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RSW
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Personal Income Tax

Tax-Free Savings Account ("TFSA")

The TFSA annual contribution limit will increase to $10,000 starting January 1, 2015 and will no longer be indexed to inflation; the $10,000 applies to the 2015 and subsequent calendar years.

Currently, the maximum amount of contribution to a TFSA is $36,000.

Home Accessibility Tax Credit

The new non-refundable tax credit will provide tax relief of 15 per cent on up to $10,000 of eligible expenditures per calendar year, per qualifying individual, to a maximum of $10,000 per eligible dwelling.

The Home Accessibility Tax Credit will not be reduced by any other tax credits or grants to which a qualifying individual is entitled under other government programs.

The following are the definitions of the above mentioned terms:

Qualifying Individuals

Qualifying Individuals are individuals who are either:

- 65 years of age at the end of the particular tax year)
- eligible for the Disability Tax Credit at any time in a particular taxation year; or a person related to a person
- claimed or could have claimed the spouse or common law partner amount, eligible dependent amount, caregiver amount or infirm dependent amount for an individual who is either 65 or claimed the Disability amount, provided that other conditions are met

Where one or more individuals are considered Qualifying Individuals the total of all amounts claimed by all the Qualifying Individual must not exceed $10,000.

Eligible Dwellings

An eligible dwelling must be the principal residence of the qualifying individual at any time in the taxation year.

For the purposes of the Home Accessibility Tax Credit, a qualifying individual may have only one principal residence at any time, but may have more than one principal residence in a taxation year.

In the case of condominiums and co-operative housing corporations the credit will be available for eligible expenditures incurred to renovate the unit that is the qualifying individual's principal residence as well as for the qualifying individual's share of the cost of eligible expenditures incurred in respect of common areas.

Eligible Expenditures

Eligible Expenditures are those incurred in relation to a renovation or alteration of an eligible dwelling provided that they:

- allow 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.

Minimum Withdrawal Factors for Registered Retirement Income Funds ("RRIF")

The minimum withdrawal factors, for ages 71 to 94, on a RRIF have been changed to permit holders to preserve more of their RRIF savings in order to provide income at older ages. The minimum withdrawal factor will be adjusted on the basis of a five per cent nominal rate of return and two per cent indexing. These assumptions are more consistent with long-term historical real rates of return on a portfolio of investments and expected inflation.

The new RRIF factors will apply for the 2015 and subsequent taxation years.

Existing and New RRIF Factors

Age (at start of year)	Existing Factor	New Factor
	%	%
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

Repeated Failure to Report Income Penalty

Currently, if the CRA determined that a taxpayer fails to report an amount of income in a taxation year and had also failed to report an amount of income in any of the three preceding taxation years, the taxpayer is liable to a penalty equal to 10 per cent of the unreported income for that taxation year.

For 2015 and subsequent taxation years the repeated failure to report income penalty will only apply 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 per cent of the amount of unreported income; and
- an amount equal to 50 per cent of the difference between the understatement of tax and the amount of any tax paid related to the omission.

Transfer of Education Credits – Effect on the Family Tax Cut

The Family Tax Cut, available in the 2014 taxation year, has suppressed the use of certain tax credit transferred from one spouse or common-law partner to the other. Most notable the transfer of education credits were not included in the Family Tax Calculation. As the CRA has noted this deficiency, they will 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.

CRA proposes to automatically reassess affected taxpayers for the 2014 taxation year once the budget has received royal assent.

Business Income Tax

Small Business Tax Rate

The small business deduction reduces to 11 per cent the federal corporate income tax rate applying to the first $500,000 per year of qualifying active business income of a Canadian-controlled private corporation (CCPC).

To compensate a taxable individual receiving dividends for corporate income taxes that are presumed to have been paid on the corporate income that funded those dividends, the tax rules provide a dividend tax credit (DTC). The DTC is generally meant to ensure that income earned by a corporation and paid out to an individual as a dividend will be subject to the same amount of tax as income earned directly by the individual.

To reduce taxes paid by small businesses, the small business tax rate will be reduced by a further 2%, to be implemented as follows:

- effective January 1, 2016, the rate will be reduced to 10.5 per cent;
- effective January 1, 2017, the rate will be reduced to 10 per cent;
- effective January 1, 2018, the rate will be reduced to 9.5 per cent; and
- effective January 1, 2019, the rate will be reduced to 9 per cent.

The reduction in the small business rate will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

In conjunction with the proposed reduction in the small business tax rate, the gross-up factor and dividend tax credit rate applicable to non-eligible dividends will also be adjusted.

The following table shows the changes in the small business tax rate, and the gross-up and dividend tax credit amounts over the next four years.

