JOHNSEN ARCHER LLP

TAXATION · ACCOUNTING · ASSURANCE

2017 FEDERAL BUDGET SUMMARY

In one of the most significant non-events in Canadian history, Finance Minister Bill Morneau released the 2017 Federal Budget ("the Budget") on March 22, 2017 ("Budget Day"). After much hype and rumor regarding the content of the Budget, we are left with relatively few changes in what, from a tax perspective, seems more like a "stay the course" budget. That being said, there are some hints in the Budget as to what may be coming in the future.

Here is a summary of the most significant changes proposed in the Budget:

PERSONAL INCOME TAX MEASURES

Capital Gains Inclusion Rate

Despite rampant rumors to the contrary, the Liberal Government has not proposed a change the current inclusion rate of 50% of capital gains. However, the Budget raises a number of concerns related to tax planning for private corporations which may result in future amendments to the Income Tax Act as follows:

- Income splitting (via dividends or capital gains) using family members with lower marginal income rates;
- Holding a passive investment portfolio inside a private corporation as a result of accumulation of earnings at preferential corporate income tax rates; and
- Conversion of regular income into capital gains which can reduce income taxes due to the fact that capital gains are taxed at a lower rate than ordinary income or dividends.

The Government announced its intention to release a paper in the coming months setting out the nature of these issues in more detail as well as proposed policy responses. Taxpayers who have investments in private corporations should pay close attention to that paper when it is released.

Disability Tax Credit

Nurse Practitioners will be able to certify eligibility of taxpayers for the Disability Tax Credit, effective on or after Budget Day.

Medical Expense Tax Credit

The rules will be clarified to ensure that the cost of reproductive technologies utilized in order to conceive a child are included as eligible medical expenses, even if such interventions are not due to medical infertility, effective for 2017 and subsequent years.

Caregiver Tax Credits

The following tax credits will be consolidated into a new tax credit to be called the Canada Caregiver Credit ("CCC"), effective for 2017 and subsequent years:

- Infirm Dependent Credit
- Caregiver Credit
- Family Caregiver Tax Credit

The CCC will provide a non-refundable tax credit in the following amounts:

- $6,883 for infirm dependents who are parents/grandparents, brothers/sisters, aunts/uncles, nieces/nephews, adult children of the claimant or of the claimant's spouse or common law partner, and

- $2,150 in respect of:
  - an infirm dependent spouse or common-law partner in respect of whom the individual claims the spouse or common-law partner amount,
  - an infirm dependent for whom the individual claims an eligible dependent credit, or
  - an infirm child who is under the age of 18 years at the end of the tax year

The CCC will be reduced dollar-for-dollar by the dependent's net income in excess of $16,163. There will be no requirement that the dependent live with the caregiver in order to claim the new credit. All amounts will be indexed to inflation after 2017.

Mineral Exploration Tax Credit
Eligibility for the credit will be extended for one additional year to include flow-through share agreements entered into on or before March 31, 2018.

Electronic Issuance of T4 slips
Issuers will be allowed to send T4 slips to employees electronically (e.g. via email) without prior consent, effective for T4 slips issued in respect of 2017 and subsequent years.

Public Transit Tax Credit
This credit is eliminated effective July 1, 2017. Only eligible costs incurred up to June 30, 2017 will qualify.

Home Relocation Loans Deduction
This deduction is eliminated effective for 2018 and subsequent years.

Anti-avoidance Rules for RESPs and RDSPs
The current anti-avoidance rules applicable to TFSAs, RRSPs, and RRIFs will be applied to Registered Education Savings Plans and Registered Disability Savings Plans, effective for transactions occurring after Budget Day (subject to certain transitional rules).

BUSINESS INCOME TAX MEASURES

Investment Fund Mergers
A mutual fund corporation which has been structured as a switch corporation (multiple classes of shares linked to separate funds) will be able to reorganize and convert itself into multiple mutual funds on a tax-deferred basis, effective for reorganizations occurring on or after Budget Day.

Segregated funds will also be allowed to merge on a tax-deferred basis, effective for mergers carried out after 2017. They will also be able to carry over non-capital losses arising after 2017.

Control of a Corporation
The control rules will be amended to clarify that there does not need to be "a legally enforceable right and ability to effect a change to the board of directors or its powers, or to exercise influence over the shareholder or shareholders who have that right and ability" in order for a particular factor to be considered to be relevant to the control of a corporation, effective for taxation years beginning on or after Budget Day. This is the Government's response to the 2016 Federal Court of Appeal decision in the *McGillivray Restaurant Ltd.* case which limited the factors that could be considered to create de facto control of a corporation.

Taxation of Derivatives
Taxpayers who hold derivatives on income account will be able to elect to value them on a mark-to-market basis, effective for taxation years that begin on or after Budget Day. Once made, such an election must remain in effect unless revoked with the consent of the Minister of National Revenue (i.e. CRA). Any deferred gains or losses

accrued prior to the year of the election must remain deferred until the taxpayer disposes of the underlying derivative.

A new anti-avoidance rule is introduced which will defer realization of the loss on a “straddle transaction“, effective for any loss on a derivative position entered into on or after Budget Day. A straddle transaction is one where there are equal and offsetting positions, one of which will produce a gain and the other a loss. The anti-avoidance rule will be designed to ensure that the losses are only deductible when the offsetting gain has also been realized.

Investment Tax Credit for Childcare Spaces

This credit will be eliminated effective for eligible expenditures incurred on or after Budget Day. Eligible expenditures incurred before 2020 and relating to agreements entered into before Budget Day will continue to be allowed.

Billed-basis Accounting

The deduction for unbilled work-in-progress of certain professionals will be eliminated effective for taxation years beginning on or after Budget Day. A transitional provision will apply which will allow affected taxpayers to deduct 50% of their unbilled work-in-progress for the first taxation year that begins on or after Budget Day. After that initial year, no amounts will be deductible.

SALES AND EXCISE TAX MEASURES

Taxi and Ride-sharing Services

Ride-sharing services, such as Uber and Lyft, will be subject to GST/HST in the same manner as taxi services, effective July 1, 2017.

SUMMARY

While the changes were not as significant as rumored, there are some changes which may impact you. We encourage you to contact your Johnsen Archer advisor at any time to discuss the changes and their impact on you or your business.

Thank you for your business!