Change The Accelerated Capital Cost Allowance for Computer Equipment to the Same Asset Class as Computer Software (Class 12)

Capital Cost Allowances (CCA) rates are generally intended to reflect the economic benefit of the asset over time, specifically, over its useful life. The depreciation rate is intended to reflect the fact that depreciable assets contribute to earnings over a period of time and are not consumed in the year in which they are acquired. Given how quickly technology changes, however, it would seem inappropriate to assume that computer equipment has a useful life and contributes to the earnings potential of a business over a period of more than 1 to 2 years. As such, computer equipment should not be distinguished from computer software which is amortized at a rate of 100%. Effectively, because of the application of the "half-year rule", computer equipment would be fully amortized for income tax purposes over a period of two years, which should be more representative of its useful life.

Recommendation

That the federal government change the Capital Cost Allowance (CCA) depreciation period for computer equipment to more closely resemble its useful life by not distinguishing between computer equipment and computer software, which has a period of two years, and that it include computer equipment in the same asset class (Class 12) as computer software.