

2014 budget: transitioning towards a budget surplus

Federal budget February 11, 2014

Employment still at the forefront

On the eve of an election year, Finance Minister James M. Flaherty opted to stay the course towards a balanced budget in 2015, banking primarily on employment support to drive economic growth.

Thus, the Economic Action Plan 2014 tabled today does not include any new taxes on families and businesses and balancing the budget in 2014 will generally rely on freezing departmental operating expenses. The conservative government projects that the deficit will decline to \$2.9 billion in 2014–2015, with a surplus of \$6.4 billion expected in 2015–2016, after taking into account a \$3 billion annual adjustment for risk.

More forceful measures to further support the competitiveness of Canada and its businesses will most likely be announced next year in a more favourable budget context.

Evolving talents and workers

A number of measures have been introduced to foster employment and growth, some of which will support Canada's evolving talent and workers.

The new Canada First Research Excellence Fund, with \$1.5 billion in funding over the next decade, will help Canada's post-secondary institutions excel globally in research areas that create long-term economic advantages for Canada.

Another attractive measure is the additional \$40 million to the Canada Accelerator and Incubator Program to help entrepreneurs create new companies and realize the potential of their ideas through intensive mentoring and other resources to develop their business.

The government plans to invest \$75 million over three years to assist unemployed older workers by renewing and expanding the Targeted Initiative for Older Workers program.

Lastly, introduction of the Canada Job Grant will better align training with labour market needs.

Montréal area bridges

The Economic Action Plan 2014 proposes \$165 million in financing over two years for the construction of a new bridge over the St. Laurence and \$378 million over two years to advance the repair and maintenance of federal bridges in the Greater Montréal Area.

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On the horizon

The government is planning several consultations to gauge citizens' opinions on not-for-profit organizations, international tax planning by multinationals and treaty shopping. In addition, the government has announced a public consultation on a proposal to repeal the eligible capital property regime, replacing it with a new capital cost allowance class.

The following pages provide an overview of the budget's tax measures.

Businesses		
	Current measures	Proposed measures
Remittance thresholds for employer source deductions		
Increase of remittance thresholds	<ul style="list-style-type: none"> • Total average monthly withholding two calendar years ago: <ul style="list-style-type: none"> - At least \$15,000, but less than \$50,000: <ul style="list-style-type: none"> ▪ remit deductions up to twice per month - At least \$50,000: <ul style="list-style-type: none"> ▪ remit deductions up to four times per month 	<ul style="list-style-type: none"> - \$15,000 threshold increased to \$25,000 - \$50,000 threshold increased to \$100,000 <p>Applies to withholdings after 2014</p>
Clean energy generation equipment		
Expansion of class 43.2 eligible for accelerated capital cost allowance (CCA) <ul style="list-style-type: none"> • Water-current energy equipment • Gasification equipment 	<ul style="list-style-type: none"> • Wave and tidal energy equipment (using physical barriers or flow diversion) eligible • Eligible if used in an eligible cogeneration facility (producing electricity) or in an eligible waste-fuelled thermal energy facility (producing heat) 	<ul style="list-style-type: none"> • Addition of water-current energy equipment • Addition of property used to gasify eligible waste fuel for other applications such as producer gas for domestic or commercial use <p>Applies to property acquired on or after February 11, 2014</p>
Back-to-back loans		
Anti-avoidance rules to address back-to-back loan arrangements designed to avoid the thin-capitalization rules and/or Part XIII withholding tax	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Amounts due and interest paid on back-to-back loans will be included in the 1.5-to-1 debt-to-equity ratio under the thin capitalization rules • Applicable to taxation years that begin after 2014 • Interest on back-to-back loans will be subject to Part XIII withholding tax <p>Applicable to amounts paid or credited after 2014</p>
Captive insurance		
Expansion of the existing anti-avoidance rule in the FAPI regime relating to the insurance of Canadian risks	<ul style="list-style-type: none"> • Income from the insurance of Canadian risks is FAPI where 10% or more of the gross premium income of a foreign affiliate is premium income from Canadian risks 	<ul style="list-style-type: none"> • The FAPI rules will apply where the foreign affiliate's risk of loss is determined by reference to the returns from other risks (tracked risks) that are insured by other parties, and at least 10% of the tracked risks are Canadian risks <p>Applies to taxation years that commenced on or after February 11, 2014</p>

