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2015 FEDERAL BUDGET

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Tax highlights from the 2015 federal budget

Finance Minister Joe Oliver tabled the 2015 federal budget on April 21, 2015. The budget projects a deficit of $2 billion for the recently completed 2014-2015 fiscal year and, as promised, forecasts a small surplus of $1.4 billion for the 2015-2016 fiscal year. This is considerably less than the $6.4 billion surplus projected for 2015-2016 in last year's budget as a result of certain personal tax initiatives announced on October 30, 2014. The initiatives include the introduction of the family tax cut, the expansion of the universal child care benefit, and an increase to the child care expense deduction. The budget forecasts continuing surpluses, projecting a $1.7 billion surplus for the 2016-2017 fiscal year growing to a $4.8 billion surplus in the 2019-2020 fiscal year.

The budget or Economic Action Plan 2015 as it is referred to by the government, focuses on the four following areas:

- balancing the budget;
- supporting jobs and growth;
- helping families and communities prosper; and
- ensuring the security of Canadians.

There were no increases to personal or corporate tax rates in the budget for 2015; however, the small business tax rate is proposed to decrease by 2% over the next four years. The widely anticipated increase to the Tax Free Savings Account (TFSA) contribution limit was proposed now that the budget is in balance, and the government finally responded to recommendations that it reduce minimum required Registered Retirement Income Fund (RRIF) withdrawals for seniors.

To put the economic effect of these budget provisions into context, the budget documents estimate the potential tax impact of the various proposed measures over the next five years. The top sources of cumulative incremental tax revenue are projected to be:

- an increased tax rate on non-eligible dividends – $2.3 billion
- new rules regarding synthetic equity arrangements – $1.2 billion

The top sources of cumulative incremental tax savings are projected to be:

- a reduction in the small business corporate tax rate – $5.0 billion
- increased TFSA contribution limits – $1.1 billion
- accelerated capital cost allowance (CCA) for machinery and equipment – $1.1 billion
- a reduction to required RRIF minimum withdrawals – $670 million

The following pages are a summary of the changes announced in the budget. Please note that these changes are still proposals until passed into law by the federal government.

PERSONAL TAX MATTERS

Personal income tax rates

There were no changes announced with respect to personal income tax rates in this budget, although tax brackets have been indexed by 1.7% to reflect the impact of inflation. The effective rates for 2015 and corresponding tax bracket thresholds are shown in the following table.

Taxable income range	2015 tax rates
$11,328 - $44,701	15%
$44,702 - $89,401	22%
$89,402 - $138,586	26%
$138,587 or more	29%

The table below shows the highest marginal federal tax rates for various types of income.

Taxable income range	2015 tax rates
Regular income	29.00%
Capital gains	14.50%
Eligible dividends	19.29%
Non-eligible dividends	21.22%

Tax Free Savings Account (TFSA)

The budget proposes to increase the TFSA annual contribution limit from the current level of $5,500 to $10,000, effective January 1, 2015. This new annual limit will apply for 2015 and all subsequent years and will no longer be indexed to inflation.

Minimum withdrawals from Registered Retirement Income Funds (RRIFs)

The budget proposes to reduce the factors used in calculating the minimum required RRIF withdrawal for individuals between the ages of 71 and 94 to better reflect the historical long-term rates of return and expected inflation. The new minimum withdrawal rates are effective for the 2015 and subsequent taxation years. There is no change proposed to the formula used to calculate minimum withdrawals for those under age 71.

