2015 Federal Budget
Summer of Tax Measures
April 21, 2015

The Government of Canada released its 2015 Budget April 21, 2015 in Ottawa. Minister Oliver celebrated this Budget as a return to a balanced budget. The tax related highlights of the Budget are as follows:

Business Income Tax Measures

Reduction in the Small Business Tax Rate for Corporations
The Budget provides scheduled reduction in the small business tax rate applicable to corporations from 11% to 9% over 4 years as follows:

- effective January 1, 2016 = 10.5%
- effective January 1, 2017 = 10.0%
- effective January 1, 2018 = 9.5%
- effective January 1, 2019 = 9.0%

Corporations with non-calendar fiscal periods will need to prorate these reductions based on the number of days in each calendar year.

New CCA Class and Rate for Manufacturing and Processing (M&P) Equipment
The Budget proposes that eligible M&P equipment currently included in Class 29 and subject to a 50% straight-line CCA rate will be included in new Class 53 and subject to a 50% declining balance CCA rate in respect of additions after 2015 and before 2026. The half-year rule will continue to apply in the year of acquisition.

Quarterly Source Deduction Remittances for New Employers
The Budget proposes that, commencing in 2016, new employers will now be immediately eligible for quarterly remittance of their source deduction withholdings as long as their total monthly withholdings are less than $1,000. The requirement to maintain a perfect compliance record in order to remit quarterly will continue to apply.

Synthetic Equity Arrangements
The Budget proposes to modify the dividend rental arrangement rules to deny the inter-corporate dividend deduction on dividends received by a taxpayer on a Canadian share in respect of which there is a synthetic equity arrangement. Such arrangements exist where a taxpayer (or a person that does not deal at arm's length with the taxpayer) enters into one or more agreements that have the effect of providing to a counterparty all or substantially all of the risk of loss and opportunity for gain or profit in respect of the share. Where a person that does not deal at arm's length with the taxpayer enters into such an agreement, a synthetic equity arrangement will be considered to exist if it is reasonable to conclude that the non-arm's length person knew, or ought to have known, that the effect described above would result. This new rule will take effect in respect of dividends that are paid or become payable after October 2015.

Amendment to Subsection 55(2)
The Budget proposes to expand the anti-avoidance rule in subsection 55(2) of the Income Tax Act in order to apply in situations where dividends are paid on a share in circumstances where the fair market value of a share is or becomes nominal. Where the anti-avoidance rule applies, an inter-corporate dividend that may otherwise be non-taxable may be recharacterized as a capital gain. There will also be new rules applicable to stock dividends in order to prevent their use to circumvent the application of the anti-avoidance rule. These new rules will apply to dividends paid on or after April 21, 2015.

Consultation on Active Versus Investment Business Income
The Budget announced the intention of the Federal Government to consult with stakeholders regarding the issue of whether or not certain types of income from property should continue to qualify as active business income, potentially being entitled to the small business deduction.

Personal Income Tax Measures

Tax-Free Savings Accounts (TFSAs)
The Budget announced an increase in the annual contribution limit to TFSAs to $10,000, commencing in 2015. The annual limit will no longer be indexed to inflation.

Dividend Tax Credit – Non-eligible Dividends

The Budget increases the non-eligible dividend tax rates for years after 2015. The increases are as follows:

	2015	**2016**	**2017**	**2018**	**2019**
Top federal rate	21.22%	21.62%	22.21%	22.61%	22.97%
Top federal and BC rate *	37.98%	35.91%	36.50%	36.90%	37.26%

*Note: 2016 and subsequent combined rates take into account the legislated reduction in BC taxes on non-eligible dividends.