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Trusts		
	Current measures	Proposed measures
Taxation of trusts and estates		
Elimination of graduated rates	<ul style="list-style-type: none"> • Graduated tax rates applicable to taxable income earned by: <ul style="list-style-type: none"> - testamentary trusts - estates - certain inter vivos trusts created before June 18, 1971 • Testamentary trusts can elect any taxation year-end 	<ul style="list-style-type: none"> • Top marginal tax rate will apply to trust income earned by: <ul style="list-style-type: none"> - testamentary trusts (other than trusts whose beneficiaries are eligible for the disability tax credit) - estates (except for the first 36-month period when the graduated rates will continue to apply) - inter vivos trusts created before June 18, 1971 • Testamentary trusts that do not already have a calendar year-end will be deemed to have a taxation year-end on December 31, 2015 • Where the 36-month period for estates ends after 2015, the estate will be deemed to have a taxation year-end at the end of this period • Measures apply to existing trusts and estates • Several other changes are also proposed to apply to trusts, in particular with respect to computing instalments and alternative minimum tax <p>Applies to 2016 and subsequent taxation years</p>
Non-resident trusts		
Elimination of the 60-month exemption applicable to the deemed resident rules	<ul style="list-style-type: none"> • Deemed resident in Canada when property is contributed by a Canadian resident • 60-month exemption: Not deemed resident for contributions made by individuals resident in Canada for a period not more than 60 months 	<ul style="list-style-type: none"> • 60-month exemption eliminated • Measures applicable to taxation years ending: <ul style="list-style-type: none"> - after 2014, if the trust is subject to the 60-month exemption at any time between January 1, 2014 and February 10, 2014, and no contributions are made to the trust between February 11, 2014, and December 31, 2014 - on or after February 11, 2014 in other cases

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Individuals		
	Current measures	Proposed measures
Adoption Expense Tax Credit		
Increase in the maximum amount of eligible expenses	<ul style="list-style-type: none"> • 2014: \$11,774 	<ul style="list-style-type: none"> • 2014: \$15,000 <p>Indexed to inflation for taxation years after 2014</p>
Medical Expense Tax Credit		
<p>Expansion of eligible expenses</p> <ul style="list-style-type: none"> • Design of individualized therapy plan • Service animals to assist individuals with diabetes 	<ul style="list-style-type: none"> • Not eligible for the medical expense tax credit • Not eligible for the medical expense tax credit 	<ul style="list-style-type: none"> • Costs associated with a specially-designed medical therapy plan will qualify for the medical expense tax credit subject to certain conditions • Certain costs associated with service animals specially trained to assist individuals with severe diabetes will qualify for the medical expense tax credit <p>Applies to the 2014 and subsequent taxation years</p>
Search and Rescue Volunteers Tax Credit		
Introduction of a non-refundable tax credit	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Tax credit: <ul style="list-style-type: none"> - 15% calculated on \$3,000 • Qualifying individuals: <ul style="list-style-type: none"> - search and rescue volunteers who perform at least 200 hours of service during a year for ground, air or marine search and rescue • Cannot be combined with: <ul style="list-style-type: none"> - the Volunteer Firefighters Tax Credit; or - the existing tax exemption of up to \$1,000 for honoraria in respect of duties as emergency service volunteers
Mineral Exploration Tax Credit		
Extension of tax credit	<ul style="list-style-type: none"> • Tax credit of 15% of mineral exploration expenses renounced to flow-through share investors • Introduced in 2000, ending at the end of March 2015 	<ul style="list-style-type: none"> • Eligibility period extended by one year to flow-through share agreements entered into before April 1, 2015 and in respect of eligible expenses which may be incurred until the end of 2016
Farming and fishing businesses		
Intergenerational transfers of farming and fishing properties and \$800,000 Lifetime Capital Gains Exemption (LCGE)	<ul style="list-style-type: none"> • The qualifying property is required to be used principally (50% or more) in a farming business or a fishing business • To qualify as a family corporation or partnership, the corporation or partnership must use 90% or more of the fair market value of its property principally in a farming business or a fishing business 	<ul style="list-style-type: none"> • The property will qualify if it is used principally (50% or more) in a combination of farming and fishing • To qualify as a family corporation or partnership, the corporation or partnership must use 90% or more of the fair market value of its property principally in either business, or in a combination of farming and fishing <p>Applies to dispositions and transfers that occur in 2014 and subsequent taxation years</p>

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Tax deferral for farmers		
Tax deferral of sales proceeds due to drought, flood or excess moisture	<ul style="list-style-type: none"> • Applies to cattle, goats, sheep and certain horses over 12 months of age and kept for breeding 	<ul style="list-style-type: none"> • Deferral will also apply to bees and all types of horses that are over 12 months of age and are kept for breeding <p>Applies to the 2014 and subsequent taxation years</p>
Amateur athlete trusts		
RRSP contribution limit (of a trust's beneficiary)	<ul style="list-style-type: none"> • Earned income excludes income contributed to an amateur athlete trust 	<ul style="list-style-type: none"> • Earned income will include income contributed to an amateur athlete trust <p>Applies to amounts contributed to a trust after 2013, and to amounts contributed to a trust in 2011, 2012 and 2013 if an election is made</p>
GST/HST Tax Credit		
Determining credit eligibility	<ul style="list-style-type: none"> • An individual must apply for the credit by checking the application box on his/her annual income tax return 	<ul style="list-style-type: none"> • The CRA will automatically determine credit eligibility • In the case of eligible couples, the credit will be paid to the spouse or common-law partner whose tax return is assessed first <p>Applies for the 2014 and subsequent taxation years</p>
Tax on split income (kiddie tax)		
Tax base expanded	<ul style="list-style-type: none"> • Split income does not apply to income allocated to a minor from a partnership or trust that is derived from business or rental activities conducted with third parties 	<ul style="list-style-type: none"> • Definition of split income will include income allocated to a minor from a trust or partnership if it is derived from business or rental activities, and the parent of the minor is actively engaged in the activities of the trust or partnership <p>Applies to the 2014 and subsequent taxation years</p>

