DMC Chartered Professional Accountants Inc.

"Investing in the Middle Class"

Federal Budget 2019 Summary and Review

Tabled: March 19, 2019

Summary

The fourth budget presented by Finance Minister Bill Morneau, and the final budget before the Federal election, continues the theme of supporting the middle class and those working hared to join it.

- Budget 2018 – *Equality and Growth: A strong Middle Class*
- Budget 2017 – *Building a Strong Middle Class*
- Budget 2016 – *Growing the Middle Class*

The pre election budget focuses on measures supporting students, first-time home buyers, retirees and those undertaking job retraining. With no changes to personal or corporate tax rates, and no measures to increase Canada's tax competitiveness, this budget is clearly focused on the Liberal Governments voter base.

Forecasted Deficits

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

Projection	Deficit (billions)
2018 – 2019	14.9 (previously forecasted 18.1)
2019 – 2020	19.8 (previously forecasted 17.5)
2020 – 2021	19.7 (previously forecasted 16.9)
2021 – 2022	14.8 (previously forecasted 13.8)
2022 - 2023	12.1

Current year deficit will be lower than previously forecast, but future year current forecasts are higher than previously forecast. Despite the government's election promise of balanced budgets by the end of 2019, the government is now predicting the country will be back to balanced budgets by the year 2040. It is clear that they are no longer concerned with balanced budgets but are focusing on the overall debt to GDP ratio which currently sits at 30.8% and is expected to decrease to 28.6% by 2023-24

BUSINESS INCOME TAX MEASURES

No change to corporate tax rates

Business investment in zero-emission vehicles

A number of measures were introduced to incentivise the purchase of zero-emission and certain plug-in hybrid vehicles. These include:

- Government investment in charging and refuelling infrastructure
- $300 million allocated to Transport Canada to introduce federal purchase incentive program (details have not been finalised, but expected to be $5,000 purchase incentive)
- Creation of two new CCA classes for zero-emission vehicles, class 54 and 55 with CCA rates of 30% and 40%, and an update to the accelerated depreciation introduced in the fall update to allow for 100% deduction of the capital cost in these two classes in the year of purchase.

Accelerated Capital Cost Allowance

The Government confirmed their intention to proceed with the accelerated capital cost allowance introduced in the fall economic update. The accelerated investment incentive is effective for purchases from November 20, 2018 with a phase out period from 2024 – 2027.

- For manufacturing and processing machinery and equipment and for clean energy equipment, there is a 100% write-off of new additions.
- For all other classes, with some exceptions, the accelerated depreciation is equal to three times the normal depreciation in the initial year.

Scientific Research and Experimental Development Program

Currently, Canadian Controlled Private Corporations (CCPC's) have a $3 million dollar expenditure limit in qualifying SR&ED expenses per year, which is reduced based on the CCPC's annual income and taxable capital. The 2019 budget proposes to eliminate the use of annual income in reducing the $3 million dollar limit.

Small Business Deduction – Farming and Fishing

In 2016, the small business deduction was amended to limit the small business deduction between related companies, by introducing "Specified Corporate Income". Previously, the tax act contained a carve-out for "Specified Cooperative income", whereby sales of farming products and fishing catches to an arms length cooperative corporation, qualified for the small business deduction. The budget proposes to replace the carve-out with a broader carve-out for income of the sale of farming products and fishing catches to an arm's length corporation.

Intergenerational Business Transfers

The Government has stated that it will work with farmers, fishers, and other business owners throughout 2019 to develop new proposals to better accommodate intergenerational transfers of businesses while protecting the fairness of the tax system.

Support for Canadian Journalism

The Government has confirmed the introduction of a new refundable tax credit for qualifying journalism organizations producing original news, which was initially introduced in the fall economic update. The refundable tax credit is 25% of salaries or wages paid to eligible newsroom employees subject to a cap on labour costs of $55,000 per eligible newsroom employee per year.

Definitions of a qualifying journalism organisation, eligible newsroom employee, and a qualified Canadian journalism organization were detailed in the budget.

PERSONAL MEASURES

No change to personal tax rates

Limits on Stock Options for employees of Established Businesses

Currently stock options issued by a company to an employee are considered income when the options are exercised, however, if certain conditions are met the employee can deduct 50% of the benefit deemed to have been realised.

Example: An employee receives stock options in year 1 valued at $10 per share (FMV at time of grant). When the stock options vest and are exercised, the FMV of the stocks is $30 per share resulting in income to the employee of $20. A deduction of 50% is provided to reduce the income to $10, essentially treating the income as a capital gain.

The budget proposes to limit the annual deduction on employee stock options grants that receive the tax preferred treatment to $200,000 based on the FMV of the underlying shares at the time of grant.

Registered Plans Permitting Additional Types of Annuities

Currently annuities purchased in RRIFs, DPSPs (Deferred Profit Sharing Plans), defined benefit PRPPs (Pooled Registered Pension Plans) and defined benefit RPPs (Registered Pension Plans) must commence periodic payments no later than the end of the year in which the annuitant attains 71 years of age. Under the proposed budget, Advanced Life Deferred Annuities (ALDA) will be allowed subject to a limit of 25% of the sum of the value of the property held in the plan, and subject to a $150,000 lifetime ALDA limit for all registered plans.

