Ryan Tax Review

It's Like Déjà Vu All Over Again! Time for Annual Employee Taxable Benefits Calculations

It's not your imagination playing tricks on you. Each year at this time, an organization must review its records to determine if any taxable benefits were provided to its employees during the year. This can create a strong sense of déjà vu! Every year, businesses give their employees gifts or perks to reward a job well done or show appreciation and, in some cases, make it easier for their employees to work remotely.

2024 has been no different than the past five years in that a significant percentage of the workforce continues to work from home and many employers continue to assist with the set-up of home offices, leading to questions about whether such assistance might constitute a taxable benefit.

Any time a gift, perk or other type of benefit is provided to an employee, it may be considered additional compensation beyond their regular salary or wages—in other words—a taxable benefit. If this is the case, a value will have to be assigned to the benefit provided and this value will have to be reported as taxable income for the employee—often to their surprise. (Who doesn't like a surprise?!) The calculations necessary to determine the value of a taxable benefit are often complex and the timeline for reporting and remitting the tax associated with these benefits is short. To minimize the impact of unexpected challenges when calculating taxable benefits, an early start to the process is suggested.

The starting point is to create a list of all items provided to employees during the calendar year that may give rise to a taxable benefit. Once this exercise has been completed, an organization must determine if any of the items constitute a taxable benefit. There are several tax rules to consider when tackling taxable benefits. The federal *Income Tax Act* (ITA) generally requires the amount of the benefit, including any applicable sales tax, to be added to the employee's income for the year the benefit was provided. In addition, the employer must ascertain whether GST/HST or QST is required to be remitted in respect of any taxable benefits provided to employees.

An employer that confers a taxable benefit of a property or service on an employee is generally required to account for GST/HST or QST on the total value of the benefit through an adjustment to its net tax calculation. Unfortunately, this requirement is often overlooked and failing to remit GST/HST or QST on the value of taxable benefits is a common audit exposure for many organizations. Making an already complicated task even more daunting, there are exceptions to consider that relieve employers from the requirement to remit sales tax on specific types of taxable benefits.

With a view to assisting clients in minimizing their potential sales tax liability exposure in this area, what follows is Ryan's digest of the latest rules surrounding the application of GST/HST and QST to taxable benefits.

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Personnel responsible for overseeing or preparing taxable benefit calculations for their organization are urged to review these rules annually.

Tax Status of Benefits

The tax status of employee and shareholder benefits may be affected by various circumstances surrounding each supply. For this reason, taxpayers are advised to consult their income or payroll tax advisors for guidance on the income tax status of specific benefits. General information on this subject may be found in the Employers' Guide – Taxable Benefits and Allowances (T4130), which is published annually by the Canada Revenue Agency (CRA). Similarly, Revenue Quebec (RQ) has brochure number IN-253-V, Taxable Benefits, available to address the tax treatment of benefits under the *Taxation Act*, the Quebec equivalent to the ITA. While the Quebec and federal positions generally follow the same principles, there are some differences.

The ITA imposes tax on most employee benefits, including benefits related to employer-provided automobiles, gifts and awards, and other incentives and allowances provided to employees by employers. Perhaps some of the most recognizable benefits are associated with the "company car" or employer-paid automobile expenses, including:

- personal use of an employer-provided motor vehicle;
- the personal portion of any employer-paid automobile operating costs;
- flat rate and similar employee car allowances; and
- employer-provided parking made available only to employees (except for "scramble parking", where there are fewer parking spaces than employees).

However, there are many other types of taxable benefits. Common examples include:

- certain counseling services (including financial planning and tax return preparation);
- gifts, incentive awards, trips, and other prizes (in excess of allowable limits for non-cash gifts and awards);
- items provided to employees for performance-related reasons (e.g., employee recognition program);
- rent-free and subsidized housing, board or lodging, as well as allowances for housing and travel assistance (exceptions exist for special and remote work sites);
- interest-free and low-interest loans;
- benefits from exercising stock options;
- tickets acquired by using frequent flyer points related to business travel, where the employer controls the credits accumulated under the plan;
- group term life insurance, including accidental death and dismemberment;
- premiums paid to provincial hospitalization and medical care insurance plans on an employee's behalf;
- medical expenses paid on an employee's behalf;
- wage-loss replacement plans;
- employer-provided social events costing more than $150 per person and virtual social events providing food and drinks costing more than $50 ($100 where entertainment is also included); and
- the value of entertainment tickets given to employees.

