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INTRODUCTION

Minister of Finance Joe Oliver today tabled Economic Action Plan 2015, the Government's balanced-budget, low-tax plan for jobs, growth and security.

"Economic Action Plan 2015 is a balanced budget, low-tax plan for jobs and growth, one that works for all Canadians."

Joe Oliver

Here are the highlights of the 2015 budget.

PERSONAL INCOME TAX MEASURES

Tax-Free Savings Account

Budget 2015 proposes to increase the TFSA annual contribution limit to \$10,000. This increase will apply as of January 1, 2015. The TFSA annual contribution limit will no longer be indexed to inflation.

Home Accessibility Tax Credit

Budget 2015 proposes to introduce a new Home Accessibility Tax Credit. The proposed non-refundable credit will provide tax relief of 15 per cent on up to \$10,000 of eligible expenditures per calendar year, per qualifying individual (individuals who are 65 years of age or older and persons with disabilities). The expenditure's limit could not exceed \$10,000 per eligible dwelling.

The credit can be claimed by a qualifying individual or by an eligible individual.

Eligible Individuals

For the purposes of this credit, an eligible individual, in respect of a qualifying individual, will be an individual who has claimed the spouse or common law partner amount, eligible dependant amount, caregiver amount or infirm dependant amount for the qualifying individual for the taxation year.

The Home Accessibility Tax Credit may be claimed by the following individuals (provided that all other conditions are met):

- > the spouse or common-law partner of the qualifying individual;
- > a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of the qualifying individual; or
- > a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew of the qualifying individual's spouse or common-law partner.

Where one or more qualifying individuals or eligible individuals make a claim in respect of an eligible dwelling, the total of all amounts claimed by the qualifying individual(s) and eligible individuals for the year in respect of the eligible dwelling must not exceed \$10,000.

Eligible Dwellings

An eligible dwelling (which includes the land on which the dwelling is situated) must be the principal residence of the qualifying individual at any time in the taxation year.

In the case where a qualifying individual does not own a principal residence, a dwelling will also be considered to be an eligible dwelling of the qualifying individual if it is the principal residence of an eligible individual in respect of the qualifying individual and the qualifying individual ordinarily inhabits that dwelling with the eligible individual.

Eligible Expenditures

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.

The improvements must be of an enduring nature and be integral to the eligible dwelling. Examples of eligible expenditures include expenditures relating to wheelchair ramps, walk-in bathtubs, wheel-in showers and grab bars. Eligible expenditures will include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits.

The Home Accessibility Tax Credit will not be reduced by any other tax credits or grants to which a qualifying or eligible individual is entitled under other government programs. For instance, in the case of an individual who claims an expenditure that also qualifies for the Medical Expense Tax Credit, the individual will be permitted to claim both the Home Accessibility Tax Credit and the Medical Expense Tax Credit in respect of that expenditure. Expenditures that are reimbursed, or are expected to be reimbursed, other than through a government program, will not be eligible.

Expenditures will not be eligible for the Home Accessibility Tax Credit if they are for goods or

services provided by a person not dealing at arm's length with the qualifying or eligible individual, unless that person is registered for Goods and Services Tax/Harmonized Sales Tax purposes under the *Excise Tax Act*.

The Home Accessibility Tax Credit will apply in respect of eligible expenditures for work performed and paid for and/or goods acquired after 2015.

Minimum Withdrawal Factors for Registered Retirement Income Funds

Budget 2015 proposes to adjust the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94. The new factors will be substantially lower than the existing factors.

There will be no change to the minimum withdrawal factors that apply in respect of ages **70 and under**, which will continue to be determined by the formula $1/(90 - \text{age})$.

The new factors will apply for the 2015 and subsequent taxation years. To provide flexibility, RRIF holders who at any time in 2015 withdraw more than the reduced 2015 minimum amount will be permitted to re-contribute the excess (up to the amount of the reduction in the minimum withdrawal amount provided by this measure) to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year. Similar rules will apply to those receiving annual payments from a defined contribution RPP (Registered Pension Plan) or a PRPP (Pooled Registered Pension Plan).

Lifetime Capital Gains Exemption for Qualified Farm or Fishing Property

Budget 2015 proposes to increase the Lifetime Capital Gains Exemption to apply to up to \$1 million of capital gains realized by an individual on the disposition of qualified farm or fishing property. This measure will apply to dispositions of qualified farm or fishing property that occur on or after April 21, 2015.

Registered Disability Savings Plan – Legal Representation

Budget 2012 introduced a temporary measure to allow 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 may lack the capacity to enter into a contract. Budget 2012 indicated that this measure would apply until the end of 2016.

Budget 2015 proposes to extend the temporary measure to apply to the end of 2018.

Repeated Failure to Report Income Penalty

Currently, where a taxpayer fails to report an amount of income in a taxation year and had failed to report an amount of income in any of the three preceding taxation years, the taxpayer is liable to a penalty equal to 10 per cent of the unreported income for that taxation year.

Budget 2015 proposes to amend the repeated failure to report income penalty 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 per cent of the amount of unreported income; and
- > an amount equal to 50 per cent of the difference between the understatement of tax (or the overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount (e.g., by an employer as employee withholdings).

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

Information Sharing for the Collection of Non-Tax Debts

To facilitate efficiency and coordination within the Canada Revenue Agency, Budget 2015 proposes to amend the laws to permit the sharing of taxpayer information within the Agency in respect of non-tax debts under certain federal and provincial government programs.