Defined contribution PRPPs and RPPs, were previously not permitted to hold annuities in the plan. The budget proposes to allow Variable Payment Life Annuities to be held directly in the plan.

Pensionable Service Under an Individual Pension Plan

When pension benefits are transferred on a tax deferred basis, for example from a defined benefit plan to an RRSP or similar, can result in large portion of the commuted value being included as income due to limits imposed on the transfer. Planning previously would be undertaken to circumvent the limits by setting up an IPP in a new corporation controlled by the individual who had terminated employment with their former employee, allowing for a 100% transfer of the commuted value of their old defined benefit plan to the new IPP on a tax-deferred basis. The budget eliminates this option by disallowing benefits that are attributable to employment with a former employer that is not a participating employer.

Home Buyers Plan

Budget proposes an increase to the withdrawal limit from RRSP's for first time homebuyers from $25,000 to $35,000. In addition, it will extend access to the plan for individuals who have experienced a marriage or common-law partnership breakdown, who would otherwise not qualify because they do not meet the first time home buyer requirement.

Medical Expense Tax Credit

The holder of a medical document relating to the use of cannabis for medical reasons, can now claim a medical expense credit related to their cannabis related expenses.

Canada Training Credit

A new refundable tax credit is available for individuals pursuing professional development. Individuals will accumulate $250 per year in a notional account if the person meets certain age, income and residency criteria up to a maximum of $5,000 over their lifetime. No accrual will occur in a year where the individuals income exceeds the top of the third tax bracket ($147,667).

The credit will be for 50% of the cost of eligible fees paid for tuition or examination fees paid to a eligible educational institution (generally universities, colleges, and other educational institutions providing courses in post secondary education).

Tax Measures for Kinship Care Providers

The budget has included measures to ensure payments are not taxable to individuals taking care of related children who require temporary out-of-home care in place of foster or governmental care.

Registered Disability Savings Plan – Cessation of Eligibility for the Disability Tax Credit

Currently when a beneficiary of the RDSP is no longer eligible for the disability tax credit, the tax act requires that the RDSP be closed within a certain time period which can result in repayments of supplemental amounts received from the Government. The budget proposes to remove the time limitations on the period the RDSP can remain open and has waived the need for medical certification that the beneficiary is likely to become eligible for the DTC in a future tax year.

Change of Use Rules for Multi-Unit Residential Properties
Currently when a property, or part of a property, is converted from an income producing property to some other purpose a deemed disposition occurs. Under the existing rules, when the entire property is converted into another use, the individual may elect to defer the capital gain until the property is ultimately sold. Under the new budget proposal, this election is now available for changes in use of parts of the property.

Support for Canadian Journalism: Non-refundable Tax credit for Digital Subscriptions
Initially brought forward in the 2018 fall economic update, a 15% non-refundable tax credit on amounts paid by individuals for eligible digital news subscriptions, subject to a cap of $500 ($75 credit), will be available.

Support for Canadian Journalism: Qualified Donee Status
Initially brought forward in the 2018 fall economic update, registered journalism organizations will be added as a new category of qualified done. Any business activities must be related to their purpose and the organisations are not permitted to distribute their profits, or allow their income to be available, to individuals connected with the organisation.
The names of any donors that make $5,000 or more in donations will be disclosed to the public through the organisations annual return.

SALES AND EXCISE TAX

Cannabis taxation
Currently excise tax is based on a flat rate applied to the quantity by weight. Current classes of cannabis that is legal for sale are: fresh, dried, oil, plant seeds and plants.
In the 2019 budget, additional classes of cannabis were introduces: edibles, extracts, and topicals. These classes will be subject to excise taxes based on the quantity of THC in the product. The proposed tax is $0.01 per milligram of total THC.

OTHER ITEMS OF INTEREST

Shared Equity Mortgage – a first time home buyers who have the minimum down payment for a mortgage and household income less then $120,000, can finance 10% of a new home or 5% of an existing home through a shared equity mortgage through CMHC. This will allow for lower monthly mortgage payments.

Employment Insurance Training Support Benefit – allow individuals who want to obtain more job and skills training to take four weeks off every four years to do so with some living expenses covered.
In addition, a program will be created with the provinces to allow individuals to leave a job to get more skills, and still have a job when they return.

Canada Student Financial Assistance Act – updated so students won't accrue interest on their student loans 6 months after they leave school, and interest rates on student loans will decrease from prime plus 2.5% to the prime rate.

Guaranteed Income Supplement – changes put forward to increase the amount of income that can be earned by a senior before their GIS benefits are clawed back. Currently the limit is $3,500 but will be increased to $5,000 with the next $10,000 in income having a 50% exemption. This result in an annual income of $30,000 a year before full GIS is clawed back up from approximately $20,000.

INTERNATIONAL MEASURES NOT SUMMARIZED