Home Accessibility Tax Credit
The Budget proposed a new non-refundable tax credit on up to $10,000 in qualifying expenditures, per qualifying individual, made by eligible individuals, to a maximum of $10,000 per eligible dwelling, commencing in 2016. Qualifying individuals will include those aged 65 or older at the end of the year, or those eligible for the Disability Tax Credit at any time in the year. Eligible individuals will include qualifying individuals and certain other individuals upon whom the qualifying individual was dependant (e.g. spouses, parents, children, siblings, etc). An eligible dwelling is the principal residence of the qualifying individual. Eligible expenditures will include renovation or alteration expenses designed to improve access, or reduce risk of harm, to the qualifying individual.

Minimum Withdrawal Amounts from Registered Retirement Income Funds (RRIFs)
The Budget proposes to reduce the rates at which funds must be withdrawn from a RRIF each year in order to allow for longer average life expectancy, commencing in 2015.

Should anybody remove more than the new minimum amount in 2015, they will be entitled to re-contribute the excess to the RRIF on or before February 29, 2016 and deduct the amount from income in 2015.

<u>Increase to the Lifetime Capital Gains Exemption (LCGE)</u>
The Budget proposes to increase the LCGE from $813,600 to $1,000,000 in 2015 with respect to capital gains on the disposition of qualified farm or fishing property. No increase was provided for dispositions of qualified small business corporation shares.

<u>Repeated Failure to Report Income Penalties</u>
The Budget proposes to provide some relief from the application of the repeated failure to file penalty where the amount that the taxpayer failed to report was greater than $500 in the year and in any of the three preceding taxation years. In that case, the penalty will now be the lesser of 10% o the unreported amount and 50% of the difference in taxes otherwise payable, taking into account any taxes withheld at source. In many cases, this will significantly reduce or eliminate the amount of the penalty. This new rule will take effect in 2015

<u>Alternative Assessing Positions</u>
The Budget proposes to provide the Minister of National Revenue, through the CRA, the right to raise any alternative basis of assessment in the case of a dispute over an assessment, provided that the income taxes that result do not exceed the amount of the assessment under dispute.

<u>Transfer of Education Credits</u>
The Budget proposes to correct situations where taxpayers are denied all or part of the Family Tax Cut due to a transfer of tuition and education tax credits from a spouse, effective for 2014 and subsequent years. CRA will wait until the legislation receives Royal Assent and will then commence sending out reassessments automatically to affected taxpayers.

<u>Donation of Private Corporation Shares or Real Estate</u>
The Budget proposes to provide an exemption from capital gains tax on the disposition of shares of a private corporation or real estate in the following circumstances:

- the proceeds are donated in cash to a qualified doner within 30 days of the disposition, &
- the purchaser is dealing at arm’s length with both the vendor and the qualified donee.

The exemption will be determined based upon the proportion of the aggregate proceeds that were donated, and certain anti-avoidance rules will be implemented. The exemption will apply to dispositions occurring after 2016.

International Tax Measures

<u>Withholding for Nonresident Employers</u>
The Budget proposes to provide relief from statutory withholdings from amounts paid to an employee working in Canada after 2015 under the following circumstances:

• the employer resides in a country with which Canada has a tax treaty;
• if the employer is a partnership, at least 90% of its income is allocated to non-residents of Canada;
• the employer does not have a permanent establishment in Canada;
• the employer is certified by the Minister of National Revenue (i.e. CRA);
• the employee is exempt from tax in Canada by virtue of a tax treaty;
• the employee is not in Canada for 90 or more days in any 12-month period that includes the time of the payment.

No penalties will apply for failure to withhold if the employer, after reasonable enquiry, had no reason to believe that the above conditions were not met.

Streamlining Reporting of Foreign Assets
The Budget proposes to simplify foreign asset reporting through a new Form T1135 being developed by CRA for use in taxation years that begin after 2014. The new form will be applicable where the total cost of the taxpayer's specified foreign property is less than $250,000 throughout the year.

Disclaimer
This information is general in nature and may not be applicable to all taxpayers. Please contact your Johnsen Archer LLP advisor to discuss your specific situation.

Johnsen Archer LLP