SVS GROUP LLP

CHARTERED ACCOUNTANTS

On April 21, 2015 the Honourable Joe Oliver, Minister of Finance, presented Canada's Economic Action Plan (Budget) 2015 to the House of Commons.

The Government's fiscal positions include a **deficit** in the year 2014/2015 ($2.0 billion), and projected **surpluses** in 2015/2016 ($1.4 billion), 2016/2017 ($1.7 billion), 2017/2018 ($2.6 billion), 2018/2019 ($2.6 billion), and 2019/2020 ($4.8 billion).

The Federal Government notes:

- The annual contribution limit for TFSAs will be increased to $10,000 starting in 2015.
- $2.8 billion to support infrastructure improvements to heritage, tourism, water-way and highway assets located within national historic sites, national parks and national marine conservation areas across Canada.
- $119 million over 2 years to National Research Council's industry-partnered research and development activities.
- Canada Student Loans – the expected parental contribution under the needs assessment process will be reduced.
- Transfers for health care will be increased by a projected $27 billion over the next 5 years.
- Up to $360 million will be provided in 2015-2016 for the Canadian Armed Forces to extend its mission to counter ISIL.
- Seniors and persons with a disability will be provided a new non-refundable Home Accessibility Tax Credit of 15% on up to $10,000 of eligible expenditures made after 2015.
- A pro rata exemption from taxation on the sale of private corporation shares or real estate where all, or part, of the proceeds are contributed to a charity within 30 days.
- The Canada Small Business Financing Act will be amended to broaden the eligibility criteria and to double the maximum loan amount available for real property.
- The minimum withdrawal amounts from RRIFs have been reduced.

	Actual	Projection (in billions of $)					
	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 - 19	2019 - 20
Budgetary revenues	271.7	279.3	290.3	302.4	313.3	326.1	339.6
Program expenses	248.6	254.6	263.2	274.3	282.7	293.0	302.6
Public debt charges	28.2	26.7	25.7	26.4	28.0	30.5	32.1
Total expenses	276.9	281.3	288.9	300.7	310.7	323.5	334.7
Budgetary Balance	(5.2)	(2.0)	1.4	1.7	2.6	2.6	4.8

Note: Totals may not add due to rounding.

TAX HIGHLIGHTS

A. Personal Income Tax

Tax-Free Savings Account (TFSA)

Budget 2015 proposes to increase the TFSA annual contribution limit to $10,000. This increase will apply as of January 1, 2015, so that a single annual contribution limit of $10,000 applies to the 2015 and subsequent calendar years. The TFSA annual contribution limit will no longer be indexed to inflation.

Home Accessibility Tax (HAT) Credit

Budget 2015 proposes to introduce a new Home Accessibility Tax Credit. The proposed non-refundable credit will provide tax relief of 15% on up to $10,000 of eligible expenditures per calendar year, per qualifying individual, to a maximum of $10,000 per eligible dwelling.

Federal Budget Commentary 2015

“Qualifying Individuals” include seniors (65 years of age or older at the end of the particular taxation year) and persons with disabilities (eligible for the Disability Tax Credit at any time in a particular taxation year).

“Eligible Individuals” will also be eligible to claim the HAT credit. For the purposes of this credit, an eligible individual, in respect of a qualifying individual, will be an individual who has claimed, or could have claimed, the spouse or common law partner amount, eligible dependant amount, caregiver amount or infirm dependant amount for the qualifying individual for the taxation year.

Where one or more qualifying individuals or eligible individuals make a claim in respect of an eligible dwelling, the total of all amounts claimed by the qualifying individual(s) and eligible individual(s) for the year in respect of the eligible dwelling must not exceed $10,000.

An eligible dwelling (which includes the land on which the dwelling is situated) must be ordinarily inhabited, or reasonably expected to be ordinarily inhabited by the qualifying individual at any time in the taxation year.

Qualifying or eligible individuals who earn business or rental income from part of their principal residence will be allowed to claim the credit for the full amount of eligible expenditures made in respect of the qualifying individual’s personal-use areas of the residence.

Eligible Expenditures
Expenditures will be eligible for the HAT credit if they are made or incurred in relation to a renovation or alteration of an eligible dwelling, provided that the renovation or alteration:

- allows the qualifying individual to gain access to, or to be more mobile or functional within, the dwelling; or
- reduces the risk of harm to the qualifying individual within the dwelling or in gaining access to the dwelling.

