Employment and the economy are still priorities in achieving a balanced budget in 2015

Federal budget March 21, 2013

Today, Canadian Finance Minister, the Honourable James M. Flaherty, presented his eighth budget, the second budget of the Conservative majority government. Although a budgetary deficit of $18.7 billion is anticipated for 2013-14, a surplus of $800 million is projected by fiscal 2015-16.

In this uncertain environment, the government's focus is clear: jobs and the economy. *Economic Action Plan 2013* builds on the foundation that was laid last year with measures to create jobs, promote growth and support long-term prosperity. Several measures, in particular, are intended to assist the struggling manufacturing sector.

From a tax perspective, previous budgets have adopted a number of rules to close tax loopholes and prevent certain business and individuals from avoiding taxes. This year's budget is no different. A number of new measures have been introduced to close tax loopholes and combat international tax evasion and tax avoidance.

The government also announced its intention to consult on possible measures to eliminate the tax benefits that arise from taxing testamentary and certain other trusts at graduated rates. A consultation paper will be publicly released to provide stakeholders with an opportunity to comment on these possible measures.

Finally, previous budgets had noted the government's interest in exploring the issue of whether new rules for the taxation of corporate groups—such as the introduction of a formal system of loss transfers or consolidated reporting—could improve the functioning of the corporate tax system in Canada. Following extensive public consultations, the government has concluded that moving to a formal system of corporate group taxation is not a priority at this time.

The following is a summary of the tax measures that were addressed in this year's budget. Please contact us for more information on any of these measures.

Unless otherwise indicated, these measures apply to fiscal years ending after March 21, 2013 for businesses and as of the 2013 calendar year for individuals.

Businesses

	Current measures	Proposed measures	+/-
Manufacturing and processing sector: Accelerated Capital Cost Allowance (CCA)			
Manufacturing or processing equipment	• Manufacturing or processing equipment primarily for use in Canada acquired after March 18, 2007 and before 2014: - included in class 29 - temporary CCA of 50% straight line balance • Subject to half-year rule	• Class 29 treatment extended by two years to eligible manufacturing or processing equipment acquired in 2014 and 2015 • After 2015, such equipment included in Class 43, subject to 30% declining balance CCA	+ -
Clean energy generation equipment			
Expansion of Class 43.2 eligible for accelerated CCA			
Biogas production equipment	• Eligible if organic waste is from sewage treatment facility, food and animal waste, manure, plant residue or wood waste	• Eligible organic waste expanded to include pulp and paper waste and wastewater, beverage industry waste and wastewater, and separated organics from municipal waste • Applies to new material acquired on or after March 21, 2013	+
Cleaning and upgrading equipment	• Eligible only if equipment is ancillary to landfill gas and digester gas collection equipment and biogas scrubbing equipment	• Restrictions removed, such that all types of cleaning and upgrading equipment that can be used to treat eligible gases from waste will be eligible • Applies to new material acquired on or after March 21, 2013	+
Scientific Research and Experimental Development (SR&ED)			
Required disclosures	• Name of SR&ED program tax preparer reported on form T661	• Additional required disclosures: - business number of each third party that assisted in preparing the claim - billing arrangements details: whether contingency fees were used and amount of fees payable - if no third party was involved, claimant will be required to certify this	-
Introduction of penalty	• None	• $1,000 in respect of each claim for which the required disclosures are missing, incomplete or inaccurate • Claimant and tax preparer will be jointly and severally liable • Applies to claims filed on or after the later of January 1, 2014, and the date of Royal Assent	-

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Mining expenses			
Deduction of pre-production mine development expenses	• Canadian exploration expense (CEE)—deductible in full either in the year incurred or carried forward indefinitely	• Canadian development expense (CDE)—deductible 30% per year, declining balance basis • Transitional phase-in for expenses incurred after March 20, 2013: (on a calendar year basis) - 2013: 100% CEE - 2014: 100% CEE - 2015: 80% CEE, 20% CDE - 2016: 60% CEE, 40% CDE - 2017: 30% CEE, 70% CDE - after 2017: 100% CDE • Existing treatment for pre-2017 expenses under written agreements entered into, or mine construction or design for construction started before March 21, 2013	-
Elimination of Accelerated Capital Cost Allowance (CCA)	• Allows for up to 100% deduction of remaining cost (after 25% regular CCA) of eligible assets used in new mines or mine expansions	• Accelerated CCA to be phased out between 2017 and 2020 • Existing treatment for pre-2018 expenses under written agreements entered into, or mine construction or design for construction started before March 21, 2013	-
Reserve for future services			
Exclusion of future reclamation obligations	• Reserve for amount received for services expected to be rendered after the end of the taxation year	• Amounts received for the purpose of funding future reclamation obligations excluded • Transitional application applies in certain cases	-
Additional deduction for credit unions			
Deduction phased out	• Provides access to small business rates for income otherwise not eligible. Eligibility subject to limit based on: - cumulative taxable income taxed at small business rate - amount of deposits and member shares	• Additional deduction being phased out: - 2013: 80% of additional deduction permitted - 2014: 60% of additional deduction permitted - 2015: 40% of additional deduction permitted - 2016: 20% of additional deduction permitted - 2017 and following: 0%	-

