



## FEDERAL BUDGET FEBRUARY 11, 2014

TAX SERVICES



## CAUTION

Please note that this is not an exhaustive summary of all the measures proposed in the budget. We have focused on the measures that are most likely to be of interest to you.

## BUSINESSES

### REMITTANCE THRESHOLDS FOR EMPLOYER SOURCE DEDUCTIONS

In order to reduce the tax compliance burden, in the 2014 budget, the government is proposing to reduce the frequency of remittance of source deductions. Accordingly, the government is proposing to increase to \$25,000 from \$15,000 and to \$100,000 from \$50,000 the threshold level of average monthly withholdings at which employers are required to remit up to two (2) times per month.

These changes will apply in respect of amounts withheld after 2014.

### TAX INCENTIVES FOR CLEAN ENERGY GENERATION

The 2014 budget proposes to expand Class 43.2 to include water-current energy equipment and a broader range of equipment used to gasify eligible waste.

These measures will apply to property acquired on or after February 11, 2014 that has not been used or acquired for use before that date.

### CANADA JOB GRANT

Businesses with a plan to train unemployed and underemployed Canadians for a new or a better job will be eligible to apply for a Canada Job Grant. The Grant could provide up to \$15,000 per person for their training costs.

## INDIVIDUALS

### ADOPTION EXPENSE TAX CREDIT

The Adoption Expense Tax Credit is a 15-per-cent non-refundable tax credit that allows adoptive parents to claim eligible adoption expenses relating to the completed adoption of a child under the age of 18 (up to a maximum of \$11,774 per child for 2014).

Budget 2014 proposes to increase the maximum amount of eligible expenses to \$15,000 per child for 2014. This maximum amount will be indexed to inflation for taxation years after 2014.

## MEDICAL EXPENSE TAX CREDIT

Budget 2014 proposes to add the following to the list of expenditures eligible under the Medical Expense Tax Credit:

- Expenses for service animals specially trained to assist an individual in managing their severe diabetes;
- The amounts paid for the design of an individualized therapy plan if the cost of the therapy itself would be eligible for the Medical Expense Tax Credit, under certain conditions.

These measures will apply to expenses incurred after 2013.

## FARMING AND FISHING BUSINESSES

### PROPERTY HELD DIRECTLY OR THROUGH A PARTNERSHIP

Where an individual disposes of property used in a farming business or a fishing business, the capital gains may be eligible for a capital gains exemption of \$800,000. Currently, the property is only eligible if it is used principally (interpreted as 50% or more) in farming or fishing.

Budget 2014 proposes to extend eligibility to property that is used principally, namely, 50% or more, in a combination of farming and fishing.

### SHARES OR PARTNERSHIP INTERESTS

Budget 2014 proposes to extend eligibility to an individual's shares in a corporation or interest in a partnership where the corporation or partnership carries on both a farming business and a fishing business.

This measure will apply to dispositions and transfers that occur in the 2014 and subsequent taxation years.

## TAX DEFERRAL FOR FARMERS

Farmers who dispose of breeding livestock due to drought, flood or excess moisture conditions existing in prescribed regions are permitted to defer up to 90 per cent of the sale proceeds from inclusion in their taxable income until the year following the sale of the animals or a later year if the conditions persist.

Budget 2014 proposes to extend this tax deferral to bees and to all types of horses over 12 months of age that are kept for breeding.

This measure will apply to the 2014 and subsequent taxation years.

## ESTATE DONATIONS

Budget 2014 proposes to provide more flexibility in the tax treatment of charitable donations made in the context of a death that occurs after 2015. Donations made by will and designation donations will no longer be deemed to be made by an individual immediately before the individual's death. Instead, these donations will be deemed to have been made by the estate, at the time at which the property that is the subject of the donation is transferred to a qualified donee.

In addition, the trustee of the individual's estate will have the flexibility to allocate the available donation among any of: the taxation year of the estate in which the donation is made; an earlier taxation year of the estate; or the last two (2) taxation years of the individual. This measure will apply to the 2016 and subsequent taxation years.

