
    - The percentage of aggregate investment income that can be included in RDTOH to 30 2/3% (from 26 2/3%)
    - The foreign tax credit reduction related to foreign investment income to 8% (from 9 1/3%) of foreign investment income
    - The adjustment factor for taxable income of a corporation for the year that exceeds the total of the portions of that income that has benefited from either the small business deduction or foreign tax credits to 30 2/3% (from 26 2/3%)
    - The gross-up factor for foreign non business income to 100/ (38 2/3) from 100/35.
- Increase the percentage of unused non capital losses and farm losses that may reduce Part IV tax to 38 1/3% (from 33 1/3%) for tax years that end after 2015. For tax years that

begin before 2016, losses applied to reduce Part IV tax are used first to offset assessable dividends that are subject to the higher 38 1/3% rate.

Federal Bill C-59	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
May 7, 2015	June 23, 2015

Federal Bill C-59 enacts tax changes announced in the former Conservative government's April 21, 2015 federal budget. The bill does not include the more complicated measures of the 2015 budget, such as the amendments to subsection 55(2) and Regulation 102 and the new synthetic equity arrangement rules.

What's included in Bill C-59

Bill C-59 includes measures that:

- Decrease the small business income tax rate that applies to the first $500,000 of qualifying active business income of a Canadian-controlled private corporation to 9% (from 11%) in 0.5% increments from 2016 to 2019
- Introduce new CCA Class 53 with an accelerated CCA rate of 50% per year on a declining balance basis for machinery and equipment assets acquired after 2015 and before 2026 that would otherwise be included in Class 29
- Extend the tax deferral that applies to patronage dividends paid to members of an eligible agricultural cooperative in the form of eligible shares.

There are a number of outstanding 2015 federal budget measures that have not been enacted in a bill. Although the new Liberal government has yet to declare its position on these outstanding Conservative government's 2015 federal budget measures, it may very well bring forward these measures as originally proposed to provide stability and predictability to the tax system. The outstanding 2015 federal budget legislation includes measures to:

- Amend subsection 55(2) to introduce new purpose tests and amend paragraph 55(3)(a) to restrict its application to deemed dividends arising under subsections 84(2) and 84(3) (see *TaxNewsFlash-Canada* 2015-23, "Are Your Tax-Free Inter-Corporate Dividends in Jeopardy?".)
- Amend the amount of a stock dividend for purposes of subsection 55(2) to equal the greater of their paid-up capital and their fair market value and deemed to be a "separate taxable dividend", as well as to introduce complex amendments to the stock dividend cost basis rules
- Ensure costs for undertaking environmental studies and community consultations required to obtain an exploration permit are eligible for treatment as Canadian Exploration Expenses
- Amend the Regulation 102 withholding rules to introduce an exception where certain conditions are met

- Modify the dividend rental arrangement rules to deny the inter-corporate dividend deduction under synthetic equity arrangements
- Allow a registered charity to hold a limited partnership interest in certain circumstances
- Exempt from capital gains tax gains occurring on the disposition of shares of private corporations and real estate where the cash proceeds of disposition are donated to a qualified donee and certain conditions are met
- Tighten the anti-avoidance rules for captive insurance companies
- Amend the failure to report penalty

For details of the 2015 federal budget announced April 21, 2015 see *TaxNewsFlash-Canada* 2015-18, "2015 Federal Budget Highlights". Stay tuned for the comments by the new Liberal government to clarify their position on these outstanding tax measures.

Provincial tax legislation

Alberta

Alberta Bill 2	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
June 18, 2014	June 29, 2015

Alberta Bill 2 enacts tax legislation proposed by the NDP as part of their provincial election platform. The bill includes measures that:

- Increase the corporate income tax rate to 12% (from 10%) on active business income earned by a general corporation, effective July 1, 2015
- Increase the tax rate deduction for income eligible for the Alberta small business rate to 9% (from 7%) effective July 1, 2015, keeping the effective small business rate unchanged.