Leveraged life insurance arrangements			
Leverage insurance annuities (LIA)			
Definition of LIA	• None	• A life insurance policy issued on the life of an individual will be a LIA if it satisfies the following conditions: - person is obligated to repay a specified amount to another person at a time determined by reference to the death of the individual; and - annuity contract and policy are assigned to the lender	-
Tax impact	• Part of income earned on policy is not taxable • Premiums are deductible • Increase in capital dividend account	• Income earned in policy taxed annually • Premiums not deductible • Capital dividend account not increased	-
Measures to counter 10/8 arrangements	• None	Where: • life insurance policy or investment account under the policy is assigned as security on a borrowing, and - either the interest rate payable on an investment account is determined by reference to the interest rate payable on the borrowing; or - the maximum value of an investment account is determined by reference to the amount of the borrowing • the following income tax benefits will be denied as of 2014: - deductibility of loan interest - deductibility of policy premiums - addition to capital dividend account • income tax consequences can be alleviated on a withdrawal from a policy to repay a borrowing under the arrangement before January 1, 2014	-

Restricted farm losses			
Increase in restricted farm losses limit	• Maximum annual deductible amount: $8,750	• Maximum annual deductible amount: $17,500 • Applies to taxation years ending on or after March 21, 2013	+
Clarifying that chief source of income must be farming to allow for full deduction of farm losses	• Recent case law has determined that full deduction of farming losses is permitted where a taxpayer places significant emphasis on both farming and non-farming sources of income, even if farming is subordinate to the other source of income	• Farming must be chief source of income. Other sources of income must be subordinate to farming in order for farming losses to be fully deductible against income from other sources • Applies to taxation years ending on or after March 21, 2013	-
Corporate loss trading			
Introduction of anti-avoidance rule	• None	• Deemed acquisition of control if: - more than 75% of the fair market value of all the shares of a loss corporation are acquired without otherwise acquiring voting control - one of the main reasons that control was not acquired is to avoid the restrictions that would have been imposed on the use of loss pools - applies to share acquisitions on or after March 21, 2013 subject to certain provisional measures	-

International

	Current measures	Proposed measures	+/-
International tax evasion and aggressive tax avoidance			
Reporting of international electronic funds transfers (IEFT)	• None	• Financial intermediaries required to report to the CRA IEFTs of $10,000 or more to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), no later than five working days after day of the transfer • Required beginning in 2015	-
Stop International Tax Evasion program	• None	• New program to reward individuals with knowledge of major international tax non-compliance when they provide information to CRA that leads to the total collection of more than $100,000 of outstanding taxes due • Rewards of up to 15% of income tax collected • Further details to come	-

Foreign reporting requirements—Form T1135			
Extended reassessment period	• Normal reassessment period for most taxpayers is three years from date of assessment	• Normal reassessment period extended by three years if: - taxpayer has failed to report income from a specified foreign property - Form T1135 was filed late or was incomplete • Applies as of 2013 taxation year	-
Form T1135 revised	• Reporting of general information where specified foreign property is located and what income it generates	• Taxpayers required to provide more detailed information, including: - the name of the foreign institution or entity holding funds - the country to which the property relates - income generated from the foreign property • Applies as of 2013 taxation year	-
Thin capitalization rules			
Expansion of rules to Canadian-resident trusts	• Rules apply solely to Canadian resident corporations and partnerships of which a Canadian-resident corporation is a member	• Rules apply to: - Canadian-resident trusts - partnership in which a Canadian-resident trust is a member • 1.5-to-1 debt-to-equity ratio will remain unchanged • Applies to taxation years beginning after 2013 to both new and existing borrowings	-
Expansion of rules to certain non-resident corporations and trusts that carry on business in Canada	• Non-resident corporations and trusts that carry on business in Canada not covered by the rules	• In addition to expansion noted, rules will also apply to partnerships in which a non-resident corporation or trust is a member • 3-to-5 debt-to-equity ratio applies • Where non-resident is a corporation, new rules could increase branch tax liability • Applies to taxation years beginning after 2013 to both new and existing borrowings	-