### GST/HST CREDIT ADMINISTRATION

Budget 2014 proposes to eliminate the need for an individual to apply for the GST/HST Credit and to allow the Canada Revenue Agency to automatically determine if an individual is eligible to receive the GST/HST Credit. In the case of eligible couples, the GST/HST Credit will be paid to the spouse or common-law partner whose tax return is assessed first.

This measure will apply in respect of income tax returns for the 2014 and subsequent taxation years.

### EXTENSION OF THE MINERAL EXPLORATION TAX CREDIT FOR FLOW-THROUGH SHARE INVESTORS

Flow-through shares allow companies to renounce or “flow through” tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses in calculating their own taxable income. The Mineral Exploration Tax Credit is available to individuals who invest in flow-through shares, equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Budget 2014 proposes to extend eligibility for the Mineral Exploration Tax Credit for one year, to flow-through share agreements entered into on or before March 31, 2015.

### SEARCH AND RESCUE VOLUNTEERS TAX CREDIT

Budget 2014 proposes a new Search and Rescue Volunteers Tax Credit. Under certain conditions, volunteers may apply for a 15-per-cent tax credit on an amount of \$3,000.

This measure will apply for the 2014 and subsequent taxation years.

## TRUSTS

### TAX ON SPLIT INCOME

Income-splitting is a technique used to shift certain types of income from a higher-income taxpayer to a lower-income minor. Although they may be split, certain types of income (listed below) are nonetheless subject to the highest marginal tax rate (29 %). As a result, the splitting of this income produces no tax savings:

- Taxable dividends received in respect of unlisted shares of Canadian and foreign corporations;
- Capital gains from dispositions of those types of shares to persons who do not deal at arm’s length with the minor;
- Income from a partnership or trust that is derived from providing property or services to, or in support of, a business carried on by a person related to the minor or in which the related person participate.

Budget 2014 proposes to add to this list:

- Income derived from a source that is a business or a rental property and a person related to the minor who:
  - is actively engaged in the activities to earn income from any business or rental property, or
  - has, in the case of a partnership, an interest in the partnership (whether held directly or through another partnership).

This measure will apply to the 2014 and subsequent taxation years.

## GRADUATED RATE TAXATION OF TRUSTS AND ESTATES

Current tax treatment of trusts and estates allows their beneficiaries access to graduated rates.

Budget 2014 proposes to apply top-rate taxation to trusts created by will and certain estates. Two (2) exceptions to this treatment are proposed:

- Graduated rates will apply for the first 36 months of an estate that arises on and as a consequence of an individual's death and that is a testamentary trust;
- Graduated rates will continue to be provided in respect of testamentary trusts having as their beneficiaries individuals who are eligible for the federal Disability Tax Credit.

Trusts will not benefit from special treatment under a number of related tax rules, in particular, an exemption from the income tax instalment rules and the basic exemption in computing alternative minimum tax.

Testamentary trusts that do not already have a calendar year taxation year will have a deemed taxation year-end on December 31, 2015 (or in the case of an estate for which that 36-month period ends after 2015, the day on which that period ends).

This measure will apply to the 2016 and subsequent taxation years.

## AMATEUR ATHLETE TRUSTS

There is no tax payable on income contributed to an Amateur Athlete Trust. As a result, for tax purposes, it is not treated as earned income in determining an athlete's annual RRSP contribution limit.

Budget 2014 proposes to allow income contributed to an amateur athlete trust to qualify as earned income for the purpose of determining an athlete's annual RRSP contribution limit.

This measure will apply in respect of contributions made to amateur athlete trusts after 2013. In addition, individuals will be permitted to make an election to have income that was contributed to an amateur athlete trust in 2011, 2012 and 2013 also qualify as earned income for RRSP limit purposes. This election will have to be made on or before March 2, 2015.

