



2015 Federal Budget

By Jamie Golombek & Debbie Pearl-Weinberg

The April 21, 2015 federal budget (Budget) included a number of tax measures that will impact individuals and small business owners. As per the government assurance that this would be a balanced budget, it includes actions that the government pledged would be taken once a balanced budget was achieved. Rather than summarize every tax measure included in the Budget document, this report, which was prepared from within the Budget lock-up today in Ottawa, will focus on a few of the tax measures that are of most interest to individuals and small business owners.

PERSONAL TAX MEASURES

TFSA Contribution Limit

Doubling of the annual TFSA contribution limit is likely the most anticipated tax measure in the Budget, since the Conservative Party had announced in its 2011 Party Election Platform that it would double the TFSA annual limit to \$10,000 once the federal budget was balanced. The 2015 limit is increasing to \$10,000 (double the original \$5,000 limit); however, the Budget advised that future annual contribution limits will no longer be indexed to inflation and the limit will thus remain at \$10,000 for 2015 and future years.

This is a welcome initiative for all Canadians and will benefit not only high income investors but also lower income Canadians who may find the TFSA a more attractive retirement planning vehicle than an RRSP. The Budget shows that Canadians making under \$80,000 annually were more likely to make the maximum allowable TFSA contribution than higher-income Canadians.

This initiative will go a long way to achieving the government's goal, outlined in its 2008 Budget Plan, to permit "over 90 per cent of Canadians to hold all their financial assets in tax-efficient savings vehicles" within 20 years.

RRIF Minimum Amounts

An RRSP must be converted to a RRIF (or a registered annuity) before the end of the year the annuitant reaches age 71. A RRIF is a tax-sheltered plan that requires you to take out a minimum amount each year. This amount, which varies by age, is prescribed by the *Income Tax Act* and is equal to a percentage of the fair market value of your RRIF assets on January 1st each year. It's this forced withdrawal – whether or not you need the money – that has raised the ire of many seniors who would prefer to leave their retirement nest egg in a tax-sheltered environment as long as possible without being forced to draw down the funds and pay tax before the funds are needed.

The problem is exacerbated when forced RRIF withdrawals cause seniors to lose part (or all) of their Guaranteed Income Supplement (GIS) or Old Age Security (OAS) benefits, since both are clawed back based on your net income, which includes RRIF withdrawals.

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Discussions about this issue have been ongoing for many years.

In 2008, the C. D. Howe Institute published a paper calling on the government to completely abolish required RRIF minimums. The study, titled "*A Better Riff on Retirement: The Case for Lower Minimum Withdrawals from Registered Retirement Income Funds*," noted that in the time since the RRIF factors were last set in 1992, life expectancy has increased while returns on fixed income investments have dropped. The combination of these two factors results in RRIF holders facing a "dramatic erosion in the purchasing power of tax-deferred savings in their later years."

In June 2014, The C.D. Howe Institute renewed its call for lower RRIF minimums in a report titled *Outliving Our Savings: Registered Retirement Income Funds Rules Need a Big Update*.

The Budget has addressed those concerns and will lower the RRIF minimum withdrawal factors that apply to those ages 71 to 94. These factors will now be based on a 5% nominal rate of return (reduced from the 7% rate that is currently being used) and 2% inflation indexing (up from the 1% rate that is currently being used). These are based on assumptions that are more consistent with long-term historical real rates of return and expected inflation. The factors will not change for those younger than 71, where the RRIF minimum is determined by the formula $1/(90 - \text{age})$, or those 95 and older, where the RRIF minimum continues to be 20%.

Example – RRIF Minimum

Shawna turned 71 in 2014 and converted her RRSP to a RRIF by December 31, 2014. In 2015, the first full year of the RRIF, if the opening value of Shawna's RRIF was \$100,000, under the old rules, she would have been required to withdraw a minimum of \$7,380 in 2015. Using the new minimum rates, Shawna will now only be required to withdraw \$5,280 in 2015.

In addition, if you withdraw more than the new minimum amount in 2015, you will be permitted to re-contribute any excess until February 29, 2016, and the amount re-contributed will be tax-deductible in 2015.

Existing and New RRIF Factors

<i>Age (at start of year)</i>	<i>Existing Factor (%)</i>	<i>New Factor (%)</i>
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

Registered Disability Savings Plans (RDSPs)

After RDSPs were originally introduced, a concern arose that adults who would otherwise qualify for an RDSP but lacked capacity to enter into a contract could be denied access to these plans. This is a matter of provincial or territorial responsibility and does not fall under the federal government's regime. A temporary measure was introduced in the 2012 Budget permitting certain family members to become the plan holder in these circumstances. This was to expire at the end of 2016.

Some provinces and territories have introduced streamlined procedures for the appointment of a trusted person in these circumstances to permit the RDSP to be more easily opened. In order to provide the remaining provinces or territories time to address this concern, the 2015 Budget extends this temporary measure to the end of 2018.

Home Accessibility Tax Credit

The Budget introduces a new non-refundable tax credit, beginning in 2016, to assist seniors and those eligible for the disability tax credit with certain home renovations. The tax credit will be equal to 15% of up to \$10,000 of expenses per year towards renovations that permit these individuals to gain access to, or to be more mobile or functional within,

their home, or reduce their risk of harm within their home or from entering their home.

