2015 Federal Budget: Balanced Budget and On the Way to Growth!

Tax Bulletin

Federal Budget, April 21, 2015

It was to be expected that in this first balanced budget in the Conservative government's eight years in power and, in the context of an election, measures would be introduced to stimulate wealth and employment, pivotal issues for the country's growth.

The 2015 **Economic Action Plan** tabled today by the Honourable Joe Oliver, federal Minister of Finance, has provided for **no income or commodity tax increases** and includes attractive incentives to support Canadian individuals and businesses.

Among the measures to sustain Canada's economic growth, of note is the **decrease in the small business tax rate to 9% as of 2019**. The current 11% rate will drop gradually, in 0.5% increments, starting in January 2016.

Another measure that supports the Canadian manufacturing sector's competitiveness is the **10-year investment incentive for manufacturing businesses**. Additionally, to encourage ongoing investment in machinery and equipment and increase productivity, manufacturers will be entitled to an accelerated CCA of 50%, declining balance, for eligible assets acquired after 2015 and before 2016.

On the innovation front, the government is announcing it will provide **an additional $1.3 billion** over six years to the Canada Foundation for Innovation to assist Canadian researchers.

In order to modernise infrastructures and create jobs, the federal government has opted to provide $5.35 billion per year on average for provincial, territorial and municipal infrastructure under the New Building Canada Plan. Additionally, it is creating a new Public Transit Fund and providing an additional $750 million over two years, starting in 2017–18, and $1 billion per year ongoing thereafter.

Of interest for individuals is the **increase in the annual TFSA contribution limit from $5,500 to $10,000** and a **new home accessibility tax credit** as of 2016. A 15% tax credit on a maximum amount of $10,000 in expenditures incurred for this purpose.

Upcoming consultation

Lastly, there will be a consultation to review "the circumstances in which income from a business, the principal purpose of which is to earn income from property, should qualify as active business income." Interested parties are invited to submit comments **on the difference between an active versus an investment business** by August 31, 2015.

We invite you to read the following pages for an overview of the main measures.

Unless otherwise indicated, these measures apply to fiscal years ending after April 21, 2015 for businesses and as of the 2015 calendar year for individuals.

Businesses		
	Current measures	**Proposed measures**
Corporate tax rate		
Reduction of small business tax rate	• Rate: 11.0%	• Rate reduced effective January 1: - 2016: 10.5% - 2017: 10.0% - 2018: 9.5% - 2019: 9.0%
Accelerated capital cost allowance (CCA)		
Manufacturing and processing machinery and equipment	• Property acquired before 2016 qualifies for accelerated CCA - Class: 29 - Rate: 50% straight-line	• Property acquired after 2015 and before 2026 qualifies for accelerated CCA - New class: 53 - Rate: 50% declining balance
Tax avoidance of capital gains (section 55)		
Increased application of section 55 of the *Income Tax Act*	• A tax-deductible dividend may be taxed as a capital gain where one of the purposes of the dividend was to effect a significant reduction of the capital gain realized on a disposition of a share at its fair market value	• The tax avoidance rule will also apply where one of the purposes of the dividend is to effect - a significant reduction in the fair market value of any share, or - a significant increase in the total cost of properties of the recipient of the dividend • Additional anti-avoidance rules to ensure this amendment is not circumvented • Applies to dividends received by a corporation on or after April 21, 2015
Source deductions – New employers		
Quarterly remitter category for new employers	• Monthly remitting for at least one year, after which time employers may apply for quarterly remitting if - they have an average monthly withholding amount of less than $3,000, and - they have demonstrated a perfect compliance record over the preceding 12 months	• Immediate quarterly remitting for new employers with withholdings of less than $1,000 in respect of each month • Quarterly remitting maintained as long as - the new employer has a perfect compliance record, and - its monthly withholding amount remains under $1,000 • Applicable in respect of withholdings obligations that arise after 2015

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Businesses

	Current measures	Proposed measures
Withholding for non-resident employers		
Simplification of requirements regarding income tax withholding for payments by non-resident employers	• Requirement to withhold on amounts paid to non-resident employees working in Canada, even if the employee is exempt from Canadian tax because of a tax treaty • Possibility of obtaining a waiver from the Canada Revenue Agency for a specific employee and for a specific period of time	• Amounts paid by a qualifying non-resident employer to a qualifying non-resident employee not subject to withholding • Qualifying non-resident employer: - resident of a country with which Canada has a tax treaty - no Canadian permanent establishment - certified by the Minister of National Revenue • Qualifying non-resident employee: - exempt from income tax under a tax treaty - in Canada for less than 90 days in any 12-month period that includes time of payment • Applicable to payments made after 2015
Agricultural cooperatives		
Extension of tax deferral on patronage dividends received by eligible members in the form of eligible shares	• Tax deferral of income inclusion until disposition (or deemed disposition) of the shares, in respect of eligible shares issued before 2016	• Tax deferral extended to include eligible shares issued before 2021
Captive insurance		
Broadening of the anti-avoidance rule relating to the insurance of Canadian risks	• Anti-avoidance rule preventing the transfer of income from insurance of Canadian risks ("insurance swaps") to a foreign affiliate	• Broadening of the anti-avoidance rule • Applicable to taxation years beginning on or after April 21, 2015
Synthetic equity arrangements		
Expansion of dividend rental arrangement rules	• Dividend rental arrangement rules do not apply to deny an inter-corporate deduction for dividends received by a taxpayer a Canadian share for which there is a synthetic equity arrangement	• Dividend rental arrangement rules will be modified to deny an inter-corporate deduction for dividends received by a taxpayer a Canadian share for which there is a synthetic equity arrangement, with certain exceptions • To include anti-avoidance rules that deem certain agreements that are not synthetic equity arrangements to be dividend rental arrangements subject to the proposed rules • Applies to dividends paid or payable after October 2015

