

# Capital Cost Allowance (CCA)

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# CCA

A method of reporting a decline in value



Retrieved October 6, 2014 from:  
<http://uygarr.blogspot.ca/2012/10/new-ford-mondeo-release-date.html>

Retrieved October 6, 2014 from:  
<http://myfinancialjourney.com/archive/my-financial-journeys-pimp-ride>

# Accounting Vs. Tax

Amortization vs. CCA

Cost vs. Capital Cost

Net Book Value vs. Un-depreciated Capital Cost (UCC)

Individual Assets vs. Asset Pools by Class

# Accounting Amortization:

\$100,000	Purchased equipment with 5 year useful life (Cost)
<u>(20,000)</u>	Amortization in Year 1 (1/5)
80,000	Remaining useful life after year 1 (NBV)
<u>(20,000)</u>	Amortization in Year 2 (1/5)
60,000	Remaining useful life after year 2 (NBV)
<u>(20,000)</u>	Amortization in Year 3 (1/5)
40,000	Remaining useful life after year 3 (NBV)

# Tax Depreciation:

\$50,000	Equipment A purchased (Cost)
<u>\$50,000</u>	Equipment B purchased (Cost)
100,000	Total Equipment
( <u>20,000</u> )	Depreciation (CCA) in Yr 1 (20%)
80,000	Remaining tax cost after year 1 (UCC)
( <u>16,000</u> )	Depreciation (CCA) in Yr 2 (20%)
64,000	Remaining tax cost after year 2 (UCC)
( <u>12,800</u> )	Depreciation (CCA) in Yr 3 (20%)
51,200	Remaining tax cost after year 3 (UCC)

# Additions of Property

## For Tax Purposes:

An addition to the capital cost of a property includes everything required to bring it to its useable state:

Legal, Accounting, and Appraisal fees to acquire  
Realtor Fees

Shipping, Duties, Installation

Ie. Mr. Smallman purchased a \$15,000 tractor. He incurred a \$2,000 legal fee and it cost \$1,500 to ship it to his home.

The Capital Addition is: \$18,500 added to CCA Class.

# Additions of Property

## Restrictions

Government assistance received is deducted from the cost of an asset for tax.

Mr. Smallman purchased a manufacturing plant for \$1.5 million. The government gave him a grant for \$500,000 to use towards the purchase.

Total addition to manufacturing assets: \$1,000,000  
(\$1,500,000 cost - \$500,000 reimbursed grant)

# What is Capital?

Remember our test for Rental/Home Office Deduction Purposes?

Does it add to the value  
of a property

Is it expected to have a useful  
life longer than a year

Is it material

Capital

New Roof

New Siding  
Freezer

Current

Fix 1 Shingle

Paint  
Frying Pan

# What is Depreciable Property?

Can't be Inventory

What is inventory depends on nature of the business

Printers are inventory to a company that sells and distributes printers

Printers are capital to a legal firm

Can't be Land

Land is a non-depreciable asset

It's value lasts forever

# CCA Terminology

- Capital Cost Allowance “Classes”
    - All assets of a particular class are lumped together
- Example:      Vehicles – Class 10,  
                    Equipment – Class 8,  
                    Software – Class 12, etc

Class 10



Retrieved Oct 1, 2014 from:  
<http://www.homepower.com/articles/vehicles/basics/what-types-vehicles>

Class 8



Retrieved Oct 1, 2014 from:  
<http://www.oaklease.co.uk/Office-Equipment-Leasing>

Class 12



Retrieved Oct 1, 2014 from:  
[http://www.webopedia.com/DidYouKnow/Hardware\\_Software/types\\_of\\_software.asp](http://www.webopedia.com/DidYouKnow/Hardware_Software/types_of_software.asp)

