

FEDERAL BUDGET APRIL 21 2015



L.L.P.
PARTNERSHIP OF CHARTERED
PROFESSIONAL ACCOUNTANTS

SUMMARY

By: Tax Department



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Please note that this is not an exhaustive summary of all the measures proposed in the budget. Should you require further information regarding specific measures, please contact one of our taxation experts.

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CORPORATIONS

SMALL BUSINESSES TAX RATE DECREASE

Budget 2015 proposes to decrease the small business tax rate, which is currently at 11%, as follows:

- 10.5% effective January 1, 2016;
- 10% effective January 1, 2017;
- 9.5% effective January 1, 2018; and
- 9% effective January 1, 2019.

DIVIDEND TAX RATE (NON ELIGIBLE)

In conjunction with the proposed reduction in the small business tax rate, Budget 2015 also proposes to adjust the gross-up factor:

- From 18% to 17% effective January 1, 2016;
- From 17% to 16% effective January 1, 2018;
- From 16% to 15% effective January 1, 2019.

The budget also proposes to reduce the effective rate of the dividend tax credit (DTC) as follows:

- From 11% to 10.5% effective January 1, 2016;
- From 10.5% to 10% effective January 1, 2017;
- From 10% to 9.5% effective January 1, 2018;
- From 9.5% to 9% effective January 1, 2019.

MANUFACTURING AND PROCESSING MACHINERY AND EQUIPMENT – ACCELERATED CAPITAL COST ALLOWANCE (CCA)

Budget 2015 proposes to provide an accelerated CCA rate of 50% on a declining-balance basis for machinery and equipment acquired by a taxpayer after 2015 and before 2026 primarily for use in Canada for the manufacturing and processing of goods for sale or lease. Eligible assets will be included in new CCA Class 53.

AGRICULTURAL COOPERATIVES — DEFERRAL OF TAX ON PATRONAGE DIVIDENDS PAID IN SHARES

Budget 2015 proposes to extend the tax deferral on patronage dividends paid in shares in respect of eligible shares issued before 2021.

QUARTERLY REMITTANCE OF SOURCE DEDUCTIONS - CATEGORY FOR NEW EMPLOYERS

New employers must currently remit on a monthly basis for at least one year, after which time they may be eligible to apply for quarterly remitting if they have an average monthly withholding amount of less than \$3,000 and have demonstrated a perfect compliance record over the preceding 12 months.

Budget 2015 proposes to decrease the required frequency of remittances for the smallest new employers by allowing them to immediately remit on a quarterly basis.

Eligible employers will be new employers with withholdings of less than \$1,000 in respect of each month. Eligibility for quarterly remitting will stand as long as the employer maintain a perfect compliance record in respect of its Canadian tax obligations and provided that their required monthly withholding amount remains under \$1,000.

This measure will apply in respect of withholding obligations that arise after 2015.

BROADENING OF THE RULE OF REQUALIFICATION OF DIVIDENDS IN CAPITAL GAINS (SECTION 55)

Henceforth, the anti-avoidance rule applies 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 corporation recipient of the dividend. Related rules are also proposed to ensure this amendment is not circumvented.

This measure will apply to dividends received by a corporation on or after April 21, 2015.

CAPITAL COST ALLOWANCE FOR LIQUEFIED NATURAL GAS

On February 19, 2015, the Prime Minister announced the Government's intention to provide accelerated CCA treatment for certain property acquired for use in facilities that liquefies natural gas.

LOWERING THE EMPLOYMENT INSURANCE PREMIUM RATE

In 2017, the Government will implement the seven-year break-even EI premium rate-setting mechanism, which will ensure that EI premiums are no higher than needed to pay for the EI program over time. Any cumulative surplus recorded in the EI Operating Account will be returned to employers and employees through lower EI premium rates once the new mechanism takes effect.

This is expected to result in a substantial reduction in the EI premium rate, from \$1.88 in 2016 to an estimated \$1.49 in 2017, a reduction of 21%.

INDIVIDUALS

TAX-FREE SAVINGS ACCOUNT (TFSA)

Effective January 1, 2015, the TFSA annual contribution limit will be increased to \$10,000.

HOME ACCESSIBILITY TAX CREDIT

The proposed new 15% non-refundable income tax credit would apply on up to \$10,000 of eligible home renovation expenditures for work performed and paid for and/or goods acquired on or after January 1, 2016.

Seniors (aged 65 years and over) and persons with disabilities who qualify for the disability tax credit will be considered qualifying individuals.