Individuals

	Current measures	Proposed measures
Tax-free savings account		
Increase in annual contribution limit	• Initial $5,000 limit increased in $500 increments • Limit of $5,500 since 2013 due to indexation	• Limit increased to $10,000 • No indexing • Measure applies as of January 1, 2015
Taxation of non-eligible dividends		
Adjustment of gross-up factor	• Gross-up factor: 18.0%	• Gross-up factor adjusted effective January 1: - 2016: 17.0% - 2017: 17.0% - 2018: 16.0% - 2019: 15.0%
Reduction of dividend tax credit	• Tax credit: 11.0%	• Credit reduced effective January 1: - 2016: 10.5% - 2017: 10.0% - 2018: 9.5% - 2019: 9.0%
Home accessibility tax credit		
Introduction of a new non-refundable tax credit	• None	• Tax credit of 15% on up to $10,000 of eligible expenditures per qualifying individual, per eligible dwelling • Eligible individuals: individuals who have or could have claimed (subject to certain conditions) one of the following amounts in respect of a qualifying individual: - spouse amount - eligible dependant amount - caregiver amount - infirm dependant amount • Eligible expenditures: expenditures incurred to improve the accessibility for a qualifying individual of his or her principal residence • Qualifying individual: - individuals who are 65 years of age or older - persons with disabilities • Applicable to work performed and paid for and/or goods acquired as of 2016
Lifetime Capital Gains Exemption (LCGE)		
Increase in LCGE for dispositions of qualified farm or fishing property by individuals	• LCGE of $813,600 for 2015, indexed annually to inflation	• Increase in LCGE to the greater of - $1 million - indexed LCGE on disposition of qualified small business corporation shares • Effective for dispositions of qualified farm or fishing property on or after April 21, 2015

Individuals

	Current measures	Proposed measures
Registered Retirement Income Funds (RRIF)		
Reduction in minimum withdrawal factors used in determining the required annual minimum withdrawal amount	• Minimum withdrawal factors based on payments from age 71 to 100, assuming a 7% nominal rate of return on RRIF assets, indexed at 1% annually • Age 71 factor of 7.38%, increasing to 20% by age 94 and over	• Reduction in factors that apply for ages 71 to 94, based on 5% nominal rate of return on RRIF assets, indexed at 2% annually • Age 71 factor of 5.28%, increasing to 18.79% at age 94, and to 20% at age 95 and over • Applies to 2015 and later tax years • 2015 withdrawals in excess of revised minimum amounts can be re-contributed, up to amount of reduction in minimum withdrawal amount, until February 29, 2016, and are deductible in in the 2015 tax year
Registered Disability Savings Plan (RDSP)		
Legal representation	• Temporary measure applicable until the end of 2016 to allow a family member to become the holder of an RDSP for an adult individual who may lack the capacity to enter into a contract	• Measure extended until the end of 2018
Family Tax Cut		
Transfer of education credits	• Education-related amounts transferred to a spouse not included in the Family Tax Cut calculation	• Revision of the calculation of the Family Tax Cut to include the transfer of education credits • Automatic application by the Canada Revenue Agency as of 2014 taxation year

Charities and not-for-profit organizations		
	Current measures	**Proposed measures**
Charities		
Exemption from capital gains tax on the disposition of certain private corporation shares or real estate	• Exemption from capital gains tax applies only to donation of publicly listed securities, ecologically sensitive land, and cultural property to qualified donees	• Extension of capital gains tax exemption to dispositions of private corporation shares or real estate where - cash proceeds from the disposition are donated within 30 days after the disposition to a qualified donee, and - the transactions are at arm's length • Anti-avoidance rules regarding arm's-length requirement apply for the first five years after the disposition • Applicable to donations made in respect of dispositions occurring after 2016
Investments by registered charities in limited partnerships	• Registered charities are prohibited from engaging in business activities other than those that are related and subordinate to a charity's purpose	• Registered charities can, subject to certain conditions, acquire up to a 20% interest in a limited partnership without being considered as carrying on a business • Applicable to interests acquired after April 20, 2015 • Amendment will also apply to investments made by registered Canadian amateur athletic associations
Gifts to foreign charitable foundations	• Foreign charitable foundations cannot be registered as qualified donees	• Foreign charitable foundations receiving a gift from the government and pursuing activities related to disaster relief or urgent humanitarian aid, or in the national interest of Canada, can be registered for a two-year period as qualified donees

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Other measures

	Current measures	Proposed measures
Collection		
Information sharing for the collection of non-tax debts	• None	• Adoption of measures to permit the sharing of taxpayer information within the Canada Revenue Agency in respect of non-tax debts under certain federal and provincial government programs • Application on the date of Royal Assent
Reporting requirements for foreign assets (Form T1135)		
Simplification of Form T1135	• Taxpayers who own specified foreign property with a total cost of more than $100,000 are required to file a form T1135	• Introduction of a new simplified reporting system, if the total cost of the specified foreign assets is less than $250,000 throughout the year • Effective for tax years beginning after 2014
Penalty for repeated failure to report income		
Easing of the penalty for repeated failure	• Penalty equal to 10% of the unreported income where a taxpayer fails to report an amount of income in a taxation year and in any of the three preceding years (repeated failure)	• Penalty applicable when the taxpayer fails to report at least $500 of income in a taxation year and in any of the three preceding taxation years • Applicable to the 2015 and subsequent taxation years

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