# CCA Terminology

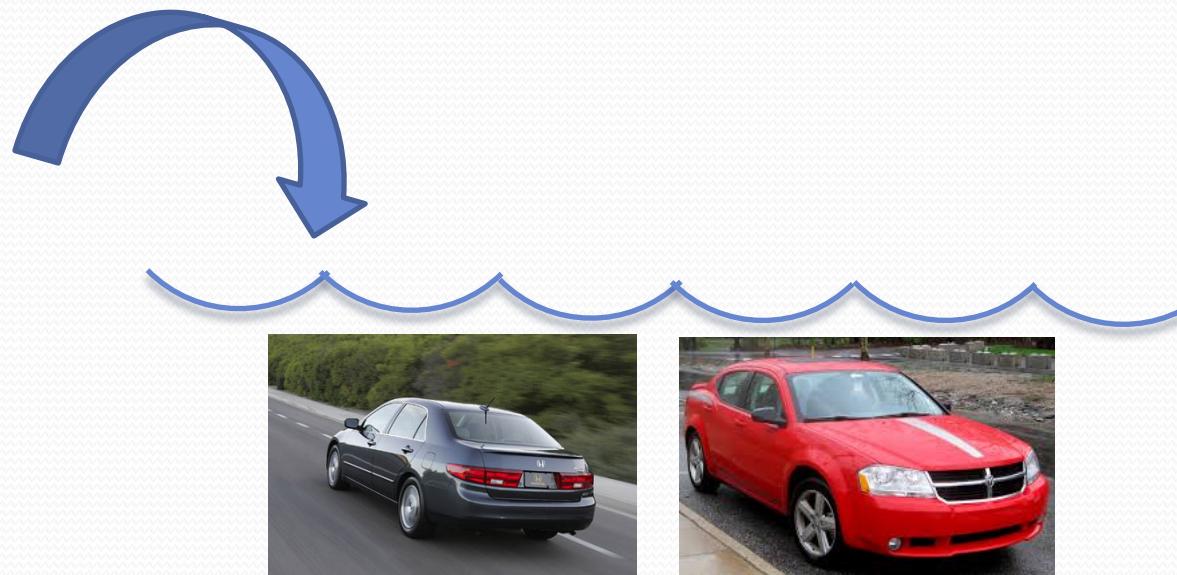
- Capital Cost Allowance “Pools”

- The particular balance of a CCA Class is called it's “Pool”. When you purchase an addition to a CCA Class you are adding to that Class's pool of UCC to depreciate.

WHOO  
HOO!!!



Retrieved Oct 1, 2014 from:  
<http://www.vehiclepassion.com/2012/11/15/watch-2013-ford-fusion-jumping-off-a-cliff-in-commercial-video/>



Retrieved Oct 1, 2014 from:  
[http://www.forbes.com/fdc/welcome\\_mjx.shtml](http://www.forbes.com/fdc/welcome_mjx.shtml)

Retrieved Oct 1, 2014 from:  
<http://www.commentarymagazine.com/2009/05/01/an-inconsistent-car-company-goes-bankrupt/>

# Exceptions

- Separate Pools of the same “Class” of asset when:

Multiple businesses. Example: a knitting supplies business and a legal advice business. Equipment related to each should be kept separate even though it is all equipment
- Rental Properties in excess of \$50,000
- Luxury vehicles (Class 10.1) costing more than \$30,000

# Calculating CCA

- Capital Cost Allowance (CCA)
  - Annual CCA reduces the capital cost of a property and the remaining balance is UCC.
  - Opening UCC Pool
    - Add in additions
    - Subtract disposals (lesser of cost or proceeds)
    - Less: CCA
  - Closing UCC Pool
- Methods
  - Declining Balance – Most Classes
  - Straight Line – Leaseholds (Class 13)

# Declining Balance - Example

- Stats
  - Original Cost = 500,000
  - Opening UCC Pool = 100,000
  - Rate 10%

Declining Balance Year 1:  $100,000 \times 10\% = 10,000$ .

