Invesco

Tax & Estate

2015 Federal Budget analysis

This report focuses on specific budget elements that could affect Canadians' personal finances, individual investments and small businesses. It was prepared by Doug Carroll, Invesco's Vice President of Tax and Estate Planning, from the budget lock-up in Ottawa.

1. Savings and seniors

a. Tax-Free Savings Account (TFSA)

As expected, the government has followed through on the 2011 election campaign promise to double the contribution room for the TFSA.

The TFSA was introduced with an annual contribution limit of $5,000 per individual, indexed to inflation in $500 increments. On January 1, 2013, the TFSA annual contribution limit increased to $5,500 due to indexation.

Though this could have meant an annual contribution limit of $11,000, Budget 2015 proposes to increase the TFSA annual contribution limit to $10,000. This increase will apply as of January 1, 2015, so that a single annual contribution limit of $10,000 applies to the 2015 and subsequent calendar years.

Importantly, the TFSA annual contribution limit will no longer be indexed to inflation.

TFSA contribution room

	2009-2012	2013-2014	2015-on
Annual dollar limit	$5,000	$5,500	$10,000
Indexing ($500 increments)	Yes	Yes	No

b. Registered Retirement Income Funds (RRIF) minimum withdrawal factors

The existing RRIF factors were determined on the basis of providing a regular stream of payments from age 71 to 100, assuming a 7% nominal rate of return on RRIF assets and indexing at 1% annually.

Budget 2015 proposes to adjust the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94, on the basis of a 5% nominal rate of return and 2% indexing.

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 - age).

RRIF minimum withdrawal factors

Age*	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 & over	20.00	**20.00**

*Age is at start of year

The new RRIF 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 to their RRIFs, up to the amount of the reduction in the minimum withdrawal amount provided by this measure. 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 or a PRPP.

c. Home accessibility tax credits

To assist seniors with disabilities, a new non-refundable credit will provide tax relief of 15% on up to $10,000 of eligible expenditures on a dwelling designed to:

- allow 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.

To qualify, individuals must be:

- 65 years of age or older at the end of the particular taxation year; and
- eligible for the Disability Tax Credit at any time in a particular taxation year.

Depending on circumstances, the credit may be claimed by a spouse or common law partner, or certain close family relations.

Expenditures will not be eligible if they are 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. Any eligible expenditure claimed must be supported by a receipt.

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

d. Registered Disability Savings Plan (RDSP) legal representation

Budget 2012 had introduced a temporary measure to allow a qualifying family member (i.e., a beneficiary's parent, spouse or common-law partner) to become the planholder of an RDSP 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. To allow remaining provinces and territories to address these issues, Budget 2015 proposes to extend the measure to 2018. The rules implementing the Budget 2012 measure will not otherwise be changed and a qualifying family member who becomes a planholder before the end of 2018 can remain the planholder after 2018.

2. Small business

The small business deduction currently reduces to 11% the federal corporate income tax rate applied to the first $500,000 per year of qualifying active business income of a Canadian-controlled private corporation (CCPC).

To further reduce taxes paid by small businesses, Budget 2015 proposes a two percentage-point decrease in the 11% small business tax rate. The reduction will be implemented 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%;
- effective January 1, 2018, the rate will be reduced to 9.5%; and
- effective January 1, 2019, the rate will be reduced to 9%.

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

In conjunction with the proposed reduction in the small business tax rate, Budget 2015 also proposes to adjust the gross-up factor and dividend tax credit (DTC) rate applicable to non-eligible dividends (generally dividends distributed from corporate income taxed at the small business tax rate), as outlined in the accompanying table.

Small business tax rate reduction and DTC adjustment for non-eligible dividends

	2015	2016	2017	2018	2019
Small business rate (%)	11	10.5	10	9.5	9
Gross-up (%)	18	17	17	16	15
DTC (%)	11	10.5	10	9.5	9

In the table, the DTC is expressed as a percentage to the grossed-up amount of the non-eligible dividend. Expressed in relation to the gross-up amount, the DTC rate will move from 13/18 to 21/29 effective January 1, 2016, 20/29 effective January 1, 2017, and 9/13 effective January 1, 2019.

b. Lifetime Capital Gains Exemption (LCGE) for qualified farm or fishing property

The LCGE for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property is $813,600 in 2015 and is indexed to inflation.

Budget 2015 proposes to increase the LCGE on qualified farm or fishing property to $1 million, applying to dispositions that occur on or after Budget Day, April 21, 2015.

c. Small business deduction: Consultation on active versus investment business

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

Active business income does not include income from a "specified investment business," which is generally a business the principal purpose of which is to derive income from property. A "specified investment business" does not include a business that has more than five full-time employees.

