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Budget 2019

Making sense of what's next.

March 19, 2019

About the Budget

On March 19, 2019, Finance Minister Bill Morneau presented the government's 2019-2020 federal budget. This tax alert provides a summary of the tax measures proposed in the budget.

As many had predicted, this pre-election budget features many fresh spending promises, with little in terms of new tax legislation. Although the budget includes some smaller initiatives and technical changes, there are few surprises.

Overall, the most significant changes focus on:

- Skills upgrades and training
- Seniors' retirement income
- Home-buying affordability
- Innovation
- Regulatory reform
- Country-wide broadband connectivity

Proposals that might be of particular interest to Canadian businesses include the creation of a new national training benefit program, new funds for research and innovation, measures intended to support entrepreneurs and plans to streamline certain areas of federal regulation to reduce regulatory burden. In addition, provisions concerned with tightening international tax rules and increasing beneficial ownership transparency may prompt some companies to review and update their compliance practices.

The budget was relatively silent on matters related to current and pending trade agreements—with the exception of a promise of support for supply-managed farmers impacted by CETA and CTPPP—and it does not contain any proposals to address the gap in corporate tax rates between Canada and the United States, nor the existing tarriffs on Canadian aluminum and steel.

A number of measures were announced where the legislative details have yet to be released—such as new limits on stock options and greater support for intergenerational business transfers—that are worth watching closely as the specifics develop.

Business

Scientific Research and Experimental Development Program

Under the existing Scientific Research and Experimental Development (SR&ED) tax incentive program, Canadian-controlled private corporations (CCPCs) are eligible for an enhanced fully refundable tax credit on up to $3 million of qualifying SR&ED expenditures, however this expenditure limit is gradually reduced based on the taxable income and taxable capital thresholds of the corporation and its associated group. As it relates to taxable income, the reduction of the expenditure limit begins when taxable income exceeds $500,000 and is no longer available at a taxable income level of $800,000.

Budget 2019 proposes to repeal the taxable income component of the qualifying expenditure reduction formula. As a result, the only factor that will reduce a CCPC's expenditure limit under the enhanced refundable tax credit will be its level of associated taxable capital. This measure will apply to taxation years that begin on or after March 19, 2019.

Small business deduction for farming and fishing

Budget 2019 restores access to the small business deduction for farming and fishing businesses, which might have been impacted in an unintended manner by the "specified corporate income" rules introduced in 2016. Those rules provided limitations on a Canadian-controlled private corporation's access to the small business deduction in respect of income from sales to a private corporation in which the selling corporation, or certain specified persons, held a direct or indirect interest. However, the limitations did not apply to farming or fishing corporations that sold their products or catches to farming or fishing cooperative corporations because of a specific permitted exclusion for that type of buyer organization. Budget 2019 expands this relieving provision to exclude from the specified corporate income rules, income from sales of farming and fishing products or catches to any arm's-length purchaser corporation. This measure will apply retroactively to any taxation years that begin after March 21, 2016.

Accelerated write-off for zero-emission vehicles

Budget 2019 proposes a new temporary enhanced first-year capital cost allowance (CCA) rate for eligible zero-emission motor vehicles. Qualifying zero-emission vehicles that would otherwise be classified under Classes 10 or 10.1 CCA will now be included in new Class 54, while those that would otherwise qualify for Class 16 will be included in new Class 55 under these proposals. These new classes will provide an accelerated CCA rate in the first year at a rate of 100 per cent for vehicles acquired after March 18, 2019 and available for use before 2024. The accelerated rate will be reduced to 75 per cent for vehicles available for use in 2024 and 2025, and reduced again to 55 per cent for vehicles available for use in 2026 and 2027. For vehicles available for use in 2028 and onward, the accelerated first-year write-off will be eliminated. Any remaining balances in the new classes after deduction of the first-year allowance will be deductible on a declining balance basis at a rate of 30 per cent for Class 54 and 40 per cent for Class 55.