100,000 opening UCC – 10,000 CCA = 90,000 Ending UCC

Declining Balance Year 2:  $90,000 \times 10\% = 9,000$ .

90,000 opening UCC – 9,000 CCA = 81,000 Ending UCC

# Declining Balance - Practice

- Stats
  - Original Cost = 100,000
  - Opening UCC Pool = 60,000
  - Rate 30%

Declining Balance Year 1:  $60,000 \text{ UCC} \times 30\% = 18,000 \text{ CCA}$   
 $60,000 \text{ opening UCC} - 18,000 \text{ CCA} = 42,000 \text{ Ending UCC}$

Declining Balance Year 2:  $42,000 \text{ UCC} \times 30\% = 12,600 \text{ CCA}$   
 $42,000 \text{ opening UCC} - 12,600 \text{ CCA} = 29,400 \text{ Ending UCC}$

# Straight Line - Example

- Stats
  - Original Cost = 500,000
  - Opening UCC Pool = 200,000
  - Straight line over 5 years.

Straight Line Year 1:  $500,000 / 5 \text{ years} = 100,000$  each year  
200,000 opening UCC – 100,000 CCA = 100,000 Ending UCC

Straight Line Year 2:  $500,000 / 5 \text{ years} = 100,000$  each year  
100,000 opening UCC – 100,000 CCA = 0 Ending UCC

# Straight Line - Practice

- Stats
  - Original Cost = 400,000
  - Opening UCC Pool = 250,000
  - Straight line over 8 years.

Straight Line Year 1:  $400,000 / 8 \text{ years} = 50,000 \text{ each year}$   
 $250,000 \text{ opening UCC} - 50,000 \text{ CCA} = 200,000 \text{ Ending UCC}$

Straight Line Year 2:  $400,000 / 8 \text{ years} = 50,000 \text{ each year}$   
 $200,000 \text{ opening UCC} - 50,000 \text{ CCA} = 150,000 \text{ Ending UCC}$

# Accelerated First Year Rule

In the Year of Acquisition (purchase), 150% of the CCA on the additions can be taken

Declining Balance Example:

Opening UCC       $\$10,000 \times 10\% =$       1,000

Additions       $\$5,000 \times 10\% \times 150\% = 750$

Rate 10%      -----      -----

Total Pool:      15,000      1,750 Total CCA

10,000 Opening UCC + 5,000 Additions - 1,750 CCA =  
13,250 Ending UCC

# First Year Rule - Practice

Steve purchased a \$15,000 vehicle during the year for his business. The balance in his vehicle UCC pool at the beginning of this year is \$30,000 and the declining balance rate of CCA is 30%. Calculate his current year CCA and Closing UCC Balance.

Opening UCC	$\$30,000 \times 30\% =$	9,000
Additions	$\$15,000 \times 30\% \times 150\% =$	6,750
Rate 10%	-----	-----
Total Pool:	<u>45,000</u>	<u>15,750</u>
		Total CCA

$$30,000 \text{ Opening UCC} + 15,000 \text{ Additions} - 15,750 \text{ CCA} = 29,250$$

Ending UCC

# Short Fiscal Periods

- When a fiscal year is short you prorate the CCA
- Suppose the business only started in December CCA is  $1/12$  what it normally would be.
- Application
  - First or last year of the business
  - 150% first year rule still applies if it is the year of purchase
  - Length of business year determines proration, not length of ownership of the asset
  - Only applicable to business income. No proration on property income producing assets.

# Short Fiscal Periods

When a fiscal year is short (suppose the business only started in December) you prorate the CCA

Facts: 10% Class, Cost \$100,000, Year of purchase

Declining Balance Year 1:  $100,000 \times 10\% \times 150\% = 15,000 \times 1/12$   
(1 month out of 12 months) = 1,250.

