Raymond Chabot Grant Thornton
An instinct for growth™

Massive Investments For Improved Growth

Tax Bulletin

Federal Budget, March 22, 2016

The Trudeau government's first budget follows through on several election promises. Its main objective is stimulating growth. However, the significant deficit, which we can expect in coming budgets as well, is a call to prudence, in particular to avoid generating negative impacts on how Canada is being evaluated, especially by credit rating agencies.

Infrastructures

According to the government, boosting the Canadian economy can be achieved through a series of measures designed to assist the middle class and communities. One key measure is a $11.9B injection in the first phase of a five-year infrastructure plan, with $3.4B over three years to modernize and rehabilitate public transit and $5B over five years for green infrastructure projects, water and wastewater systems across Canada.

In this respect, Raymond Chabot Grant Thornton wishes to point out, that for such projects, considering each project's life cycle cost should be an integral part of its evaluation. To maximize the returns on all strategic projects, it's essential to ensure that the construction budget takes account of operating, maintenance, financing and other costs to ensure they are a long-lasting success in Canadian communities.

Postsecondary education and research institutions

The government also considers institutional research a key issue. It has therefore increased financing for fundamental research by $95M annually and is investing $2B over three years in a new Post-Secondary Institutions Strategic Investment Fund to modernize on-campus research, commercialization and training facilities.

On the innovation front, the government has also opted to invest $800M over four years for innovation networks and clusters designed to increase collaboration and create value through innovation.

Moreover, the Canada Student Grant will be increased by 50%, from $2,000 to $3,000 per year for students from low-income families, and from $800 to $1,200 per year for students from middle-income families.

Culture

As arts and culture are a driving force in the economy, the government has announced investments of about $1.9M over five years. These targeted investments will be provided to, among others, the Canada Council for the Arts, Telefilm Canada, the National Film Board and unique programs that will allow our artists to shine on the international stage.

Labour-sponsored venture capital corporation tax credit

Lastly, the government has decided to restore the labour-sponsored venture capital corporation tax credit, an initiative Raymond Chabot Grant Thornton applauds as an efficient measure to boost business growth.

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

Businesses

	Current measures	Proposed measures
Small business tax rate		
Small business tax rate	• Reduced rate as at January 1 - 2016: 10.5% - 2017: 10.0% - 2018: 9.5% - 2019: 9.0%	• Rate maintained at 10.5% after 2016
Small business deductions (SBD)		
Rules to stop the multiplication of SBD	• The SBD includes rules that are intended to preclude the multiplication of the SBD	• The rules will also apply to certain partnership structures and other structures involving private corporations in which a CCPC provides services • Applicable to taxation years that begin after March 21, 2016
Amendment to eligibility of investment income to the SBD	• None	• New rules will ensure that investment income derived from an associated corporation's active business income will be ineligible for the SBD, where the exception to the deemed associated corporation rule applies • Applicable to the taxation years that begin on or after March 22, 2016
Accelerated Capital Cost Allowance (CCA) in the clean energy sector		
Electric vehicle charging stations	• Class 8 at 20%	• Class 43.2 at 50% - if the charging station supplies at least 90 kw of continuous power • Class 43.1 at 30% - if the charging station supplies more than 10 kw but less than 90 kw of continuous power
Electrical energy storage	• Generally class 8 at 20% • Eligibility limited to classes 43.1 at 30% and 43.2 at 50%	• Inclusion in class 43.1 at 30% - stand-alone electrical energy storage property - storage property that is part of an electricity generation system that is eligible for class 43.1 • Inclusion in class 43.2 at 50% - storage property from renewable energy sources - storage property that is part of an electricity generation system that is eligible for class 43.2 • Applicable to new property acquired as of March 22, 2016

Businesses

	Current measures	Proposed measures
Emissions trading regimes		
Deduction of emission allowances cost	• Considered as eligible capital property - 7% of 75% of cost annually	• Considered as inventory - lower of cost and market valuation method not eligible
Free emission allowances	• Included in business income	• No inclusion in income calculation upon receipt • Introduction of calculation mechanism for the deduction of an emissions obligation • Applicable to emissions allowances acquired in taxation years beginning after 2016 and/or after 2012 on an elective basis
Life insurance policies		
Rules to add life insurance proceeds to a corporation's capital dividend account (CDA) and adjusted cost base (ACB) of an interest in a partnership	• Amount added to the CDA of a corporation or ACB of an interest in a partnership - excess of life insurance proceeds over adjusted cost base of the policy	• Tightening of rules to avoid artificial increase in CDA or ACB of an interest in a partnership • New reporting requirements where a corporation or partnership is entitled to receive a benefit under a policy, but is not a policyholder • Applicable to policy benefits relating to deaths after March 21, 2016
Transfer of a life insurance policy to a non-arm's-length person	• For purposes of transferring policies between non-arm's-length persons, deemed disposition at an amount equal to the policy's surrender value (rather than FMV)	• Tightening of rules on policy transfers between non-arm's-length persons • Applicable to transfers occurring after March 21, 2016
Debt parking to avoid exchange gains		
Calculation of foreign exchange gain in a debt-parking transaction	• Where debt parking applies, debt is deemed to have been repaid for an amount equal to its cost to the new creditor • Any difference is treated as a forgiven amount	• Any accrued foreign exchange gains on a foreign currency debt will be realized when the debt becomes a parked obligation • Subject to special measures - bona fide commercial transactions - financially distressed debtors • Applicable to debt parked as of March 22, 2016 (subject to transitional rules)
Valuation for derivatives		
Valuation of property held as inventory	• Lower of cost and fair market value	• Derivatives excluded from these rules while maintaining the status of such property as inventory • Applicable to derivatives entered into after March 21, 2016