Home Office Equipment

One of the many consequences of the COVID-19 pandemic was that many employees found themselves working from home to help minimize its impact. This trend continues today even though the worst of the pandemic appears to be behind us. This change caused many organizations to begin to reimburse employees for various home office expenses.

Previously, where an employer paid for or reimbursed an employee for home office equipment, it was generally regarded as a taxable benefit, since the items were for the exclusive personal use of the employee. However, in response to the pandemic, the CRA introduced a temporary measure to minimize the impact of these reimbursements from a taxable benefit perspective. Under this policy, the purchase of home office equipment for an employee, or the reimbursement of such costs to an employee, was not a taxable benefit provided the cost of the equipment or reimbursement did not exceed $500. This policy was in place for the period from March 15, 2020, to December 31, 2022. However, where an organization continued this practice after that period, such payments or reimbursements give rise to taxable benefits for the employees receiving home office assistance. Another case of déjà vu! The fact that the CRA's administrative relief was temporary often surprises both employer and employee. Note that allowances provided to employees to assist with the purchase of home office equipment have always been considered a taxable benefit.

GST/HST and QST Treatment of Taxable Benefits

The rationale behind the requirement for an employer to remit GST/HST and QST on the value of certain taxable benefits is that an employee who receives a taxable supply as a benefit would have been required to pay tax out of their after-tax income had the supply been purchased directly. Consequently, the GST/HST or QST paid on the supply becomes a component of the benefit received by the employee and should be included in their employment income.

In addition, as the employer may have claimed an input tax credit (ITC) or input tax refund (ITR) for any GST/HST or QST paid on the acquisition of the item giving rise to the taxable benefit, this amount should be repaid, since the employee would not have been entitled to recover the tax.

To accomplish both objectives, the employer is *deemed* to have collected tax on the provision of a taxable benefit to an employee, and that amount of tax must be remitted on the employer's GST/HST or QST return. The legislation does not require the employer to actually collect GST/HST or QST from the employee; only to remit the tax deemed collected and include tax in the taxable benefit calculation. Note that the calculated amount of tax to be remitted may differ from the tax amount required to be included in the taxable benefit on an employee's T4.

Valuation of Taxable Benefits

When valuing any benefit for income tax purposes, the GST/HST, QST or provincial sales tax charged by a supplier to the employer must be included in the amount recorded on the T4. The amount of the benefit cannot be reduced by any ITC, ITR or rebate claimed or received by the employer.

If tax was not required to be paid on the purchase of the benefit by virtue of an exemption available to the *employer*, the value of the benefit must include the amount of tax that would have been payable had the supply been purchased directly by the employee. Furthermore, the benefit amount cannot be reduced by the value of any trade-in at the time of purchase or lease. However, a reduction of the benefit is allowed where an employee reimburses the employer for some or all of the benefit's cost. For taxable benefits related to automobiles, this reduction is only allowed for income tax purposes.

Remittances and Due Dates

Section 173 of the *Excise Tax Act* (ETA) and section 290 of an *Act respecting the Québec sales tax* (QSTA) require employers to remit GST/HST and QST in respect of certain taxable benefits.

Employers are generally required to remit GST/HST owing on taxable benefits, calculated using a factor of the benefit amount, on the GST/HST return covering the last day of February following the end of the taxation year. Where the last establishment of the employer at which an employee ordinarily worked or reported is in a non-participating province or territory (i.e., British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Territories, Yukon, Nunavut, or Quebec), the remittance factor for GST included in a taxable benefit is 4/104 for 2024.

Where the last establishment of the employer at which an employee ordinarily worked or reported is in an HST participating province (i.e., Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, or Prince Edward Island), the HST remittance factor will generally be calculated as follows:

A/B, where:

A is the total of 4 per cent, plus the provincial component of the HST in the participating province where the last establishment of the employer is located, or where an employee ordinarily worked or reported to work; and

B is the amount calculated for A, plus 100 per cent.

Example: Internet services are purchased for an employee in Prince Edward Island each month for $60 plus $9 HST. The internet services will be used 60 per cent of the time for business use and 40 per cent of the time for the employee's personal use. The employer was entitled to a $9 ITC for the HST paid on each month's purchase. At year-end, the employee's taxable benefit would be $331.20 [($60 + $9) x 12 x 40%]. The employer would then be required to remit $40.67 ($331.20 x 14/114) in relation to this benefit in their GST/HST return covering the last day of February in 2025.

