JOHNSEN ARCHER LLP
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Federal Budget
Summary of Tax Measures
2016

PERSONAL INCOME TAX MEASURES

- Starting in July 2016, replacement of the Canada Child Tax Benefit and Universal Child Care Benefit with a new non-taxable Canada Child Benefit, providing a maximum benefit of $6,400 per child under age 6 and $5,400 per child aged 6 through 17. There will be supplements available for children eligible for the disability tax credit (DTC). All benefit amounts will be phased out where net family income exceeds $30,000 as follows:

	Phase-Out Rates (%)	
Number of Children (for phase-out rates)	$30,000 to $65,000	Over $65,000
1 child	7.0	3.2
2 children	13.5	5.7
3 children	19.0	8.0
4 or more children	23.0	9.5

- Starting in 2016, elimination of the income-splitting tax credit (previous maximum $2,000 per year) for families with children under age 18.

- Starting in 2016, introduction of a refundable Teacher and Early Childhood Educator School Supply Tax Credit of 15% of eligible supplies acquired in the year by an eligible educator up to $1,000 (max credit is therefore $150).

- Extension of the Mineral Exploration Tax Credit to flow-through share agreements entered into on or before March 31, 2017.

- Starting in 2017, elimination of the federal education and textbook tax credits (not the tuition tax credit). The eliminated credits will be replaced by a grant system for low-income students.

- Elimination of the Children's Fitness and Arts tax credits over two years. The maximum eligible expenditures will be reduced by 50% in 2016 to $500 and $250 respectively. The credits will be completely eliminated in 2017 and subsequent years.

- Cancellation of the previously announced measure that would have provided a capital gains exemption for certain donations of private corporation shares or real estate.

BUSINESS INCOME TAX MEASURES

- Increase in the federal corporate tax rate on personal services business income (i.e. "incorporated employees") from 28% to 33%. The combined corporate tax rate in BC will now be 44% on this type of income.

- Cancellation of the previously announced reductions in the small business tax rate applicable to corporations, with the exception of the 2016 reduction. The federal tax rate for 2016 will therefore be 10.5% (prorated for non-calendar taxation years) and will remain at level in subsequent years. The combined corporate small business tax rate in BC will therefore be 13% in 2016 and subsequent years. In order to maintain integration, the related changes to the gross-up and dividend tax credit rates on ordinary dividends that were previously announced will also be cancelled for 2017 and subsequent years.

- Elimination of the eligible capital property (ECP) regime of taxation effective January 1, 2017. All such property (e.g. goodwill) will now be taxed in the same manner as depreciable property. A new capital cost allowance (CCA) class will be introduced at a 5% declining balance rate and any existing cumulative eligible capital (CEC) balance will be transferred to it on the effective date, but will be entitled to a 7% declining balance rate for the first ten (10 years) thereafter. Also effective on January 1, 2017, the first $3,000 of incorporation costs will be allowed as a deduction from income and do not have to be included in the new CCA class.

- New rules that will limit a corporations ability to multiply access to the small business deduction through the use of fees charged for services provided (directly or indirectly) to another corporation or partnership in which it (or persons with which it does not deal at arm's length) has a direct or indirect interest. There will be exceptions to this rule where the corporation derives all or substantially all of its active business income from providing services or property to arm's length persons other than the subject corporation or partnership. The new rules will apply to corporations for taxation years beginning on or after March 22, 2016.

- New rules that will prevent the use of a "third" corporation to associate a group of companies in order to obtain the benefits of characterizing property income (e.g. rent on a building) as active business income eligible for the small business deduction while also avoiding the requirement to include the taxable capital of all companies in the associated group for purposes of the small business deduction (potentially multiplying access to the small business deduction). All such property income will no longer be eligible for the small business deduction and will be taxed at the general corporate tax rate. Also, the taxable capital of all associated companies will now be required to be included for purposes of computing the grind on the available business limit (currently $500,000) for small business deduction purposes. These new rules will apply to taxation years beginning on or after March 22, 2016.

EXCISE TAX MEASURES

- Effective on March 22, 2017, a corporation or partnership will be required, in addition to the existing tests, to own at least 90 percent of the votes in respect of every corporate matter (with limited exceptions) in respect of a subsidiary corporation in order to be considered closely related for GST purposes. When closely related, corporations and partnerships can elect to deem most of the taxable supplies made between them to be for nil consideration (i.e. no GST charged).

These proposed changes may have a significant impact on you and your business. We encourage you to contact your Johnsen Archer advisor to discuss the impact it will have and consider whether or not there are tax planning steps that can be taken to improve your situation.

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