Unless otherwise indicated, these measures apply to fiscal years ending after March 22, 2016 for businesses and as of the 2016 calendar year for individuals.

Businesses

	Current measures	Proposed measures
Eligible capital property		
Repeal of the eligible capital property regime	• 75% capital property eligible for CCA - rate: 7% declining balance - class: CEC account • Gain taxed as active business income • 75% of incorporation costs included in CEC	• 100% of capital property eligible for CCA - rate: 5% declining balance - new class: 14.1 • Gain taxed as active business income or capital gain • First $3,000 in incorporation costs eligible as current expense • Transitional rules apply • Applicable as of January 1, 2017
Cross-border surplus stripping		
Change to the exception relating to the distribution of capital to non-residents	• Possible exception to the application of the rule against cross-border surplus stripping	• Tightening of the exception in subsection 212.1(4) of the Act • Applicable to disposition as of March 22, 2016
Back-to-back loans		
Extension of back-to-back loan rules	• Various measures designed to prevent the reduction in the amount of Part XIII withholding tax on cross-border interest payments where back-to-back arrangements are set up (interposing a third party becomes a Canadian borrower and foreign lender)	• Extension of current rules to rents and royalties and other similar payments • Addition of character substitution rules to the back-to-back rules • Adding back-to-back loan rules to the existing shareholder loan rules • Clarifying the application of the back-to-back loan rules to multiple intermediary structures • Application - payments made after 2016 - mechanisms of loans to shareholders as of January 1, 2107
Base erosion and profit shifting		
Transfer pricing documentation of intragroup transactions of multinational enterprises	• Mandatory documentation of intragroup transactions and methods used to determine transfer pricing	• New country-by-country reporting with the country in which the ultimate parent entity resides - applies to multinational enterprises with consolidated annual revenues of at least €750 million - reporting to other countries according to exchange agreements concluded • Applicable to taxation years beginning after 2015

Individuals

	Current measures	Proposed measures
Child benefits		
Cancellation of the Universal Child Care Benefit (UCCB)	• Monthly payments - $160/month per child under the age of 6 - $60/month per child aged 6 through 17 • Taxable benefit	• Benefit cancelled and replaced with the new Canada Child Benefit • Payment eliminated for months after June 2016
Cancellation of the Canada Child Tax Benefit (CCTB)	• Benefit paid to low- and middle-income families, three components, based on family income and number of eligible children - base benefit of $1,490 to $1,594 per child - supplement for low-income families $1,943 to $2,308 per child - benefit for handicapped child, maximum of $2,730 per child • Non-taxable benefit	• Benefit cancelled and replaced with new Canada Child Benefit • Payments eliminated for months after June 2016
New Canada Child Benefit (the Benefit)	• None	• Maximum benefit - $6,400/child under the age of 6 - $5,400/child aged 6 through 17 • Phased out - net family income between $30,000 and $65,000: reduction rate of 7% to 23% depending on number of children - net family income in excess of $65,000: reduction rate of 3.2% to 9.5% depending on the number of children • Additional amount of up to $2,730 per child eligible for the disability tax credit - phased out at same rates as the Benefit • Non-taxable benefit and not included for purposes of calculating the GST/HST credit and certain other social programs • Applicable as of 2016 - monthly payments from July 2016 to June 2017 ▪ amount calculated based on 2015 adjusted net family income

