

Income Tax

IMP. 101-1/R2 **Government assistance in respect of depreciable property**
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Reference(s): *Taxation Act* (R.S.Q., c. I-3), ss. 93 (par. e), 94, 101, 101.3, 101.4, 101.6, 101.7, 130.1, 257 (par. l and n), and 485-485.18
 Regulation respecting the Taxation Act (R.R.Q., 1981, c. I-3, r.1, as amended), s. 101.3R1

This bulletin supersedes bulletin IMP. 101-1/R1 dated January 29, 1993.

This bulletin explains the tax treatment of government assistance related to depreciable property.

APPLICATION OF THE ACT

1. Section 101 of the *Taxation Act* (TA) provides for certain adjustments to the capital cost of depreciable property. Such adjustments are applicable where a taxpayer

- (a) has received or is entitled to receive an amount of government assistance in respect of depreciable property, other than a prescribed amount;
- (b) has deducted, in respect of depreciable property, a particular amount other than a prescribed amount under subsection 5 or 6 of section 127 of the *Income Tax Act* (R.S.C., 1985, c. 1 (5th Supp.)), hereinafter referred to as the "ITA", pertaining to the investment tax credit; or
- (c) must reduce the capital cost and the undepreciated capital cost of the remaining part of the forgiven amount of the debt, according to the rules provided for in sections 485 to 485.18 of the TA.

2. In these circumstances, the capital cost of the property to the taxpayer at a particular time is deemed to be equal to the amount by which the aggregate of the capital cost of the property, determined without reference to sections 101, 101.6, 101.7 and 485 to 485.18 of the TA, and of the amount of the assistance in respect of the property repaid by the taxpayer pursuant to an obligation to do so, before the disposition of the property and before the particular time, exceeds the aggregate of the following amounts:

- (a) all particular amounts, where the property was acquired in a taxation year ending before the particular time, deducted by the taxpayer as a federal investment tax credit in respect of the property for a taxation year ending before the particular time and before the disposition of the property;
- (b) the amount of assistance the taxpayer has received or is entitled, before the particular time, to receive in respect of the property before its disposition; and
- (c) any amount of an adjustment related to forgiveness of a debt.

3. Sections 101.6 and 101.7 of the TA pertain to the adjustment of the capital cost of depreciable property where an election is made under section 101.6 of the TA in respect of non-government assistance received in respect of the property (refer to the current version of bulletins IMP. 101.6-1, *Election concerning an amount of assistance or an inducement received by a taxpayer in respect of depreciable property*).

4. For the purposes of point 1 above, the prescribed amounts are described in the current version of bulletin IMP. 87-7, *Prescribed amounts of assistance*.

5. Where a taxpayer receives or is entitled to receive an amount of assistance in respect of property that is used partially for personal purposes and partially to earn income, the portion of the amount of assistance related to the part of the property used for personal purposes is discussed in the current version of bulletin IMP. 257-2, *Government assistance in respect of capital property other than depreciable property*.

GOVERNMENT ASSISTANCE RELATED TO DEPRECIABLE PROPERTY

6. The government assistance covered by this bulletin may take the form of a grant, subsidy, forgivable loan, deduction from tax, investment allowance or any other form of assistance, and may be provided by a government, municipality or other public authority.

7. The amount that the taxpayer has deducted in respect of depreciable property as a federal investment tax credit does not include, for the purposes of point 1 above, an amount that can reasonably be considered to relate to expenses that are, for the purposes of section 127 of the ITA, qualified expenditures in respect of scientific research and experimental development and that would be determined under subsection 5 or 6 of that section if, in the definition of “qualified expenditure” provided for in subsection 9 of that section, only the expenditures made after April 30, 1987, and before May 10, 1996, were taken into account.

ASSISTANCE DEEMED TO HAVE BEEN RECEIVED BY A TRUST OR PARTNERSHIP

8. For the purposes of section 101 of the TA, section 101.3 of the TA provides that, where a prescribed amount must be taken into account for the purpose of determining a prescribed tax deduction to which a member of a partnership or beneficiary of a trust, as applicable, is entitled at the end of the member’s or beneficiary’s taxation year, the portion thereof that can reasonably be considered to relate to depreciable property is deemed to have been received by the partnership or

trust, as applicable, at the end of the partnership's or trust's fiscal period ending in that taxation year, as assistance from a government for the acquisition of depreciable property.

9. For the purposes of section 101.3 of the TA, section 101.3R1 of the *Regulation respecting the Taxation Act* provides that the prescribed amount is the amount determined under subsection 7 or 8 of section 127 of the ITA, excluding the portion of the amount that can reasonably be considered to relate to an amount that is a qualified expenditure, within the meaning of subsection 9 of that section 127, and that constitutes, for the purposes of the definition of that expression, an expenditure made after April 30, 1987, and before May 10, 1996. Likewise, the amount of the tax deduction provided for in subsection 5 or 6 of section 127 of the ITA is also a prescribed amount.

