2015 Federal Budget

2015 Federal Budget's Tax Measures

A summary of the key tax measures that may have a direct impact on you.

Federal Minister of Finance Joe Oliver delivered the Conservative government's budget on April 21, 2015. The budget is balanced and provides targeted tax relief to seniors, families and small businesses.

Key Highlights of the Budget

- An increase to the Tax-Free Savings Account (TFSA) contribution limit to $10,000 per year beginning in 2015;
- Reducing the minimum withdrawal requirements for Registered Retirement Income Funds (RRIFs) beginning in 2015;
- A decrease to the federal small business tax rate from 11% to 9%, to be implemented gradually from 2016 to 2019, and a corresponding

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- adjustment to the gross-up factor and dividend tax credit for non-eligible dividends; and
- The elimination of capital gains tax upon the donation of cash from the sale of private corporation shares and real estate.

Prior to implementing any strategies, individuals should consult with a qualified tax advisor, legal professional or other applicable professional.

While it has been the long-standing practice of Canada Revenue Agency (CRA) to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.

Personal Tax Changes

TFSA Contribution Limit Increase

The budget proposes to increase the TFSA annual contribution limit to $10,000. This increase will apply as of January 1, 2015 and subsequent years and will no longer be indexed to inflation. This means that the TFSA contribution room for 2015 is $10,000 instead of $5,500. If you have already made your maximum contribution for 2015 you will be able to contribute an additional $4,500 in 2015. If you have never made a TFSA contribution you can make a maximum contribution of $41,000 in 2015.

Reducing the RRIF Minimum Withdrawal Requirements

The existing RRIF rates are determined on the basis of providing a regular stream of payments from age 71 to 100 assuming a 7% nominal rate of return on RRIF assets and indexing at 1% annually. The rates are capped at 20% for ages 94 and above. The budget proposes to adjust the RRIF minimum withdrawal rates that apply from ages 71 to 94, on the basis of a 5% nominal rate of return and 2% indexing (see the following table). There will be no change to the minimum withdrawal rates that apply to ages 70 and under, which will continue to be determined by the formula 1/(90 – age).

The effect of the new RRIF rates is to reduce the RRIF minimum withdrawals that are required and allow you to preserve more of your RRIF savings in order to provide income at older ages, while continuing to ensure the tax deferral on RRSP/RRIF savings. As an example, if we assume that you are 71 at the start of 2015 and your RRIF balance was $500,000, instead of withdrawing $36,900 you will now be required to withdraw only $26,400. If you are in a 45% tax bracket, your tax savings would be $4,725 this year.

The new RRIF withdrawal rates will apply for the 2015 and subsequent taxation years. Transitional rules will allow RRIF holders who, at any time in 2015, withdraw more than the reduced 2015 minimum amount to re-contribute the excess (up to the new minimum withdrawal amount) to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year. Similar rules will apply to minimum payments from a locked-in plan.

Age (at start of year)	Existing Rate %	Proposed Rate %
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
75	7.85	5.82
76	7.99	5.98
77	8.15	6.17
78	8.33	6.36
79	8.53	6.58
80	8.75	6.82
81	8.99	7.08
82	9.27	7.38
83	9.58	7.71
84	9.93	8.08
85	10.33	8.51
86	10.79	8.99
87	11.33	9.55
88	11.96	10.21
89	12.71	10.99
90	13.62	11.92
91	14.73	13.06
92	16.12	14.49
93	17.92	16.34
94	20.00	18.79
95 & over	20.00	20.00

Streamlining T1135 Foreign Reporting Requirements

Currently, a Canadian-resident individual, corporation or trust that, at any time in a taxation year, owns specified foreign property with a total cost of more than C$100,000 must file a Foreign Income Verification Statement (Form T1135) with the CRA. Form T1135 must also be filed by certain partnerships that hold specified foreign property. Specified foreign property generally includes funds and investments held outside of Canada and investments in foreign entities (there are exceptions). Property held in registered plans, such as Registered Retirement Savings Plans and Tax-Free Savings Accounts, are excluded from the Form T1135 reporting requirements.