To the extent that an individual withdraws more than the reduced minimum amount in 2015, they will be permitted to re-contribute the excess to their RRIF. Re-contributions will be permitted until February 29, 2016 and will be deductible in the 2015 taxation year. Similar rules will apply to those receiving annual payments from a defined contribution Registered Pension Plan (RPP) or a Pooled Registered Pension Plan (PRPP). The existing and new minimum withdrawal factors are in the table below:

Age (at start of year)	Existing factor (%)	New factor (%)
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
75	7.85	5.82
76	7.99	5.98
77	8.15	6.17
78	8.33	6.36
79	8.53	6.58
80	8.75	6.82
81	8.99	7.08
82	9.27	7.38
83	9.58	7.71
84	9.93	8.08
85	10.33	8.51
86	10.79	8.99
87	11.33	9.55
88	11.96	10.21
89	12.71	10.99
90	13.62	11.92
91	14.73	13.06
92	16.12	14.49
93	17.92	16.34
94	20.00	18.79
95 and over	20.00	20.00

Lifetime capital gains exemption (CGE)

The budget proposes to increase the CGE to $1 million of capital gains realized by an individual on the disposition of qualified farming or fishing property. This new limit will apply to dispositions that occur on or after April 21, 2015. The lifetime limit will be calculated as the greater of:

- $1 million; and
- the indexed lifetime CGE applicable to capital gains realized on the disposition of qualified small business corporation shares (currently $813,600).

Dividend tax credit

In conjunction with the proposed reduction in the small business tax rate, the budget proposes to decrease both the gross-up factor, from 18% to 15%, and the dividend tax credit rate, from 11% to 9%, on non-eligible dividends, by January 1, 2019. This reduction will provide better integration between the personal and corporate tax systems and reflects the proposed phased-in reduction to the small business corporate tax rate. This measure effectively increases the tax rate on non-eligible dividends received. The table below illustrates the proposed new rates as of January 1 each year:

	2015	**2016**	**2017**	**2018**	**2019**
Dividend gross-up	18.0%	17.0%	17.0%	16.0%	15.0%
Dividend tax credit	11.0%	10.5%	10.0%	9.5%	9.0%
Top federal marginal tax rate	21.22%	21.62%	22.21%	22.61%	22.97%

This table only reflects the highest marginal federal tax rate on non-eligible dividends. The relevant provincial or territorial tax rate would have to be added to arrive at the combined marginal rate.

Home accessibility tax credit

The budget proposes this new non-refundable tax credit effective for up to $10,000 of eligible expenditures incurred after 2015. Eligible expenditures are those which would give a qualifying individual increased mobility or safety within their principal residence. Examples would include wheelchair ramps, walk-in bathtubs, wheel-in showers, and grab bars. Eligible expenditures would include the costs of materials, labour, fixtures, equipment rentals and permits.

This new credit will generally be available to seniors age 65 or older and disabled individuals who qualify for the disability tax credit. It will also be available to eligible individuals, who are defined as persons who claim the spouse or common-law partner amount, eligible dependant amount, caregiver amount or infirm dependant amount, for qualifying seniors or disabled individuals.

This credit will not be reduced by other tax credits or grants available to the qualifying individual from government. For example, if an eligible expenditure also qualified for the medical expense tax credit, the individual would be permitted to claim both tax credits. Expenditures that are reimbursed by someone other than government, private insurance for instance, will not be eligible.

Registered Disability Savings Plan (RDSP)

An RDSP for an adult beneficiary can only be established by the beneficiary or a legal representative of a beneficiary who is incapable of entering into a contract. The 2012 budget proposed a temporary measure that allowed for the establishment of an RDSP by a qualifying family member (spouse, common-law partner, or parent), in cases where there is a question as to the capacity of the beneficiary. This temporary measure was scheduled to expire on December 31, 2016.

Some provinces and territories have instituted streamlined processes and flexibility to allow for the appointment of a trusted person to manage resources on behalf on an adult who lacks contractual capacity. To give the remaining provinces and territories the opportunity to address this issue with respect to RDSPs, the budget proposes to extend this temporary measure until December 31, 2018.

Transfer of education credits – family tax cut

The budget proposes a revision to the family tax cut calculation, effective for 2014 and subsequent tax years, to ensure that couples claiming the family tax cut and transferring education-related credits (tuition, education amount, and textbooks) between themselves receive the appropriate value of the family tax cut. After receiving Royal Assent, the Canada Revenue Agency (CRA) will automatically reassess affected taxpayers for the 2014 tax year.

