TAX FLASH BULLETIN

2017 Federal Budget Highlights

On March 22, 2017, Federal Finance Minister Bill Morneau tabled the Liberals' second federal budget. The Minister forecasts the current fiscal year will end with a $23 billion deficit versus the $29.4 billion deficit estimated in last year's budget. The current budget projects a $28.5 billion deficit for the 2017-2018 fiscal year with no clearly-defined timetable to return to a balanced budget. We have highlighted selected income tax changes that affect Canadian individuals and businesses.

INDIVIDUALS

The budget did not make any further changes to personal income tax rates. The taxable income figures below reflect the indexed income brackets for 2016 and 2017.

Federal Personal Income Tax Brackets

2016 Taxable Income	2016 Tax Rates	2017 Taxable Income	2017 Tax Rates
$0 to $45,282	15%	$0 to $45,916	15%
$45,282 to $90,563	20.5%	$45,916 to $91,831	20.5%
$90,563 to $140,388	26%	$91,831 to $142,353	26%
$140,388 to $200,000	29%	$142,353 to $202,800	29%
$200,000 and over	33%	$202,800 and over	33%

Anti-Avoidance Rules for Registered Plans

There are existing anti-avoidance rules for RRSP, RRIF, and TFSA accounts which ensure registered plans do not provide excessive tax advantages beyond their intended objectives. These rules are known as the Advantage, Prohibited Investment, and Non-Qualified Investment rules. To improve the consistency of the rules across all registered plans, the budget proposes to extend the anti-avoidance rules to Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs).

This measure will apply to transactions occurring, and investments acquired, after March 22, 2017. Investment income earned on previously acquired investments will be considered a "transaction occurring" after March 22, 2017. Exceptions to the effective date are as follows:

- The advantage rules will not apply to swap transactions undertaken before July 2017. However, swap transactions undertaken to remove an investment to comply with the Prohibited Investment or Advantage rules will be permitted until December 31, 2021.

- Subject to certain conditions, a plan holder may elect by April 1, 2018 to pay regular personal income tax instead of the advantage tax on distributions of investment income from an investment held on March 22, 2017 that becomes a prohibited investment as a result of this measure.

New Canada Caregiver Tax Credit

In the interest of simplification, the budget proposes to replace the existing Infirm Dependant Tax Credit, Caregiver Tax Credit, and Family Caregiver Tax Credit with a new 15% non-refundable Canada Caregiver Credit for 2017 and subsequent years.

A credit amount of $6,833 is available to caregivers of adult family members (not a spouse or common-law partner) with infirmities or disabilities, whether or not they live with their family members. Family members include parents, grandparents, brothers, sisters, aunts, uncles, nieces, nephews, and adult children of the claimant or the claimant's spouse or common-law partner. For example, a sibling who takes care of their infirm sibling living in another household may claim the new credit.

A credit amount of $2,150 is available for caregivers of a dependent spouse, common-law partner, or minor child with an infirmity or disability. Eligibility for the credit is determined by the income of the dependant.

The credit begins to phase out when the dependant's net income is above $16,163 and is fully eliminated at net income of $23,046. The new credit will no longer be available to adult children claiming their non-infirm senior parents. The credit amounts and income threshold will be indexed to inflation for tax years after 2017.

Disability Tax Credit Certification by Nurse Practitioners

To improve access to the Disability Tax Credit, the budget proposes to add nurse practitioners to the list of medical practitioners that can certify the impacts of impairments. This measure will apply to Disability Tax Credit certifications made on or after Budget Day.

> **TIP:** *If you or a family member has a medical condition that markedly restricts daily activities or has a severe and prolonged impairment, apply for the Disability Tax Credit certificate using CRA Form* **T2201***. Certification may also qualify the individual for many other federal and provincial benefit programs, including eligibility for the Registered Disability Savings Plan (RDSP). Talk to your advisor about opening an RDSP account.*

Elimination of Public Transit Credit

The budget proposes to eliminate the Public Transit Tax Credit effective July 1, 2017. Specifically, the cost of public transit passes and electronic fare cards attributable to public transit use that occurs after June 2017 will no longer be eligible for the credit.

Extend Eligibility for Tuition Tax Credit

The budget proposes to expand the range of courses eligible for the tuition tax credit to include occupational courses taken at non-post-secondary institutions in Canada. It will also allow the full amount of bursaries received for such courses to qualify for the scholarship exemption where conditions for the exemption are otherwise met. These changes will take effect as of the 2017 tax year.

Medical Expense Tax Credit - Fertility Related Expenses

The budget clarifies that medical expenses incurred for the use of reproductive technologies, such as in-vitro fertilization, are eligible for the medical expense tax credit claim. This measure applies for the 2017 and subsequent years. A taxpayer can also elect to apply this measure to their tax return for any of the immediately preceding 10 years.

Mineral Exploration Tax Credit

The budget, once again, proposes to extend the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2018. The federal credit is equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Electronic Distribution of T4 Receipts

Currently, employers may only distribute electronic copies of T4 remuneration statements to employees if they have their express consent. The budget proposes to eliminate the requirement to obtain advance consent from current active employees so that employers can reduce compliance costs. Employers will be required to issue paper copies to employees who request them. The measure will apply to T4s issued for the 2017 and subsequent years.