## TAXES

### IMPROVING THE APPLICATION OF THE GST/HST TO THE HEALTH CARE SECTOR

In order to improve the application of the GST/HST treatment of health-related goods and services, the latest budget proposes the addition of the following:

- Tax-exempt supplies:
  - Designing training for individuals with a disorder or a disability;
  - Acupuncturists' and naturopathic doctors' services.
- Zero-rated supplies:
  - Eyewear specially designed to treat or correct a defect of vision by electronic means.

This measure will apply to supplies made after February 11, 2014.

## ELECTION FOR CLOSELY RELATED PERSONS

Under the Goods and Services Tax/Harmonized Sales Tax (GST/HST), an election is available allowing corporations that are resident in Canada, engaged exclusively in commercial activities and members of a closely related group to not account for tax on certain transactions between them.

Effective January 1, 2015, Budget 2014 proposes to extend the availability of the election to new members of a closely related group that have not yet acquired any property, provided that the new members continue as going concerns engaged exclusively in commercial activities.

In addition, prior to Budget 2014, the election had to be produced and kept by the corporations and provided upon request by the Canada Revenue Agency. Effective January 1, 2015, it will be mandatory to file the election with the Canada Revenue Agency. Elections made before January 1, 2015 will have to be filed by January 1, 2016.

## JOINT VENTURES

Under the Goods and Services Tax/Harmonized Sales Tax (GST/HST), joint venture participants may elect one person to be responsible for accounting for the GST/HST on the supplies, acquisitions and importations that are made in the course of their joint venture activities.

Currently, the joint venture election is available only if the activities of the joint venture are prescribed by regulation as eligible activities for purposes of the election.

The Budget proposes to allow the participants in a joint venture to make the joint venture election as long as the activities of the joint venture are exclusively commercial and the participants are engaged exclusively in commercial activities.

## STRENGTHENING COMPLIANCE WITH GST/HST REGISTRATION

Budget 2014 proposes that the Minister of National Revenue be given the discretionary authority to register and assign a GST/HST registration number where a person fails to comply with the requirement to register, even after having been notified of the requirement to register by the Canada Revenue Agency.

This measure will apply on Royal Assent to the enacting legislation.

## INCREASE IN EXCISE DUTY ON CIGARETTES

Budget 2014 proposes to increase the rate of excise duty on cigarettes; these rate changes will take effect on February 12, 2014.

## INVENTORY TAX ON CIGARETTES

Budget 2014 is proposing to introduce a tax on inventories of cigarettes. Accordingly, inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of Budget Day would be subject to a per cigarette tax of 2.015 cents. Taxpayers may use any reasonable method for establishing their inventories of these products, including a physical count.

This inventory tax will not apply to taxpayers holding 30,000 or fewer cigarettes (equivalent to 150 cartons of cigarettes) at the end of the day on February 11, 2014. In addition, the tax will not apply to cigarettes held in vending machines). Taxpayers will have until April 30, 2014 to file returns and pay the tax.

## INTERNATIONAL

### UPDATE ON THE AUTOMATIC EXCHANGE OF INFORMATION FOR TAX PURPOSES

In 2010, the U.S. enacted provisions known as the Foreign Account Tax Compliance Act (FATCA). FATCA would require non-U.S. financial institutions to identify accounts held by U.S. persons, which include U.S. citizens living abroad, and report to the U.S. Internal Revenue Service (IRS) information in respect of these accounts.

Without an intergovernmental agreement between Canada and the U.S., Canadian financial institutions and U.S. persons holding financial accounts in Canada would be required to comply with FATCA regardless, starting July 1, 2014 as per the FATCA legislation enacted by the U.S. unilaterally.

### THIN CAPITALIZATION RULES

Thin capitalization rules can apply to taxpayers who pay interest to a non-resident of Canada. Budget 2014 proposes to deal with back-to-back loan arrangements by adding a specific tax avoidance rule regarding withholding tax on interest payments and by amending the existing anti-avoidance provision in the thin capitalization rules.