For automobile operating cost benefits, GST is currently remitted based on 3 per cent of the taxable benefit amount. This rate applies in all non-participating provinces.

However, where the last establishment of the employer at which an employee ordinarily worked or reported in 2024 is in a participating province, the HST remittance rate for an automobile operating cost benefit will depend on the employer's location. For instance, in Ontario, HST is remitted at 9 per cent of the taxable benefit amount, but in Prince Edward Island, HST is remitted at 11 per cent of the taxable benefit amount.

Note that, for the purposes of calculating the GST/HST to be remitted on taxable benefits, the location of an employee's residence and the tax status of the underlying vehicle (for automobile operating cost benefits) have no impact on the determination of whether or not the benefit is subject to HST.

For 2024, QST registrants are generally required to remit QST included in taxable benefits, based on a factor of 9.975/109.975 of the benefit amount, on the employer's QST return covering the last day of February in 2025. The QST automobile operating cost benefit remittance rate is 6 per cent.

Special rules (described below) apply to taxable benefits involving automobiles.

2024 Taxable Benefit GST/HST and QST Remittance Rates

Location of last establishment of employer where employee reported	Factor for most taxable benefits and automobile standby charges	Automobile operating cost benefit rate	Factor for employee reimbursements*
Ontario	12/112	9%	13/113
Prince Edward Island	14/114	11%	15/115
New Brunswick	14/114	11%	15/115
Newfoundland and Labrador	14/114	11%	15/115
Nova Scotia	14/114	11%	15/115
Non-participating province or territory	4/104	3%	5/105
Quebec (QST factors and rates only)	9.975/109.975	6%	9.975/109.975

** To be remitted in the GST/HST return filed for the reporting period that includes the date of the reimbursement unless related to automobile benefits.*

Employee Reimbursements

Under the ITA, amounts reimbursed by employees to employers to defray the cost of a taxable benefit can generally be deducted from the amount required to be included in the employee's income. For taxable benefits other than those related to automobiles, employers are deemed to have collected GST/HST and QST on employee reimbursements received in the period in which the reimbursements are paid. To reduce the taxable benefit for a given year, reimbursements must be made during the year or no later than 45 days after the end of the year. In non-participating provinces, the deemed GST is calculated at a rate of 5/105. In participating provinces, the factor is calculated as follows:

A/B, where:

A is the total of 5 per cent, plus the provincial component of the HST in the participating province where the last establishment of the employer where an employee ordinarily worked or reported to work is located; and

B is the amount calculated for A, plus 100 per cent.

Example: An employee wishes to upgrade their cell phone purchased through a company plan. The cell phone is $100 more expensive than what the company will cover, so the employee agrees to write the company a cheque for $100 upon purchase. The cell phone is purchased in Ontario on March 1, 2024, for $700 plus $91 HST. This cell phone will be used 50 per cent of the time for business use and 50 per cent of the time for the employee's personal use. The employer is entitled to a $91 ITC for the HST paid on the purchase and the employer is a monthly filer. The employer is required to remit tax on the reimbursement received from the employee on the return covering the period in which it was received. Thus, $11.50 ($100 x 13/113) should have been added to the employer's net tax for the month ending March 31, 2024 (for which the return would have been due on April 30, 2024.) At year-end, the employee's taxable benefit will be $295.50 [($791 x 50%) - $100] and the employer will be required to remit $31.66 ($295.50 x 12/112) on its GST/HST return covering the last day of February in 2025.

In Quebec, the deemed QST for a reimbursement is calculated using a factor of 9.975/109.975.

For automobile standby charge and operating cost benefits, the February tax remittance must be calculated on the gross amount of the taxable benefit, prior to deducting any employee reimbursements, even if total reimbursements eliminate the taxable benefit for income tax purposes entirely. Unlike with other types of taxable benefits, reimbursements made by employees related to automobile benefits do not trigger a tax liability when they are paid.

No Remittance Required

There are various situations in which no GST/HST or QST remittance is required of the employer, including benefits involving exempt or zero-rated supplies, items acquired for personal use, automobiles acquired for non-commercial use, and eligible allowances.

Exempt or zero-rated supplies

Where the original supply resulting in the benefit is exempt or zero-rated, it effectively retains this status when provided to the employee, and the employer is not considered to have collected tax on the benefit. Accordingly, no remittance is required. The taxable benefit, however, must still be reported on the employee's T4.