Note that Class 54 additions will be subject to a $55,000 per-vehicle limit (plus applicable sales taxes). To ensure appropriate recapture is calculated on a subsequent sale of a Class 54 asset, sale proceeds will be adjusted pro-rata according to the extent the $55,000 limit applied on the original acquisition.

Note the accelerated first year deduction will only apply to fully electric, fully-hydrogen fuelled, or plug-in hybrid (15 kWh minimum battery capacity) motor vehicles. Further, the vehicle must be purchased new, and the taxpayer cannot have received assistance under the federal purchase incentive (also announced in Budget 2019) in relation to its purchase.

Federal purchase incentive on zero-emission vehicles

Budget 2019 proposes a new federal purchase incentive of up to $5,000 for electric battery or hydrogen fuel cell vehicles with an MSRP of less than $45,000. The government has indicated further details on this program will be forthcoming.

Support for Canadian journalism

Budget 2019 proposes three measures to support journalism in Canada. Journalism organizations that meet specific criteria around their structure, operations, areas of journalistic focus, and percentage of Canadian directorship will be eligible to be recognized as "Qualified Canadian Journalism Organizations" or "QCJOs". Once QCJO status is obtained, the organization will have access to three new tax measures designed to support its activities:

1. **Qualified donee status** Certain QCJOs will be able to register with the CRA as a tax-exempt qualified donee. Such organizations must be organized as corporations or trusts, and must adhere to certain limitations, including restrictions on business activities and prohibition on distribution of profits to individuals. In addition to tax-exempt status, QCJOs that are registered as qualified donees will be able to issue charitable donation receipts to donors making gifts to the organization. This measure will be effective January 1, 2020.
2. **Refundable labour tax credit** Certain qualifying QCJOs will be provided a 25 per cent refundable tax credit for salary or wages paid to eligible newsroom employees, subject to a labour cost cap of $55,000 per eligible employee. This equates to a maximum tax credit per eligible employee of $13,750. To qualify, the QCJO must meet certain criteria as to its operations, funding, and ownership. This measure will apply to salary or wages earned in respect of a period on or after January 1, 2019.
3. **Personal income tax credit for digital subscriptions** Budget 2019 proposes a 15 per cent personal income tax credit to individuals in relation to subscription costs for written content delivered through digital media. The credit is available only to subscriptions paid to QCJOs and is available to a maximum credit amount of $75 on $500 of eligible subscription costs. The credit will be available for eligible amounts paid after 2019 and before 2025.

Qualified Canadian Journalism Organizations will have access to three new tax measures to support their activities: qualified donee status, refundable labour tax credit, and personal income tax credit for digital subscriptions.

Changes in the taxation of stock option benefits

Where a Canadian corporation grants stock options with a fair market value (FMV) exercise price to employees, paragraph 110(1)(d) of the Income Tax Act (the Act) provides the employee with a deduction in calculating taxable income equal to 50% of the benefit realized on the exercise or disposition of options where certain other conditions are met.

Budget 2019 seeks to limit the availability of the stock option deduction where options are granted to employees of "large, long-established, mature firms."

The proposals would limit the availability of the stock option deduction to an annual maximum of $200,000 of stock option grants (based on the fair market value of the underlying shares on the date of grant).

Budget 2019 provides that the stock option deduction will remain unchanged for "startups and rapidly growing Canadian business". The budget documents provide that further details on this measure will be released before the summer of 2019 without any further details.

Character conversion transactions

Budget 2019 proposes a new anti-avoidance rule for certain forward purchase agreements that are structured to avoid the "derivative forward agreement" rules introduced in 2013. The new rule applies where it can reasonably be considered that one of the main purposes of the series of transactions that includes the forward purchase is for a taxpayer to convert into a capital gain an amount paid on a security, by the issuer of the security, and during the period the security is subject to the agreement.

This measure will be effective for transactions entered into on or after March 19, 2019, and transactions that are entered into before March 19, 2019 and that settle after December 31, 2019.