100,000 opening UCC - 1,250 CCA = 98,750 Ending UCC

Declining Balance Year 2:  $98,750 \times 10\% = 9,875$

98,750 opening UCC - 9,875 CCA = 88,875 Ending UCC

# Short Fiscal Periods - Practice

Clovis decided to start a business September 1, 2012 and his fiscal year end will be Dec 31, 2012. He purchased a small office building for \$90,000 in October in order to open a Quiznos franchise. Calculate his CCA in year 1 and 2 assuming a 6% rate.

Declining Balance Year 1:  $90,000 \times 6\% \times 150\% = \$8,100$  CCA x  $4/12$  (4 months out of 12 months) = \$2,700 Prorated CCA  
90,000 opening UCC - 2,700 CCA = 87,300 Ending UCC

Declining Balance Year 2:  $87,300 \times 6\% = 5,238$   
87,300 opening UCC - 5,238 CCA = 82,062 Ending UCC

# Important Rates

- Class 1 - Buildings
  - 4% - If not included in one of the other %'s.
  - 6% - After 2007 >90% Non-residential buildings (offices, malls)
  - 10% - After 2007 >90% Buildings used in Manufacturing & Processing (M&P)

Cannot use CCA to create or increase a rental loss

# Important Rates

- Class 8 – Miscellaneous/Equipment
  - 20%
  - Furniture
  - Equipment
  - Machinery
  - Photocopiers
  - Telephone Equipment
  - If something doesn't have a prescribed class, it usually goes here.

# Important Rates

- Class 10 - Vehicles
  - 30% - Non-luxury cars, motorcycles, trucks, trailers, or special purpose vehicles like a cube van to fill with tools for a contractor
- Class 10.1 – Luxury Vehicles
  - 30% - But limited to a CCA addition of \$30,000 regardless of the vehicles cost.
  - Each luxury vehicles gets it's own Class 10.1
  - When you dispose of it, you still get a half year's CCA and then there is no terminal loss or recapture.

# Important Rates

- Class 12 – Small Items & Software
  - 100%
  - Computer Software (no systems software -Microsoft 10)
  - Various Tools.
  - Books to be lent
  - Cutlery/China
  - Uniforms
  - Kitchen Utensils under \$500

# Important Rates

- Class 13 – Leasehold Improvements
  - Straight line – over the lease term + first renewal period. (minimum of 5 years if short term)
  - What is a Leasehold: you rent a unit in an office building but improve it with new walls, painting, electrical, plumbing. Pretty much anything not part of the structure that a renter adds.
  - Ex: Purchased leaseholds worth \$70,000 in the second year of a 5 year lease (so 4 remaining). There is a renewal option on the lease of 3 years.

$70,000 / (4 + 3) = 10,000$  depreciated per year with 150% =  
\$15,000 first year depreciation, 10k each year after

# Important Rates

- Class 53 – Manufacturing & Processing Equipment
  - 50%
  - Purchased after 2015 and before 2026
  - Only for M&P Equipment, not general purpose

M&P includes the creation of things – food, other machinery, vehicles, medication, etc.

# Important Rates

- Class 50– Computers
  - 55%
  - Computer Hardware – laptops/Desktops
  - System Software – Not Class 12 assets like Microsoft Office, more like what a computer needs to operate. (Think Microsoft 10)
  - Computer Classes change a lot. In recent years has been 45, 52, 55. Current additions go to 50, but older ones may not (purchased in 2007 for example)

# Know Your Rates

- For each of the following depreciable assets, indicate the appropriate CCA Class.

• Printer	8
• Machine for cutting out vehicle parts	53
• BMW Costing \$50,000	10.1
• New dividing wall in a rented office	13
• Manufacturing Plant	1 (10%)
• Microsoft excel	12

# Leaseholds

150% first Year Rule Applies

Straight Line

Remainder of the lease term + first renewal period.

Leasehold improvements purchased in 2008 for \$400,000.  
Lease term is 7 years + two 3 year renewal periods.