The improvements must be of an enduring nature and be integral to the eligible dwelling. Examples of eligible expenditures include amounts relating to wheelchair ramps, walk-in bathtubs, wheel-in showers and grab bars. Eligible expenditures will include the cost of labour and professional services, building materials, fixtures, equipment rentals and permits. Items such as furniture, as well as items which retain a value independent of the renovation (such as construction equipment and tools), would not qualify for the credit.
The HAT credit will not be reduced by any other tax credits or grants to which a qualifying or eligible individual is entitled under other government programs.

Expenditures will not be eligible for the HAT credit if they are for goods or services provided by a person not dealing at arm’s length, unless that person is registered for Goods and Services Tax/Harmonized Sales Tax purposes under the Excise Tax Act.

The HAT credit will apply in respect of eligible expenditures for work performed and paid for and/or goods acquired after 2015.

Minimum Withdrawal Factors for Registered Retirement Income Funds (RRIF)
Budget 2015 proposes to adjust the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94.

The new RRIF factors will range from 5.2% (formerly 7.38%) at age 71, to 18.79% (formerly 20%) at age 94. At age 95 and above, the rate will remain capped at 20%.

The new RRIF factors will apply for the 2015 and subsequent taxation years. To provide flexibility, RRIF holders who at any time in 2015 withdraw more than the reduced 2015 minimum amount will be permitted to re-contribute the excess (up to the amount of the reduction in the minimum withdrawal amount provided by this measure) to their RRIFs. Re-contributions will be permitted until February 29, 2016.

Lifetime Capital Gains Exemption for Qualified Farm or Fishing Property
Budget 2015 proposes to increase the Lifetime Capital Gains Exemption to apply to up to $1 million of capital gains realized by an individual on the disposition of qualified farm or fishing property. This measure will apply to dispositions of qualified farm or fishing property that occur on or after Budget Day.

Registered Disability Savings Plan (RDSP) – Legal Representation
Budget 2015 introduced a temporary measure to allow a qualifying family member (i.e., a beneficiary’s parent, spouse or common-law partner) to become the plan holder of a RDSP for an adult individual who may lack the capacity to enter into a contract. Budget 2012 indicated that this measure would apply until the end of 2016.

Budget 2015 proposes to extend the temporary measure introduced in Budget 2012 to apply to the end of 2018.

Transfer of Education Credits – Effect on the Family Tax Cut

The previously-announced Family Tax Cut rules prevent transferred education-related amounts (Tuition, Education and Textbook Tax Credits) from being included in the Family Tax Cut calculation. This may therefore reduce the value of the Family Tax Cut for couples who transfer education-related amounts between themselves.

Budget 2015 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 Canada Revenue Agency will automatically reassess affected taxpayers for the 2014 taxation year to ensure that they receive any additional benefits to which they are entitled under the Family Tax Cut.

B. Business Income Tax

Small Business Tax Rate

Budget 2015 proposes a 2% decrease in the 11% small business tax rate and to adjust the gross-up factor and dividend tax credit rate (DTC) applicable to non-eligible dividends.

Small Business Tax Rate Reduction and DTC Adjustment for Non-Eligible Dividends

	2015	2016	2017	2018	As of 2019
Small business tax rate (%)	11	10.5	10	9.5	9
Gross-up (%)	18	17	17	16	15
DTC (%)	11	10.5	10	9.5	9

Manufacturing and Processing Machinery and Equipment: Accelerated Capital Cost Allowance (CCA)

Budget 2015 proposes to provide an accelerated CCA rate of 50% on a declining-balance basis for machinery and equipment acquired by a taxpayer after 2015 and before 2026 primarily for use in Canada for the manufacturing and processing of goods for sale or lease. Eligible assets are those that would currently be included in Class 29. These assets will be included in new CCA Class 53.

The "half-year rule", will apply to machinery and equipment eligible for this measure. These assets will be considered "qualified property" for the purpose of the Atlantic Investment Tax Credit.

Agricultural Cooperatives: Deferral of Tax on Patronage Dividends Paid in Shares

Budget 2005 introduced a temporary measure to provide a tax deferral that applies to patronage dividends paid to members by an eligible agricultural cooperative in the form of eligible shares. To be eligible for this tax deferral, a share must be issued after 2005 and before 2016.