Beneficial ownership transparency

The government has reaffirmed its intention to proceed with changes to enhance the transparency of beneficial ownership, including proposals previously announced in Budget 2018 relating to enhanced reporting requirements for trusts that come into force in 2021 and later taxation years. In addition to those measures relating to trusts, Budget 2019 proposes further amendments to the Canada Business Corporations Act to make beneficial ownership information maintained by federally incorporated companies more readily available to tax and law authorities.

Personal

Canada training credit

Budget 2019 introduces the Canada Training Credit, a refundable tax credit for eligible tuition costs and related training fees, such as charges and examination fees. The Canada Training Credit provides eligible individuals with $250 per year in a notional account which can be accessed to assist in financing future training costs. Individuals will be able to accumulate up to a maximum of $5,000 over a lifetime. Any unused balance will expire at the end of the year in which the individual turns 65.

Training Credit
- $250/year
- Up to $5,000 lifetime

Year 1	Year 2	Year 3	Year 4
$250	$500	$750	$1,000

In order to accumulate the amount of $250, the individual must meet the following conditions for the year:

- File a tax return for the year;
- Be between 25 and 65 years old at the end of the year;
- Be resident in Canada throughout the year;
- Earn at least $10,000[1] in the year (this includes employment income, self-employment income, Maternity and Parental Employment Insurance benefits, the taxable portion of scholarship income and the tax-exempt part of earnings of status Indians and emergency service volunteers); and
- Have individual net income for the year that does not exceed the top of the third personal tax bracket for the year ($147,667 in 2019).

The available credit is the lesser of 50 per cent of the eligible tuition fees paid in respect of the year and the individual's notional account balance for the year.

Eligible fees will generally be the same as the existing Tuition Tax Credit however, educational institutions outside of Canada will not qualify. Also, the portion of tuition fees refunded through the Canada Training Credit will not qualify as eligible expenses under the existing Tuition Tax Credit.

Annual accumulation of the notional account will start based on eligibility in respect of the 2019 tax year and the credit will be available to be claimed for expenses in respect of the 2020 tax year.

Employment Insurance (EI) training support benefit

A new EI benefit provides workers with up to four weeks of paid leave every four years to help them cover living expenses when they leave work to undergo additional training. The amount of support available will be equal to 55% of a person's average weekly earnings. This benefit is expected to be available in late 2020.

Budget 2019 also introduces an EI Small Business Premium Rebate for businesses paying EI premiums equal to or less than $20,000 per year. This rebate is also expected to start in 2020 to alleviate the impact of the EI Training Support Benefit for small businesses.

Leave provisions

The government will also consult with the provinces and the territories regarding new provisions to ensure that workers are entitled to job protection during leaves to pursue additional training. These leave provisions would apply while workers are attending training and entitled to the EI Training Support Benefit.

Home Buyers Plan

The Home Buyers Plan (HBP) helps first-time home buyers save for a down payment to purchase or build a home by allowing them to withdraw an amount from their RRSP without having to pay tax on the withdrawal, provided it is repaid over a 15-year period. Budget 2019 proposes to increase the HBP withdrawal limit to $35,000 from $25,000.

[1] subject to annual indexation

Budget 2019 also proposes to extend access to the HBP after the breakdown of a marriage or common-law partnership. Individuals will not be prevented from making withdrawal under the HBP because they do not meet the first-time home buyer requirement if the individual lives separate and apart from their spouse or common-law partner for a period of at least 90 days because of a breakdown in marriage or common-law partnership. The individual will be required to dispose of their previous principal residence within two years after the end of the year that the HBP withdrawal is made. The requirement to sell will be waived for individuals buying out the share of the residence owned by their former spouse or common-law partner.