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

Transfer of Education Credits – Effect on the Family Tax Cut

Budget 2015 proposes to revise the calculation of the Family Tax Cut 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. After the enacting legislation receives Royal Assent, the Canada Revenue Agency will automatically reassess affected taxpayers for the 2014 taxation year to ensure that they receive any additional benefits to which they are entitled under the Family Tax Cut.

BUSINESS INCOME TAX MEASURES

Small Business Tax Rate

Budget 2015 proposes a two-percentage point decrease in the small business tax rate (currently of 11-per-cent). The reduction will be implemented as follows:

- > effective January 1, 2016, the rate will be reduced to 10.5 per cent;
- > effective January 1, 2017, the rate will be reduced to 10 per cent;
- > effective January 1, 2018, the rate will be reduced to 9.5 per cent; and
- > effective January 1, 2019, the rate will be reduced to 9 per cent.

The reduction in the small business rate will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

Budget 2015 proposes to adjust the gross-up factor applicable to non-eligible dividends from 18 per cent to 17 per cent effective January 1, 2016, 16 per cent effective January 1, 2018 and 15 per cent effective January 1, 2019. The corresponding dividend tax credit (DTC) rate will also be adjusted, moving from 13/18 to 21/29 of the gross-up amount effective January 1, 2016, 20/29 of the gross-up amount effective January 1, 2017, and 9/13 of the gross-up amount effective January 1, 2019.

Small Business Tax Rate Reduction and DTC Adjustment for Non-Eligible Dividends					
	2015	2016	2017	2018	As of 2019
Small business tax rate (%)	11	10.5	10	9.5	9
Gross-up (%)	18	17	17	16	15
DTC (%)	11	10.5	10	9.5	9

As a result of these modifications, the combined marginal tax rate (federal and Québec) of an ordinary dividend will be increased from 39.78 per cent in 2015 to 41.24 per cent in 2019.

Manufacturing and Processing Machinery and Equipment: Accelerated Capital Cost Allowance

Budget 2015 proposes to provide an accelerated CCA rate of 50 per cent 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 are those that would currently be included in Class 29. These assets will be included in new CCA Class 53.

The “half-year rule” will apply to machinery and equipment eligible for this measure.

Agricultural Cooperatives: Deferral of Tax on Patronage Dividends Paid in Shares

To be eligible for the current tax deferral, a share must be issued after 2005 and before 2016.

Budget 2015 proposes to extend this tax deferral to apply in respect of eligible shares issued before 2021.

Quarterly Remitter Category for New Employers

To reduce the tax compliance burden, Budget 2015 proposes to decrease the required frequency of remittances for the smallest new employers by allowing eligible employers 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 depend on the employer maintaining a perfect compliance record in respect of its Canadian tax obligations.

If withholdings rise above that level, then the Canada Revenue Agency will classify an employer as a weekly, twice-monthly, monthly or quarterly remitter in accordance with the existing remittance rules.

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

Small Business Deduction: Consultation on Active versus Investment Business

Stakeholders, such as selfstorage facilities and campgrounds, have expressed concern as to the application of the rules used to define passive versus active business income. To continue to improve the fairness and simplicity of the tax system, the Government will conduct a review of the active versus passive business income rules for purposes of the small business deduction.

Consultation on Eligible Capital Property

The Government has heard from a number of stakeholders and continues to receive submissions on the proposal announced in Budget 2014. It is the intention of the Government to release detailed draft legislative proposals for stakeholder comment before their inclusion in a bill.

CHARITIES

Donations Involving Private Corporation Shares or Real Estate

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 exempt portion of the capital gain will be determined by reference to the proportion that the cash proceeds donated is of the total proceeds from the disposition of the shares or real estate.

Anti-avoidance rules will ensure that the exemption is not available in certain circumstances.

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 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 – together with all non-arm's length entities – holds 20 per cent 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.

The amendments are proposed to also apply in respect of investments in limited partnerships by registered Canadian amateur athletic associations.

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 amend the *Income Tax Act* 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. Registered foreign charitable foundations will be included on the list of registered foreign charities maintained on the Canada Revenue Agency's website.

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

INTERNATIONAL TAX

Withholding for Non-Resident Employers

Budget 2015 proposes to provide an exception to the withholding requirements for payments by

qualifying non-resident employers to qualifying non-resident employees.

An employee will be a qualifying non-resident employee in respect of a payment if the employee:

- > 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.

In order to be a qualifying non-resident employer, an employer (other than a partnership) must be resident in a country with which Canada has a tax treaty. In order for an employer that is a partnership to qualify, at least 90% of the partnership's income for the fiscal period that includes the time of the payment must be allocated to persons that are resident in a treaty country. In all cases, the employer must not carry on business through a Canadian permanent establishment of the employer in its fiscal period that includes the time of the payment and the employer must 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)

Budget 2015 proposes to simplify the foreign asset reporting system for taxation years that begin after 2014. If the total cost of a taxpayer's specified foreign property is less than \$250,000 throughout the year, the taxpayer will be able to report these assets to the Canada Revenue Agency under a new simplified foreign asset reporting system.

Update on the Automatic Exchange of Information for Tax Purposes

In November 2014, Canada and the other G-20 countries endorsed a new common reporting standard for automatic information exchange developed by the Organisation for Economic Development and Co-operation and committed to a first exchange of information by 2017 or 2018.

Under the 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.

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