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2017 Federal Budget: Mostly for the Middle Class

Tax Bulletin

Federal Budget, March 22, 2017

As widely anticipated, the second budget of Federal Finance Minister, the Honourable Bill Morneau, projects significant deficits over the next several years. The deficit is expected to $23B for 2016–2017 decline to $18.8B in 2021–2022.

Workers' Skills

Several of the measures announced today are aimed at making the middle class stronger. For example, the injection of $1.8B over six years, starting in 2017-2018, over six years, starting in 2017-2018, so Canadian workers can acquire the necessary skills and tools to succeed in a changing economy. According to the government, "this means more opportunities to upgrade their skills, gain experience or get help to start their own business."

Some measures are intended to strengthen Canada's public health care system to meet the needs of Canadian families while others are designed to improve tax fairness by closing loopholes and cracking down on tax evasion and tax avoidance with investments of $523.9M over five years.

Innovation and infrastructure

In terms of innovation, of note is the creation of the new Strategic Innovation Fund with a budget of $1.26B over five years, which represents an additional $200M over three years. The purpose of the Fund is to consolidate and simplify existing business innovation programming, and as a result businesses will have "access to a simpler application process, more timely processing, and assistance that is more responsive and focused on results."

Public transit will be a priority for Canadian communities. The government will invest $20.1B over 11 years through bilateral agreements with provinces and territories. The new Canada Infrastructure Bank is expected to begin operations by the end of 2017 with the mandate to invest at least $35B over 11 years, although its potential location has not been determined.

The government also plans to support innovative companies by making available $400M through the Business Development Bank of Canada, beginning in 2017–2018 for established Canadian entrepreneurs.

Lastly, the creators of wealth in Canada – businesses – are left wanting with no tax reductions being announced for either SMEs or large corporations, no measures either for Canadian exporters who face an uncertain commercial climate with our neighbours to the South. Let's hope the government's economic update in the fall of 2017 will provide Canadian businesses with more answers than questions.

We invite you to read the following pages for an overview of the main tax measures of the 2017 budget.

Unless otherwise indicated, these measures apply to fiscal years ending after March 22, 2017 for businesses and as of the 2017 calendar year for individuals.

Businesses

	Current measures	Proposed measures
Taxation of income of certain designated professionals		
Eliminate the choice to use billed-basis accounting	▪ Taxpayers required to include work in process when calculating taxable income ▪ Designated professionals can choose to exclude work in process from taxable income and recognize income when it is billed ▪ Designated professionals: – Accountants, dentists, lawyers, doctors, veterinarians and chiropractors	▪ Choice to use billed-basis accounting eliminated ▪ Applicable to taxation years beginning after March 21, 2017: – For the first taxation ending after March 21, 2017, inventory calculated taking into account 50% of the lesser of cost and fair market value of work in process – Subsequent years: inventory calculated taking into account 100% of the lesser of cost and fair market value of work in process
Investment fund mergers		
Variable capital investment corporation	▪ None	▪ Reorganization into multiple mutual funds allowed on a tax-deferred basis ▪ Applicable to reorganizations occurring as of March 22, 2017
Segregated funds	▪ None	▪ Mergers of segregated funds allowed on a tax-deferred basis ▪ Carry forward of non-capital losses permitted ▪ Applicable to mergers occurring after 2017 and losses for years beginning after 2017
Clean energy generating equipment: geothermic energy		
Equipment that uses geothermal energy	▪ Class 43.1 or 43.2 limited to equipment used to generate electricity	▪ Extended to equipment used for the purpose of generating heat or a combination of heat and electricity.
District energy systems	▪ Class 43.1 or 43.2 limited to certain types of district energy systems	▪ Expanded to include a geothermal energy source
Deductible expenses	▪ Renewable and conservation energy expenses	▪ Expanded to expenses for: – determining the extent and quality of a geothermal resource – geothermal drilling ▪ Applicable to property acquired for use as of March 22, 2017 that has not been used before March 22, 2017

