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Your Guide to Tax-Saving Strategies

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TAXSTRATEGY

*The Liberals are promising change.
Here are some of the details of Trudeau's ...*

New tax order

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October 2015 ushered in a new era of federal politics with the election of Justin Trudeau and his Liberal Party. The country was pretty clear about the desire for change. So what exactly are those changes? Well the political analysis is well beyond my experience, so I thought I would focus on what I know best: the heralded changes to our taxes as per the the Liberal Party's playbook. Below are some of the tax highlights from the government's election platform.

Personal tax rates

In keeping with their promise to assist the middle class, the Liberal Party has pledged to reduce the federal tax rate on taxable income between

\$44,702 and \$89,401 to 20.5 per cent from the current 22 per cent. This would result in savings of up to \$671.

However, while the middle class gets a welcome boost, the top tax rate gets a boost of a different kind. The new government proposes to increase the current top federal tax rate of 29 per cent on income over \$200,000 to 33 per cent. Although there is no confirmed date as to when these proposed new rules will be introduced by way of bill, it is possible that we may see this in the 2016 Federal Budget. So if you are in the top tax bracket, and have the option to defer certain income until 2016, you may want to consider opting out of that deferral and taking that income in your 2015 so you can save that extra four per cent.

Employee stock options

Under the current federal tax rules, employees who exercise stock options will be taxed

on the difference between the exercise price and the fair market value of such stock at the time the employee exercises his or her options. This will be taxed as employment income; however, in certain situations (i.e., if the stock is in shares of a Canadian controlled private corporation), the employee will get the benefit of a 50 per cent deduction such that the employment income will be taxed in the same vein as a capital gain; i.e., only half is subject to tax. So this treatment has been a nice break for employees receiving part of their compensation in the form of stock options.

The Liberal Party has pledged, however, to limit the amount of deduction available to an employee, thereby targeting high-level executives who benefit from stock options in the high dollar amounts. Specifically, the new government has pledged to limit the ability of employees to take advantage of the 50 per cent deduction to stock options up to \$100,000 in annual gains.

The big question is whether the new government will choose to grandfather those stock options already issued. And since there is the likelihood that this measure will be formally introduced in 2016, this has had many high-level executives thinking about whether they should just bite the bullet and exercise their options in 2015 to ensure they get capital gains treatment on their current stock

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options, especially since they would also be facing a 33 per cent federal tax rate on their income above \$200,000.

Tax-Free Savings Accounts

Under the current rules, you can contribute up to \$10,500 per year to your Tax-Free Savings Account (or “TFSA”); however, the Liberal Party has promised to reduce that contribution limit to \$5,500 per year. Again, no statement has been released as to when this will take place, but chances are this will be effective for 2016.

Personal tax credits

Family Tax Cut

The Family Tax Cut, which was announced back on October 30, 2014, and effective for 2014 and subsequent years, provided for a non-refundable tax credit of up to \$2,000. Under this provision, couples with children under the age of 18 were notionally allowed to split income of the higher-earning spouse by transferring up to \$50,000 of taxable income to the lower-income spouse. However, you can say bye-bye to this credit as the new government has pledged to cancel this credit.

Education Credits

While the tuition tax credit will be maintained by the Liberal government, they have pledged to cancel the education and textbook tax credits (although unused credits can be carried forward for four more years). What does this mean in real dollars and cents? Well, if you are a full-time student, this will be a loss of \$560 in tax credits every year.

Child-related Tax Credits

The new government has promised to bring in a new

Canada Child Benefit that will replace the existing three programs: Universal Child Care Benefit, Canada Child Tax Benefit and National Child Benefit Supplement. While some of the pre-existing programs were not based on income, the newly promised Canada Child Benefit will be tied to household income. As proposed, this new benefit would start at \$6,400 per year, tax-free per child under the age of six and \$5,400 per year, tax-free per child aged six to 17. Since this will be tied to income, the benefits will be gradually reduced depending on the household income. Based on the projections in the Liberal platform, this new benefit is supposed to result in higher payouts to the average Canadian family.

Small business tax rate

Currently, Canadian-controlled private corporations (or “CCPCs”) that carry on a qualifying active business are entitled to the small business deduction that reduces the federal tax rate to 11 per cent on the first \$500,000 of income. Under the 2015 Federal Budget (released by the Harper government), this tax rate was proposed to be decreased to nine per cent on a graduated basis from 2016 to 2019. The Liberal Party has also pledged to reduce this rate to nine per cent; however, no details relating to the timing for this change have been released.

One thing to keep in mind if you have a corporation is that the new government has also stated that it will look at implementing measures that would prevent income splitting through the use of corporations. Although no details on such measures have been released, it is possible that

enhanced changes may be made to the current rules that are already aimed at curtailing income splitting, such as the corporate attribution rules and the kiddie tax (or perhaps the introduction of a brand new rule).

Potpourri of other tax measures

The Liberal Party has also pledged to address some of the following tax measures:

- Modernize the home buyer’s plan which allows you to withdraw funds from your Registered Retirement Savings Plan on a tax-deferred basis for the purpose of purchasing a new home. Moreover, tax-deferred RRSP withdrawals would also be permitted for significant life changes, such as job relocation or the death of a spouse.

- Provide a tax credit for eligible teachers and educators who purchase school supplies with personal funds.

- Increase the Northern Resident Deduction for individuals living in prescribed zones by 33 per cent. (This can result in an additional deduction of \$1,457 per year.)

- Increase the Goods and Services Tax (“GST”) rebate for new rental housing construction from 33 per cent to 100 per cent. This would result in making investments in such properties GST-free.

- Reinstate the tax credit for purchases of labour-sponsored venture capital corporations (“LSVCC”). Assuming that the contribution limit will be restored to the previous annual limit, you could be eligible for a 15 per cent annual federal tax credit on the purchase of up to \$5,000 in LSVCC shares. □