



**“Building a Strong Middle Class”
Federal Budget 2017 Summary and Review
Tabled: March 22, 2017**

Summary

The 2017 Federal budget continues with the Federal Governments plans to build a strong middle class through innovation, skills, partnership and fairness.

The overall theme of the budget continues to be helping the middle class and part of this the Federal Government has noted that it will be further reviewing the use of tax planning strategies involving private corporations that inappropriately reduce personal taxes of high-income earners. The Government intends to release a paper in the coming months setting out the nature of these issues in more detail as well as proposed policy responses.

Forecasted Deficits

As anticipated, the budget projects significant deficits over the next several years.

Projection	Deficit (billions)	Debt (Billions)
2016 – 2017	23.0	637.1
2017 – 2018	28.5	665.5
2018 – 2019	27.4	692.9
2019 – 2020	23.4	716.3
2020 – 2021	21.7	738.1
2021 - 2022	18.8	756.9

Corporate tax Measures

There are no changes to the corporate tax rates or the \$500,000 small business deduction.

Current taxation rates:	General	CCPC	Investment Income
Federal 2017	15%	10.5%	38.7%

Personal tax Measures

There are no changes to the personal tax rates.

Business Measure

Elimination of investment tax credit for childcare spaces – Eliminate the 25% non-refundable investment tax credit for businesses that incur expenditures to build or expand childcare spaces. Credit to be eliminated for any expenditures incurred on or after March 22, 2017.

Elimination of additional deduction for gifts of medicine – Current taxation rules provide for an additional deduction, above the standard charitable donation deduction, to businesses who donate medicine from their inventory to eligible charities. This will be eliminated for gifts made on or after March 22, 2017.

Meaning of de facto “factual” control – Factual control can establish important relationships between companies that must share certain tax preferences (deemed to be associated) – a recent court case has established that factual control must include a legally enforceable right and ability to effect a change to the board of directors or its powers, to exercise influence over the shareholder or shareholders.

Clean Energy Generation Equipment – Geothermal Energy – Expanded CCA classes 43.1 and 43.2 to include these types of equipment.

Investment Fund Mergers – Extend the current mutual fund merger rules – this measure will allow these reorganizations to occur on a tax-deferred basis and will apply to qualifying reorganizations on or after March 22, 2017. Proposed measures will provide parallel rules allowing insurers to merge segregated funds on a tax-deferred basis. Further segregated funds will be able to carry over any non-capital losses that arise in taxation years that begin after 2017.

Elimination of WIP deferral – Eliminate the ability of designated professionals (i.e. accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) to follow “billed-basis” accounting, whereby the recognition of income related to WIP is deferred until the next year the work is billed.

This measure will apply to taxation years that begin on or after March 22, 2017. To mitigate the impact on taxpayers, a transitional period will be provided to allow a short phase in of current WIP into income by allowing a 50% deferral for the first taxation year that begins on or after March 22, 2017.

Insurers of farming and fishing property – Eliminate the tax exemption currently available to insurers of farming and fishing property. This measure will apply to taxation years that begin after 2018.

Timing of gains and losses on derivatives – A new mark to market election to businesses that hold derivative financial instruments on account of income allowing taxpayers to follow mark-to-market reporting of gains/losses on eligible derivative instruments. The election will be available for taxation years beginning on or after March 22, 2017

Changes for Canadian Exploration Expenses – Changes to the treatment of costs incurred for drilling oil and gas discovery wells and certain related preparatory costs. Currently such costs are treated as Canadian Exploration Expenses (CEE) and are deductible in full in the year incurred. The budget proposes to have these costs deductible on a 30% declining balance basis.

Personal tax changes

Canada Caregiver Credit – This credit will replace the existing caregiver credit, infirm dependent credit and family caregiver credit and can be claimed in relation to infirm dependents for the 2017 and subsequent taxation year.

No longer available for non-infirm seniors who reside with their adult children, the dependent will not be required to live with the care-giver.

The new credit will be:

- \$6,883 for infirm dependents who are parents, grandparents, brothers, sisters, aunts, uncles, nieces, nephews, adult children of the caregiver claiming the credit or the caregivers spouse or common law partner.

- \$2,150 for either
 - An infirm dependent spouse or common law partner for whom the individual claims the spouse or common law partner amount,
 - An infirm dependent for whom the individual claims the eligible dependent amount, or
 - An infirm child who is under the age of 18 years.

Where the dependents income is above \$16,163, the new credit will be reduced dollar-for-dollar.

Disability Tax Credit – Current legislation states an eligible medical practitioner must certify that the effects of impairment result in the individual meeting the requirements for the DTC. Proposal includes adding nurse practitioners that can certify the eligibility for the DTC.

Medical Expenses – Clarify the application of the medical expense tax credit, so individuals who require some medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals incurring those costs on account of a medical infertility condition.