The budget proposes to simplify the foreign asset reporting system for taxation years that begin after 2014. Under the revised form being developed by the CRA, if the total cost of a taxpayer's specified foreign property is less than C$250,000 throughout the year, a new simplified foreign asset reporting system will apply. The current reporting requirements will continue to apply to taxpayers with specified foreign property that has a total cost at any time during the year of C$250,000 or more.

The budget does not specify details on what the simplified foreign asset reporting system will involve or whether there will be a minimum threshold for completing this reporting.

Home Accessibility Tax Credit

The budget proposes a new Home Accessibility Tax Credit. This proposed non-refundable credit will provide tax relief of 15% on up to $10,000 of eligible expenditures (to a maximum credit of $1,500) per calendar year per eligible home for a qualifying individual. Qualifying individuals are seniors, 65 years of age or older, and persons entitled to claim the Disability Tax Credit.

This credit may also be claimed by a spouse, parent, or other related family members of the qualifying individual. Expenditures will be eligible if they are incurred to renovate an eligible home (the principal residence of the qualifying individual) to allow them to gain access to the home or improve their mobility within the home. An individual who claims an eligible expenditure that also qualifies for the Medical Expense Tax Credit will be permitted to claim both credits.

Lowering the Employment Insurance Premium in 2017

The budget proposes to implement a program that will ensure that Employment Insurance (EI) premiums are not higher than what is needed to fund the EI program. It is expected that this program will lower EI premiums from 1.88% to 1.49% in 2017, a 21% reduction.

Mineral Exploration Tax Credit

The budget proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2016.

Registered Disability Savings Plan – Plan Holder

The 2012 budget introduced a temporary measure that allowed a qualifying family member (spouse, common-law partner, or parent) to be a plan holder of a Registered Disability Savings Plan (RDSP) for an adult who may not have the capacity to enter into a contract. Prior to the introduction of this measure, a plan holder of an RDSP for an adult could only be the beneficiary of the RDSP, the beneficiary's legal representative, or in certain circumstances, the parent of the beneficiary.

The budget proposes to extend the 2012 temporary measure to the end of 2018. A qualifying family member that becomes a plan member before the end of 2018 may remain as plan holder after 2018.

Extending Compassionate Care Benefits

Through the Employment Insurance program, Compassionate Care Benefits are provided to individuals who have to be away from work temporarily to care for a family member who has a terminal illness. The budget proposes to extend the duration of Compassionate Care Benefits from six weeks to six months, beginning January 2016.

Previously Announced Family Tax Cuts

In October 2014, the government

announced the Family Tax Cut and other benefit increases for families with children. The Family Tax Cut is a proposed federal non-refundable tax credit, capped at $2,000, for couples with children under the age of 18.

The budget proposes to revise the calculation of the Family Tax Cut for the 2014 and subsequent taxation years to ensure that couples claiming the Family Tax Cut and transferring education-related credits between themselves receive the appropriate value of the Family Tax Cut. After the enacting legislation receives Royal Assent, the CRA will automatically reassess affected taxpayers for the 2014 taxation year.

Business Tax Changes

Small Business Tax Rate Decrease and Non-Eligible Dividends Adjustment

Currently, the small business deduction reduces the federal corporate income tax rate to 11% on the first $500,000 of qualifying active business income earned by a Canadian-Controlled Private Corporation (CCPC). The budget proposes to decrease this rate to 9%. This decrease will be implemented gradually from 2016 to 2019.

In conjunction with the proposed reduction in the small business tax rate, the budget proposes to adjust the gross-up factor and dividend tax credit applicable to "non-eligible" dividends. Canadian corporations may pay both "eligible" and "non-eligible" dividends. Eligible dividends generally include dividends paid by Canadian public corporations and CCPCs that are subject to the general corporate tax rate. However, to the extent that the income of a CCPC is subject to tax at the small business rate, any dividends paid by the CCPC from that income would be considered a "non-eligible" dividend.

