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SB Partners

2017 Federal Budget Commentary

March 24, 2017

INTRODUCTION

On March 22, 2017, Finance Minister Bill Morneau delivered the 2017 federal budget (“the Budget”) and, as anticipated, it projects a deficit.

Instead of planning to eliminate the deficit as previously proposed, the government says it will maintain a balanced net debt-to-GDP ratio of around 31 per cent over the next five years. The deficit projected for 2017–18 is $28.5 billion, declining to $18.8 billion by 2021–22. However, if the government’s strong growth scenario plays out, we could see a much smaller deficit between $5 and $8 billion by 2021.

Despite speculation, there were no changes announced to:

- corporate or personal income tax rates,
- the employee stock option rules, nor
- the capital gains inclusion rate; the portion of capital gains subject to income tax remains at 50%.

The Budget proposes to address a range of tax loopholes and inefficiencies; only those which we feel may be of more interest to our clients and contacts are discussed below.

We can expect to see more substantial proposals for change as the year progresses. The government has clearly signaled that it will be looking for additional ways to prevent tax avoidance. The government plans to give the Canada Revenue Agency an additional $523.9 million in funding over the next five years in order to reduce tax evasion and improve compliance. The government anticipates that the CRA will recover $2.5 billion for its efforts; a five-fold return on its investment.

Measures affecting individuals

Personal income tax rates will not change under the Budget. The top individual marginal rates for Ontario residents with income over $220,000 will remain as follows for the 2017 year:

Type of Income	2017
Salary and other income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	45.30%

Personal Measures Proposed by the Budget:

Tuition Tax Credit

Effective January 1, 2017, the Tuition Tax Credit will be expanded to include courses for occupational skills taken at a college or university, as well as allow the scholarship exemption for bursaries related to such courses (provided all other conditions for the exemption are met).

Simplified Caregiver Credit

The existing caregiver credit system will be simplified by replacing the existing Caregiver Credit, Infirm Dependant Credit and Family Caregiver Tax Credit with a single new, non-refundable credit, the Canada Caregiver Credit. This credit will provide tax relief of up to 15 per cent of $6,883 (in 2017) for expenses for care of dependant relatives with infirmities, and up to 15 per cent of $2,150 (in 2017) for expenses for care of a dependant spouse/common-law partner or minor child with an infirmity. There is no requirement for the dependant to live with the caregiver to claim the credit. This new credit will be reduced when the dependant's net income exceeds $16,163 (in 2017, indexed to inflation for taxation years after 2017) on a dollar for dollar basis.

Disability Tax Credit Certification

Nurse practitioners will be able to certify impairments for purposes of the Disability Tax Credit effective for certifications issued after March 21, 2017.

Medical Expense Tax Credit Expanded for Fertility Related Expenses

Clarification regarding fertility related expenses which qualify for the medical expense tax credit will be introduced. In particular, persons who require medical intervention to conceive will explicitly be allowed to claim the credit for expenses that would generally be eligible for someone who has an infertility condition for 2017 and future years. Under the taxpayer relief provisions, individuals may request an adjustment to the medical expense tax credit for qualifying fertility related expenses incurred in the preceding ten years.

Public Transit Credit

The Public Transit Credit will be eliminated for transit use after June 30, 2017.

Anti-avoidance Rules for Registered Plans

The anti-avoidance rules that currently apply to Registered Retirement Savings Plans and Tax-Free Savings Accounts will be extended to apply to Registered Education Savings Plans and Registered Disability Savings Plans.

MEASURES AFFECTING BUSINESSES

The Budget proposes no changes to corporate income tax rates. The 2017 corporate rates for Ontario corporations will remain as follows:

Income	Ontario	Federal	Combined
Small Business income	4.5%	10.5%	15.0%
CCPC[1] investment income	11.5%	38.67%	50.17%
Manufacturing and Processing income	10.0%	15.0%	25.0%
General income	11.5%	15.0%	26.5%

Billed-Basis Accounting

Members of designated professions (accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) may currently elect to exclude the value of their work in progress (WIP) in computing their income. A tax deferral is achieved when this election is made, as the costs associated with the WIP are deducted as incurred whereas the revenue is recognized only when the WIP is actually billed to clients.

The Budget proposes to eliminate the WIP exclusion over a two-year period, effective for taxation years beginning after March 21, 2017. For the first affected taxation year, WIP will be valued at 50 per cent of the lesser of its cost and fair market value, must be recognized for tax purposes, and not excluded from income. For subsequent years the full amount of WIP, valued at the lesser of its cost and fair market value, must be recognized for tax purposes and cannot be excluded from income. These provisions will require a determination of the cost and fair market value of the WIP, which may not be readily available.

Tax Planning Using Private Corporations

The government's review of federal tax expenditures highlighted issues in respect of tax planning strategies available to owners of private corporations. The government feels that these strategies may result in high-income individuals gaining unfair tax advantages not available to other Canadians. As the Budget papers indicate, measures have been put in place over the years to limit the scope of certain of these arrangements. However, the government is of the opinion that such measures have not always been as effective as desired. Accordingly, the government is further reviewing the use of private corporation tax planning strategies that may reduce the personal tax of high-income earners in a manner considered inappropriate.

[1] Canadian-Controlled Private Corporation

In the coming months, a paper will be released that will review these issues in detail and provide proposed policy responses.

Meaning of Factual Control

The budget proposes to expand the factors relevant in a particular situation to assess whether or not "de facto" control of a corporation is present. De facto control is particularly relevant for purposes of determining whether or not corporations are associated and therefore required to share the annual $500,000 small business deduction limit and certain other limits.

Other Business Measures Proposed by the Budget:

Electronic Distribution of T4s

Effective for 2017, employers will no longer be required to obtain express consent from active employees to electronically distribute T4s (Statement of Remuneration Paid) but will need to have privacy policy safeguards in place, as specified by the Minister of National Revenue .

Clean Energy Generation Equipment

For acquisitions after March 21, 2017, assets to be included in classes 43.1 and 43.2 (which provide for accelerated capital cost allowance/tax depreciation on clean energy generation equipment) will be expanded to include new geothermal energy equipment used primarily for the purpose of generating heat or a combination of heat and electricity and certain new equipment in district energy systems that use geothermal heating as an energy source.

OTHER TAXES

Taxi and Ride-Sharing Services

To ensure that the GST/HST applies consistently to taxi services and ride-sharing services, effective July 1, 2017, the definition of a taxi business will be amended to require providers of ride-sharing services to register for the GST/HST and charge tax on their fares in the same manner as taxi operators.

Tobacco and Alcohol Taxation

Effective March 23, 2017, the Budget proposes to repeal the 10.5 per cent surtax on manufacturers of tobacco products with a coordinated increase to the excise duty rates on tobacco.

Excise duties on alcohol products are proposed to be increased by two per cent, effective March 23, 2017, with annual indexing of rates thereafter.