2017 Federal Budget

How does it affect you?

On March 22, 2017, Bill Morneau delivered the second budget of the federal Liberal government. There were no significant tax changes, likely, in part, due to the uncertainty surrounding the Trump administration's plan for taxation and trade in the U.S. and its potential effect on Canada. As such, Canadians will not see any increases to personal or corporate tax rates as a result of this federal budget. As well, despite much speculation, there was no change to the capital gains inclusion rate or the treatment of stock options.

The government has placed a strong focus on investing in innovation and skills development in an effort to stimulate growth. As a result, the budget expects deficits of $23 billion for fiscal 2016-2017 and $28.5 billion for fiscal 2017-2018 (and deficits in excess of $20 billion for the following two years), with no plan to balance the books.

The budget did include many measures that will affect businesses and individuals. Similar to last year's budget, the government continues to identify opportunities to reduce tax benefits that it believes unfairly help wealthy Canadians rather than the middle class.

Here are a select number of the changes that may affect you:

Business Tax Changes

Tax-Planning Using Private Corporations – The government will be reviewing the use of tax-planning strategies involving private corporations that gain unfair tax advantages for high-income individuals. The budget identifies the following strategies: income sprinkling using private corporations, holding a passive investment portfolio inside a private corporation and converting regular income of a private corporation into capital gains. The government intends to release a paper within the "coming months" to address these issues in greater detail, as well as proposed policy changes.

Billed-Basis Accounting – Taxpayers in certain designated professions, including accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors, may elect to deduct the value of work in progress (WIP) in computing their income. This generally allows taxpayers to defer tax by permitting the costs associated with WIP to be expensed without the matching inclusion of the related income. For taxation years beginning after March 21, 2017, the budget proposes to restrict the ability to deduct the cost of WIP, subject to a transitional period.

Associated Corporations – The budget seeks to eliminate certain "inappropriate tax preferences" related to owning multiple corporations. Canadians can have legal ("de jure") or factual ("de facto") control of a corporation under the Income Tax Act. A factual control test can be used to determine whether two or more Canadian-controlled private corporations are "associated corporations", which generally may restrict access to certain corporate tax advantages, such as the small business deduction. The budget proposes to change the rules for taxation years beginning after March 21, 2017, so that factual control can be proven where appropriate, and not limited to the manner determined by a recent court decision.

Investment Fund Mergers – Switch fund corporations: The 2016 federal budget eliminated the ability for a shareholder in a switch fund corporation to exchange shares from one class to another class on a tax-deferred basis. The budget extends the mutual fund merger rules to allow for the reorganization of a mutual fund corporation that is a switch fund corporation into multiple mutual fund trusts on a tax-deferred basis. Segregated funds: Segregated funds are life insurance policies that have many characteristics of mutual fund trusts. The budget proposes to allow for the ability for segregated funds to merge on a tax-deferred basis as of January 1, 2018.

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Personal Tax Changes

Anti-Avoidance Rules for Registered Plans – Current anti-avoidance rules that apply to the Tax-Free Savings Account, Registered Retirement Savings Plan and Registered Retirement Income Fund are proposed to now apply to the Registered Education Savings Plan and Registered Disability Savings Plan for transactions occurring and investments acquired after March 22, 2017. This includes the advantage rules, which help to prevent taking advantage of the tax attributes of a registered plan (such as by shifting returns from a taxable investment to a registered plan), the prohibited investment rules, which ensure that investments held are arm's length "portfolio" investments, and non-qualified investment rules, which restrict the classes of investments that may be held within the plan. Certain transitional provisions may apply.

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Caregiver Credit – The Canada Caregiver Credit is proposed to consolidate the existing caregiver credit, infirm dependant credit and family caregiver tax credit, beginning for the 2017 taxation year. The credit amounts are consistent with that which could have been previously claimed and will be reduced dollar-for-dollar by the dependent's net income above $16,163. A caregiver will not be required to live with the dependent in order to claim the credit. The credit will no longer apply to non-infirm seniors who reside with their adult children.

Tuition Tax Credit – Eligibility criteria for the tuition tax credit is proposed to be extended to tuition paid to a post-secondary institution in Canada for occupational skills courses that aren't at the post-secondary level.

Mineral Exploration Tax Credit – The budget extends the 15% mineral exploration tax credit by one year to flow-through share agreements entered into on or before March 31, 2018 (as per the announcement on March 5, 2017).

Public Transit Tax Credit: Eliminated – Effective July 1, 2017, the public transit tax credit is proposed to be eliminated.

Home Relocation Loan Deduction: Eliminated – As of 2018, the home relocation loans deduction is proposed to be eliminated.

Alcohol Taxation – The budget proposes to increase the excise duty rates on alcohol products by two percent, effective March 23, 2017. Rates are proposed to be adjusted by the Consumer Price Index on April 1 of every year, beginning in 2018.

Other Changes

Other noteworthy changes include the following:

Employment Insurance (EI) – EI program benefits are proposed to be expanded, with parental leave expected to become more flexible by allowing individuals to choose to receive benefits over an extended period (but at the same benefit amount). Benefits will also be extended to caregivers. EI premiums are also set to rise in 2018.

Canada Savings Bonds (CSBs) – The program that was created in 1946 will be phased out and sales of new CSBs will be discontinued in 2017. This is due to the decline in popularity of the program because of the availability of higher-yielding investment alternatives. All outstanding retail debt will continue to be honoured.

Contact your Canaccord Genuity Wealth Management Investment Advisor today to review how these proposed measures may affect your financial plan.