The effect of this measure will allow the corporation to retain more funds for reinvestment. However the overall impact on the corporate and personal integrated tax rate when the corporation's income is flowed out to its shareholders is small.

The small business tax rate reduction, dividend gross-up and tax credit adjustment will be implemented as follows:

	2015	2016	2017	2018	2019 & later
Small business tax rate	11.0%	10.5%	10.0%	9.5%	9.0%
Dividend gross-up	18.0%	17.0%	17.0%	16.0%	15.0%
Dividend tax credit	11.0%	10.5%	10.0%	9.5%	9.0%
Top federal marginal tax rate for non-eligible dividends	21.2%	21.6%	22.2%	22.6%	23.0%

The combined federal and provincial tax impact will vary by province.

Donation of Private Corporation Shares or Real Estate

Currently, the capital gain triggered upon the disposition of publicly listed securities, ecologically sensitive land and certified cultural property donated to qualified donees is exempt from tax.

The budget proposes to extend this exemption to the disposition of private corporation shares and real estate subject to certain anti-avoidance rules. The exemption is available where:

- Cash proceeds from the disposition of private corporation shares or real estate are donated to a qualified donee within 30 days of disposition; and
- The private corporation shares or real estate are sold to a purchaser that is dealing at arm's length with both the donor and the qualified donee.

If only a portion of the cash proceeds are donated, the exemption of the capital gain will be pro-rated. This measure will apply to donations made in respect of dispositions occurring after 2016.

Lifetime Capital Gains Exemption for Qualified Farm or Fishing Property

Currently, the Lifetime Capital Gains Exemption (LCGE) provides individuals with a tax exemption for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. The amount of the LCGE is $813,600 in 2015 and is indexed to inflation.

The budget proposes to increase the LCGE to $1 million on the capital gains realized on the disposition of qualified farm or fishing property that occurs on or after April 21, 2015. This may result in maximum additional tax savings of $27,000 to $50,000 (varies by province).

For taxation years after 2015, the LCGE for qualified farm or fishing property will be maintained at $1 million until the indexed LCGE applicable to capital gains realized on the disposition of qualified small business shares ($813,600 in 2015) exceeds $1 million. At that time, the same LCGE limit, indexed to inflation, will once again apply to the three types of property.

Consultation on Eligible Capital Property

The Eligible Capital Property (ECP) regime governs the tax treatment of eligible capital expenditures that are generally of an intangible nature. Eligible capital expenditures include the cost of goodwill when a business is purchased.

The 2014 budget first announced a public consultation on the proposal to repeal the ECP regime with a new class of depreciable property that will be subject to the capital cost allowance rules. The Government has heard from a number of stakeholders and continues to receive submissions on the proposal. It is the intention of the Government to release detailed draft legislative proposals for stakeholder comment before their inclusion in a bill.

Accelerated Capital Cost Allowance for Manufacturing and Processing Machinery and Equipment

The budget proposes to provide an accelerated Capital Cost Allowance (CCA) rate of 50% on a declining-balance basis for machinery and equipment acquired after 2015 and before 2026 primarily for use in Canada for the manufacturing and processing of goods for sale or lease.

Other Measures

Update on the Automatic Exchange of Information for Tax Purposes

In 2013 G-20 leaders committed to the automatic exchange of tax information in respect of financial accounts as the new global standard. Under this new standard, foreign tax authorities will provide information to the CRA relating to financial accounts held by Canadian residents in their jurisdictions. The CRA will, on a reciprocal basis, provide corresponding information to the foreign tax authorities on accounts in Canada held by residents of their jurisdictions.

Canada proposes to implement the common reporting standard starting on July 1, 2017, allowing a first exchange of information in 2018.

Please contact us for more information about the topics discussed in this article.

NAV0095-EN (04/2015)