As part of this proposal, a taxpayer will be entitled to elect in a year for this measure to apply for any of the immediately 10 preceding taxation years.

Tuition Tax Credit – Extend the eligibility criteria for the tuition tax credit to fees for an individual's tuition paid to a university, college or other post-secondary institution in Canada for occupation skills courses not at the post secondary level.

Public Transit Credit – Effective July 1, 2017, the public transit tax credit is being eliminated.

Home Relocation Loans – Under existing legislation, the taxable benefit associated with a loan from an employer may be reduced to the extent the loan relates to an eligible home relocation. For benefits arising in 2018 and subsequent years – this is being eliminated.

Anti-Avoidance Rules for Registered Plans – A number of anti-avoidance rules exist for registered plans (RRSP, TFSA, RRIF) to ensure such plans do not provide excessive tax advantages beyond their intended objectives. These rules are extending to RESP and RDSP.

Mineral Exploration Tax Credit for Flow-Through Share Investors - Proposals include extending the eligibility for the mineral exploration tax credit for an additional year to flow-through share agreements entered into or on or before March 31, 2018.

Electronic Distribution of T4 Information Slips - Applicable for T4s issued for the 2017 and subsequent taxation years, proposals will allow issuers to distribute T4 information slips electronically to current active employees without express consent.

Ecological Gifts – For transactions or events that occur on or after March 22, 2017, proposals include measure to better protect gifts of ecologically sensitive land. Where ecological gifts are transferred between organizations for consideration, proposals include that the transferee of property will be subject to a tax of 50% of the FMV of the land if the transferee changes the use of the property, or disposes of the property, without consent of Environmental and Climate Change Canada.

Other notables

Innovation

Supporting Canadian innovators – Budget proposes to establish innovation Canada, a new platform that will consolidate and simplify dozens of innovation programs situated across many departments.

Accelerating innovation through superclusters – \$950 million over five years to be provided on a competitive basis in support of a small number of business led innovation superclusters that have the greatest potential to accelerate economic growth. The focus will be on industries such as clean technology, advanced manufacturing, digital technology, health/bio-sciences, clean resources and agri-food, as well as infrastructure and transportation.

Supporting Canadians innovators through venture capital - \$400 million through the Business Development Bank of Canada for new Venture Capital Catalyst Initiative that will increase late-stage venture capital available to entrepreneurs (late-stage venture capital is for young, established businesses with existing sales to help them grow their business)

Canada's clean technology advantage – Government has committed to double its investments in clean energy research, development and demonstration over the next five years. The budget proposes more than \$2.2 billion over the next three years.

Skills Training

Supporting working Canadians - To help more unemployed and underemployed Canadians access the training and employment supports they need to find and keep good jobs in the new economy. The budget sets aside \$2.7 billion over six years through labour market transfer agreements.

Helping Adults return to school – To recognize the challenges faced by adult learners and better help those working hard to join the middle class, the budget expands the eligibility for Canada Student Grants for part time students as well as those with dependent children. \$300 million will be spent to develop a pilot project to test new approaches to make it easier for adults wishing to return to school to access financial assistance.

New skills through employment insurance – To help more unemployed Canadians receiving EI insurance get the training they need to get a better job, the budget will make it more flexible for people receiving EI to return to school for training without losing their EI benefits.

Teaching kids digital coding - \$50 million will be spent over two years to support organizations delivering digital skills training to girls and boys from kindergarten to grade 12.

Infrastructure

To expand on the commitments made in the 2016 budget and fall economic statement, the 2017 budget will:

- Invest in faster, more efficient public transit systems that will help people get to work on time and, at the end of a long day, back home faster to their families
- Help build communities that are cleaner and less reliant on sources of energy that pollute the air, harm the environment and compromise our health.
- Make it easier for hard-working Canadians to find decent, affordable places to live- with affordable childcare and better support as they age.

\$7 billion to support and create more high quality and affordable daycare spaces.

\$11.2 billion in a range of initiatives designed to build, renew and repair Canada's stock of affordable housing.

\$2 billion for rural and northern community development to address issues of road access, internet connectivity and reducing communities dependence on oil.

\$4 billion additional investment to Indigenous communities to improve housing, water treatment systems, health facilities and other community infrastructure.

\$10.1 billion over 11 years to modernize Canada's transportation system, protect our oceans and waterways and address the requirements of existing federally funded transportation assets (rail and ferries)

Canadian Infrastructure Bank – the bank will work with provincial, territorial, municipal, Indigenous, and the private sector and institutional investment partners to transform the way infrastructure is planned, funded and delivered across the country. The Canadian Infrastructure Bank will be responsible for investing at least \$35 billion over 11 years, using loans, loan guarantees and equity investments.