First-Time Home Buyer Incentive

Budget 2019 proposes $1.25 billion in funding to the Canada Mortgage and Housing Corporation (CMHC) for a new First-Time Home Buyer Incentive which will provide for shared equity mortgage opportunity for first-time homebuyers designed to lower the cost of borrowing for a first home. The incentive would provide funding equal to 5% of the purchase price for existing homes, or 10% for newly constructed homes, which would reduce the purchaser's monthly mortgage costs and would be repaid eventually at the time of resale. The incentive would be available to first-time home buyers with household incomes under $120,000 per year. Further, the amount of the insured mortgage plus the incentive amount cannot exceed four times the participant's annual household incomes.

The government has indicated further information on this program, including legislative provisions will be forthcoming, with the programs expected to be implemented by September 2019.

Change in use rules for multi-unit residential properties

A taxpayer is deemed to have disposed of, and reacquired, a property when they convert the property from income producing to personal use or from personal use to an income producing use. Under the current provisions of the *Income Tax Act*, a taxpayer can elect that this deemed disposition not apply if the use of an entire property is converted, which allows for the deferral of taxation on any accrued gain on the property until it is realized in the future. However, a taxpayer cannot elect out of the deemed disposition on the change of use of part of a property. Budget 2019 introduces measures to extend the election to the change in use of part of a property that occur on or after March 19, 2019.

Permitting additional types of annuities under registered plans

Budget 2019 introduces two new types of annuities which can be purchased by individuals using registered funds to create a stream of retirement income: Advanced Life Deferred Annuity (ALDA), and Variable Payment Life Annuity (VPLA).

An ALDA can be purchased by an individual using funds from their registered retirement savings plans (RRSP), registered retirement income funds (RRIF), deferred profit sharing plans (DPSP), pooled registered pension plans (PRPP) and defined contribution registered pension plans (RPP). The ALDA can be structured such that the payment of the annuity is deferred until the end of the year the individual turns 85. In contrast, an individual must begin receiving income from their RRIF by the end of the year the individual turns 71. The value of this annuity is excluded from the computation of the annual minimum withdrawals from an individual's registered retirement income fund.

Existing rules for PRPPs and RPPs prohibit the plan administrator from purchasing an annuity directly within the plan. Budget 2019 proposes to allow plan administrators to purchase a VPLA within the plan which will allow variable payments based on the investment returns as well as the mortality of the plan members.

Carrying on a business in a TFSA

A tax-free savings account (TFSA) allows for a wide range of investments to be owned within the account and not be subject to tax. However, income earned from carrying on a business does not qualify and, therefore, would be subject to tax.

Currently, the trustee of the TFSA (i.e. a financial institution) and the TFSA are jointly and severally liable for any income tax owing, for example if non-qualified investments are held within the TFSA. Budget 2019 makes the TFSA holder jointly and severally liable for the income tax owing on income from carrying on a business within the TFSA. Furthermore, the joint and several liability of the TFSA trustee will be limited to the amount of the property held in the TFSA as well as the amount of distributions of property from the TFSA on or after the date that a notice of assessment was sent. These measures will apply to 2019 and subsequent taxation years.

Electronic delivery of requirements for information

Budget 2019 proposes to allow CRA to send requirements for information to banks and credit unions, as long as the bank or credit union consents to receiving these requests electronically. This measure will apply as of January 1, 2020.

Pensionable service under an individual pension plan

Budget 2019 prohibits Individual Pension Plans (IPPs) from providing retirement benefits in respect of past pensionable services under a defined benefit registered pension plan of a past employer other than the IPP's participating employer. Any assets transferred from a former employer's defined benefit plan to an IPP that exceed the prescribed transfer limits will be required to be included in income of the member.

Donations of cultural property

The donation of cultural property to Canadian museums and other designated institutions is eligible for a charitable donation tax credit or deduction as well as an exemption from income tax on any capital gains realized on the disposition. Budget 2019 removes the requirement that the property be of "national importance" to ensure that these enhanced tax incentives are available for works of art that are of foreign origin as well as Canadian works.

