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TAXSTRATEGY

What you need to know about the federal government's

2015 Budget

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Another year, another federal budget. This year, as a result of plunging oil prices, Ottawa's previously predicted surpluses of $6.4 billion for 2015-2016 and $10.3 billion by 2018-2019 were revised to a more modest surplus of $1.7 billion in 2016-2017, 2.6 billion for 2017-2018 and $2.6 billion in 2018-2019. So what does this mean for the average Canadian? Read on for a summary of some of the personal and business tax measures that might be of interest to you.

Personal Tax Measures

Tax-Free Savings Accounts

Officially, the annual contribution limit for Tax-Free Savings Accounts (or TFSAs) is still $5,500. But the 2015 federal budget—announced, but not yet passed into law—proposes to increase this amount to $10,000 effective January 1, 2015. And the Canada Revenue Agency and Department of Finance both said that individuals and financial institutions can treat this as effective immediately, rather than waiting for the budget to be passed. Great news. However, the flip side to this welcome development is that the annual contribution will no longer be indexed to inflation.

Registered Retirement Income Funds – Minimum Withdrawals

The federal budget also proposes to reduce the minimum amount required to be withdrawn from a registered retirement income fund (or RRIF) each year for persons aged 71 to 94. This reduction would be achieved by reducing the nominal rate of return assumption from seven per cent to five per cent and from increasing the inflation index from one per cent to two per cent. These changes will permit individuals to keep more money in their RRIFs for a longer period of time. This change is effective for 2015 and subsequent taxation years.

New Tax Credits

1. The new Home Accessibility Tax Credit was proposed in the budget for 2016 and subsequent years to provide tax relief on a non-refundable basis of 15 per cent on up to $10,000 of eligible expenditures each year, per "qualifying individual" per "eligible dwelling."

A "qualifying person" includes seniors (aged 65 years or over) and persons with disabilities who are eligible for the Disability Tax Credit. This credit can also be claimed by an individual who claims the spouse or common law partner amount, the eligible dependent amount, the caregiver amount or infirm dependent amount for the qualifying individual.

An "eligible dwelling" must be the principal residence of the qualifying individual, and the expenditures made must be required to either allow such person to gain access to or be more mobile or functional within that dwelling (or to reduce the risk of harm to such person within that dwelling). Moreover, the expenditures must be

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enduring in nature (therefore, routine repairs, maintenance etc. do not qualify). Note: This credit does not affect the ability to claim the Medical Expense Tax Credit for the same expenditure.

2. Family Tax Cut and Transfer of Education Credits: The federal budget proposes to revise the calculation of the family tax cut for couples who transfer education-related amounts (i.e., for tuition, education and textbook tax credits) between themselves to ensure these couples receive the appropriate value of the family tax cut. This change will apply for 2014 and subsequent years. This means that if this legation is enacted, the Canada Revenue Agency will automatically reassess affected taxpayers for their 2014 taxation year.

Lifetime Capital Gains Exemption

Currently the lifetime capital gains exemption available for qualified farming or fishing property is $813,600 for 2015 indexed to inflation. The budget proposes to increase this exemption amount to $1,000,000 for dispositions on or after April 21, 2015.

Additionally, for future years, the lifetime capital gains exemption for dispositions of qualified small business corporation shares will be the greater of $1,000,000 and the indexed exemption available.

Registered Disability Savings Plan

The 2012 federal budget introduced a temporary measure, in place until the end of 2016, to permit certain family members (i.e., parents, spouses and common law partners) to become the plan holder of a registered disability savings plan (or RDSP) for an adult individual who lacked the capacity to enter into a contract. This year's budget proposes to extend this measure to the end of 2018, as apparently some of the provinces and territories require additional time to deal with the legal issues.

Personal Income Tax Rates

While there were no changes to the individual tax rate or tax brackets, there were changes to the gross-up factor and dividend tax credit rate for non-eligible dividends to balance out the proposed reduction in corporate rates announced in this budget (see discussion below under Business Tax Measures). Specifically, the budget proposes to reduce the gross-up factor from 18 per cent to 17 per cent effective January 1, 2016, then lowered to 16 per cent on January 1, 2018 and further reduced to 15 per cent on January 1, 21019. The Dividend Tax Credit will be adjusted from 13/18 to 21/29 of the gross up amount as of January 1, 2016, then to 20/29 as of January 1, 2017 and finally to 9/13 on January 1, 2019.

What does this actually translate to? Currently, the federal top marginal non-eligible dividend rate for individuals in 2015 is 21.22 per cent. The changes noted above means that the proposed rates will be as follows:

- Proposed 2016: 21.62 per cent;
- Proposed 2017: 22.21 per cent;
- Proposed 2018: 22.61 per cent;
- Proposed 2019 (and future years): 22.97 per cent.

Penalties for repeated failure to report income

Currently, taxpayers who fail to report all of their income in their tax return for a taxation year, and had also failed to report an income in any of their prior three taxation years are subject to a federal penalty of 10 per cent of the unreported income (plus provincial penalties). However, this penalty can be disproportionate to the actual associated tax liability, especially for lower income individuals. So the budget has proposed that the penalty will only apply in a taxation year if the taxpayer fails to report at least $500 of income in the year and any of the three preceding years. The amount of the penalty would be the lesser of 1) 10 per cent of the unreported income and 2) an amount equal to 50 per cent of the difference between the understatement of tax (or overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount (i.e., by an employer as employee withholdings).

Foreign Reporting

Currently any taxpayer who owns foreign property with a total cost of more than $100,000 must file a Foreign Income Verification Statement (Form T1135) each year. Back in 2013, the Canada Revenue Agency introduced a more detailed form that required more disclosure and resulted in significant burden to taxpayers when filling out Form T1135. To reduce this compliance burden on taxpayers, the 2015 Budget proposes to simplify the reporting where the total cost is less than $250,000 (instead of $100,000). However, the current reporting will continue to apply for taxpayers who have foreign assets with a cost of more than $250,000.

Business Tax Measures

Reduced Small Business Tax Rate

For those small and medium businesses out there, the federal budget brought some welcome change. The Federal Small Business Tax Rate (currently 11 per cent on active income earned in Canada up to $500,000 a year) is to be reduced to nine per cent by 2019, to be phased in as follows:

- 10.5 per cent starting on January 1, 2016;
- 10 per cent starting on January 1, 2017;
- 9.5 per cent starting on January 1, 2018;
- 9.0 per cent starting on January 1, 2019.

The reduction in rates will be pro-rated for companies with off-calendar years.

Source Deductions for New Employers

Currently, new employers are required to withhold and remit source deductions on a monthly basis for at least one year, after which they may qualify for quarterly remittances if they have an average monthly withholding amount of less than $3,000 and a perfect compliance record for the past year. The budget proposes that for 2016 onwards, new employers with total average monthly remittances of less than $1,000 can remit quarterly immediately. The employer must maintain a perfect compliance record on a go-forward basis to continue to be able to remit quarterly. ❐