Personal use restrictions

Certain restrictions deny employers an ITC or ITR for tax paid on purchases for personal use, including:

- most memberships in dining, recreational or sporting facilities; and
- property or services acquired or leased for the exclusive personal use or enjoyment of an employee or related individual (unless re-supplied to the employee at fair market value, in which case, there would be no taxable benefit).

Since an ITC or ITR cannot be claimed in the above-noted circumstances, an employer is not deemed to have collected tax on the provision of the benefit to the employee and no remittance is required.

Non-commercial use of automobiles

GST/HST and QST remittances are generally not required where automobiles are purchased for use other than primarily in commercial activities. Under the general rules, no ITCs or ITRs are available in respect of taxes paid on the initial acquisition of such vehicles. For example, GST/HST is not remitted on the standby charge for a passenger vehicle purchased by a school board and provided to an employee for use primarily in the employer's exempt education activities.

Employee allowances

Certain employee allowances do not constitute taxable benefits when they are considered reasonable for income tax purposes. For example, vehicle allowances based solely on the number of business kilometres driven may be considered reasonable. On the other hand, flat rate allowances or combinations of flat rate and per kilometre allowances are not considered reasonable.

For a vehicle allowance to be considered reasonable, no other vehicle expenses can be reimbursed to the employee and the rate per kilometre must be reasonable. The Department of Finance Canada's 2024 guidelines for reasonable per-kilometre allowance rates are 70 cents for the first 5,000 kilometres and 64 cents for each additional kilometre. The rates are 4 cents higher in the territories. The CRA cautions taxpayers that unreasonable per-kilometre allowances, due to rates which are either too high or too low, are considered taxable benefits and must be included in an employee's income. In the past, per-kilometre rates below the published guidelines were generally thought to be considered reasonable. However, Ryan is aware of situations where the use of per-kilometre rates below the guidelines have been considered unreasonable by the CRA, since the rates were insufficient to cover the vehicle's operating cost, resulting in taxable benefits.

For other travel allowances paid to a non-sales employee, the employee must generally be travelling away from the employer's establishment where that employee normally reports to work for the allowance to be considered reasonable.

If it is determined that an allowance is a taxable benefit, the amount paid to the employee must be included on their T4. However, no additional GST/HST or QST needs to be added to the allowance when calculating the taxable benefit amount, since the allowance is deemed to be tax-included where it is in relation to taxable (other than zero-rated) supplies. Furthermore, no remittance of GST/HST or QST is required for a taxable allowance that is considered unreasonable, since no ITC or ITR will be permitted with respect to the original payment.

Automobile Standby Charges and Operating Cost Benefits

The benefit of having an employer-provided vehicle available for personal use is comprised of two components: a "standby charge"; and an "operating cost benefit". When calculating the standby charge, the first thing to determine is whether the vehicle is owned or leased by the employer. If the vehicle is employer-owned, the standby charge may be calculated using a simplified calculation which equals 24 per cent of the vehicle's original cost. For example, under this simplified calculation, the taxable benefit on a vehicle purchased in Alberta for $65,000 plus GST would be $16,380 ($65,000 x 1.05 x 24%). However, this method may not be used where the employee: did not use the same vehicle during the year; was mainly employed to sell or lease vehicles; or was eligible to use the reduced standby charge (discussed below). Where an employee does not qualify for the simplified calculation or the vehicle is leased, the standby charge is calculated as 2 per cent per month of the original cost of the vehicle or two-thirds of the vehicle lease payment.

The standby charge may be reduced where personal driving is limited or restricted. To qualify for this reduction, the vehicle must be used primarily (i.e., more than 50 per cent) for business purposes and personal driving cannot exceed 1,667 kilometres per month (a total of 20,004 kilometres per year). During the 2020 and 2021 tax years, the CRA administratively allowed employees who were provided with an automobile by the same employer during 2019, 2020 and 2021 to utilize their 2019 automobile use to determine if the primary business use test had been met. However, this temporary variation to the conditions for using the reduced standby charge is no longer in effect.

The Reduced Standby Charge Formula:

Reduced Standby Charge =

$$\text{Standby Charge} \times \frac{\text{\# personal kms driven}}{\text{\# of 30-day periods available to employee} \times 1{,}667}$$

Certain police and fire vehicles, as well as pick-up trucks used primarily in the transportation of goods, equipment, or passengers in the course of earning income at a remote work location or special work site, are excluded from the standby charge calculation requirements.