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Charities and not-for-profit organizations

	Current measures	Proposed measures
Donations of ecologically sensitive land		
Extension of carry-forward period	<ul style="list-style-type: none"> Unclaimed donations carried forward for up to five years 	<ul style="list-style-type: none"> Carry-forward period extended to 10 years <p>Applies to donations made as of February 11, 2014</p>
Estate donations		
More flexibility regarding the tax treatment of charitable donations made as a result of a person's death	<ul style="list-style-type: none"> Donations made in a will and by designation (RRSP, RRIF, TFSA and life insurance) are deemed to have been made by the individual in the year of death The charitable donation tax credit is claimed to reduce the income tax payable of the deceased in the year of death 	<ul style="list-style-type: none"> Donations made by will and designation donations will be deemed to have been made by the estate Trustee will be able to allocate the donation among any of the following: <ul style="list-style-type: none"> the taxation year of the estate in which the donation is made; an earlier taxation year of the estate; or the last two taxation years of the individual <p>Applies to the 2016 and subsequent taxation years</p>
State supporters of terrorism		
New rules to prevent abuse of the charitable sector by a foreign state listed as a supporter of terrorism	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Refusal to register a charity or revocation of its registration where a charity accepts a donation from a foreign state listed as a supporter of terrorism <p>Applies to donations accepted on or after February 11 2014</p>
Donation of certified cultural property		
Reduction of favourable tax treatment	<ul style="list-style-type: none"> Gifts of certified cultural property are exempt from the rule that deems the value of a gift to be no greater than its cost to the donor 	<ul style="list-style-type: none"> Exemption removed for certified cultural property acquired as part of a tax shelter gifting arrangement <p>Applies to donations made on or after February 11, 2014</p>
Sales and excise taxes		
	Current measures	Proposed measures
Health care sector		
Training for individuals with a disorder or disability	<ul style="list-style-type: none"> Exemption for training designed to assist individuals with a disorder or disability in coping with, alleviating, or eliminating the effects of the disorder or disability 	<ul style="list-style-type: none"> Exemption will also apply to the initial development and design of the training plan and any subsequent adjustments Certain conditions will apply
Acupuncturists' and naturopathic doctors' services	<ul style="list-style-type: none"> Professional services rendered are not exempt from GST/HST 	<ul style="list-style-type: none"> Professional services rendered are exempt from GST/HST
Eyewear designed to electronically enhance vision	<ul style="list-style-type: none"> Corrective eyeglasses and contact lenses are generally zero-rated medical and assistive devices 	<ul style="list-style-type: none"> Electronic eyewear, if supplied on a written order of a physician or optometrist, to be added as a zero-rated medical and assistive device

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GST/HST election for closely-related persons		
Nil consideration election for closely-related persons	<ul style="list-style-type: none"> • Election can only be made if a member of a closely-related group has property before making the election • No filing requirement 	<ul style="list-style-type: none"> • Election extended to a new member that has not acquired any property, provided that the member continues to be engaged exclusively in commercial activities <ul style="list-style-type: none"> - effective January 1, 2015 • New filing requirement for election <ul style="list-style-type: none"> - parties to a new election as of January 1, 2015 will have to file the election by the first date on which any of the parties to the election is required to file a return for the period in which the election becomes effective - elections made prior to January 1, 2015 must be filed by January 1, 2016 • Subject to joint and several liability provision
Tobacco		
Increase in rate of excise duty on cigarettes and tobacco products in duty free markets	<ul style="list-style-type: none"> • Different rates apply depending on products 	<ul style="list-style-type: none"> • Increase in rates • Effective after February 11, 2014 • Excise duty rates on tobacco products will be indexed every five years, with the first adjustment taking place on December 1, 2019
Inventory tax on cigarettes	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Tax of 2.015 cents per cigarette in inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of the day on February 11, 2014 • Does not apply to inventories of 30,000 or fewer cigarettes on that date • Deadline to file returns and pay the tax is April 30, 2014 • An inventory tax on cigarettes will also apply at the time of each rate indexing
Sanctions related to false statements		
Sanctions related to false statements in an excise tax return	<ul style="list-style-type: none"> • Federal tax legislation includes provisions for an administrative monetary penalty and a criminal offence that can apply if a taxpayer makes a false statement or omission in a tax return 	<ul style="list-style-type: none"> • New administrative monetary penalty and criminal offence for the making of false statements or omissions in an excise tax return and related offences under the non-GST/HST portion of the <i>Excise Tax Act</i> <p>Applies to excise tax returns filed after the date of Royal Assent</p>

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