Stakeholders have expressed concern as to the application of these rules in cases such as self-storage facilities and campgrounds. 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.

The government invites interested parties to submit comments by August 31, 2015.

d. Consultation on eligible capital property

Budget 2014 had announced a public consultation on the proposal to repeal the eligible capital property regime and replace it with a new capital cost allowance class. The government continues to receive submissions on the proposal, and intends to release draft legislation for comment before inclusion in a bill.

3. Families

The following measures were discussed in the 2015 Budget Plan, but were actually announced in the Fall 2014 Economic Statement. These are relevant to families with minor age children, and are included here for information.

a. Family Tax Cut

This is a non-refundable tax credit worth up to $2,000 for households where at least one child under the age of 18 resides with the parents/spouses. It is calculated based on the reduction in family tax due (up to $2,000 maximum) on a notional transfer of up to $50,000 from one parent to the other.

Budget 2015 noted that there would be a revision of the treatment of transferred education-related credits (tuition, education and textbook tax credits) between spouses, as the originally proposed rules reduced the Family Tax Cut amount. Affected couples will be automatically reassessed to receive the additional benefits.

b. Increasing the Universal Child Care Benefit (UCCB) for children under the age of six

The monthly amount for children under age six will be increased by $60 for a total of $160, effective January 2015, though it will not begin being paid until July, when there will be a six-month catch-up payment.

c. Expanding the UCCB to children aged six through 17

The UCCB program will also be expanded to provide $60 per month for children aged six through 17. Again, this will be effective January 2015 (with the same six-month catch-up in July as mentioned above).

d. Repeal the Child Tax Credit (CTC)

Together with these two preceding UCCB proposals, the CTC (Line 367 – Amount for children born in 1997 or later) will be repealed.

e. Increasing the child care expense deduction dollar limits by $1,000

This provision is an enhancement to an existing deduction, which generally must be claimed by the lower-income spouse. The additional $1,000 deduction could yield as much as $290 in after-tax value based on the individual's federal marginal tax bracket rate, applied on a per-child basis.

f. Doubling the Children's Fitness Tax Credit (CFTC)

The CFTC reference amount is doubled for 2014, from $500 to $1,000.

4. Charities

a. Donations involving private corporation shares or real estate

Donations to registered Canadian charities and other qualified recipients are eligible for a charitable donation tax credit (if the donor is an individual) or deduction (if the donor is a corporation). In addition, donations of publicly-listed securities to qualified recipients are exempt from capital gains tax.

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 recipient 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 recipient to which cash proceeds are donated.

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

5. Tax compliance and administration

a. Streamlining reporting requirements for foreign assets

In 2013, the Canada Revenue Agency (CRA) introduced a revised Form T1135. Stakeholders have commented that this approach has resulted in a compliance burden for some taxpayers that may be disproportionate to the amount of their foreign investments.

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 CRA under a new simplified foreign asset reporting system. The revised form is currently under development.

The current reporting requirements 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.

b. Repeated failure to report income penalty

The repeated failure to report income penalty can sometimes be disproportionate to the actual associated tax liability, particularly for lower income individuals.

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% of the amount of unreported income; and
- an amount equal to 50% 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.

No changes are proposed to the gross negligence penalty, which will continue to apply in cases where a taxpayer fails to report income intentionally or in circumstances amounting to gross negligence.

c. Alternative arguments in support of tax assessments

A provision in the *Income Tax Act* provides that the Minister of National Revenue may advance an alternative argument in support of an assessment at any time after the normal reassessment period.

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.

Budget 2015 proposes that the *Income Tax Act* be amended to clarify that the CRA 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.

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

d. Information sharing for the collection of non-tax debts

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

Budget 2015 proposes to amend the *Income Tax Act, Part IX of the Excise Tax Act* (in relation to the Goods and Services Tax/Harmonized Sales Tax) and the *Excise Act, 2001* (in relation to excise duties on tobacco and alcohol products) to permit the sharing of taxpayer information within the CRA in respect of non-tax debts under certain federal and provincial government programs.

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

e. 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 the automatic exchange of tax information in respect of financial accounts.

Canada proposes to implement the common reporting standard on July 1, 2017, allowing a first exchange of information in 2018. As of the implementation date, financial institutions will be expected to have procedures in place to identify accounts held by residents of any country other than Canada and to report the required information to the CRA.

Draft legislative proposals will be released for comments in the coming months.

For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at www.invesco.ca.

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