Streamlined reporting requirements for foreign assets

These reporting requirements apply with respect to foreign property with a cost of more than $100,000, owned by Canadian resident individuals, corporations or trusts.

CRA introduced a revised form T1135 in 2013. The revised form requires detailed information with respect to each specified foreign property. This new form resulted in a significant compliance burden for some taxpayers with relatively small foreign investments.

The budget proposes to simplify the foreign asset tax reporting system for taxation years that begin after 2014. A simplified form is being developed by CRA that can be used if the total cost of the taxpayer's specified foreign property is less than $250,000 throughout the year. The current reporting system will continue to apply to taxpayers with specified foreign property that has a total cost at any time during the year of $250,000 or more.

Repeated failure to report income penalty

The budget proposes to amend the repeated failure to report income penalty, effective January 1, 2015, to apply in a taxation year only if a taxpayer fails to report at least $500 of income in the year and in any of the three preceding taxation years. The amount of the penalty will be the lesser of:

- 10% of the amount of the unreported income; and
- 50% of the difference between the understatement of tax (or overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount.

Information sharing

The budget proposes to allow for sharing of information within CRA with respect to non-tax debts under certain federal and provincial government programs. The budget also proposes to amend certain excise tax statutes to allow for the sharing of information that is already permitted under the Income Tax Act. These measures will be applicable upon the legislation receiving Royal Assent.

CORPORATE TAX MATTERS

Corporate income tax rates

There were no changes proposed to any corporate income tax rates for 2015. The table below shows federal tax rates and the small business limit for 2015.

Category	2015 tax rates
General rate	15%
Manufacturing & processing rate	15%
Small business rate	11%
Small business limit	$500,000

The budget proposes a reduction to the corporate income tax rate for small business, beginning in 2016. The rate, on the first $500,000 of qualifying active business income, will be reduced from 11% to 9%, as follows:

- effective January 1, 2016, the rate will be reduced to 10.5%;
- effective January 1, 2017, the rate will be reduced to 10.0%;
- effective January 1, 2018, the rate will be reduced to 9.5%; and
- effective January 1, 2019, the rate will be reduced to 9.0%.

The reduction in the small business rate will be pro-rated for corporations with fiscal years that straddle the effective date.

Manufacturing and processing equipment

Manufacturing and processing (M&P) machinery and equipment acquired after March 18, 2007 and before 2016 is currently eligible for temporarily accelerated CCA. This temporary increase, from 30% to 50% straight-line (subject to the half-year rule), results in a full write-off of qualifying new M&P equipment costs over three years.

This budget proposes to extend applicability of the 50% straight-line method to acquisitions made after 2015 and before 2026. The half-year rule will continue to apply, resulting in a full write-off of the cost of qualifying M&P equipment over three years. Eligible assets would be those currently included in class 29. These assets will now be included in new class 53.

Acquisitions after 2025 will be included in class 43, subject to a 30% declining balance rate of CCA.

Tax avoidance of corporate capital gains

The budget proposes to amend the anti-avoidance rules in section 55 of the Income Tax Act as a result of a recent decision by the Tax Court of Canada. The decision effectively allowed for the creation of an unrealized capital loss that was used to avoid capital gains tax on the sale of another property.

The budget proposes to amend section 55 so that it is applicable in cases where one of the purposes of a dividend is to effect a significant reduction in the fair market value of any share or a significant increase in the total cost of properties of the dividend recipient. The budget also proposes other amendments to the section with respect to stock dividends and related party share redemptions.

Remittance thresholds for employer source deductions

In order to reduce the tax compliance burden for new small businesses, the budget proposes to reduce the required frequency of remitting source deductions for amounts withheld after 2015.