Individuals

	Current measures	Proposed measures
Taxation of non-eligible dividends		
Cancellation of the gross-up factor adjustment after 2016	• Adjusted gross-up as at January 1 - 2016: 17.0% - 2017: 17.0% - 2018: 16.0% - 2019: 15.0%	• Gross-up maintained at 17% after 2016
Cancellation of tax credit rate reduction after 2016	• Credit reduction as at January 1 - 2016: 10.5% - 2017: 10.0% - 2018: 9.5% - 2019: 9.0%	• Reduction maintained at 10.5% after 2016
Family Tax Cut income splitting credit		
Family Tax Cut	• Income splitting tax credit for couples with at least one child under the age of 18 • Notional transfer of up to $50,000 of taxable income by higher-income to lower-income spouse or common-law partner • Maximum annual $2,000 credit	• Eliminate for 2016 and subsequent taxation years
Northern residents deductions		
Increase in residency deduction	• For individuals who live in prescribed areas in Northern Canada for at least six consecutive months • Residency deduction - maximum of $8.25 per day for each member of a household or maximum of $16.50 per day if no other member of the household claims the residency deduction • The amounts are reduced by 50% for residents of an Intermediate Zone	• Maximum residency deduction increased to $11.00 per day ($22.00 if no other member of the household claims the residency deduction) • Residents of the Intermediate Zone will be entitled to deduct half of the increased amount • Applicable to the 2016 and subsequent taxation years
Labour-Sponsored Venture Capital Corporation Tax Credit (LSVCC)		
Restoration of LSVCC Tax Credit	• Applicable to a maximum investment of $5,000 per year • Tax credit phased out - 15% in 2014 - 10% in 2015 - 5% in 2016 • Credit abolished as of 2017	• 15% LSVCC tax credit restored • Applicable to the 2016 and subsequent taxation years

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Individuals		
	Current measures	**Proposed measures**
Teachers and students		
Cancellation of Education and Textbook Tax Credit	• Non-refundable 15% tax credit calculated respectively on - eligible tuition fees - an education amount of $400/month ($120/month for part-time students) - a textbook amount of $65/month ($20/month for part-time students)	• Maintenance of tuition tax credit • Elimination of education and textbook credit • Applicable as of 2017
Teacher and Early Childhood Educator School Supply Tax Credit	• None	• New refundable tax credit - rate: 15% • Eligible expenses - eligible supplies used in a school or child care facility - annual maximum of $1,000 (maximum credit of $150) - employer certification required • Applicable as of 2016
Children's Fitness and Arts Credits		
Children's Fitness Credit	• 15% refundable credit on up to $1,000 of eligible fitness expenses (generally, for children under 16)	• Credit to be phased out by the 2017 taxation year • For the 2016 taxation year, maximum eligible amount for the fitness credit will be reduced to $500
Children's Arts Credit	• 15% non-refundable credit on up to $500 in eligible fees for programs of artistic, cultural, recreational and developmental activity (generally, for children under 16)	• Credit to be phased out by the 2017 taxation year • For the 2016 taxation year, maximum eligible amount for the arts credit will be reduced to $250
Mineral Exploration Tax Credit		
Mineral Exploration Tax Credit	• 15% credit for specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors	• Eligibility extended by one year to flow-through share agreements entered into on or before March 31, 2017
Taxation of switch fund shares		
Exchange of mutual fund corporation shares organized as switch funds	• Investors exchanging one class of shares for another class deemed not to be a disposition for tax purposes	• Exchange to be considered a disposition at fair market value, with certain exceptions • Applicable to dispositions of shares after September 2016

Individuals

	Current measures	Proposed measures
Old Age Security (OAS) and Guaranteed Income Supplement (GIS)		
Restoration of OAS and GIS payments eligibility age	• OAS and GIS eligibility age gradually increasing from 65 to 67 from 2023 to 2029 • Spousal allowance eligibility age increased from 60 to 62 during the same period	• Eligibility age maintained: - 65 years for OAS and GIS - 60 years for allowance
Increase in OAS for seniors living alone	• Additional benefit for seniors living alone	• Increase the additional benefit by an amount of up to $947 per year • Application as of July 2016
Increased support for senior couples living apart for reasons beyond their control	• OAS and allowance benefits determined based on family income	• Benefits determined on the basis of individual income for spouses living apart for reason beyond their control

Sales and excise tax

	Current measures	Proposed measures
Closely-related test		
Application of test where subsidiary corporation is owned by a parent corporation or a partnership	• Parent corporation or partnership must own 90% or more of the value and number of shares of the subsidiary corporation that have full voting rights	• In addition to current test, a corporation or partnership must also hold and control 90% or more of the votes in respect of every corporate matter of the subsidiary corporation (with limited exceptions) • Generally applicable as of March 22, 2017 • Applicable as of March 23, 2016 for the purpose of determining whether the conditions of the closely-related test are met with respect to Section 150 and Section 156 elections filed after March 22, 2016
Zero-rating for medical and assistive devices		
Insulin pens and insulin pen needles	• Insulin infusion pumps and insulin syringes are zero-rated	• Insulin pens and insulin pen needles added to list of zero-rated medical devices • Applicable to supplies made after March 22, 2016, and to supplies made prior to this date unless the supplier charged, collected, or remitted GST/HST in respect of the supply
Intermittent urinary catheters	• Only urinary appliances designed to be worn by an individual are zero-rated	• Intermittent urinary catheters will be zero-rated if supplied on the written order of a medical doctor, registered nurse, occupational therapist or physiotherapist • Applicable to supplies made after March 22, 2016
Cosmetic procedures		
Cosmetic procedures	• All procedures taxable unless required for medical or reconstructive purposes	• Clarifies that GST/HST applies to cosmetic procedures provided by all suppliers, including registered charities (unless specifically exempt under the current rules)
Exported call centre services		
Zero-rating rules for certain exported supplies of call centre services	• Exported supplies are generally zero-rated	• Supply of a service of technical or customer support to individuals by means of telecommunications will be zero-rated if - the service is supplied to a non-resident who is not registered for GST/HST; and - it is reasonably expected that the service is rendered primarily to individuals outside of Canada at the time the service is rendered • Applicable to supplies made after March 22, 2016 (and in some cases supplies made prior to this date)

