2017
Federal Budget

March 2017

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Highlights

On March 22, 2017, Finance Minister Bill Morneau delivered the Liberal government's 2017 Federal Budget. The budget estimates a deficit of $23 billion for 2016 – 2017 and a deficit of $28.5 billion for 2017 – 2018. Canada's national debt will increase by $143 billion over the next five years and is expected to be approximately $759 billion at the end of 2021 – 2022.

The theme of this year's budget is "wait and see" as the Liberal government seems to have been hesitant in tabling any significant tax changes. This may relate to President Donald Trump's promise of a Republican tax reform plan, which is expected to lower both personal and corporate taxes in the United States.

The 2017 Canadian Federal Budget does not increase personal or corporate tax rates in Canada nor does it increase the capital gains inclusion rate despite much speculation.

In 2016, the Liberal government expressed commitment to reviewing certain tax expenditures and inefficient tax measures that were, in their view, aimed towards wealthy Canadians rather than middle class families. Over the past year, we have seen the Liberal government follow through with many changes aimed at simplifying the tax system and making it fairer to the Canadian middle class.

Budget 2017 continues with the trend of taxpayer monitoring and review as displayed through the increased spending on Canada Revenue Agency's staffing and audit activity targeting aggressive tax planning.

The following summary discusses the Budget 2017 tax changes in detail.

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Rumoured changes not included in Budget 2017

Capital gains inclusion rate

Currently, only fifty percent of capital gains are included in taxable income. There was speculation ahead of Budget 2017 regarding the possibility of an increase in the capital gains inclusion rate. However, the budget does not include such a change.

Stock option deduction

At the date of exercise of an employee stock option, an individual is taxed on the stock option benefit and a fifty percent stock option deduction is available where certain conditions are met.

The 2015 Liberal election platform proposed changes to limit the stock option deduction. Budget 2016 did not include such measures, and neither does Budget 2017.

Tax rate changes

There are no proposed changes to either corporate or personal tax rates at the Federal level in Budget 2017.

Tax planning involving private corporations

Ahead of the 2015 election, the Liberals commented that they would ensure that private corporations are not used to reduce personal income tax obligations. Budget 2017 does not include any relevant changes; however, it does reiterate the government's intention to review "the use of tax planning strategies involving private corporations that inappropriately reduce personal taxes of high-income earners".

Specific strategies mentioned that could be subject to review include the following:

- Income sprinkling through the use of private corporations
- Holding passive investment portfolios inside private corporations
- Converting a private corporation's regular income into capital gains.

The government has communicated that they intend to release a paper on these issues in the coming months.

Key tax measures

The following are the key tax measures proposed in Budget 2017:

Personal tax credits

Public Transit Tax Credit – Currently, a federal non-refundable tax credit is available where an individual uses public transportation. For transit usage after June 30, 2017, this credit will no longer be available.

Canada Caregiver Tax Credit – In order to simplify the tax credits available to caregivers, a new Canada Caregiver Credit will replace the outgoing Infirm Dependant Credit, Caregiver Credit, and Family Caregiver Tax Credit. The Canada Caregiver Credit will not require the dependant to live with the caregiver, and will increase the income threshold for the dependant at which the credit begins to be phased-out. This new credit will be available for 2017 and subsequent taxation years.

The chart on the following page illustrates how the proposed changes will simplify the caregiver credit system going forward.

Tuition Tax Credit – The range of courses qualifying for the Tuition Tax Credit will be expanded to include occupational skills courses that previously may not have qualified for the credit. These changes will be effective as of the 2017 taxation year.

Medical Expense Tax Credit – The application of the Medical Expense Tax Credit is clarified so that individuals who require medical intervention in order to conceive a child (for example, single individuals and same-sex couples) are eligible to claim the same expenses that would be eligible for individuals on account of medical infertility. These changes will be effective for 2017 and subsequent taxation years.

Disability Tax Credit – Nurse practitioners are added to the list of medical practitioners who can certify application forms for individuals who are applying for the Disability Tax Credit. This change will be effective for Disability Tax Credit certifications made on or after March 22, 2017.

Simplifying the caregiver credit system (2017)

Current credits

Infirm dependant credit
Income phase-out range: $6,902-$13,785
Maximum credit amount: $6,883

Caregiver credit
Income phase-out range: $16,163-$20,895
(for persons with infirmities/disabilities: $16,163-$23,045)
Maximum credit amount: $4,732 (if infirm $6,882)

Family caregiver tax credit
Income phase-out range: variable
Maximum credit amount: $2,150

Proposed new credit

Canada Caregiver Credit
Income phase-out range: $16,163-$23,046
Maximum credit amount: $6,883
(spouses/common-law partners and minor children: $2,150)

Source: http://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf

Other measures

Canadian exploration expenses

Changes have been proposed to limit the types of expenses that can be classified as Canadian Exploration Expenses "CEE" by oil and gas companies. This change will also limit the amount and type of expense that can be flowed through to and deducted by the ultimate shareholders of these companies in the first year of share ownership.

Billed-basis accounting

Generally, certain professionals (i.e. consultants, lawyers, accountants, doctors and other health care professionals) may elect to be taxed on work completed as it is billed. Currently, they may not be taxed on work in progress by claiming a deduction which would allow a deferral of tax until the billing date. Budget 2017 proposes to eliminate this deferral of tax by removing the ability to elect the usage of billed-based accounting for taxation years beginning on or after March 22, 2017.

Anti-avoidance rules for RDSPs and RESPs

In previous years, certain rules were implemented to prevent the abuse of RRSP, RRIF and TFSA accounts involving prohibited investments, over-contributions and swap transactions. Budget 2017 proposes that the application of similar rules be extended to RDSP and RESP accounts.

Indirect taxes

Effective July 1, 2017, providers of ride-sharing services (such as Uber) will be required to charge GST/HST on such services.

In addition, excise duties will be increased by 2% on all alcohol products effective March 23, 2017 and will be increased at the same rate as the Consumer Price Index in each subsequent year.

Employment insurance benefits

Budget 2017 proposes to expand EI benefits as follows:

- Introduction of a new EI caregiving benefit for up to 15 weeks
- Making EI parental benefits more flexible by allowing parents to choose to receive benefits over a longer period (18 months rather than 12 months) at a reduced benefit rate
- Making EI maternity benefits available up to 12 weeks before a woman's due date (currently 8 weeks).

Straddle transactions

Currently, offsetting derivative positions may be used whereby losses are realized in an earlier taxation year, while deferring the offsetting gains to a subsequent year. Budget 2017 proposes to introduce a specific anti-avoidance rule that targets these types of straddle transactions.

Tax evasion and avoidance

The Liberal government plans to invest an additional $523.9 million over 5 years to prevent tax evasion and improve tax compliance. These additional investments will be used to fund new and existing initiatives, such as:

- Increasing verification activities
- Hiring additional CRA auditors and related staff
- Developing infrastructure and systems that will target high-risk international tax avoidance cases.

Summary

Although Budget 2017 did not include any significant tax changes, we may still see additional proposals throughout the year depending on the implementation of any U.S. tax reforms. We will be closely monitoring and providing updates and information on potential opportunities and risks as they become known.

Prior to implementing any tax strategies contained in this article, it is recommended that you consult a tax professional to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.