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Businesses

	Current measures	Proposed measures
Canadian exploration expenses		
Expenditures related to drilling or completing a discovery well	▪ Currently deductible as a Canadian exploration expense (CEE)	▪ Expenditures now classified as Canadian development expense (CDE) – amortized at 30% ▪ May be classified as CEE if, either: – well has been abandoned; or – well has not produced within 24 months; or – Minister of Natural Resources has certified that the relevant costs associated with drilling the well are expected to exceed $5M and it will not produce within 24 months ▪ Applicable to expenditures incurred after 2018 (including expenditures incurred in 2019 deemed to have been incurred in 2018 because of the "look-back" rule) ▪ Not applicable to expenditure incurred before 2021 under a commitment entered into before March 22, 2017
Small oil and gas corporation	▪ Can currently treat up to $1M of CDE as CEE under a flow-through share agreement	▪ Measure abolished ▪ Applicable to expenditures incurred after 2018 (including expenditures incurred in 2019 deemed to have been incurred in 2018 because of the "look-back" rule) ▪ Not applicable to expenditures incurred before April 2019 that are renounced under an agreement entered into after 2016 and before March 22, 2017
Factual control of a corporation		
Meaning of factual control	▪ Court decision that held that factual control must include a legally enforceable right to effect a change to the board of directors, or to exercise influence over the shareholders who have that right	▪ Requirement no longer mandatory ▪ Other factors may be considered to determine factual control ▪ Applicable to taxation years beginning after March 21, 2017

Businesses		
	Current measures	Proposed measures
Derivatives held on income account		
Mark-to-market method	▪ No rules (except for financial institutions)	▪ Introduction of an elective mark-to-market regime ▪ Impact of election: – Annual inclusion in income of the increase or decrease in value of eligible derivatives – Accrued gain or loss on the derivative at the beginning of the first election year will be deferred until the derivative is disposed of – Stays in effect until revoked (upon authorization of the Minister of National Revenue) ▪ Applicable to taxation years beginning after March 21, 2017
Adoption of an anti-avoidance rule that targets straddle transactions	▪ No measure to limit use of straddle transactions	▪ New stop-loss rule defers the realization of any loss on a derivative to the extent of any unrealized gain on an offsetting position ▪ Several exceptions apply ▪ Applicable to any loss on a position entered into after March 21, 2017
Gifts of medicine		
Elimination of the additional deduction for gifts of medicine from inventory	▪ Additional deduction equal to the lesser of: – The cost of the donated medicine – 50% of the amount by which the fair market value of the donated medicine exceeds its cost.	▪ Additional deduction eliminated ▪ Applicable to gifts made after March 21, 2017
Investment tax credit for child care spaces		
Elimination of the tax credit	▪ Non-refundable tax credit of 25% of the costs incurred to build or expand child care spaces in child care facilities for the benefit of the taxpayer's employees ▪ Maximum credit of $10,000 per space created	▪ Tax credit eliminated ▪ Applicable to expenditures incurred after March 21, 2017, except for expenditures incurred before 2020 pursuant to an agreement entered into before March 22, 2017
Insurers of farming and fishing property		
Elimination of the exemption	▪ Tax exemption based on the proportion of their gross premium income from the insurance of property used in farming or fishing	▪ Exemption eliminated ▪ Applicable to taxation years beginning after 2018

Businesses

	Current measures	Proposed measures
Canadian life insurance companies		
Tightening of tax base income from a foreign branch	▪ Income from the insurance of Canadian risks not included in the Canadian business income (i.e. not taxable in Canada) when earned through a foreign branch	▪ When 10% or more of the gross premium earned by a foreign branch is from Canadian risks: – the insurance of Canadian risks by a foreign branch is deemed to be part of a business carried on by the life insurer in Canada – the related insurance policies of the foreign branch are deemed to be life insurance policies in Canada ▪ Other complementary anti-avoidance rules are introduced ▪ Applicable to taxation years beginning after March 21, 2017

