

# BUDGET 2024: NEW MEASURES ADDRESSING BONUS TAX DEPRECIATION AND CRYPTO-ASSETS

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Budget 2024, which was released on April 16, 2024 (the “**Budget Date**”), announced new measures to accelerate tax depreciation for certain properties as well as certain measures applicable to crypto-asset investments. Given that specifics of the legislation to enact these measures have not yet been released, detailed information regarding the proposed enactments is not yet available.

## Accelerated Capital Cost Allowance

The Canadian federal tax depreciation or capital cost allowance (“**CCA**”) system generally permits a business to claim depreciation deductions in respect of certain capital property at specified rates. Budget 2024 proposes to make temporary changes to the CCA that may be claimed in respect of the following property classes:

### (1) Purpose-built rental housing

One of the stated aims of Budget 2024 was to stimulate the construction of residential rental housing. To that end, Budget 2024 proposes to provide an accelerated CCA of 10% (up from 4%) in respect of new eligible purpose-built residential rental projects that begin construction on or after the Budget Date and before January 1, 2031. An eligible project would be one with (i) at least four private apartment units, or 10 private rooms or suites, and (ii) in which at least 90% of units are held for long-term rental. Projects to convert existing properties from other uses to residential purposes might qualify for this measure. While a renovation of an existing residential complex would not qualify for this measure, an addition to an existing structure might qualify. Finally, property which qualifies for this measure would also benefit from the Accelerated Investment Initiative (which currently suspends the half-year rule for depreciable property that is put into use before 2028).

### (2) Productivity-enhancing assets

Currently, the *Income Tax Act* (Canada) and the regulations promulgated thereunder provide for annual CCA rates of 25% for patents and related rights (Class 44), 30% for data network infrastructure equipment and related software (Class 46), and 55% for general-purpose electronic data-processing equipment and systems software (Class 50). Budget 2024 proposes to instead provide for a 100% first-year deduction for property falling

into those three classes that is acquired on or after the Budget Date and that becomes available for use before January 1, 2027. This measure would not apply in respect of property that was previously owned by the taxpayer or by a non-arm's length person, or for property that is transferred to the taxpayer on a tax-deferred "rollover" basis.

### **Crypto-Asset Reporting Framework and the Common Reporting Standard**

The push towards greater fiscal transparency and tax information exchanges between countries in recent years led to the advent of the Common Reporting Standard (the "**CRS**"). In broad terms, the CRS is the global standard for supporting the exchange of information between various tax authorities with respect to financial accounts held by persons that are resident in countries other than where the accounts are located. However, the CRS does not generally apply in respect of crypto-assets.

Canadian income tax law has been slow to adapt to the advent of crypto-assets, especially in light of its rapid evolution. Budget 2024 proposes to implement a new framework for the reporting of crypto-assets under the Crypto-Asset Reporting Framework ("**CARF**"), which is a parallel system to the CRS. The CARF will mark the first time that Canadian income tax legislation has adopted a tax measure that is specific to crypto-assets. It is noted that Budget 2024 has also initiated a consultation with stakeholders as to whether crypto-backed assets should be "qualified investments" for registered plans.

The new CARF measure, applicable from 2026 (to be reported starting in 2027), would impose a new annual reporting requirement on so-called crypto-asset service providers that (i) are either resident in Canada or that carry on business in Canada, and (ii) provide business services effectuating exchange transactions in crypto-assets (e.g., crypto exchanges, crypto-asset brokers and operators of crypto-asset ATMs). Crypto-asset service providers would be required to collect and report the following:

- i. For each customer and each crypto-asset, the annual value of exchanges between the crypto-asset and fiat currencies, exchanges for other crypto-assets, and transfers of the crypto-asset, including certain exchanges of crypto-assets for goods or services with a value exceeding US\$50,000; and
- ii. identifying information (including taxpayer identification numbers) regarding their customers, including, where the customer is a corporation or other legal entity, the same information in respect of the natural persons who exercise control over that entity.

Given that crypto-asset exchanges and transactions typically entail a level of anonymity, compliance with the CARF measure is expected to be challenging, notably as crypto-asset service providers would be required to collect and report a broad range of information as regards their customers, irrespective of whether they are resident in Canada.

Budget 2024 also proposes to implement the following amendments to the CRS, starting in 2026:

- i. broaden its scope to cover certain specified electronic money products and central bank digital currencies which are not covered by the CARF;
- ii. provide for coordination between the CRS and CARF so as to limit duplicative reporting under the two systems;
- iii. amend the rules so as to eliminate an account held with a Labour-Sponsored Venture Capital Corporation from CRS reporting requirements provided that annual contributions to the account do not exceed US\$50,000; and
- iv. modify the application of the anti-avoidance provision in respect of the CRS to situations where it could reasonably be considered that the primary purpose of an arrangement is to avoid an obligation of any person under the CRS.

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#### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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