A single expenditure may qualify for both this new tax credit, and the medical expense tax credit, and both may be claimed.

Those entitled to the credit include not only seniors and those eligible for the disability tax credit, but also many people related to such a person.

Examples of expenditures that will qualify for this new tax credit include: the installation of grab bars, wheelchair ramps, and walk-in bathtubs and showers. Some expenses such as those for routine maintenance, household appliances, or those made with the primary intent of improving or maintaining the value of the property will not qualify.

Donating Proceeds from Sale of Appreciated Private Company Shares and Real Estate

Donations to charities, whether made with cash or the transfer of securities "in-kind," result in a charitable donation tax credit for individuals (and a charitable deduction for corporations.) An added tax benefit of donations in-kind of public company securities is that any capital gains realized on the donation are not subject to tax.

The Budget now introduces a measure to provide similar tax relief where the proceeds from the sale of appreciated private company shares or appreciated real estate are donated to a charity. Any capital gain realized on the sale of private company shares or real estate will not be subject to tax so long as they are sold after 2016, the proceeds are donated to a charity within 30 days of the sale, and the shares or real estate are not acquired by someone not dealing at arm's length with either the donor or the charity.

Anti-avoidance rules will require a capital gain inclusion should the shares or real estate be reacquired by the donor within 5 years of the donation.

T1135 Reporting-Foreign Income Verification Statement

If you own foreign investments whose total cost exceeded \$100,000 at any point in the year, you need to complete and file Form T1135 "*Foreign Income Verification Statement*" when you prepare your tax return.

Foreign property that's reportable includes the obvious things like money in a Florida bank account or an Arizona rental property, but also includes foreign stocks, like Apple or Google, that are held in

your Canadian, non-registered brokerage account. It excludes foreign securities held in Canadian mutual funds or inside a registered account like an RRSP, RRIF, TFSA or RESP, and personal use property such as a vacation home.

A revised form requiring more detailed reporting was introduced in 2013, and this form was revised again for 2014. On the form, you are asked to report the types of foreign investments you own, the country in which the assets are located, their maximum cost amount during the year and their cost at year end. Taxpayers are also asked about the income (loss) from those investments along with any gains (or losses) from the disposition of those assets.

An alternate reporting framework is provided on the form for those with accounts held at either Canadian registered securities dealers or Canadian trust companies, where reporting is aggregated per country, and reporting is of fair market values rather than cost amounts.

Despite this, the form has remained very complex and time-consuming for the average taxpayer to complete. Submissions were made by both the Investment Industry Association of Canada and the Chartered Professional Accountants of Canada alerting the Canada Revenue Agency to this issue.

The Budget recognized this burden and, effective for 2015 reporting, a revised T1135 form will be introduced that will provide for a new simplified reporting system where the foreign property held is over \$100,000, but less than \$250,000. The current, more complex reporting requirements will remain in place for taxpayers with foreign assets with a cost of \$250,000 or more.

SMALL BUSINESS TAX MEASURES

Small Business Tax Rate Non-Eligible Dividends

The small business tax rate, which is the tax rate applied to the first \$500,000 of active business income earned by a Canadian-controlled private corporation, is currently 11%. The Budget will reduce this rate to 9% by 2019.

In conjunction with this, however, the effective tax rate on non-eligible dividends, which is generally dividends from corporate income that was originally taxed at the small business tax rate, will increase. Although the gross-up factor for non-eligible dividends (which determines the taxable amount included in income) will decrease, this will be

accomplished by a gradual decrease in the dividend tax credit for non-eligible dividends.

The combined effect of this measure is as follows:

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	17.0	17	16.0	15
DTC (%)	11	10.5	10	9.5	9

Small business owners may wish to discuss with their tax advisors whether it would be beneficial to accelerate dividend payments in 2015 (and years after) to avoid the higher taxation of non-eligible dividends in subsequent years.

Increasing the Lifetime Capital Gains Exemption for Farmers & Fishers

The 2015 Budget proposes to increase the Lifetime Capital Gains Exemption (LCGE) for qualified farm or fishing property to \$1 million from \$813,600. The LCGE will exempt up to \$1 million of capital gains realized on the disposition of qualified farm or fishing property as of April 21, 2015.

There was no change proposed to the LCGE applicable to the disposition of qualified small business shares, which will remain at \$813,600 in 2015, and is indexed to inflation.

Employment Insurance (EI) Premium Relief

The Budget estimates that beginning 2017, the EI employee premium rate will reduce to \$1.49 per \$100 of income from \$1.88, a 21% reduction. This will benefit both employers and employees on EI contributions.

This will occur as a result of the seven-year break-even EI premium rate-setting mechanism. This mechanism is meant to ensure that EI premiums are no higher than needed to fund the EI program.

Quarterly Remitting for New Employers

New employers are currently required to remit source deductions monthly for at least the first year of operations. In subsequent years, they will be able to remit on a quarterly basis if they have an average monthly remittance of less than \$3,000 and have a perfect remittance record for the previous 12 months.

Effective for withholding at source after 2015, new employers with withholdings of less than \$1,000 per month will be permitted to make quarterly remittances. This corresponds to the withholding related to the salary of one employee earning up to \$43,500. This will be a welcome change for new employers and those who employ a caregiver (nanny) for children or an ill person.

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Disclaimer:

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