Individuals

	Current measures	Proposed measures
Disability tax credit		
Certification of eligibility for the disability tax credit by a health care professional	▪ List of medical practitioners	▪ Addition of nurse practitioners
Credit for medical expenses		
Expansion of eligible costs - infertility	▪ Costs relating to medical infertility only	▪ Addition of costs relating to all conditions requiring medical intervention
Tax credits for caregivers		
Consolidation of the three non-refundable tax credits currently available for caregivers	▪ Three 15% credits ▪ Infirm dependent credit: – Adult family member (other than a spouse or common-law partner) who is dependent by reason of physical or mental infirmity – Maximum amount on which credit is available: $6,883 – Credit amount is reduced when dependant's net income is over $6,902 ▪ Caregiver credit: – In-home care to senior parents or grandparents 65 years of age or over or adult family member who is dependent by reason of infirmity – Maximum amount on which credit is available: • $4,732 without infirmity • $6,882 with infirmity – Credit amount is reduced when dependant's net income is over $16,163 ▪ Family caregiver credit: – Family members who are dependent on them by reason of infirmity – Maximum amount on which credit is available: $2,150	▪ Three credits replaced by the new Canada Caregiver Credit ▪ Credit rate: 15% ▪ Maximum amount on which credit is available: – $6,883 in respect of the following infirm dependants: • Parent, grandparent, brother, sister, uncle, aunt, nephew, niece, adult child or spouse – $2,150 in respect of the following infirm persons: • Spouse or common-law partner in respect of whom the individual claims the spouse or common-law partner amount, • Person for whom the eligible dependant credit is claimed • Child under the age of 18 years – Eligible amount reduced when the dependant's net income is over $16,163 – Offsetting mechanism applicable in certain credits accumulation situations ▪ No credit available for non-infirm seniors who reside with their adult children ▪ Applicable as of the 2017 taxation year
Mineral exploration tax credit		
Extension of tax credit for flow-through share investors	▪ Tax credit of 15% of mineral exploration expenses renounced to flow-through share investors ▪ Applicable to shares acquired no later than March 31, 2017	▪ Credit eligibility period extended to share agreements entered into before April 1, 2018

Individuals

	Current measures	Proposed measures
Electronic distribution of T4 slips		
Expansion of conditions	▪ Electronic distribution only with taxpayer's consent	▪ Consent not required for electronic forwarding to active employees. ▪ Paper copy only if requested by the employee
Tuition tax credit		
Extension of eligibility criteria of tuition paid to an eligible educational institution	▪ 15% credit on eligible fees paid to: – a university, college or other educational institution providing courses at a post-secondary school level; or – a certified educational institution providing courses that furnish a person with skills for, or improve a person's skills in, an occupation	▪ Extension to tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level
Ecological gifts program		
Taxation upon transfer of donated property	▪ Tax of 50% of the fair value of the property if its use is changed, or if the property is disposed of without the consent of Environment and Climate Change Canada (ECCC)	▪ Transferee subject to 50% tax if there is a change in use of the property, or disposition of the property, without the consent of ECCC
Recipients' eligibility	▪ ECCC must approve the recipient on a gift-by-gift basis	
	▪ Automatic eligibility of municipalities and municipal and public bodies performing a function of government	▪ Eligibility of municipalities and municipal and public bodies performing a function of government no longer automatic
	▪ Private foundations can receive ecogifts	▪ Private foundations are no longer permitted to receive ecogifts
Eligibility of servitudes	▪ Only real servitudes eligible	▪ Extension of eligibility to personal servitudes under certain conditions
Public transit tax credit		
Elimination of the credit	▪ Non-refundable tax credit of 15% of the cost of a public transit pass	▪ Credit eliminated in respect of passes acquired after June 30, 2017
Allowances for members of legislative assemblies and certain municipal officers		
Allowances taxed	▪ Allowance without receipts not taxable up to half of the remuneration	▪ Allowance taxable ▪ Applicable as of the 2019 taxation year