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

Machinery and equipment acquired by a taxpayer, after March 18, 2007 and before 2016 primarily for use in Canada for the manufacturing or processing of goods for sale or lease, qualifies for a temporary accelerated capital cost allowance (CCA) rate of 50 per cent calculated on a straight-line basis under Class 29 of Schedule II to the *Income Tax Regulations*. These assets would otherwise be included in Class 43 and qualify for a CCA rate of 30 per cent calculated on a declining-balance basis.

The accelerated CCA rate of 50 per cent on a declining-balance basis is extended 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”, which allows half the CCA deduction otherwise available in the taxation year in which an asset is first available for use by a taxpayer, 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.

Quarterly Remitter Category for New Employers

New employers must currently remit source deductions 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.

The smallest of eligible new employers, those with withholdings of less than $1,000 in respect of each month, will be able to immediately remit on quarterly basis Eligibility for quarterly remitting will depend on the employer maintaining a perfect compliance record in respect of its Canadian tax obligations.

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

Lowering the EI Premium Rate in 2017

In 2017, the Government will implement the seven-year break-even EI premium rate-setting mechanism, which will ensure that EI premiums are no higher than needed to pay for the EI program over time. Any cumulative surplus recorded in the EI Operating Account will be returned to employers and employees through lower EI premium rates once the new mechanism takes effect.

This is expected to result in a substantial reduction in the EI premium rate, from $1.88 in 2016 to an estimated $1.49 in 2017, a reduction of 21 per cent.

Synthetic Equity Arrangements

The *Income Tax Act* permits a corporation to deduct, subject to certain exceptions, taxable dividends received in computing its taxable income. This inter-corporate dividend deduction is intended to limit the imposition of multiple levels of corporate taxation on earnings distributed from one corporation to another.

The existing dividend rental arrangement rules are intended to deny the inter-corporate dividend deduction to a shareholder where the main reason for an arrangement is to enable the shareholder to receive a dividend on a share and the economic exposure (expressed as a taxpayer's risk of loss or opportunity for gain or profit) to the share accrues to someone else.

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. On the premise that the dividend rental arrangement rules do not apply, the taxpayer realizes a tax loss on the arrangement by taking advantage of the inter-corporate dividend deduction, resulting in tax-free dividend income, while also deducting the amount of the dividend-equivalent payments.

To protect the Canadian tax base, the dividend rental arrangement rules will be modified 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. A synthetic equity arrangement, in respect of a share owned by a taxpayer, will be considered to exist where the taxpayer (or a person that does not deal at arm's length with the taxpayer) enters into one or more agreements that have the effect of providing to a counterparty all or substantially all of the risk of loss and opportunity for gain or profit in respect of the share.

This measure will not apply to agreements that are traded on a recognized derivatives exchange unless it can reasonably be considered that the taxpayer knows, or ought to know, the identity of the counterparty to the agreement.

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 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.

Where the anti-avoidance rule applies to the dividend received on a share, the dividend is treated as proceeds of disposition if a corporation has disposed of the share, or as a gain from a disposition of capital property where a corporation has not disposed of the share.

The Income Tax Act will be amended 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.

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

International Tax

Withholding for Non-Resident Employers

Canada generally taxes the employment income of non-residents that is earned in Canada. However, a resident of a country that has a tax treaty with Canada is generally exempt from Canadian tax on employment income from a non-resident employer if certain conditions are met. For example, a U.S. resident employee will generally be exempt from Canadian tax if the employee is present in Canada for no more than 183 days in any 12-month period commencing or ending in the relevant calendar year and their employer has no permanent establishment in Canada.

An employer (including a non-resident employer) is generally required to withhold amounts on account of the income tax liability of an employee working in Canada, even if the employee is a non-resident who is expected to be exempt from Canadian tax because of a tax treaty. It may be possible for the employer to obtain an employee-specific waiver

from the Canada Revenue Agency in order to be relieved from its obligation to withhold. However, the existing employee waiver system has been criticized as inefficient because each waiver is granted only in respect of a specific employee and for a specific time period.

In order to reduce the administrative burden of businesses engaged in cross-border trade and commerce, there will be 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.

In order to be a qualifying non-resident employer, an employer (other than a partnership) must be resident in a country with which Canada has a tax treaty. In order for an employer that is a partnership to qualify, at least 90% of the partnership's income for the fiscal period that includes the time of the payment must be allocated to persons that are resident in a treaty country. In all cases, the employer must not carry on business through a Canadian permanent establishment of the employer in its fiscal period that includes the time of the payment and the employer must be certified by the Minister of National Revenue at the time of the payment. Certification may be denied or revoked if the employer does not meet the conditions described above or fails to comply with its Canadian tax obligations.

This measure will apply in respect of payments made after 2015.