Budget 2015 proposes to extend this measure to apply in respect of eligible shares issued before 2021.

Synthetic Equity Arrangements

Certain taxpayers, typically financial institutions, enter into particular financial arrangements (synthetic equity arrangements) where the taxpayer retains the legal ownership of an underlying Canadian share, but all or substantially all of the risk of loss and opportunity for gain or profit in respect of the Canadian share is transferred to a counterparty using an equity derivative.

Budget 2015 proposes to modify the dividend rental arrangement rules to deny the inter-corporate dividend deduction on dividends received by a taxpayer on a Canadian share in respect of which there is a synthetic equity arrangement with certain exceptions.

This measure will apply to dividends that are paid, or become payable, after October 2015.

Tax Avoidance of Corporate Capital Gains (Section 55)

The Income Tax Act contains an anti-avoidance rule that generally taxes as capital gains certain otherwise tax-deductible inter-corporate dividends. This rule typically applies where a corporation that is about to dispose of shares of another corporation receives from that other corporation tax-deductible dividends that in substance reflect the untaxed appreciation in the value of the other corporation. The tax-deductible dividends decrease the fair market value of the shares, or in some cases increase the cost of the shares, to the point where the unrealized capital gain on the shares is reduced.

The anti-avoidance rule generally applies to a dividend where, among other things, one of the purposes of the dividend was to effect a significant reduction in the portion of the capital gain that, but for the dividend, would have been realized on a disposition of any share at its fair market value. Certain exceptions to the application of the anti-avoidance rule are provided. Notably, an exception is provided where the dividend can reasonably be attributed to after-tax earnings (called "safe income on hand"), enabling a corporation to distribute such earnings as a tax-deductible inter-corporate dividend. Another exception allows for dividends received in certain related-party transactions.

A recent decision of the Tax Court of Canada held that the current anti-avoidance rule did not apply in a case where the effect of a dividend in kind was to create an unrealized capital loss on shares.

Budget 2015 proposes an amendment to ensure that the anti-avoidance rule applies where one of the purposes of a dividend is to effect a significant reduction in the fair market value of any share or a significant increase in the total cost of properties of the recipient of the dividend.

As well, changes will address the use of stock dividends (i.e., dividends that consist of additional shares of the same corporation) as a means of impairing the effectiveness of the anti-avoidance rule.

Budget 2015 also proposes that the exception for dividends received in certain related-party transactions be amended so that the exception will apply only to dividends that are received on shares of the capital stock of a corporation as a result of the corporation having redeemed, acquired or cancelled the shares.

This measure will apply to dividends received by a corporation on or after Budget Day.

Small Business Deduction: Consultation on Active vs. Investment Business

Active business income does not include income from a "specified investment business", which is generally a business the principal purpose of which is to derive income from property.

Stakeholders have expressed concern as to the application of these rules in cases such as self-storage facilities and campgrounds.

Budget 2015 announces a review of the circumstances in which income from a business, the principal purpose of which is to earn income from property, should qualify as active business income.

The Government invites interested parties to submit comments by August 31, 2015. Please send your comments to business-entreprise@fin.gc.ca.

Consultation on Eligible Capital Property

Budget 2014 announced a public consultation on the proposal to repeal the eligible capital property regime and replace it with a new capital cost allowance class.

It is the intention of the Government to release detailed draft legislative proposals for stakeholder comment before their inclusion in a bill.

C. International Tax

Withholding for Non-Resident Employers – Regulation 102

Budget 2015 proposes to provide an exception to the withholding requirements for payments by qualifying non-resident employers to qualifying non-resident employees. An employee will be a qualifying non-resident employee in respect of a payment if the employee:

- is exempt from Canadian income tax in respect of the payment because of a tax treaty; and
- is not in Canada for 90 or more days in any 12-month period that includes the time of the payment.

Streamlining Reporting Requirements for Foreign Assets – Form T1135

Budget 2015 proposes to simplify the foreign asset reporting system for taxation years that begin after 2014. Under the revised form being developed by the Canada Revenue Agency (CRA), if the total cost of a taxpayer's specified foreign property is less than $250,000 throughout the year, the taxpayer will be able to report these assets to CRA under a new simplified foreign asset reporting system.

