



# TaxNewsFlash

Canada

## Highlights of the 2024 Federal Fall Economic Update

December 16, 2024

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The federal government delivered the 2024 Fall Economic Update on December 16, 2024. In addition to a deficit of \$61.9 billion for 2023-24, the Update anticipates a deficit of \$48.3 billion for 2024-25 and forecasts deficits of \$42.2 billion for 2025-26 and \$31 billion for 2026-27. The Update provides changes for the Scientific Research and Experimental Development (SR&ED) program, enhances the capital gains deferral on small business share rollovers, reinstates the Accelerated Investment Incentive and Immediate Expensing measures for certain property and imposes additional reporting requirements on non-profit organizations (NPOs), among other changes.

Due to ongoing uncertainty in Parliament, it is not clear whether the tax measures announced in the 2024 Fall Economic Update will be enacted. Because Canada has a minority federal government, these tax measures cannot be passed into law without the support of opposition political parties.

### Business tax changes

The Update announces the following tax changes:

- *SR&ED Tax Incentive Program* — The Update announces new enhancements to the SR&ED program that generally apply to taxation years that begin on or after December 16, 2024, including to:
  - Raise the expenditure limit for Canadian-controlled private corporations (CCPC) to claim an enhanced 35% tax credit to \$4.5 million (from \$3 million)

- Increase the taxable capital phase-out thresholds for determining the expenditure limit to between \$15 million and \$75 million (from \$10 million to \$50 million)
- Allow certain Canadian public corporations to also qualify for the enhanced 35% tax credit on expenditures up to \$4.5 million, and reduce the enhanced credit expenditure limit where the average gross revenue of the corporation or consolidated corporate group is between \$15 million and \$75 million over the three preceding years
- Allow CCPCs to elect to elect to have their expenditure limit for the enhanced credit determined based on the same gross revenue phase-out structure proposed for Canadian public corporations
- Allow businesses to claim capital expenditures for property acquired on or after December 16, 2024.
- *Accelerated Investment Incentive* — The Update re-instates the Accelerated Investment Incentive for qualifying capital property acquired on or after January 1, 2025 that becomes available for use before 2030, and is phased out for property that becomes available for use between 2030 and 2033
- *Immediate Expensing* — The Update re-instates Immediate Expensing measures for certain qualifying property, including manufacturing or processing machinery and equipment (CCA Class 53), clean energy generation and energy conservation equipment (CCA Class 43.1 and 43.2 for property acquired before 2025), and zero-emission vehicles (Classes 54, 55 and 56), where that property is acquired on or after January 1, 2025 and becomes available for use before 2030, and is phased out for property that becomes available for use between 2030 and 2033.

### Clean economy changes

The Update announces the following tax changes:

- *Canada Carbon Rebate for Small Businesses* — The Update adjusts this rebate to extend eligibility to cooperative corporations and credit unions, change the calculation for corporations with employees in multiple provinces and phase out the payment amount once the number of employees across Canada is between 300 and 500
- *Clean Electricity Investment Tax Credit for Provincial and Territorial Crown Corporations* — The Update outlines conditions that provincial and territorial governments must meet to access the credit, including committing to publishing an energy roadmap to achieve net zero emissions by 2050 and to pass on the benefits of the credit to their electricity ratepayers

- *Clean Electricity Investment Tax Credit* — The Update provides that any financing provided by the Canada Infrastructure Bank would not reduce the cost of eligible property for the purpose of computing the credit for eligible property that is acquired and becomes available for use on or after December 16, 2024
- *EV Supply Chain Investment Tax Credit* — The Update announces the design details of the EV Supply Chain Investment Tax Credit, including to outline eligible corporations, eligible property, investment requirements, recapture rules and phase-out details, among others
- *Clean Hydrogen Investment Tax Credit* — The Update expands the credit to include methane pyrolysis as an eligible hydrogen production pathway, applicable to property that is acquired and becomes available for use in an eligible project on or after December 16, 2024.

### Personal tax changes

The Update announces the following tax changes:

- *Capital gains deferral on small business share rollovers* — The Update enhances the capital gains rollover, effective for qualifying dispositions that occur on or after January 1, 2025, by introducing changes to:
  - Increase the period to acquire replacement Eligible Small Business Corporation (ESBC) shares to encompass the year of disposition and the entire calendar year after the year of disposition (from 120 days)
  - Increase the limit to the carrying value of the assets of the ESBC and related corporations to \$100 million (from \$50 million)
  - Provide that an ESBC share would include both common and preferred shares.
- *Canada Disability Benefit* — The Update exempts amounts received under the Canada Disability Benefit from income under the *Income Tax Act*, effective for the 2025 and subsequent taxation years
- *Canada Carbon Rebate Rural Supplement* — The Update expands eligibility for the rural supplement to individuals who reside in certain rural areas or small population centres, effective as of the 2024 taxation year
- *Northern Residents Deductions* — The Update allows residents of the islands of Haida Gwaii to claim up to the maximum value of the deductions, effective for the 2025 and subsequent taxation years.

### Trade & customs changes

The Update announces the following changes:

- *Tariffs* — The Update announces Canada will impose tariffs on certain solar products and critical minerals from China in early 2025, and further intends to impose tariffs on semiconductors, permanent magnets and natural graphite from China beginning in 2026
- *Trade restrictions* — The Update notes that Canada will further restrict the import or export of goods in response to trade measures by Canada's trading partners by amending the *Export and Import Permits Act* (EIPA)
- *Procurement trade* — The Update announces that the government will enforce its obligations to limit access to Canada's federal procurement market to Canadians and our trading partners who provide access to Canada and will consider placing domestic content conditions on foreign suppliers
- *Duty drawback* — The Update proposes to allow for duty drawback for certain goods when they are donated to a registered charity, provided they are to be used in the organization's charitable programs and not re-sold in Canada
- *Forced labour* — The Update announces that the government intends to introduce legislation to strengthen Canada's ban on imports of goods produced with forced labour.

### Non-profit organizations changes

The Update announces the following changes:

- *Reporting by NPOs* — The Update requires NPOs with total gross revenues over \$50,000 to file the annual NPO information return, and requires NPOs that do not meet the NPO information return filing thresholds to file a new, short-form return that contains basic information about the organization, effective for the 2026 and subsequent taxation years.

### Other tax changes

The Update announces the following changes:

- *CRA funding to address tax evasion* — The Update provides \$451.5 million to the CRA over five years, starting in 2025–26, for additional measures to conclude audits of emergency business subsidy amounts (i.e., Canada Emergency Rent Subsidy and Canada Emergency Wage Subsidy) and close major tax compliance gaps
- *Automatic tax filing* — The Update announces measures to simplify and automate individual tax filing in Canada.

### **KPMG observations**

Although the Fall Economic Update notes that the government is committed to many outstanding legislative measures, it remains to be seen whether these proposals will be passed due to the current Parliamentary situation. In particular, the government has not yet enacted long-awaited legislation related to the capital gains inclusion rate increase, lifetime capital gains exemption increase, Canadian Entrepreneurs' Incentive and bare trust reporting, among many others.

### **We can help**

Your KPMG adviser can help you assess the effect of the tax changes in this year's Fall Economic Update on your personal finances and business affairs. We can also keep you abreast of the progress of these proposals as they make their way into law.

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