Generally, the operating cost benefit is calculated at a set rate per kilometre of personal use, regardless of whether a vehicle is leased or owned. For 2024, a rate of 33 cents per personal use kilometre is used to calculate this benefit. A reduced rate of 30 cents per kilometre applies to employees whose principal source of employment income is selling or leasing automobiles. These rates remain unchanged from the rates in use for 2023.

Alternatively, an employee can elect to use one-half of the standby charge as the basis for calculating the operating cost benefit, provided the vehicle is used primarily (i.e., more than 50 per cent) for business purposes. Note that a temporary COVID-19 relief measure that allowed an employee's eligibility for the optional operating cost benefit to be determined based on their 2019 automobile usage is no longer in place. In addition, the CRA has an administrative policy that allows an employer to deduct from the operating cost benefit any amounts the employee is required to pay a third party for some, or all, of the operating expenses related to a company-provided vehicle.

Prescribed limits

The deduction allowed for the lease cost or capital cost allowance in respect of the purchase price of a passenger vehicle is subject to prescribed limits for income tax purposes. For vehicles purchased in 2024, the specified limit is $37,000 ($61,000 for eligible zero-emission passenger vehicles), plus applicable federal and provincial sales taxes. This vehicle purchase limit has increased each year since 2021. Similarly, for vehicles leased under an agreement entered into in 2024, the monthly limit is $1,050, plus applicable federal and provincial sales taxes. The allowable lease limit for an automobile lease entered into during 2023 is $950; for leases starting in 2022, it is $900; and for a similar lease entered into before January 1, 2022, it is $800. ITC claims are also restricted based on these limits, and a similar restriction exists with respect to ITRs for QST purposes.

Notwithstanding that an employer may not have been able to claim an ITC or ITR for all tax paid on the acquisition or lease of a vehicle, the required GST/HST and QST remittances for taxable benefits related to these vehicles are calculated based on the full value of the benefit, with reference to the actual cost, rather than the prescribed limits.

Passenger vehicle elections

Over time, GST/HST or QST remittances on automobile standby charges and operating cost benefits may exceed available ITCs or ITRs. This may be the case where a vehicle's cost exceeds the prescribed capital cost or lease payment thresholds, or a registrant is restricted with respect to claims for ITCs or ITRs, such as a financial institution making exempt supplies of financial services. To address this issue, certain employers may elect not to remit GST/HST (and QST, if applicable) on standby charges and operating cost benefits, provided the employer also foregoes any ITCs (and ITRs) available on the purchase or lease of the vehicle and ongoing operating costs. Financial institutions may make this election for any passenger vehicle acquired by way of purchase or lease. However, non-financial institutions are only permitted to make the election for passenger vehicles acquired by way of lease that are not used primarily in commercial activities. To make the GST/HST election, registrants are required to complete form GST30. For QST purposes, registrants need to complete form FP-2030-V. These elections do not have to be filed with the tax authorities but should be completed and retained in case of an audit.

Examples

The calculation of remittances for automobile standby charges and operating costs is best illustrated through examples. For detailed calculations of automobile taxable benefits in certain situations, please see the full version of this article in the News & Insights section of Ryan's website.

Conclusion

While certain administrative policies can lessen the severity in certain situations, taxable benefits often create a sense of déjà vu for both the employer and employee. To minimize audit exposure with respect to GST/HST and QST on taxable benefits, employers must carefully review the rules, including current rates and factors, and then diligently apply that information in making their calculations. Failing to do so could substantially increase the cost of a taxable benefit due to the potential assessment of interest and/or penalties.

For more information on the application of GST/HST or QST to taxable benefits, please contact Ryan *Tax*Direct® at 1.800.667.1600 or taxdirect@ryan.com.

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RYAN MARKET TRENDS

Tips, Traps and Tidbits from Ryan Tax Experts in the Field

GST/HST Holiday in Effect

The federal government's highly publicized and much-debated GST/HST holiday is currently in effect. This temporary GST/HST relief applies to most food and beverages and related services, as well as certain other specified goods, but only where all of the consideration for an eligible supply is paid between December 14, 2024, and February 15, 2025, and the property or service is delivered or performed or made available to the recipient during that same period.

Registrants should note that this relief has been implemented through the addition of temporary zero-rating provisions for eligible items, which means that the GST/HST holiday has no impact on an organization's eligibility for input tax credits. However, this approach has also resulted in the relief applying throughout the supply chain, rather than only at the point of sale.

