BUSINESS, PROPERTY AND CAPITAL GAINS

- Reserves for unpaid sales proceeds curtailed
- First year CCA cut in half
- Accrual of interest income
- Professional's work-in-progress
- Employers' contribution to Registered Pension Plans and Deferred Profit Sharing Plans
- Small Business Development Bonds
- Other Changes

RESERVES

Income Reserves

Under the present legislation, a reasonable amount may be claimed as a reserve in respect of property sold in the ordinary course of business where part of the proceeds is not due until more than two years after the date of sale and after the end of the year (for land sales only the latter test must be met). The draft legislation provides that for dispositions after November 12, 1981, no reserve may be claimed with respect to a sale occurring more than 36 months before the end of the year. Therefore, any gain on any type of inventory with delayed payment terms will now be taxed over a maximum of three years.

Capital Gains Reserves

With respect to a disposition of capital property after November 12, 1981, the draft legislation permits a taxpayer to claim a reasonable amount as a reserve for proceeds not due until after the end of the year, provided that at least one-fifth of the gain times the number of taxation years since the disposition has been included in income. In other words, one-fifth of the gain must, as a minimum, be included in the year of sale and in each of the subsequent four taxation years, regardless of the length of the payment period.

Family Farms and Small Business Corporations

Where the property is family farm property, shares of a family farm corporation, an interest in a family farm partnership, or shares of a small business corporation that are disposed of to the taxpayer's child who is resident in Canada, the maximum reserve is computed as above except that it will be taxed over a maximum of ten years rather than five years.

Computation of the Reserves

Although the Budget Modifications of December 18, 1981 indicated that the proceeds would be treated as being first a receipt of profits, the draft legislation for both income and capital gains reserves has continued the concept of a "reasonable amount" as a reserve during the deferral period. Presumably this will continue to be calculated as the proportion that the proceeds not yet due is of the gross sales proceeds times the gain.

CAPITAL COST ALLOWANCE AMENDMENTS

The draft regulations to implement the proposed changes to capital cost allowance provisions were released on May 31, 1982, and no additional changes were announced on June 28, 1982.

50% CCA in Year of Acquisition

Capital cost allowance otherwise calculated will be reduced by 50% of the cost of acquisitions made in the year and after November 12, 1981, net of proceeds of disposition in the year.

Classes 24, 27, 29 and 34

For water and air pollution equipment, manufacturing equipment, and energy generating equipment acquired after November 12, 1981, the maximum capital cost allowance will be 25% of cost in the year of acquisition, 50% in the second year and 25% in the third year. As is presently the case for these classes, capital cost allowance not claimed in the earlier years can be fully claimed in subsequent years.