Contributions to a specified multi-employer plan for older members

While pension tax rules prevent contributions to most defined benefit registered pension plans (RPPs) for members after the end on the year in which the member turns 71 or begins receiving a pension from the plan, this restriction is not currently imposed on specified multi-employer plans (SMEP) which are union-sponsored defined benefit pension plans. Budget 2019 amends the pension tax rules to prohibit contributions to a SMEP in respect of a worker over age 71 or receiving pension income from the plan to ensure that employers do not make contributions on behalf of older members who can no longer benefit from the contribution.

This measure applies to SMEP contributions made in connection with collective bargaining agreements that are entered into after 2019.

Medical expense tax credit

Budget 2019 proposes a technical amendment to the *Income Tax Act* to modernize the wording concerning eligibility for medical-use cannabis products based on access to those products now being governed under the new *Cannabis Act* rather than under the *Controlled Drugs and Substances Act*.

Tax measures for kinship care providers

Several provinces and territories provide kinship care programs as alternatives to foster care and other formal government-structured care programs. Under these kinship care programs, the provincial or territorial governments often provide financial assistance to the care providers to help defray the cost of the care.

Budget 2019 proposes certain amendments to the *Income Tax Act* to remove possible negative tax consequences to kinship care providers that could result from their participation in the programs and receipt of the financial assistance. First, Budget 2019 proposes changes that will clarify that a kinship care provider may be considered the parent of a child in their care for purposes of the Canada Workers Benefit, regardless of whether they receive financial assistance under their kinship care program. Second, financial assistance received from a kinship care program will neither be taxable, nor included in income for purposes of calculating entitlement to income-tested benefits and credits. These measures will apply retroactively to the 2009 and subsequent taxation years.

Mutual funds: Allocation to redeemers methodology

Currently, some mutual fund trusts apply the "allocation to redeemers methodology" to match the capital gain realized inside the mutual fund trust on the disposition of its investments, in order to generate the cash to redeem the units of a particular unitholder. The mutual fund trust receives a deduction for the allocation of this capital gain, and the unitholder's proceeds of redemption are reduced by the same amount.

Because the redeeming unitholder's proceeds are reduced by the excess allocation, there is no income tax impact. However, because the mutual fund trust has allocated excess capital gains to the redeeming unitholder, the remaining unitholders achieve a deferral which is considered abusive.

Budget 2019 proposes a new measure which will prevent the allocation of a capital gain to a unitholder in excess of the capital gain that would have otherwise been realized.

In addition, Budget 2019 proposes a similar measure which applies to unitholders who would normally be allocated ordinary income. If an excess amount of ordinary income is allocated to these redeeming unitholders, the remaining unitholders may also achieve an inappropriate income tax deferral. It is proposed that a mutual fund trust will be prevented from claiming a deduction for an allocation of ordinary income to a redeeming unitholder if the allocation exceeds the accrued gain that would have otherwise been realized by that redeeming unitholder.

Both of these proposed measures will apply to mutual fund trusts that have taxation years that begin on or after Budget Day.

Registered Disability Savings Plan – Cessation of eligibility for the Disability Tax Credit

A Registered Disability Savings Plan (RDSP) is intended to assist with the long-term savings and financial security of individuals eligible for the disability tax credit (DTC). Savings in these plans are supplemented with Canada Disability Savings Grants and Canada Disability Savings Bonds. Currently, once an individual beneficiary of an RDSP is no longer eligible for the DTC, they cannot make additional contributions to the plan, and no government grants or bonds will be paid into the RDSP. In addition, the plan must be closed by the end of the year following the first full year that the individual is no longer eligible for the DTC, unless a medical practitioner certifies that it's likely the beneficiary will qualify for the DTC. Closure of the plan will result in repayment of government grants and bonds paid into the plan within the preceding 10-year period, the "assistance holdback."

Budget 2019 removes the two-year time limit on the period that an RDSP can remain open after the beneficiary is no longer eligible for the DTC, and eliminates the requirement for medical certification. If the plan remains open while the beneficiary is no longer eligible for the DTC, and withdrawals are allowed up to the assistance holdback amount. The assistance holdback is frozen until the year the beneficiary turns 51, at which point it begins to decline over a 10-year period.