Captive Insurance

Budget 2015 proposes to amend the existing anti-avoidance rule in the Foreign Accrual Property Income (FAPI) regime that relates to the insurance of Canadian risks. This amendment is intended to ensure that profits of a Canadian taxpayer from the insurance of Canadian risks remain taxable in Canada.

This measure will apply to taxation years of taxpayers that begin on or after Budget Day.

Update on Tax Planning by Multinational Enterprises

Members of the Organisation for Economic Co-operation and Development (OECD) and the G-20 are working together on the issues identified in the OECD's Action Plan on Base Erosion and Profit Shifting (BEPS), which was released by the OECD in July 2013.

In Budget 2014, the Canadian Government invited input from stakeholders on issues related to international tax planning in order to inform Canada's participation in these international discussions.

The Canadian Government looks forward to the conclusion of the project and to discussions with the international community on the implementation of its recommendations.

Update on the Automatic Exchange of Information for Tax Purposes

G-20 Leaders committed in 2013 to the automatic exchange of tax information in respect of financial accounts as the new global standard. In November 2014, Canada and the other G-20 countries endorsed a new common reporting standard for automatic information exchange and committed to a first exchange of information by 2017 or 2018. G-20 Finance Ministers committed in February 2015 to work towards completing the necessary legislative procedures within the agreed timeframe.

Under the new standard, foreign tax authorities will provide information to CRA relating to financial accounts in their jurisdictions held by Canadian residents. CRA will, on a reciprocal basis, provide corresponding information to the foreign tax authorities on accounts in Canada held by residents of their jurisdictions.

In order for CRA to obtain the information to be exchanged, the common reporting standard will require financial institutions in Canada to implement due diligence procedures to identify accounts held by non-residents and report certain information relating to these accounts to the Agency.

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

D. Charities

Private Corporation Shares and Real Estate Donations

Budget 2015 proposes to provide an exemption from capital gains tax in respect of certain dispositions of private corporation shares and real estate. The exemption will be available where:

- cash proceeds from the disposition of the private corporation shares or real estate are donated to a qualified donee within 30 days after the 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 to which cash proceeds are donated.

The exempt portion of the capital gain will be determined by reference to the proportion that the cash proceeds donated is of the total proceeds from the disposition of the shares or real estate.

Anti-avoidance rules will ensure that the exemption is not available in circumstances where, within five years after the disposition:

- the donor (or a person not dealing at arm's length with the donor) directly or indirectly reacquires any property that had been sold;
- in the case of shares, the donor (or a person not dealing at arm's length with the donor) acquires shares substituted for the shares that had been sold; or
- in the case of shares, the shares of a corporation that had been sold are redeemed and the donor does not deal at arm's length with the corporation at the time of the redemption.

This measure will apply to donations made in respect of dispositions occurring after 2016.

Investments by Registered Charities in Limited Partnerships

Budget 2015 proposes to amend the Income Tax Act to provide that a registered charity will not be considered to be "carrying on a business" solely because it acquires or holds an interest in a limited partnership. Such a determination is important because it could affect the organization's status as a registered charity.

To ensure that a registered charity's investment in a limited partnership remains a passive investment, the measure will apply only if:

- the charity – together with all non-arm's length entities – holds 20% or less of the interests in the limited partnership; and

- the charity deals at arm's length with each general partner of the limited partnership.

These rules would not apply where a charitable organization or public foundation carries on a related business through a limited partnership.

The excess corporate holdings rules, which place limits on shareholdings by private foundations, will be amended to "look through" limited partnerships.

This measure applies in respect of investments in limited partnerships that are made or acquired on or after Budget Day.

Gifts to Foreign Charitable Foundations

Budget 2015 proposes to amend the Income Tax Act to allow foreign charitable foundations to be registered as qualified donees if they receive a gift from the Government and if they are pursuing activities related to disaster relief or urgent humanitarian aid or are carrying on activities in the national interest of Canada. The Minister of National Revenue may grant qualified donee status to a foreign charitable foundation that meets these conditions.

This measure will apply on Royal Assent to the enacting legislation.

E. Other Tax Measures

Repeated Failure to Report Income Penalty

Budget 2015 proposes to amend the 10% Federal repeated failure to report income penalty to apply in a taxation year only if a taxpayer fails to report at least $500 of income in the year and in any of the three preceding taxation years. The amount of the penalty will equal the lesser of:

- 10% of the amount of unreported income; and
- an amount equal to 50% of the difference between the understatement of tax (or the overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount (e.g., by an employer as employee withholdings).