Unfortunately, registrants forced to quickly adjust their systems for December 14 will be required to do so again for the end of the tax holiday on February 15 in order to avoid a potential liability exposure for failing to collect tax on supplies that no longer qualify for zero-rating.

Interestingly, Quebec, Saskatchewan, Manitoba, and British Columbia did not follow the federal government's lead, and similar relief is not being provided for QST or PST during the GST/HST holiday period.

For further information on the GS/HST holiday, please see: https://ryan.com/canada/about-ryan/news-and-insights/2024/gsthst-temporary-tax-relief-on-holiday-essentials/ or contact Ryan *Tax*Direct®.

Latest Customs Changes Impact Both Duty and GST

As part of the Canada Border Services Agency (CBSA) Assessment and Revenue Management (CARM) initiative, Customs Coding (B3) and Request for Adjustment (B2) forms have been replaced with a new digital Commercial Accounting Declaration (CAD) to be used in accounting for goods imported into Canada.

Importers are reminded that any adjustments or corrections to their accounting of imported goods must be made using the new CAD, rather than the B2.

In addition, taxpayers should note that the CAD replaces the B3 to support input tax credit (ITC) claims in certain situations, including GST collected by the CBSA at the border on commercial imports by a resident and GST paid at the border by a non-resident and flowed through to a Canadian recipient under Section 180 or deemed to be paid by the constructive importer under Section 178.8 of the of the *Excise Tax Act*.

New Bank for CRA Wire Transfers

Non-residents who do not have a Canadian bank account and need to issue wire transfer payments to the CRA are reminded to update their banking information, as The Bank of Nova Scotia now processes these transactions. Any wire transfer payments issued to the previous financial institution after November 30, 2024, may be rejected.

For more information on these and other recent tax developments, please visit our News & Insights page or contact the Ryan *Tax*Direct® line at taxdirect@ryan.com or 1.800.667.1600.

Innovation Economy Inflection Point

As we reflect on December 16, 2024—a day that will be remembered as both historic and contentious in Canada's Parliament—it is undeniable that this moment marks a pivotal inflection point in the country's political and economic trajectory. The 2024 Federal Fall Economic Statement sinks considerable teeth into Canada's well-studied productivity problem and economic malaise, emphasizing the need to attract private capital, foster innovation, and improve the competitiveness of Canadian industries by providing incentives for technology-focused investments.

The economic statement introduces several measures designed to enhance economic growth and support Canadian businesses, focusing on direct funding for clean technology, artificial intelligence (AI), and critical minerals. In addition to the direct funding measures, a key area of focus is the Scientific Research and Experimental Development (SR&ED) program, which has been expanded to provide further support for businesses engaged in research and development (R&D) activities, including eligibility enhancements and increased expenditure limits.

Expanded Eligibility for Canadian Public Corporations

A significant change introduced in the economic statement is the expansion of eligibility for the enhanced 35% refundable SR&ED investment tax credit to include eligible Canadian public corporations. Previously, only Canadian-controlled private corporations (CCPCs) could access this enhanced credit. To qualify, a Canadian public corporation must meet all the following criteria:

- **Residency:** The corporation must be a resident of Canada.
- **Canadian Exchange Listing:** The corporation must have a class of shares listed on a designated Canadian stock exchange.
- **Canadian Control:** The corporation must not be controlled directly or indirectly by one or more non-resident persons.

Eligible Canadian public corporations can now claim the enhanced 35% refundable tax credit rate on up to $4.5 million of qualifying SR&ED expenditures annually. This limit is subject to a phase-out based on the corporation's average gross revenue over the three preceding years, starting at $15 million and ending at $75 million. Considering the precarious situation most scaling growth companies experience, eligibility for the refundable credit within the revenue limit metric should help more Canadian public companies achieve critical mass to a global scale.