Expenditures will be eligible for the home accessibility tax credit if they are made or incurred in relation to a renovation or alteration of an eligible dwelling, provided that the renovation or alteration:

- allows the qualifying individual to gain access to, or to be more mobile or functional within, the dwelling; or
- reduces the risk of harm to the qualifying individual within the dwelling or in gaining access to the dwelling.

Examples of eligible expenditures include expenditures relating to wheelchair ramps, walk-in bathtubs, wheel-in showers and grab bars.

MINIMUM WITHDRAWAL FACTORS FOR REGISTERED RETIREMENT INCOME FUNDS (RRIF)

Budget 2015 proposes to decrease the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94. For example, the withdrawal factors will be as follows:

AGE	EXISTING FACTORS	PROPOSED FACTORS
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
Etc.

CAPITAL GAINS EXEMPTION FOR QUALIFIED FARM OR FISHING PROPERTY

To be consistent with Quebec, the 2015 federal budget propose to increase the exemption applicable to capital gains realized on the disposition of qualified farm or fishing property to \$1 million. This measure will apply to dispositions of qualified farm or fishing property that occur on or after April 21, 2015.

REPEATED FAILURE TO REPORT INCOME PENALTY

The repeated failure to report income penalty will be amended 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 equal the lesser of:

- 10% of the amount of unreported income; and
- an amount equal to 50% of the understatement of tax payable.

This measure will apply to the 2015 and subsequent taxation years.

ALTERNATIVE ARGUMENTS IN SUPPORT OF ASSESSMENTS

A recent court decision held that, while the basis of an assessment can be changed after the expiration of the normal reassessment period, each source of income is to be considered in isolation and the amount of the assessment in respect of any particular source of income cannot increase.

To offset the effects of the decision, Budget 2015 is proposing that the *Income Tax Act* be amended to clarify that the Canada Revenue Agency and the courts may increase or adjust an amount included in an assessment that is under objection or appeal at any time, provided the total amount of the assessment does not increase. Similar amendments are proposed to be made to Part IX of the *Excise Tax Act* and to the *Excise Act, 2001*.

These measures will apply in respect of appeals instituted after Royal Assent to the enacting legislation.

INFORMATION SHARING FOR THE COLLECTION OF NON-TAX DEBTS

The Canada Revenue Agency collects debts owing to the federal and provincial governments under a number of non-tax programs. Confidential taxpayer information currently cannot be used by Canada Revenue Agency staff to collect debts under many of these programs.

Budget 2015 proposes to amend the *Income Tax Act*, the *Excise Tax Act* and the *Excise Act, 2001* to permit the sharing of taxpayer information within the Agency in respect of non-tax debts under certain federal and provincial government programs.

UCCB AND THE CHILD CARE EXPENSE DEDUCTION

As announced on October 30, 2014:

- The enhanced UCCB will provide an increased benefit of \$160 per month for children under the age of 6, and a new benefit of \$60 per month for children aged 6 through 17, effective January 1, 2015. The enhanced UCCB would replace the existing Child Tax Credit for 2015 and subsequent taxation years;
- A \$1,000 increase in each of the maximum dollar amounts that can be claimed under the Child Care Expense Deduction, effective for the 2015 taxation year, thereby increasing to \$8,000 from \$7,000 the dollar limits for each child age under 7 and to \$8,000 from \$7,000 the dollar limits for each child age 7 to 16.

TRANSFER OF EDUCATION CREDITS – EFFECT ON THE FAMILY TAX CUT

Budget 2015 proposes to revise the calculation of the Family Tax Cut (income tax splitting) for the 2014 and subsequent taxation years to ensure that couples claiming the Family Tax Cut and transferring education-related credits between themselves receive the appropriate value of the Family Tax Cut. The Canada Revenue Agency will automatically reassess affected taxpayers for the 2014 taxation year.

EXTENSION OF THE COMPASSIONATE CARE BENEFITS

Compassionate Care Benefits provide financial assistance to people who have to be away from work temporarily to care for a family member who is gravely ill with a significant risk of death. In Budget 2015, the Government is proposing to extend the duration of Compassionate Care Benefits from the current six weeks to six months, as of January 2016.

CREDIT CARD PAYMENT SYSTEMS

To address the high cost of credit card acceptance, in November 2014 the Minister of Finance accepted proposals from Visa and MasterCard to lower their average effective interchange rates to 1.50% for the next five years. This represents a reduction of close to 10%, with specific emphasis on small and medium-sized enterprises and charities. This will provide relief to merchants and help keep prices low for consumers.