This measure will apply after 2020 however, an RDSP will not be required to be closed on or after March 19, 2019 only because the beneficiary is no longer eligible for the DTC.

Changes to the Guaranteed Income Supplement

Budget 2019 provides enhancements to the Guaranteed Income Supplement (GIS), including:

- Making self-employment income eligible for the earnings exemption; and
- Increasing the exemption of annual employment or self-employment income for GIS or Allowance recipients and their spouse by:
  - Increasing the full exemption from $3,500 to $5,000 per year for both the recipient and their spouse, and
  - Introducing a new exemption of 50% of an additional $10,000, beyond the above-mentioned $5,000 exemption for both the recipient and spouse.

International

Transfer pricing

Transfer pricing refers to the pricing of transactions between non-resident non-arm's length parties, such that they are fairly valued as if the transactions had occurred between arm's length parties. If the terms and conditions of these transactions are not reflective of arm's length terms and conditions, the CRA can make adjustments accordingly.

The budget introduces two new rules pertaining to transfer pricing:

1 The first rule gives priority to an adjustment required due to the application of the transfer pricing rules over an adjustment required due to the application of other tax rules that may apply, including rules related to the computation of income. Current exclusions related to amounts owed by, or guarantees on amounts owing by, a controlled foreign affiliate will continue to apply. This new measure will apply to taxation years beginning on or after March 19, 2019.

2 The second new rule extends the meaning of "transaction" for transfer pricing purposes (i.e. the definition states: "transaction includes an arrangement or event") such that this broader definition applies for reassessment purposes. Under this new measure, if the normal reassessment period is extended for three years due to a transaction between a taxpayer and non-arm's length non-resident, this broader definition of "transaction" will apply such that both an "arrangement" or an "event" will also be subject to the extended three-year reassessment period. This new measure will apply to taxation years for which the normal reassessment period ends on or after March 19, 2019.

Cross-border share lending arrangements

A non-resident may enter a lending arrangement that involves the lending of a share of a corporation (foreign or Canadian) to a Canadian resident, who will, in turn, provide collateral as security for that share. This arrangement is commonly referred to as a "securities lending arrangement" (SLA). The Canadian resident will often receive dividends on the share, and will be required to make a payment to the non-resident lender to compensate them for those foregone dividends (referred to as a "dividend compensation payment"). This puts the lender in the same economic situation as if it had not lent the share in the first place.

For tax purposes, the dividend compensation payment can either be characterized as a dividend, if the SLA is fully collateralized, or as interest if it is not. For the SLA to be considered fully collateralized, it would generally require the Canadian resident to provide collateral for 95 percent or more of the value of the lent share throughout the term of the SLA and for the Canadian resident to be entitled to all or substantially all of the income and potential gain from the collateral. The tax treatment of the dividend compensation payment is important because dividends paid from a Canadian resident to a non-resident are subject to withholding tax while interest is not.

Canadian shares

Currently, non-residents that enter an SLA through the lending of shares of a Canadian resident corporation are permitted to engage in planning to avoid dividend treatment in order to avoid the withholding tax. This can be done by structuring the SLA such that it does not meet the "fully collateralized" test or it does not meet the definition of "securities lending arrangement" as defined in the ITA.

In order to prevent this type of planning, a new rule is introduced to ensure that a dividend compensation payment made under an SLA by a Canadian resident to a non-resident will always be treated as a dividend and, therefore, subject to withholding tax. Furthermore, this new rule is extended to a “specified securities lending arrangement”, which was a definition introduced in the 2018 federal budget. Additional amendments will be made to the ITA to prevent unintended withholding tax benefits to be obtained from the new SLA rules.

These new rules apply to dividend compensation payments made on or after March 19, 2019. If the securities loan was in place before that date, the new rules apply to payments made after September 2019.