Streamlining Reporting Requirements for Foreign Assets

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 $100,000 must file a Foreign Income Verification Statement (Form T1135) with the Canada Revenue Agency. 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, but excludes property used exclusively in carrying on an active business, real estate and other property that is for personal use, as well as shares and indebtedness of a foreign affiliate of the taxpayer. 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 Canada Revenue Agency introduced a revised Form T1135 in 2013. The revised form requires taxpayers to provide more detailed information regarding each specified foreign property. Stakeholders have commented that this approach has resulted in a compliance burden for some taxpayers that may be disproportionate to the amount of their foreign investments.

To reduce the compliance burden on taxpayers while maintaining the Government's commitment to combatting international tax evasion and aggressive tax avoidance, the foreign asset reporting system will be simplified for taxation years that begin after 2014. Under the revised form being developed by the Canada Revenue Agency, 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 the Canada Revenue Agency under a new simplified foreign asset reporting system. 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 $250,000 or more.

Charities

Donations Involving Private Corporation Shares or Real Estate

For donations, occurring after 2016, of a private corporation's shares and real estate to a registered charity, an exemption from capital gains tax in respect of the dispositions of such assets will be provided. The exemption will be available where:

- cash proceeds from the disposition of the private corporation shares or real estate are donated within 30 days after the disposition; and
- the private corporation shares or real estate are sold to an arm's length purchaser

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.

Gifts to Foreign Charitable Foundations
To allow individuals to donate to certain foreign charitable foundations the CRA will increase, on a case by case basis, the definition of a qualified done for the purpose of the donation credit. A foreign charitable foundation will be a qualified donee 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.

Other Measures

Alternative Arguments in Support of Assessments
Due to recent court decisions the CRA will amend the Income Tax Act to clarify that the Canada Revenue Agency 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.

Improving Access to Financing for Canadian Small Businesses
The Canada Small Business Financing Program facilitates the extension of loans by participating private sector financial institutions to small businesses for the acquisition of real property and equipment and for leasehold improvements by sharing the risk with financial institutions.

The *Canada Small Business Financing Act* will be amended to: (1) increase the maximum loan amount for real property from $500,000 to $1 million; and (2) raise the small business eligibility criteria from firms with gross annual revenues of $5 million or less to firms with gross annual revenues of $10 million or less.
In addition, the maximum duration of government coverage for real property loans will increase from 10 to 15 years under the program.

Foreign Credential Recognition Loans
In 2011, the Government introduced the Foreign Credential Recognition Loans project to provide loans to foreign-trained individuals to help cover the costs of the credentialing process. Since then the program has proved that it is meeting a need encountered by newcomers to Canada trying to get jobs in their field. As such, the government will *reallocate up to $35 million over five years, starting in 2015–16, to make the Foreign* Credential Recognition Loans project permanent.

FUTURE PROJECTS

Small Business Deduction: Consultation on Active versus Investment Business
The small business deduction is available on up to $500,000 of active business income of a Canadian-controlled private corporation. The deduction is intended to enhance the deferral of income tax on active business income that is retained in a private corporation, therefore encouraging the reinvestment of after-tax income for further growth.
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. A “specified investment business” does not include a business that has more than five full-time employees, with the result that income earned from such a business is eligible for the small business deduction even though its principal purpose 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.

Consultation on Eligible Capital Property
To reduce the compliance burden for taxpayers, 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.

The Government has heard from a number of stakeholders and continues to receive submissions on the proposal. All representations will be considered in the development of the rules relating to the new capital cost allowance class as well as the transitional rules. It is the intention of the Government to release detailed draft legislative proposals for stakeholder comment before their inclusion in a bill.

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. BEPS refers to legal tax planning arrangements undertaken by multinational enterprises that exploit the interaction between domestic and international tax rules to shift profits away from the countries where income-producing activities take place. In 2014, Canada and the other members of the G-20 welcomed the first seven deliverables under the BEPS Action Plan. G-20 Finance Ministers also welcomed the three BEPS-related items delivered in February 2015.

The Government will proceed in this area in a manner that balances tax integrity and fairness with the competitiveness of Canada's tax system. Improving business tax fairness and competiveness has been a central element of the Government's approach to fostering an environment in which businesses can thrive and compete in a global economy.

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.

Under the new standard, foreign tax authorities will provide information to the Canada Revenue Agency relating to financial accounts in their jurisdictions held by Canadian residents. The Canada Revenue Agency 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. As of the implementation date, financial institutions will be expected to have procedures in place to identify accounts held by residents of any country other than Canada and to report the required information to the Canada Revenue Agency. As the Canada Revenue Agency formalizes exchange arrangements with other jurisdictions, having been satisfied that each jurisdiction has appropriate capacity and safeguards in place, the information will begin to be exchanged on a reciprocal, bilateral basis. Draft legislative proposals will be released for comments in the coming months.