Eligible employers will be new employers with withholdings of less than $1,000 per month. They will be permitted to remit on a quarterly basis as long as they maintain a perfect Canadian tax compliance record. If the employer's monthly withholding exceeds $1,000, they will be required to remit in accordance with the existing remittance rules.

Agricultural cooperatives

The budget proposes an extension of the tax deferral applicable to patronage dividends received as shares by members of an agricultural cooperative. This measure, which was to expire at the end of 2015, allows cooperative members to defer the income inclusion until the shares are disposed of. In addition, the withholding tax obligation is deferred until the shares are redeemed. This measure will be extended to apply to eligible shares issued before 2021.

Eligible capital property

The budget notes that consultation with stakeholders continues with respect to a 2014 budget proposal to repeal the existing eligible capital property system and replace it with a new CCA class in order to simplify the rules for businesses. Detailed draft legislation will be released for additional stakeholder comment before inclusion in a bill.

Small business deduction consultations

The budget proposes a review of the availability of the small business deduction in certain circumstances where a business earns investment income from property. Interested parties are requested to submit comments by August 31, 2015.

Various other tax measures

The budget proposes various other measures that are applicable to specific industry sectors, large business enterprises, and international transactions. These proposed measures include:

- withholding for non-resident employers;
- amending the existing anti-avoidance rule in the FAPI regime related to captive insurers;
- modification of the dividend rental arrangement rules in respect of synthetic equity arrangements;
- an update on consultations regarding tax planning by multi-national enterprises;
- an update on the automatic exchange of information for tax purposes, including proposed implementation of the common OECD reporting standard on January 1, 2017, allowing the first exchange of information in 2018; and
- comments regarding aboriginal tax policy.

OTHER PROPOSALS

Charities and non-profit organizations

The budget proposes several new measures within the charity and non-profit sectors. They are as follows:

Donations involving private corporation shares and real estate – Currently, donations of publicly listed securities, ecologically sensitive land and certified cultural property made to certain Canadian charities and other qualified donees are exempt from capital gains tax. When an individual or corporation makes a donation to a charitable organization of private corporation shares or real estate, there may be a liability for tax on the capital gain on disposition.

The budget proposes an exemption from capital gains tax in respect of the disposition of private corporation shares and real estate after 2016, where:

- cash proceeds from the disposition of the private corporation shares or real estate are donated to a qualified donee within 30 days of the disposition; and
- the private corporation shares or real estate are sold to a purchaser that is dealing at arm's length with both the donor and the qualified donee to which cash proceeds are being donated.

The exempt portion of the capital gain will be determined proportionately based on the ratio of funds donated to total proceeds of disposition. The budget also includes specific anti-avoidance rules that will apply for five years after the disposition.

Investments by registered charities in limited partnerships – the budget proposes that, effective, April 21, 2015, a registered charity will not be considered to be carrying on a business solely because it acquires or holds an interest in a limited partnership, provided that:

- the charity, together with all non-arm's length parties, holds 20% or less of the interests in the limited partnership; and
- the charity deals at arm's length with each general partner of the limited partnership.

Gifts to foreign charitable foundations – the budget proposes to allow foreign charitable foundations to register as qualified donees for a 24 month period if they receive a gift from the government of Canada and if they are pursuing activities related to disaster relief or urgent humanitarian aid or are carrying on activities in the national interest of Canada. This measure would be effective on Royal Assent.

Employment insurance (EI)

The budget proposes two measures dealing with EI, they are:

- implementing a seven-year break-even EI premium rate setting process in 2017. This is expected to reduce EI premiums from the rate of $1.88 in 2016 to an estimated $1.49 in 2017; and
- increasing compassionate care benefits under the EI program from the current six weeks to six months beginning in January 2016.

WE CAN HELP

Your Assante advisor can help you assess the impact of these proposals on your personal finances or business affairs, and show you ways to take advantage of their benefits or ease their impact. The resources available to you and your advisor include United Financial's Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.