REGISTERED DISABILITY SAVINGS PLAN – LEGAL REPRESENTATION

The Government proposes to extend the temporary measure introduced in Economic Action Plan 2012 by two years, to apply to the end of 2018, thereby allowing a qualifying family member (i.e., a beneficiary's parent, spouse or common-law partner) to become the plan holder of a Registered Disability Savings Plan for an adult individual who might not be able to enter into a contract.

CHARITIES

DONATIONS INVOLVING PRIVATE CORPORATION SHARES OR REAL ESTATE

To increase support for charities, Budget 2015 proposes to provide an exemption from capital gains tax in respect of certain dispositions of private corporation shares and real estate. The exemption will be available where:

- cash proceeds from the disposition of the private corporation shares or real estate are donated to a qualified donee within 30 days after 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 donated.

The exemption is not available in circumstances where, within five years after the disposition:

- the donor (or a person not dealing at arm's length with the donor) directly or indirectly reacquires any property that had been sold;
- in the case of shares, the donor (or a person not dealing at arm's length with the donor) acquires shares substituted for the shares that had been sold; or
- in the case of shares, the shares of a corporation that had been sold are redeemed and the donor does not deal at arm's length with the corporation at the time of the redemption.

This measure will apply to donations made in respect of dispositions occurring after 2016.

INVESTMENTS BY REGISTERED CHARITIES IN LIMITED PARTNERSHIPS

Budget 2015 proposes to amend the *Income Tax Act* to provide that a registered charity (or registered Canadian amateur athletic association) will not be considered to be carrying on a business solely because it acquires or holds an interest in a limited partnership.

The measure will apply only if:

- the charity 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.

These rules would not apply where a charitable organization or public foundation carries on a related business through a limited partnership.

This measure applies in respect of investments in limited partnerships that are made or acquired on or after April 21, 2015.

GIFTS TO FOREIGN CHARITABLE FOUNDATIONS

Budget 2015 proposes to allow foreign charitable foundations to be registered as qualified donees if they receive a gift from the Government 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 will apply on Royal Assent to the enacting legislation.

INTERNATIONAL TAX

WITHOLDING FOR NON-RESIDENT EMPLOYERS

An employer (including a non-resident employer) is generally required to withhold amounts on account of the income tax liability of an employee working in Canada, even if the employee is a non-resident who is expected to be exempt from Canadian tax because of a tax treaty.

In order to reduce the administrative burden of businesses, Budget 2015 proposes to provide an exception for non-resident employers. An employee will qualify if he:

- is exempt from Canadian income tax in respect of the payment because of a tax treaty; and
- is not in Canada for 90 or more days in any 12-month period that includes the time of the payment.

To qualify, an employer must be resident in a country with which Canada has a tax treaty and must not carry on business through a Canadian permanent establishment. The employer must also be certified by the Minister of National Revenue at the time of the payment.

This measure will apply in respect of payments made after 2015.

STREAMLINING REPORTING REQUIREMENTS FOR FOREIGN ASSETS (FORM T1135)

Currently, a Canadian-resident individual, corporation or trust that owns specified foreign property with a total cost of more than \$100,000 must file Form T1135 with the Canada Revenue Agency. Budget 2015 proposes to simplify the reporting system if the total cost of a taxpayer's specified foreign property is less than \$250,000 throughout the year.

This measure will apply for taxation years that begin after 2014.

AUTOMATIC EXCHANGE OF BANKING INFORMATION

Under a new standard, foreign tax authorities will provide information to the Canada Revenue Agency relating to financial accounts in their jurisdictions held by Canadian residents. The Canada Revenue Agency will, on a reciprocal basis, provide corresponding information to the foreign tax authorities on accounts in Canada held by residents of their jurisdictions.

The proposal is to implement the common reporting standard starting on July 1, 2017, allowing a first exchange of information in 2018.

CONSULTATIONS

SMALL BUSINESS DEDUCTION FOR INVESTMENT BUSINESSES

The small business deduction is available for up to \$500,000 of active business income of a Canadian-controlled private corporation.

Budget 2015 announces a review of the circumstances in which income from a business, the principal purpose of which is to earn income from property, should qualify as active business income.

CONSULTATION ON ELIGIBLE CAPITAL PROPERTY

Budget 2014 announced a public consultation on the proposal to repeal the eligible capital property regime. It is the intention of the Government to release detailed draft legislative proposals for stakeholder comment before their inclusion in a bill.

CAUTION

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