CCA in 2008 is  $400,000 / (7+3) \times 150\% = \underline{\$60,000}$   
 $400,000 / 5 \times 150\% = \$120,000$

CCA in 2012 is  $400,000 / (7+3) = \$40,000$

# Leaseholds

Leasehold improvements purchased in 2008 for \$400,000.  
Lease term is 7 years + two 3 year renewal periods.

CCA in 2008 is  $400,000 / (7+3) \times 150\% = \$60,000$

CCA in 2013 is  $400,000 / (7+3) = \$40,000$

Leasehold improvements purchased in 2010 for \$60,000 on the same building. (2 years have passed since lease started)

CCA in 2010 is  $60,000 / (5+3) \times 150\% = \underline{\$11,250}$

$60,000 / 5 \times 150\% = 18,000$

CCA in 2012 is  $60,000 / (5+3) = \$7,500$

60,000  
40,000  
40,000  
40,000  
40,000  
40,000  
40,000  
40,000  
40,000  
20,000

# Class 10.1

Each one goes in a separate CCA pool

Additions are capped at \$30,000 + tax:

- \$40,000 car purchase = \$30,000 added to UCC
- \$20,000 car purchase = goes in Class 10.
- \$60,000 car purchase = \$30,000 added to UCC

# Class 10.1

## On Sale

-No Terminal Losses

-No Recapture

- $\frac{1}{2}$  year's CCA

$10,000 \text{ UCC} \times 30\% = \$3,000 \times 50\% = \$1,500 \text{ CCA deduction}$

$10,000 \text{ UCC} - 1,500 \text{ CCA} = \$0 \text{ Ending UCC.}$

# Class 10.1

Sold the car for \$12,000. UCC pool of \$15,000

\$15,000 Opening UCC

- No impact for sale proceeds
- 

\$15,000            Remaining UCC in a class with no assets

(\$2,250)  $\$15,000 \times 30\% \times \frac{1}{2}$  Half year's CCA claimed.

-                    Resets UCC - No tax impact

CCA is based on UCC before disposals.

# Class 10.1

Sold the car for \$19,000. UCC pool of \$15,000

\$15,000 Opening UCC

- No impact for sale proceeds
- 

15,000 Negative UCC in a class with no assets

(\$2,250)  $\$15,000 \times 30\% \times \frac{1}{2}$  Half year's CCA claimed.

- Resets UCC - No tax impact

CCA is based on UCC before disposals.

# Disposing of Depreciable Property

- Accounting (Not tax)
  - Proceeds less Net Book Value (NBV) (original cost less amortization) = Gain or Loss

Example:

Gerald operates a business and owns several delivery trucks which are capital assets. He purchased them for \$40,000 and has taken \$25,000 in amortization since purchase. He sold them during the year for \$60,000.

$$40,000 \text{ Cost} - 25,000 \text{ Amort.} = 15,000 \text{ NBV}$$

$$60,000 \text{ Proceeds} - 15,000 \text{ NBV} = 45,000 \text{ Gain on Disposal}$$

# Accounting Disposition:

\$100,000	Purchased equipment with 5 year useful life (Cost)
<u>(20,000)</u>	Amortization in Year 1 (1/5)
80,000	Remaining useful life after year 1 (NBV)

Equipment sold in year two for \$120,000

\$120,000	Proceeds
<u>(80,000)</u>	Net Book Value (Cost less Amortization)
40,000	Gain on Disposition

# Disposing of Depreciable Property

Key to Know: No Capital Losses on Depreciable Property

- Tax Treatment
  - Lesser of: original cost or proceeds deducted from the pool.
    - IF: Still assets in the pool and a balance of UCC in the pool, then nothing special happens – CCA as normal.
    - IF: No assets in the pool and a UCC balance remaining, then terminal loss (less CCA taken than should have been)
    - IF: UCC is negative, then recapture results (more CCA taken than should have been)

# Disposing of Depreciable Property

Proceeds in excess of cost trigger capital gains.