This measure will apply to the 2015 and subsequent taxation years.

It is uncertain whether the provinces will accept a similar change with respect to the 10% provincial component currently being charged.

Alternative Arguments in Support of Assessments

Budget 2015 proposes that the Income Tax Act be amended to clarify that CRA and the courts may increase or adjust an amount included in an assessment that is under objection or appeal at any time, provided the total amount of the assessment does not increase. Similar amendments are proposed to be made to other Acts.

These measures will apply in respect of appeals instituted after Royal Assent to the enacting legislation.

Information Sharing for the Collection of Non-Tax Debts

CRA collects debts owing to the federal and provincial governments under a number of non-tax programs.

Budget 2015 proposes to permit the sharing of taxpayer information within the Agency in respect of non-tax debts under certain federal and provincial government programs.

This measure will apply on Royal Assent to the enacting legislation.

Quarterly Remitter Category for New Employers

New employers must currently remit on a monthly basis for at least one year, after which time they may be eligible to apply for quarterly remitting if they have an average monthly withholding amount of less than $3,000 and have demonstrated a perfect compliance record over the preceding 12 months.

Budget 2015 proposes to decrease the required frequency of remittances for the smallest new employers by allowing eligible employers to immediately remit on a quarterly basis.

Eligible employers will be new employers with withholdings of less than $1,000 in respect of each month.

Employers will remain eligible for quarterly remitting, as provided under this measure, provided that their required monthly withholding amount remains under $1,000.

This measure will apply in respect of withholding obligations that arise after 2015.

Expanding the Use of Business Numbers

Budget 2015 announces the Government's commitment to undertake the initial planning and preparation required for federal adoption of the Business Number as a Common Business Identifier. In addition, Budget 2015 proposes to give the Minister of Employment and Social Development and the Minister of Labour the authority to collect, use and verify Business Numbers to administer business-facing programs for which they are responsible.

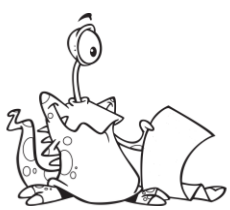
Extending Compassionate Care Benefits

Budget 2015 proposes to provide up to $37 million annually to extend Employment Insurance Compassionate Care Benefits from six weeks to six months.

Aboriginal Tax Policy

To date, the Government of Canada has entered into 35 sales tax arrangements under which Indian Act bands and self-governing Aboriginal groups levy a sales tax within their reserves or their settlement lands. In addition, 14 arrangements respecting personal income taxes are in effect with self-governing Aboriginal groups under which they impose a personal income tax on all residents within their settlement lands.

The Government reiterates its willingness to discuss and put into effect direct taxation arrangements with interested Aboriginal governments.



F. Previously Announced Measures

Budget 2015 confirms the Government's intention to proceed with the following previously announced tax and related measures.

- Legislative proposals released on July 12, 2013, providing new rules to ensure an appropriate income inclusion for stub-year foreign accrual property income on dispositions of foreign affiliate shares.
- Measures announced in Budget 2014 relating to the Goods and Services Tax/Harmonized Sales Tax joint venture election.
- A proposed change announced on December 23, 2014 to the limit on the deduction of tax-exempt allowances paid by employers to employees that use their personal vehicle for business purposes.
- Regulatory proposals released on February 19, 2015, establishing a capital cost allowance rate of 30% for equipment used in natural gas liquefaction and 10% for buildings at a facility that liquefies natural gas.
- Measures announced on March 1, 2015 to support Canadian mining such as extending the 15% Mineral Exploration Tax Credit for investors in flow-through shares for an additional year, until March 31, 2016.
- Measures to make the new Family Caregiver Relief Benefit and Critical Injury Benefit, announced on March 17, 2015 and March 30, 2015, non-taxable to Veterans.

Also, Bill C-57 includes personal income tax measures announced in October, 2014 related to the 2014 Family Tax Cut Credit, child care expense deduction increase of $1,000 for 2015 and later years, the Universal Child Care Benefit $60 per month increase effective January 1, 2015, and the Child Tax Credit repeal effective in 2015.