Foreign shares

A non-resident may also enter an SLA with a Canadian resident corporation through the lending of shares of a non-resident corporation (foreign shares). If the SLA is fully collateralized, the dividend compensation payment would be considered a dividend for Canadian withholding tax purposes and be subject to Canadian withholding tax. To prevent the application of the rules on foreign shares, a currently-existing exemption to Canadian withholding tax is extended to SLAs where: (i) the SLA is fully collateralized and (ii) the shares lent are foreign shares. This new rule applies to dividend compensation payments made on or after March 19, 2019.

Foreign affiliate dumping

The foreign affiliate dumping rules seek to prevent an erosion of the tax base that may occur when a corporation resident in Canada (CRIC) that is controlled by a non-resident, invests in a foreign affiliate of the CRIC either new or existing, as well as in other similar scenarios.

If the rules apply, the result is generally:

- A reduction or suppression of the paid-up capital (PUC) of a cross border class of shares of the CRIC or a qualifying substitute corporation, and
- A deemed dividend paid by the CRIC to the non-resident equal to the amount that the investment exceeds the suppressed or reduced PUC. Such deemed dividend would be subject to withholding tax.

These rules currently only apply to CRICs that are controlled by a non-resident corporation or group of non-related corporations. Budget 2019 extends the rules to apply to a CRIC that is controlled by:

- A non-resident individual,
- A non-resident trust, or
- A group of non-arm’s length persons that are a combination of non-resident corporations, non-resident trusts and non-resident individuals.

This new measure applies to transactions and events occurring on or after March 19, 2019.

Ongoing BEPS initiatives

Country-by-country reporting

As a member of the OECD (Organization for Economic Co-operation and Development), Canada has agreed to implement several initiatives outlined in the BEPS (Base Erosion and Profit Shifting) action plan. One of these initiatives included the requirement for large multinational enterprises to provide reporting on a country-by-country basis of their income, taxes and general business activities. Canada is now part of an OECD review of these reporting standards that is scheduled to be completed in 2020.

Multilateral instrument

The Multilateral instrument (MLI) allows signatories to the BEPS project to modify their tax treaties without renegotiating each one individually. Continued steps are being taken to ratify the MLI and bring it into Canadian law.

Sales and Excise Tax

Budget 2019 proposes that edible cannabis, cannabis extracts and cannabis topicals be subject to excise duty based on the amount of THC those products contain. The THC-based duties will apply once those products are legalized for production and sale.

Cannabis taxation

There are currently five classes of cannabis which are legal for sale: fresh cannabis, dried cannabis, cannabis oils, cannabis plant seeds and cannabis plants. Draft legislation released in December 2018 proposed to legalize the sale of edible cannabis, cannabis extracts and cannabis topicals. Once these three new classes are legalized, there will be a total of seven classes, with the existing cannabis oil class becoming part of the new cannabis extracts class.

In order to ease the administration issues faced by producers, Budget 2019 proposes that edible cannabis, cannabis extracts and cannabis topicals will be subject to excise duty based on the amount of tetrahydrocannabinol (THC) contained in the final product. These THC-based duties will apply once these products are legalized for production and sale. Any cannabis oil products packaged for retail sale prior to May 1, 2019 will be subject to the existing rules.

The current excise duty rules will remain unchanged for fresh cannabis, dried cannabis, cannabis plant seeds and cannabis plants. Further, the existing agreements between the federal and provincial and territorial governments respecting the distribution of the duties collected will not be altered.

Business investment in zero-emission vehicles

Under the existing rules, a GST/HST registrant may claim an input tax credit (ITC) based on the GST/HST paid on the acquisition of a passenger vehicle. The maximum ITC that can be claimed is equal to the GST/HST paid on $30,000.

Budget 2019 proposes that effective March 19, 2019, the maximum ITC that a GST/HST registrant can claim on the purchase of a zero-emission vehicle will be equal to the GST/HST paid on $55,000.

