Other Changes

- An automobile acquired for daily leasing will be included in Class 16 which provides a 40% rate of capital cost allowance.
- Capital cost allowance will not be permitted on acquisitions after November 12, 1981 of antiques costing $1,000 or more and works of art costing $200 or more. An exception is made for works of art by a Canadian artist where the taxpayer is the first person to have acquired the work as capital property.

ACCRUED INTEREST INCOME

Under the present provisions of the Income Tax Act, a corporation, partnership, unit trust, or any trust of which a corporation or partnership is a beneficiary, must report interest income from obligations acquired after October 28, 1980 and annuity contracts acquired after December 19, 1980 on an accrual basis for years commencing after October 28, 1980. Interest on arm's length obligations and annuities acquired before these dates could continue to be reported when received or receivable depending on the method regularly followed. As proposed in the November Budget, the draft legislation provides that interest accruing on these obligations during the period from the first day of the first taxation year commencing after November 12, 1981 (after December 31, 1981 for annuities) to December 31, 1984 must be included in income on December 31, 1984. Interest accruing after 1984 will have to be included in income on an annual basis. Any interest on these obligations accrued prior to this period will be included in income when it becomes receivable or is actually received.

Transitional Provisions for "Locked-in Funds"

Where a debt obligation was acquired before October 29, 1980 or an annuity contract before December 20, 1980, and the taxpayer cannot require repayment otherwise than by reason of default, interest need not be reported on an accrual basis unless the maturity date is extended or payment terms are changed after 1980.

Life Insurance Policies

The November Budget originally proposed that the requirement to accrue income on an annuity contract be extended to any interest in a life insurance policy acquired after November 12, 1981. However, after discussions with representatives of the life insurance industry the Minister of Finance announced that policies issued prior to June 29, 1982 would continue to be subject to the existing legislation. New rules for policies issued on or after that date were announced and are discussed further in the Insurance section.

PROFESSIONALS' WORK-IN-PROGRESS

Section 34 of the Income Tax Act, permitting a taxpayer to elect to exclude work-in-progress in computing professional income, will be repealed for 1983 and subsequent taxation years. Professional work-in-progress is specifically included in the definition of inventory, and therefore will be valued at the lower of cost or fair market value. Fair market value of such inventory is defined as the "amount that can reasonably be expected to become receivable in respect thereof after the end of the year". Although "cost" is not defined in the draft legislation, the comments in the December 18, 1981 Budget Modifications indicated that only direct expenses such as salaries of professional employees would be included, and that general office expenses and any imputed cost of the partners' or proprietor's time would not be included. To reduce the impact of this amendment, the draft legislation provides that, where work-in-progress was excluded from income in 1982, only one-half of the amount otherwise calculated will have to be included in income for 1983.