Individuals

	Current measures	Proposed measures	+/-
Adoption expense tax credit			
Eligibility period extended	• Applies for eligible costs incurred between the time that a child is matched with his or her adoptive family and the time that the child begins to permanently reside with the family	• Eligible costs incurred from: - the time that an application is made to register with a provincial ministry responsible for adoption or with an adoption agency licensed by a provincial government or - the time an adoption-related application is made to a Canadian court, if at an earlier time • Applies to adoptions finalized after 2012	+
Charitable donations tax credit			
Introduction of temporary First-time Donor's Super Credit (FDSC)	• Non-refundable charitable donations tax credit (CDTC) of: – 15% on first $200 of annual charitable donations – 29% on portion of donations that exceeds $200	• Introduction of an additional 25% tax credit for a first-time donor on up to $1,000 of donations • Credit therefore increased to: - 40% for donations up to $200. - 54% on portion of donations over $200 but not exceeding $1,000 • An individual will be considered a first-time donor if neither the individual nor the individual's spouse or common-law partner has claimed the CDTC in any taxation year after 2007 • First-time donor couples may share the FDSC in a taxation year. The total amount cannot exceed the amount that would be allowed if only one were to claim the FDSC • FDSC may only be claimed once in the 2013 to 2017 taxation years	+
Lifetime capital gains exemption			
Lifetime capital gains exemption	• Lifetime limit of $750,000 for qualified property	• Lifetime limit increased to $800,000 - effective for the 2014 taxation year	+
Deduction for safety deposit boxes			
Deduction for safety deposit boxes	• Deduction for the cost of renting a safety deposit box from a financial institution	• Deduction eliminated • Applies to taxation years that begin on or after March 21, 2013	-

Dividend tax credit			
Adjustment of gross-up factor applicable to non-eligible dividends received	• Gross-up: 25% of dividend received • Effective dividend tax credit rate: 13.33%	• Gross-up: 18% of dividend received • Effective dividend tax credit rate: 11% • Applies to non-eligible dividends paid after 2013	-
Charitable donation tax shelters—collections			
Changes to collection measures for objections to an assessment where charitable donation tax shelters are challenged	• Collection action in respect of assessed income taxes and related interest and penalties may not be taken where a taxpayer has objected to the assessment	• CRA permitted to collect 50% of disputed income taxes, interest and penalties • Applies in respect of amounts assessed for the 2013 and subsequent taxation years	-
Mineral exploration tax credit			
Extension of tax credit	• Tax credit of 15% of mineral exploration expenses renounced to flow-through share investors • Introduced in 2000, ending at the end of March 2013	• Eligibility period extended by one year to flow-through share agreements entered into before April 1, 2014 and in respect of eligible expenses which may be incurred until the end of 2015	+
Labour-sponsored Venture Capital Corporations (LSVCC) Tax Credit			
Credit eliminated	• 15% tax credit for the acquisition of shares of LSVCCs on investments of up to $5,000 each year	• Credit to be phased out by 2017: - 2013: 15% - 2014: 15% - 2015: 10% - 2016: 5% - 2017 and following: 0% • New LSVCCs will no longer be registered for applications received after March 20, 2013	- -

Synthetic dispositions			
Deemed disposition under certain financial arrangements (synthetic disposition transactions) that seek to defer tax or obtain other tax benefits by allowing a taxpayer to economically dispose of a property while continuing to own it for income tax purposes	• None	• Where an individual enters into an agreement that has the effect of eliminating the taxpayer's risk of loss and opportunity for gain or profit in respect of the property: - the property is deemed to be disposed at FMV - the property is deemed to be acquired at FMV immediately after the disposition	-
Continued ownership	• None	• Where the deemed disposition applies, the taxpayer will be considered to not own the property for the purposes of determining whether the taxpayer meets various holding-period tests • Applies to agreements entered into on or after March 21, 2013 but could apply to agreements before that time if their term is extended after that date	-