Multidisciplinary health care services

In general, health care services provided by health professionals (doctors, physiotherapists and occupational therapists) are exempt from GST/HST. However, the existing legislation does not clearly state that health care services provided by a multidisciplinary team of health professionals are exempt from GST/HST. After March 19, 2019, health care services rendered by multidisciplinary teams will be considered GST/HST-exempt if all or substantially all of the service is provided by health professionals whose services would be GST/HST-exempt if they provided their service individually.

Human ova and *in vitro* embryos

Under the current GST/HST system, human sperm is zero-rated for GST/HST under *Excise Tax Act*. In contrast, human ova and *in vitro* embryos are currently subject to GST/HST. Methods of fertility treatments have expanded to include human ova and *in vitro* embryos, and as a result, Budget 2019 proposes that commencing on the Budget Day, supplies and imports of human ova and *in vitro* embryos will be relieved of GST/HST. This proposed measure will align the GST/HST treatment of human ova and *in vitro* embryos with the existing framework for human sperm.

Further, the government has indicated that it will reassess which types of fertility-related treatments will qualify for the medical expense tax credit to ensure fairness and consistency.

Other Items

Investments in tax compliance

Budget 2019 proposes an additional $150.8 million over five years to assist the CRA in tax compliance initiatives including:

- Building resources and expertise to target non-compliance in cryptocurrency and digital economy transactions;
- Creating of a new data quality examination team focused on reporting of income by non-residents and related withholding and remittance compliance; and
- Making additional investments in programs focused on offshore non-compliance.

Tax compliance in real estate

Budget 2019 proposes an additional $50 million over five years for the CRA to establish four new dedicated residential and commercial real estate audit teams. These teams will be focused on ensuring compliance with tax rules as they relate to real estate transactions, including taxation of income from real estate flipping activities, taxation of gains not sheltered under the principal residence exemption, and proper remittance of GST/HST by builders of residential properties.

Innovation-related incentives

Budget 2019 proposes several innovation-related incentives in many different areas, including:

- A new Housing Supply Challenge, which offers $300 million to municipalities and other stakeholders to offer new ways to break down barriers that limit the creation of new housing,
- Several innovation programs related to the forestry sector, with up to $251 million over three years, starting in 2020-21,
- $100 million over four years to be added to the Strategic Innovation Fund starting in 2019-20, which was introduced in Budget 2018, as an initiative to promote innovation through collaboration between academia, not-for-profits and the private sector,
- Additional funding of $38 million over five years starting in 2019-20 to Futurpreneur Canada, which supports young entrepreneurs with mentorship, learning resources and startup funding,
- $100 million over three years starting in 2019-20 to develop a diversified strategy to stimulate economic growth in Western Canada, as well as incent innovation and attract investment,
- Several investments in health-related organizations such as the Stem Cell Network ($18 million over three years), Brain Canada Foundation ($40 million over two years), Terry Fox Research Institute ($150 million over five years), Ovarian Cancer Canada ($10 million over five years), and others.

National Pharmacare

The Advisory Council on the Implementation of National Pharmacare continues work towards providing its final report to the Government and has identified three main objectives:

1 Introduction of the Canadian Drug Agency which will assess effectiveness and facilitate the negotiating of better prices for Canadians;

2 Development of a national formulary which will create a list of prescribed drugs to provide a consistent formulary listing for all Canadians; and

3 Development of a national strategy for high-cost drugs for rare diseases to provide Canadians with better access to consistent treatments that are often life-saving.

Universal high-speed Internet

The government is seeking to bring universal high-speed Internet in the fastest and most cost-effective manner, through coordination with the private sector and other levels of government. To that end, the Budget 2019 proposes a plan to deliver $5 billion to $6 billion in new investments in rural broadband, over the next 10 years.

Improving client services at the Canada Revenue Agency

This budget includes an investment of $34 million over five years to hire additional CRA staff for service delays. This is in response to concerns raised by tax payers and documented in the 2018 Ombudsman's report.

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