Enhanced Investment Tax Credit Eligibility for CCPCs

The economic statement also modifies the rules for determining a CCPC's eligibility for the enhanced SR&ED investment tax credit. Key changes include:

- **Increased Expenditure Limit:** The expenditure limit for the enhanced 35% investment tax credit for CCPCs has been increased from $3 million to $4.5 million. This allows eligible CCPCs to claim up to $1.575 million per year in fully refundable tax credits.
- **Increased Taxable Capital Phase-Out Thresholds:** The taxable capital phase-out thresholds have been raised from $10 million and $50 million to $15 million and $75 million, respectively. This means that CCPCs can maintain their enhanced credit eligibility with higher levels of taxable capital.
- **New Election for Revenue-Based Method:** CCPCs now have the option to elect a revenue-based method for determining their expenditure limit for the enhanced SR&ED tax credit. This allows CCPCs to calculate their limit using the same gross revenue phase-out structure as Canadian public corporations, providing added flexibility.

Inclusion of Capital Expenditures

The economic statement reintroduces capital expenditures as qualifying costs for the SR&ED program. This applies to depreciable property acquired on or after December 16, 2024. Key elements of this important change include:

- **Eligible Expenditures:** Capital expenditures on new depreciable property used all or substantially all in SR&ED activities in Canada are now eligible for the tax credit, subject to certain exceptions, such as property previously used or leased by another party.
- **Deduction Against Income:** Eligible expenditures can also be fully deducted in the year the property becomes available for use or carried forward to future years.
- **Shared-Use Property:** Property used for both SR&ED and other activities can still qualify for the tax credit as "shared-use equipment."
- **Partial Refundability for CCPCs**: Tax credits on capital expenditures by CCPCs are partially refundable at a rate of up to 40%, unlike fully refundable credits for current expenses up to the expenditure limit.

The new eligibility rules for the enhanced SR&ED tax credit apply in respect of taxation years that begin on or after December 16, 2024.

New Patent Box Regime

To further support innovative companies developing intellectual property resulting from their R&D, the government has announced that it intends to implement a patent box regime, providing tax benefits for income arising from patents. This measure should provide downstream benefits for Canadian companies, increasing the return on investment for corporate R&D activities. Further details are to be provided in the next federal budget.

Potential Impact

The measures announced in the economic statement represent a strategic move by the federal government to support innovation and economic growth in Canada. By expanding eligibility, increasing the benefit, and reintroducing capital expenditure eligibility, the government aims to create a more favourable environment for businesses investing in R&D.

These changes are expected to positively impact various sectors and position Canada as a leader in emerging technologies. The combined effect of these measures should create a more robust and flexible system for businesses to pursue research and innovation, ultimately leading to a more competitive and prosperous Canadian economy.

While we expect the above measures to be implemented as proposed, it remains to be seen when the enacting legislation will be passed, given the current prorogation of Parliament and a looming federal election. Ryan will continue to monitor the situation closely and provide updates as further information becomes available.

The interplay between investment strategies, direct funding mechanisms, and tax incentives in Canada has become increasingly intricate and complex, and it is strongly recommended that public companies not currently taking advantage of available tax incentives or direct government funding review their current and planned future investments for potential government-funded sources of cash flow. Ryan's corporate income tax, SR&ED, and government funding professionals can assist you in navigating this complex funding landscape for your technology-driven projects.

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Ryan Training

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Client Training

Ryan clients receive exclusive access to an industry-leading suite of client support services, including sales tax training courses. Designed by our tax professionals, these training sessions are intended for clients in senior tax, accounting, or finance roles. Please reach out to your Ryan representative if you have any questions.

FEBRUARY	2/20/2025	Value-Added Taxation in Canada – Fundamentals
	2/27/2025	Value-Added Taxation in Canada – Beyond the Basics
MARCH	3/20/2025	GST/HST and QST – Place of Supply Rules for Property
	3/27/2025	GST/HST and QST – Place of Supply Rules for Services
APRIL	4/17/2025	Value-Added Taxation in Canada – Imports and Exports
	4/24/2025	Employee Expense Reimbursements and Allowances
MAY	5/15/2025	Retail Sales Tax in Canada – Fundamentals
	5/22/2025	Retail Sales Tax in Canada – Exemptions and Real Property
JUNE	6/19/2025	Managing Common Audit Exposures – Part 1
	6/26/2025	Managing Common Audit Exposures – Part 2

Webinars and Other Events

Ryan strives to share knowledge and best practices for finding government funding, mitigating tax risks, and optimizing your cash flow. Learn about topics that could impact your business, by signing up for one of our training events — available to all!

JANUARY	1/28/2025	Navigating New Horizons for Funding and Tax in 2025	**REGISTER**

Course start times vary. All course dates and times subject to change. Additional sessions may be added to accommodate client demand. For the most up-to-date course descriptions and dates, please visit the Ryan website.

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