10. For the purposes of section 101 of the TA, section 101.4 of the TA provides that, where at a particular time a taxpayer who is a member of a partnership or a beneficiary of a trust has received or is entitled to receive government assistance, the amount of the assistance that can reasonably be considered to relate either to the partnership's or trust's depreciable property, as applicable, or to the acquisition of such property, is deemed to have been received at that time by the partnership or trust, as applicable, as government assistance for the acquisition of depreciable property.

11. A taxpayer who is a member of a partnership or a beneficiary of a trust, as applicable, must deduct, under subparagraph ix of paragraph *l* of section 257 of the TA or under subparagraph v of paragraph *n* of section 257 of the TA, as applicable, at a particular time, in computing the adjusted cost base of the member's or beneficiary's interest in a partnership or capital interest in a trust, as applicable, an amount equal to the amount of all assistance received by the taxpayer before that time, to the extent that the amount has resulted in a reduction in the capital cost of depreciable property to the partnership or trust, as applicable, by virtue of section 101.4 of the TA.

DETERMINATION OF UNDEPRECIATED CAPITAL COST

12. Subparagraph *e* of the first paragraph of section 93 of the TA provides for the determination of the undepreciated capital cost, hereinafter referred to as the "UCC", to a taxpayer of depreciable property of a prescribed class at any time. Section 93 of the TA provides for upward and (in the second paragraph of that section) downward adjustments.

13. Some of these adjustments relate to the amount of a repayment of government assistance. Thus, under subparagraph ii.1 of subparagraph *e* of the first paragraph of section 93 of the TA, the UCC must be increased by the aggregate of all amounts each of which is an amount of assistance in respect of depreciable property of the prescribed class that has been repaid by the taxpayer, pursuant to an obligation to repay all or part of the amount, after the taxpayer disposed of it, and that would have been included in computing the capital cost of the property under section 101 of the TA had the repayment been made before the disposition.

14. The UCC must furthermore be reduced by

- (a) the aggregate of all amounts each of which is an amount, other than a prescribed amount, deducted under subsection 5 or 6 of section 127 of the ITA, in respect of depreciable property of the prescribed class, in computing the taxpayer's tax payable under the ITA for a

taxation year ending before that time and after the disposition of the property (subparagraph *f* of the second paragraph of section 93 of the TA);

- (b) the aggregate of all amounts each of which is an amount of assistance in respect of depreciable property of a prescribed class, or for the acquisition of such property, that the taxpayer received or was entitled to receive before that time and after the disposition of the property and that would have been included, under section 101 of the TA, in the amount of assistance that the taxpayer received or was entitled to receive in respect of the property had the amount been received before the disposition of the property (subparagraph *g* of the second paragraph of section 93 of the TA).

EXAMPLE

15. A taxpayer carries on a business the fiscal year of which ends on December 31 each year.

The situation for each of the taxation years concerned is as follows:

In year 1, the taxpayer acquires depreciable property for an amount of \$100,000. This property is the sole property of its class. Government assistance in the amount of \$20,000 is granted in respect of the property.

In year 2, additional government assistance in the amount of \$10,000 is granted in respect of the property.

In year 3, the taxpayer repays to the government, pursuant to an obligation, assistance in the amount of \$10,000 received in a preceding year.

In year 4, the taxpayer disposes of the property in question.

In year 5, additional government assistance in the amount of \$10,000 is granted in respect of the property.

In year 6, the taxpayers repays, pursuant to an obligation, the amount of \$10,000 received in year 5.

Government assistance or repayment of assistance related to property before it is disposed of

For year 1, the capital cost of \$100,000 of the depreciable property acquired by the taxpayer is reduced by \$20,000, that is, the amount of assistance granted in respect of the acquisition of the property, under section 101 of the TA.

For year 2, in view of the fact that the property in question has not yet been disposed of, the additional \$10,000 assistance received in respect of the property also reduces the capital cost of the property, under section 101 of the TA.

For year 3, in view of the fact that the property in question has not yet been disposed of, the repayment of the \$10,000 assistance received by the taxpayer in year 2 increases the capital cost of the property, under section 101 of the TA.

For year 4, the disposition of the property could generate a capital gain, recaptured depreciation or a terminal loss, as applicable, and, since this is the only property belonging to the prescribed class, the UCC becomes nil.

Government assistance or repayment of assistance related to property after it is disposed of

For year 5, in view of the fact that the taxpayer disposed of the property in question in year 4, the \$10,000 assistance received in respect of the property reduces the UCC of all property of the prescribed class to which the property belongs, under subparagraph *g* of the second paragraph of section 93 of the TA. This reduction causes the UCC of property of the prescribed class to fall before zero, resulting in recaptured depreciation under section 94 of the TA. The UCC is once again nil.

For year 6, in view of the fact that the property in question was disposed of, the \$10,000 assistance received in year 5 in respect of the property and repaid to the government by the taxpayer in that year increases the UCC of all property of the prescribed class to which the property disposed of belongs, under clause ii.1 of subparagraph *e* of the first paragraph of section 93 of the TA, and, since no other property remains in the class, the increase results in a terminal loss within the meaning of section 130.1 of the TA. The UCC is once again nil.