## **Original Cost**

Proceeds in excess of UCC trigger recapture of negative UCC created.

## **UCC Balance of Pool**

Proceeds less than UCC do nothing special if other assets left in the pool – CCA as normal.

Proceeds less than UCC trigger terminal loss of remaining UCC balance if no assets are left.

# Example A – No Special Tax Impact

Mr. Sykes bought a piece of equipment for 100,000 and claimed CCA over time. His opening UCC balance for the current year was \$150,000 and he sold the equipment for \$60,000. He has several pieces of equipment left.

UCC Opening Balance	\$150,000
Disposals	(60,000) (less of 100k and 60k)
-----	
UCC Ending Balance	\$90,000
	x 20%
	<u>(18,000)</u> CCA deduction
	72,000 Ending UCC

Reduces the pool, but does not deplete it (less than zero) and there are still assets to depreciate. Therefore, no special tax impact (terminal loss or recapture, etc).

# Example B – Terminal Loss

Mr. Sykes bought a piece of equipment for 100,000 and claimed CCA over time. His opening UCC balance for the current year was \$150,000 and he sold the equipment for \$60,000. He has no equipment left.

UCC Opening Balance	\$150,000
Disposals	(60,000) (less of 100k and 60k)
-----	
Terminal Loss	\$90,000 Reduction of Income

Reduces the pool, but does not deplete it (less than zero) but no assets left to depreciate. Should have depreciated faster.

# Example C - Recapture

Mr. Sykes bought equipment for 100,000 and claimed CCA over time. His opening UCC balance for the current year was \$50,000 and he sold the equipment for \$60,000.

UCC Opening Balance	\$50,000
Disposals	(60,000) (less of 100k and 60k)
-----	
Recapture of CCA	(10,000) Included in income

Reduces the pool to less than zero. Assets were depreciated too quickly. Need to recover some CCA taken by reporting income.

# Example D - Gain

Mr. Sykes bought equipment for 100,000 and claimed CCA over time. His opening UCC balance for the current year was \$50,000 and he sold the equipment for \$120,000.

UCC Opening Balance	\$50,000
Disposals	(100,000) (less of 100k and 120k)
-----	
Recapture of CCA	(50,000) Included in income

Reduces the pool to less than zero. Assets were depreciated too quickly.  
Need to recover some CCA taken by reporting income.

Proceeds also more than cost. An absolute gain has occurred. Must treat as a capital gain.

\$120,000 Proceeds – 100,000 Cost = 20,000 Capital Gain 50% taxable = \$10,000 included into income.

# Practice - A

Mr. Sykes bought a piece of equipment for 80,000 and claimed CCA over time. His opening UCC balance for the current year was \$170,000 and he sold the equipment for \$90,000. He has one other piece of equipment left.

UCC Opening Balance	\$170,000
Disposals	<u>(80,000)</u> (less of cost and proceeds)
UCC Ending Balance	<u>\$90,000</u> Assets left to depreciate

- Reduces the pool, but does not deplete it (less than zero) and there are still assets left to depreciate. No Income Impacts
- Capital gain triggered as proceeds exceed cost

$$\$90,000 - \$80,000 = \$10,000 \text{ capital gain } 50\% \text{ taxable} = \$5,000 \text{ inclusion}$$

# Practice - B

Mr. Sykes bought a piece of equipment for 150,000 and claimed CCA over time. His opening UCC balance for the current year was \$60,000 and he sold the equipment for \$120,000. He has no other equipment left

UCC Opening Balance	\$60,000
Disposals	<u>(120,000)</u> (less of cost and proceeds)
UCC Ending Balance	<u>\$(-60,000)</u> Recapture (100% income)

Reduces the pool to less than zero. Assets were depreciated too quickly.  
Need to recover some CCA taken by reporting income.

Next year's Opening UCC Balance will be zero. Recapture resets the UCC to zero.