Alberta Bill 4	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
October 27, 2015	December 11, 2015

Alberta Bill 4 enacts the province's 2015 budget delivered on October 27, 2015. Among other changes, the bill includes measures to:

- Create a new employer job grant for net new employment created after January 1, 2016 worth up to $45,000 for each new job created
- Increase Insurance Premiums Tax on premiums receivable by an insurer to 3% on premiums for life, accident and sickness insurance (from 2%), and to 4% on other contracts of insurance (from 3%), effective April 1, 2016.
- Increase the tobacco tax to $50 per carton of 200 cigarettes (from $45 per carton the tax on loose tobacco to 37.5 cents per gram (from 33.75 cents) and increases the tax on cigars to 129% (from 116%) of the taxable price of the cigar

- Increase the locomotive fuel tax to 5.5 cents per litre (from 1.5 cents), effective November 1, 2015

For details of the Bill and 2015 Alberta Budget see *TaxNewsFlash-Canada* 2015-29, "Highlights of the 2015 Alberta Budget".

Manitoba

Manitoba Bill 36	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
June 9, 2015	November 5, 2015

Manitoba Bill 36 includes tax changes announced in the province's 2015 budget, including measures to:

- Increase the small business income threshold for the small business deduction to $450,000 (from $425,000), effective January 1, 2016
- Increase the Corporation Capital Tax on banks, trust corporations and loan corporations to 6% (from 5%), beginning for taxation years ending after April 30, 2015.

On December 1, 2015, Manitoba announced that, starting in 2017, it plans to increase its small business threshold to $500,000 (from $450,000). As a result, small businesses with taxable income that does not exceed this limit will be exempt from provincial corporate income tax. However, since legislation has not yet been introduced or passed to enact this measure, it should not be reflected in year-end financial statements yet.

For details of the province's budget announcements see *TaxNewsFlash-Canada* 2015-22, "Highlights of the 2015 Manitoba Budget".

Newfoundland and Labrador

Newfoundland and Labrador Bill 6	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
June 23, 2015	June 23, 2015

Newfoundland Bill 6 enacts certain tax changes announced in the province's 2015 budget including measures that increase the Financial Corporations Capital Tax rate to 5% (from 4%) effective April 1, 2015.

The new Liberal government of Newfoundland and Labrador also confirmed that its HST will remain at 13%. As a result, the old government's proposed HST rate increase to 15% for 2016 has been officially cancelled.

For details of the province's budget announcements see *TaxNewsFlash-Canada* 2015-21, "Highlights of the 2015 Newfoundland and Labrador Budget".

Ontario

Ontario Bill 144	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
November 18, 2015	December 10, 2015

Ontario Bill 144 includes certain tax changes from the province's 2015 budget, and received first reading on November 18, 2015. Among other changes, Bill 144:

- Amends the conditions for the Ontario interactive digital media tax credit,
- Excludes certain government assistance payments in calculating the Ontario computer animation and special effects tax credit
- Clarifies the applicable tax rate related to a mutual fund trust's Ontario capital gains refund, beginning after 2015.

Ontario Bill 91	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
April 23, 2015	June 4, 2015

Ontario Bill 91 includes certain tax changes from the province's 2015 budget, and received first reading on April 23, 2015. Among other changes, Bill 91:

- Eliminates the Resource Tax Credit and Additional Tax on Crown Royalties
- Reduces the general Apprenticeship Training Tax Credit rate to 25% (from 35%)
- Reduces the Ontario Computer Animation and Special Effects Tax Credit to 18% (from 20%)
- Reduces the Ontario Production Services Tax Credit to 21.5% (from 25%)
- Eliminates the Ontario Sound Recording Tax Credit
- Amends the capital gains refund mechanism for mutual fund trusts (see CTN 15-19)
- Introduces the *Ontario Retirement Pension Plan Administration Corporation Act, 2015*.

Some Ontario 2015 budget changes that have still not been legislated yet include:

- The calculation of the Ontario Film and Television Tax Credit to exclude government equity investments as assistance
- Allowing the use of accrued but unused Ontario Resource Tax Credits to be carried forward and applied against Ontario income taxes payable.

Quebec

Quebec Bill 13	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
December 4, 2014	October 21, 2015

Quebec Bill 13 includes outstanding mining tax measures and certain tax measures announced in previous Quebec budgets that were presented on June 4, 2014 and November 20, 2012. Bill 13 also includes certain previously announced harmonization measures with federal legislation.