Individuals

	Current measures	Proposed measures
Home relocation loans deduction		
Elimination of the deduction	▪ Deduction available in respect of the taxable benefit included in an individual's income in respect of an eligible home relocation loan ▪ Deduction equal to the lesser of the following: – Value of the taxable benefit included in income – Theoretical value of the benefit calculated on a $25,000 loan	▪ Deduction eliminated ▪ Applicable in respect of benefits obtained as of the 2018 taxation year
Registered plans		
Extension of the anti-avoidance rules to Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs)	▪ Various anti-avoidance rules apply to RRSPs, RRIFs and TFSAs: – Advantage rules – Prohibited investment rules or non-qualified investment rules ▪ Rules do not apply to RESPs and RDSPs	▪ Extension of application of anti-avoidance rules to RESPs and RDSPs ▪ Applicable to transactions occurring and to investments acquired after March 22, 2017 ▪ Application of certain transitional measures

Sales and Excise Tax

	Current measures	Proposed measures
Taxi and ride-sharing services		
Standardization of treatment of taxi and ride-sharing services (e.g. Über)	▪ Taxi operators are required to register for the GST/HST, regardless of the total amount of sales ▪ Some ride-sharing services not considered as taxi services because of the definition of taxi: – Not required to register if the service provider is a small provider	▪ Ride-sharing services as part of a commercial activity now included in the definition of a taxi business ▪ Applicable as of July 1, 2017
GST/HST rebate to non-residents for tour package accommodations		
Elimination of the rebate	▪ GST/HST rebate in respect of the Canadian accommodation portion of eligible tour packages	▪ Rebate eliminated ▪ Applicable as of March 22, 2017 ▪ Transition measures applicable
Drugs used to treat life-threatening conditions		
Inclusion of naloxone in GST/HST exemption	▪ Sale of nalozone GST/HST-free only when prescribed	▪ Addition of naloxone to the list of non-prescription GST/HST-free drugs
Tobacco taxation		
Elimination of the surtax	▪ 10.5% surtax on income from the manufacture of tobacco or tobacco products	▪ Elimination of the surtax
Increase of excise duty rate	▪ Excise duty rate applicable on all tobacco products sold on the Canadian market: – Cigarettes: $0.52575/5 cigarettes – Tobacco sticks: $0.10515/stick – Manufactured tobacco: $6.57188/50 g – Cigars: $22.88559/1,000 cigars – Additional duty on cigars, the higher of the following amounts: • $0.08226 per cigar • 82% of the sale price or duty-paid value	▪ Increase in excise duty rate: – Cigarettes: $0.5390/5 cigarettes – Tobacco sticks: $0.10780/stick – Manufactured tobacco: $6.73750/50 g – Cigars: $23.46235/1,000 cigars – Additional duty on cigars, the higher of the following amounts: • $0,08434 per cigar • 84% of the sale price or duty-paid value ▪ Applicable as of March 23, 2017 ▪ Inventories of cigarettes held on March 22, 2017 subject to a tax of $0.00265
Taxation of alcohol		
Increase in excise duty rates	▪ Variable rates depending on the product type	▪ Increase of 2% ▪ Applicable as of March 23, 2017 ▪ No special inventory tax will apply to alcohol products on which duty has been paid ▪ Indexed annually as of April 1, 2018

Other Measures

	Current measures	Proposed measures
Employment insurance		
New caregiver benefit	▪ Benefit for caregivers only where: – A loved one is gravely ill and at significant risk of death – A child is critically ill or injured	▪ New benefit for caregivers where individuals are providing care to an adult family member who requires significant support in order to recover from a critical illness or injury ▪ Maximum duration of 15 weeks
Parental benefits	▪ Parental benefit of 55% of average weekly earnings over a period of up to 12 months	▪ Can choose to receive benefits over an extended period of up to 18 months at a lower benefit rate of 33% of average weekly earnings
Maternity benefit before the due date	▪ Possibility of applying for maternity benefits for a period of up to eight weeks before the due date	▪ New option to apply for maternity benefits for a period of up to 12 weeks before the due date

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