Sales and excise tax

	Current measures	Proposed measures	+/-
Health care services			
Expansion of GST/HST exemption in respect of home health care services	• Exemption for home health care rendered to an individual because of age or an infirmity	• Exemption expanded to include funded personal care services such as bathing, feeding, and assistance with dressing and taking medication rendered to an individual.	+
Clarification regarding non-health care reports, examinations and other services	• Services provided solely for non-health care not considered to be basic health care	• Rules clarified to confirm they are taxable supplies • Exemption applies to reports, examinations or other services paid for by a provincial health insurance plan • Applies to supplies made after March 21, 2013	-

Pension plan rules			
Taxable supplies of an employer that participates in a registered pension plan	• Employer may have to account for GST/HST twice (actual taxable supply and deemed taxable supply) in respect of goods and services acquired, used and consumed in respect of a pension plan • Tax adjusted to make only one payment	• Employer permitted to jointly elect with a pension entity to treat an actual taxable supply as being for no consideration	+
	• Employer required to account for GST/HST in respect of inputs acquired for consumption or use in activities of the employer that relate to the pension plan	• Full or partial relief from accounting for tax on deemed taxable supplies where the employer's pension plan-related activities fall below certain thresholds • Exemption not permitted if above joint election made • Applies to taxation years beginning after March 21 2013	+
Paid parking			
Supplies of paid parking by PSBs	• 90% rule could exempt supplies of paid parking by a PSB	• Rules clarified to provide that all supplies of paid parking by a PSB in the course of a business are taxable • Effective the date the GST legislation was enacted	-
Supplies of paid parking through charities	• Special exemption for parking provided by charities that are not part of the MUSH sector	• Exemption will not apply to parking made in the course of a business carried on by the charity set up or used by an entity in the MUSH sector to supply their parking	-
Business information requirement			
GST/HST business information requirement	• $100 penalty for failure to provide required information on the registration of a business	• Minister will have authority to withhold GST/HST refunds until all required information is provided • Applies on Royal Assent	-
Excise duty rate on manufactured tobacco			
Excise duty rate on manufactured tobacco	• Subject to an excise duty of $2.8925 per 50 grams	• Rate increased to $5.3125 per 50 grams	-

Other measures

	Current measures	Proposed measures	+/-
Sanctions for electronic suppression of sales (ESS) software			
Sanctions for ESS software	• None	• New administrative monetary penalties and criminal offenses for the use, possession, or manufacture of ESS software	-
Registered pension plans			
Refund for contribution errors	• If contribution limits not exceeded, refunds for contributions made due to reasonable error are at discretion of CRA	• CRA approval not required for refunds of contributions in order to correct reasonable errors, if refund is made no later than December 31 of the year following the year in which error was made • Applies to contributions made on or after the later of January 1, 2014 and the day of Royal Assent to the enacting legislation	+
Trust loss trading			
Extension of loss streaming and related rules, applying on an acquisition of control of a corporation, to trusts in certain circumstances	• None	• Applies to a "loss restriction event" of a trust: where a person or partnership becomes a majority-interest beneficiary of the trust or a group becomes a majority-interest group of beneficiaries of the trust • Applies to transactions occurring on or after March 21, 2013, subject to certain provisions	- -
Non-resident trusts			
Tightening of rules to prevent taxpayers from using non-resident trusts to avoid tax	• Subsection 75(2) attribution rule applies in respect of property held by a trust on condition that the property held by a trust can revert to the transferring taxpayer or if the transferring taxpayer has influence over the trust's dealings with the property - applies to all trusts, regardless of the country of residence • According to case law, the attribution does not apply to property received by a non-resident trust in exchange for fair market value consideration	• Attribution rule applies solely to Canadian-resident trusts • Trust is deemed to be a Canadian resident trust if the non-resident trust holds property on conditions that grant effective ownership of the property to a Canadian resident taxpayer • Applies to all property, regardless of the consideration paid by the trust • Applies to taxation years that end on or after March 21, 2013	-

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Customs measures

	Current measures	Proposed measures	+/-
Tariff relief for Canadian consumers			
Tariffs on baby clothes and sports and athletics equipment	• Tariffs currently vary up to 20%	• All tariffs eliminated on baby clothes and sports and athletic equipment (except for bicycles) • Applies to goods imported after March 31, 2013	+

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