Home Relocation Loans

The budget proposes to eliminate the tax deduction for the interest benefit arising from employer-provided home relocation loans. This measure applies to imputed interest employment benefits that arise after 2017.

Non-Accountable Allowances for Certain Officials

Generally, non-accountable allowances for which an individual does not have to provide receipts or other details to their employer are considered taxable benefits. Currently, certain officials who receive non-accountable allowances receive these allowances as a non-taxable benefit; in other words, they are excluded from their income. The excluded amount is limited to half of the official's salary or other remuneration for the year. Applicable officials include elected members of provincial and territorial legislative assemblies, officers of municipalities, municipal utility boards, commissions, or similar bodies, and members of public or separate school boards or similar bodies governing a school district.

The budget proposes to require the non-accountable allowances paid to these officials to be included in income. This measure is effective for the 2019 and subsequent taxation years.

Principal Residence Exemption Changes

The budget confirms the government's intention to proceed with the previously announced changes to the principal residence capital gains exemption calculation for individuals who were non-resident throughout the year in the purchase year. For dispositions of property after October 2, 2016, non-residents will no longer have an extra year to designate the property as their principal residence (no more "one-plus" rule).

Other changes to the principal residence exemption rules include the requirement for individual taxpayers to report the sale of their principal residence even if the entire gain is exempt, starting with the 2016 tax year. Also, only eligible trusts such as alter ego, joint/spousal or common-law partner, qualified disability, and certain trusts for minor children whose parents are deceased, can use the principal residence exemption for property held in the trust.

BUSINESSES

The budget did not propose any changes to corporate income tax rates and it did not change the $500,000 small business income threshold.

Federal Corporate Tax Rates

Income Type	2016	2017
General corporate income	15.00%	15.00%
Small business income	10.50%	10.50%
CCPC investment income	38.67%	38.67%
Non-CCPC investment income	15.00%	15.00%
Manufacturing & processing income	15.00%	15.00%

Review of Corporate Tax Planning Strategies

The Minister's speech continued to emphasize the government's commitment to improving tax fairness and limiting tax arrangements that solely benefit wealthy Canadians, even though no significant corporate tax changes were contained in the budget. At this point, the government intends to conduct further reviews of corporate tax planning strategies that inappropriately reduce personal taxes of high-income earners. It will also look at features of the current income tax system that have detrimental impacts on genuine business transactions involving family members. The following strategies will be reviewed:

- Sprinkling income to family members using private corporations
- Holding a passive investment portfolio inside a private corporation
- Converting a private corporation's regular income into capital gains

The government intends to release a detailed paper on the nature of these issues with proposed policy responses. There was no indication that any significant proposals would be open to a consultation period with tax professionals.

Billed-basis Accounting

Currently, taxpayers in certain designated professions such as accountants, dentists, lawyers, medical doctors, veterinarians, and chiropractors may elect to exclude the value of work in progress until the work is billed (billed-basis accounting). Effectively, this election enables taxpayers to expense current costs for work in progress and defer the associated revenue inclusion. The budget proposes to eliminate the ability for designated professionals to elect to use billed-basis accounting effective for taxation years that begin on or after March 22, 2017.

The budget provides for a two-year transitional period where in Year 1, 50% of the lesser of the cost and the fair market value of work in progress will be taken into account for the purposes of determining the value of the business' inventory. In Year 2 and subsequent years, the full amount of the lesser of the cost and the fair market value of work in progress will be taken into account for valuing inventory.

Meaning of Factual Control

The determination of factual control of a corporation is fundamental to the application of corporate tax law. In response to a recent court decision which limited the indicators of factual control, the budget proposes to amend the legislation to ensure that other factors may be considered. This measure is effective for corporate taxation years that begin on or after March 22, 2017.

Mutual Fund Corporation Reorganizations

The Income Tax Act permits mutual fund trusts and mutual fund corporations to be merged into a mutual fund trust on a tax-deferred basis. However, the current legislation does not permit a mutual fund corporation to be reorganized into multiple mutual fund trusts. The budget proposes to extend the mutual fund merger rules to allow a mutual fund corporation that is structured as a switch corporation to reorganize into multiple mutual fund trusts on a tax-deferred basis. To qualify for the tax deferral, all or substantially all of the assets that can be allocated to a specific share class must be transferred to a mutual fund trust where the shareholders of that class must become unitholders of that mutual fund trust. This measure is effective for reorganizations that occur on or after March 22, 2017.

Segregated Fund Mergers

The budget proposes to extend the mutual fund trust tax-deferred merger rules to segregated fund mergers. It also proposes a segregated fund will be permitted to carry over non-capital losses that arise in tax years beginning after 2017. The use of the losses will be subject to the normal carry forward and carry back limitations for non-capital losses. As is the case with the mutual fund merger rules, the use of these losses will be restricted following a segregated fund merger. The life insurance industry has an opportunity to provide comments on the proposals as they will not apply until after 2017.