Property Excluded

The new rules will not apply to patents, franchises and licences with a limited life (Class 14), wood assets and timber limits (Class 15) or industrial mineral mines. Most assets included in Class 12 will continue to be fully deductible in the year of acquisition, except for television commercial messages and computer application software which will be subject to the new rules.

Property Acquired from a Related Person or on Rollover

The new rules will not apply to property acquired in a non-arm's length transaction, in an amalgamation, as the result of the winding-up of a subsidiary Canadian corporation, or in transactions subject to an election under Subsections 85(1), 85(2), 97(2) or 98(3) of the Act, provided that the transferor owned the property continuously since November 12, 1981 or for at least 365 days prior to the taxpayer's year-end.

Transitional Rules

Full capital cost allowance may be claimed in the year of acquisition for property acquired after November 12, 1981, in the following circumstances:

- the taxpayer was obligated to acquire the property pursuant to a written agreement entered into before November 13, 1981 (or before 1982 for Class 31 Multiple Unit Residential Buildings)

- the taxpayer or a related party had commenced the construction or manufacture prior to November 13, 1981 (before 1982 for a MURB)

- arrangements in writing for construction or manufacture were substantially advanced before November 13, 1981 and construction or manufacture commenced on or before May 31, 1982

- the taxpayer was obligated to acquire property under a written agreement entered into on or before May 31, 1982 where the arrangements were substantially advanced before November 13, 1981

- the property is a certified feature film acquired prior to 1983 or a MURB acquired prior to 1982.

Provincial CCA Claims

The Province of Ontario has announced that it will not reduce the capital cost allowance in the year of acquisition. The Province of Quebec will probably parallel the Federal amendments.

Short Taxation Years

As originally proposed, the draft regulations provide that for taxation years of less than 12 months the capital cost allowance for all classes other than Classes 14 and 15 must be prorated based on the number of days in the period.

Terminal Losses on Buildings

Where land and building are sold together, the allocation of the proceeds will be artificially adjusted so that any gain on the land will first be treated as a recovery of the cost of the building, thereby reducing or eliminating a terminal loss that might otherwise arise. Where the land is not sold in the same year, the proceeds from the sale of the building will be deemed to be not less than undepreciated capital cost; any resulting overstatement of proceeds can be added to the cost of the land upon its sale, or added to the cost of another building constructed or already existing on the land. This provision is more fully described in the section dealing with Real Property.