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Sales and excise tax

	Current measures	Proposed measures
Reporting of grand-parented housing sales		
Special reporting requirements for builders	• Where a housing sale is grand-parented (i.e., not subject to the provincial component of the HST or an increased HST rate) builders must report the sale where the purchaser is not entitled to either a GST New Housing Rebate or a GST New Residential Rental Property Rebate • Penalties for misreporting	• Reporting rules for builders simplified by - limiting reporting requirements to sales where consideration is $450,000 or more - providing builders with the opportunity to correct for past misreporting and avoid penalties by allowing them to elect (between May 1, 2016 and December 31, 2016) to report all past sales for which consideration was $450,000 or more • Applicable to any reporting period ending after March 22, 2016
GST/HST on donations to charities		
Donor receives property or services in exchange for donation	• GST/HST generally applies to full value of donation (subject to a number of exceptions)	• Changes to mirror the treatment under the Income Tax Act split-receipting rules - when an income tax receipt may be issued for only a portion of the donation, only the value of property or services provided will be subject to GST/HST - applicable to supplies that are not already exempt from GST/HST • Applies to supplies made after March 22, 2016 (subject to transitional relief where GST/HST was not previously charged on the full value of the donation for supplies made between December 21, 2002 and March 22, 2016)
De minimis financial institutions		
Qualification as a de minimis financial institution	• Person's income for the preceding year from interest, fees or other charges with respect to the making of an advance, the lending of money, the granting of credit, or credit card operations, exceeds $1 million	• Interest earned in respect of demand deposits, term deposits and GICs with an original date to maturity not exceeding 364 days will not be included for purposes of the $1 million threshold • Applicable to taxation years beginning after March 21, 2016, and to the fiscal year of a person that begins before March 22, 2016 and ends after March 21, 2016 for the purposes of determining if the person is required to file the Financial Institution GST/HST Annual Information Return

Sales and excise tax

	Current measures	Proposed measures
Cross-border reinsurance		
Self-assessment provisions for cross-border reinsurance	• GST/HST imported supply rules require a financial institution with a presence outside Canada to self-assess GST/HST on certain expenses incurred outside Canada that relate to its Canadian activities	• Two specific components of imported reinsurance services, ceding commissions and the margin for risk transfer, will not form part of the tax base subject to self-assessment • Clarification to set out specific conditions whereby financial institutions do not impose GST/HST on reinsurance premiums charged by a reinsurer to a primary insurer • Applicable on a retroactive basis to any specified year of a financial institution that ends after November 16, 2005 • Will have one year from the day of these amendments to receive Royal Assent to request a reassessment
Relief of excise tax on diesel fuel		
Certain provisions relieve the application of excise tax on diesel fuel	• Excise tax relief for diesel fuel used to produce heat for any purpose • Excise tax relief for diesel fuel used in or by a vehicle to generate electricity, if more than half of the electricity generated is used for purposes other than the operation of the vehicle	• Relief to be limited to fuel oil consumed exclusively for providing heat to a home, building or similar structure • Exemption is removed for diesel fuel used in or by a vehicle, including a conveyance attached to the vehicle, of any mode of transportation • Both measures are applicable to fuel delivered or imported after June 2016 or imported before that time to be used after June 2016

Other measures

	Current measures	Proposed measures
Registered charities		
Exemption from capital gains tax on the disposition of certain private corporation shares or real estate	• Extension of capital gains tax exemption to dispositions of private corporation shares or real estate to non-arm's- length persons where - cash proceeds from the disposition are donated within 30 days after the disposition to a qualified donee • 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	• Measure not retained and cancelled
Taxation of switch fund shares		
Exchange of mutual fund corporation shares organized as switch funds	• Investors exchanging one class of shares for another class deemed not to be a disposition for tax purposes	• Exchange to be considered a disposition at fair market value, with certain exceptions. • Applicable to dispositions of shares after September 2016.

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