

Federal Budget Highlights



March 22, 2017

Watch for a more detailed analysis of the Federal Budget in our 2017 Federal Budget Report.

On March 22, 2017, the Honourable Bill Morneau tabled his second budget as Minister of Finance. The federal government is projecting a deficit for the 2016-17 fiscal year of \$23.0 billion. In last year's budget, a deficit of \$29.4 billion was predicted. For the 2017-18 and 2018-19 fiscal years, deficits of \$28.5 billion and \$27.4 billion respectively are predicted.

Today's tax changes include the changes summarized below (note that effective dates and transitional rules vary, and will be addressed in more detail in our full report along with other changes). Note that the capital gains inclusion rate was not increased today, and therefore, only one-half of capital gains remain taxable.

Personal Tax Changes

Public Transit Credit – The public transit credit will be repealed effective July 1, 2017.

Home Relocation Loan Deduction – Currently, a deduction is allowed that reduces taxable benefits from home relocation loans. This deduction will be eliminated.

Anti-Avoidance Rules for Registered Plans – The current non-qualified investment rules, prohibited investment rules and advantage rules for RRSPs and TFSAs will be extended to RESPs and RDSPs.

Electronic Distribution of T4s – To reduce compliance costs, employers will be allowed to distribute T4 (Statement of Remuneration Paid) slips electronically to active employees without their prior consent.

Tuition Tax Credit Extended – Eligibility for the tuition tax credit will be extended to include tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level. The tax exemption for scholarship and bursary income will be similarly adjusted.

Disability Tax Credit – Nurse practitioners will be added to the list of medical practitioners that can certify eligibility for the disability tax credit for impairments within the scope of their practice.

Medical Expense Credit – The medical expense tax credit will be broadened so that individuals who require medical intervention to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals on account of medical infertility.

Consolidation of Caregiver Credits – The existing caregiver, infirm dependant and family caregiver tax credits will be replaced with a new Canada Caregiver Credit. The new credit will be discussed in more detail in our full report.

Ecological Gifts Program – A number of changes have been proposed that will tighten the rules around gifts of ecologically sensitive land.

Non-Accountable Allowances for Certain Public Officials – Non-accountable allowances paid to certain public officials will be included in taxable income.

Mineral Exploration Tax Credit – As announced on March 5, 2017, eligibility for this credit will be extended for one year, to flow-through share agreements entered into on or before March 31, 2018.

Corporate and Business Tax Changes

Taxation of Work in Progress (WIP) of Professionals – Currently, certain professionals are taxed on an “as billed” basis if an election is made. The ability to defer unbilled income will be eliminated over the first two taxation years that begin on or after March 22, 2017.

Finance Paper on Private Company Taxation – The government announced that it will release a discussion paper in the coming months that will deal with tax planning using private corporations. This paper will address income splitting using private companies, holding portfolio investments in a private corporation and withdrawing funds from a private corporation as a capital gain as opposed to salaries or dividends.

Meaning of Factual Control – A recent court case held that for factual (de facto) control to exist, it generally must exist as part of an ability to affect a change to the board of directors of a corporation. These rules will be changed to ensure that other factors are considered when determining whether de facto control exists.

Investment Fund Mergers – Subject to certain conditions, the mutual fund merger rules will be extended to allow the reorganization of a mutual fund corporation that is structured as a switch corporation into multiple mutual fund trusts on a tax-deferred basis.

Segregated Fund Changes – Rules for tax-deferred mergers of segregated funds have been introduced that will generally parallel the mutual fund merger rules. Also, non-capital losses of a segregated fund arising in taxation years beginning after 2017 can be carried over and applied in computing its taxable income.

Investment Tax Credit for Child Care Spaces – The tax credit on costs incurred to build or expand child care spaces in licensed child care facilities will be eliminated.

Geothermal Energy Generation – The capital cost allowance rules and rules for Canadian renewable and conservation expenses will be expanded to include certain types of geothermal equipment and expenses.

Additional Deduction for Gifts of Medicine – The additional deduction available for gifts from a corporation’s inventory of medicine will be eliminated.

Oil and Gas Discovery Wells – Expenditures related to drilling or completing a discovery well will generally be classified as a Canadian development expense (CDE) rather than a Canadian exploration expense (CEE). In addition, small oil and gas corporations will no longer be allowed to treat the first \$1 million of CDE as CEE.

Taxation of Derivatives – An election will allow taxpayers to mark-to-market all eligible derivatives held on account of income. Also, a stop-loss rule will be introduced for straddles to defer the realization of any loss on the disposition of a position to the extent of any unrealized gain on an offsetting position.

Insurers of Farming and Fishing Property – The current tax exemption available to insurers of farming and fishing property will be eliminated.

Consultation on Cash Purchase Tickets – A consultation has been launched on the income tax deferral available in respect of deferred cash purchase tickets for deliveries of listed grains.

International Tax Change

Foreign Branches of Life Insurers – Several changes have been proposed that will effectively extend the base erosion rules to foreign branches of life insurers.

GST/HST and Other Indirect Tax Changes

Ride-Sharing Services – The definition of a taxi business will be amended to include commercial ride-sharing businesses.

Tour Package Accommodations Rebate – The GST/HST rebate available to non-residents for the GST/HST that is payable in respect of the accommodation portion of eligible tour packages will be repealed.

Other Indirect Taxes – Tax and duty increases will apply to the sale of alcohol and tobacco products.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances. BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.