Mining tax
The *Mining Tax Act* amendments implement a new method for computing tax that provides for a minimum mining tax based on the mine-mouth output value, and for progressive tax rates ranging from 16% to 28% based on an operator's profit margin. This new method will replace the current 16% single tax rate used to determine the operator's mining tax on profits.

2014 and 2012 budget measures
Bill 13 enacts tax changes from the 2014 and 2012 budget announcements, including measures that:

- Reduce the tax rates for manufacturing small- and medium-sized enterprises by as much as 4% for an effective small business tax rate as low as 4% (from 8%) for taxation years ending after March 31, 2015
- Implement a 20% reduction in tax assistance for businesses
- Introduce a tax credit for SR&ED relating to biopharmaceutical activities
- Introduce a penalty where information on tax preparers on SR&ED claim forms is missing, incomplete or inaccurate
- Introduce an additional deduction for transportation costs of remote manufacturing SMEs
- Implement a tax holiday for large investment projects
- Modify the temporary contribution of financial institutions towards large institutions
- Amend the *Tax Administration Act* and the *Taxation Act* similar to those made to the *Income Tax Act* by federal bills assented to in 2012 and 2013.

Quebec Bill 39	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
May 14, 2015	October 26, 2015

Quebec Bill 39 includes provincial measures to:

- Introduce an excluded expense amount relating to qualified property for the purposes of the investment tax credit
- Increase the tax on capital for insurance corporations to 3% (from 2%)
- Increase the additional deduction for transportation costs of remote manufacturing small and medium-sized businesses.

Quebec Bill 55	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
June 11, 2015	October 21, 2015

Quebec Bill 55 requires certain Quebec companies and other entities that carry out the commercial development of oil, gas or minerals to report to Quebec details of tax and other payments they make to all levels of domestic and foreign governments.

Companies affected by these transparency measures must file the required statement for fiscal years starting with the first fiscal year following the fiscal year that includes October 21, 2015. For details of this requirement, see *Canadian Tax Adviser* – Revenu Quebec Will Administer Mining Tax Act as of September 1, 2015.

Bill 55 defers the reporting of payments to certain defined First Nations Groups until June 2017.

Quebec Bill 69	
Date "substantively enacted" under ASPE/IFRS	**Date "enacted" under U.S. GAAP**
November 10, 2015	December 4, 2015

Among several changes, Bill 69 deals with various tax credits changes including:

- A two-year extension of the tax credit for the integration of information technologies in manufacturing SMEs and its extension to the primary sector
- Enhancement of the tax credit for experienced workers
- Standardization of the tax credit rates for SR&ED and the introduction of an excluded expense amount for the purpose of computing those credits
- Revision of the refundable tax credit for the development of e-business and the introduction of a non-refundable tax credit
- Revision of the solidarity tax credit terms
- Increase to the tax credit rate for on-the job training periods.

Bill 69 also includes harmonization measures with federal bills that received Royal Assent in 2013 and 2014 and Quebec's 2014 budget, including the non-resident trust rules.

For details of the June 4, 2014 budget announcements see *TaxNewsFlash-Canada* 2014-31, "Highlights of the 2014-2015 Quebec Budget". For details of the November 20, 2012 budget announcements, see *TaxNewsFlash-Canada* 2012-38, "Highlights of the 2013-2014 Quebec Budget".

Outstanding provincial budget legislation

Quebec 2015 budget

As of December 31, 2015, Quebec has not tabled a bill to enact tax changes announced in the province's 2015 budget, including measures to:

- Reduce the corporate general income tax rate to 11.5% (from 11.9%) by 2020. The rate will decrease by 0.1%, beginning January 1, 2017 until January 1, 2020. The rate change

will be effective as of January 1 of each year. A consequential adjustment to the small business deduction will be made to maintain the minimum tax rate applicable to the income of small corporations at 8%.

- Extend the small business rate deduction available to small- and medium-sized manufacturing companies to small- and medium-sized businesses in the primary sector such that an effective small business tax rate as low as 4% (from 8%) is available for taxation years beginning after December 31, 2016
- Restrict construction and service sector businesses with three employees or fewer from being eligible for the small business deduction.

For details of the March 26, 2015 budget announcements see *TaxNewsFlash-Canada* 2015-13, "Highlights of the 2015-2016 Quebec Budget".

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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.