TAX HIGHLIGHTS FROM THE 2019 FEDERAL BUDGET

On March 19, 2019, federal Finance Minister Bill Morneau tabled the Liberal government's highly anticipated budget – the final one before the October 2019 election.

After accounting for Budget 2019 proposals, the budgetary balance is expected to show deficits of $14.9 billion in 2018-2019 and $19.8 billion in 2019-2020. Over the remainder of the forecast horizon, deficits are expected to decline gradually from $19.7 billion in 2020-2021 to $9.8 billion in 2023-2024. The federal debt-to-GDP ratio is also expected to decline every year over the forecast horizon, reaching 28.6% by 2023–2024.

Budgetary revenues are expected to increase by 6.7% in 2018-2019. Over the remainder of the forecast horizon, revenues are projected to grow at an average annual rate of 3.5%, in line with projected growth in nominal GDP.

There were no changes to personal or corporate income tax rates.

The following is a summary of tax changes announced in the budget. Please note that these changes are proposals until passed into law by the federal government.

PERSONAL TAX MATTERS

Personal Income Tax Rates and Tax Brackets

There were no proposed changes to personal income tax rates. For 2019, federal personal income tax rates are as follows:

2019 TAX RATES				
Taxable income range	**Other income**	**Capital gains**	**Eligible dividends**	**Non-eligible dividends**
First $47,630	15.0%	7.5%	0.0%	6.9%
$47,631-$95,259	20.5%	10.3%	7.6%	13.2%
$95,260-$147,667	26.0%	13.0%	15.2%	19.5%
$147,668-$210,371	29.0%	14.5%	19.3%	23.0%
$210,372 and over	33.0%	16.5%	24.8%	27.6%

The table below shows the highest marginal federal tax rates for various types of income in 2019.

Type of income	2019 tax rates
Regular income	33.0%
Capital gains	16.5%
Eligible dividends	24.8%
Non-eligible dividends	27.6%

Canada Training Benefit

Budget 2019 proposes to establish a new Canada Training Benefit consisting of two key components – a **Canada Training Credit** to help with the cost of training fees and an **Employment Insurance (EI) Training Support Benefit** to provide income support.

Canada Training Credit

The new Canada Training Credit is a refundable tax credit for up to half of eligible tuition and fees associated with training. $250 will accumulate each year in a notional account for eligible individuals who:

- file a tax return for the year;
- are at least 25 years old and less than 65 years old at the end of the year;
- are resident in Canada throughout the year;
- have earnings (including income from employment, self-employment and certain employment insurance benefits) of $10,000 or more in the year; and
- have individual net income for the year that does not exceed the top of the third tax bracket for the year ($147,667 in 2019).

Individuals will be able to accumulate up to a maximum amount of $5,000 over a lifetime. Any unused balance will expire at the end of the year in which an individual turns 65.

Tuition and other fees eligible for the Canada Training Credit will generally be the same as under the existing rules for the Tuition Tax Credit. Unlike the Tuition Tax Credit, for purposes of the Canada Training Credit, eligible educational institutions will not include institutions outside of Canada.

This measure will apply to the 2019 and subsequent taxation years (i.e. the accumulation to the notional account will start based on eligibility for the 2019 taxation year and the credit will be available to be claimed for expenses for the 2020 taxation year). Earning and income thresholds will be subject to annual indexation.

Employment Insurance (EI) Training Support Benefit

This benefit is expected to be launched in late 2020. It will be available through the EI program and will provide up to four weeks of income support, every four years. This support will be paid at 55% of a person's average weekly earnings and is designed to help workers cover living expenses, while on training.

Home Buyers' Plan

The home buyers' plan (HBP) allows first-time home buyers to withdraw up to $25,000 from a registered retirement savings plan (RRSP) to purchase or build a home without having to pay tax on the withdrawal.

Budget 2019 proposes to increase the HBP withdrawal limit to $35,000 from $25,000. As a result, a couple will potentially be able to withdraw up to $70,000 from their RRSPs to purchase a first home.

This increase will apply to the 2019 and subsequent calendar years. Budget 2019 also proposes to extend access to the HBP to help Canadians maintain home ownership after the break down of a marriage or common-law partnership.

Employee Stock Options

The current tax rules provide employee stock options with preferential income tax treatment in the form of a stock option deduction that effectively results in the entire benefit being taxed at a rate equal to one-half of the normal rate of personal taxation, the same rate as capital gains.

The budget proposes a $200,000 annual cap on employee stock option grants that may receive tax-preferred treatment for employees of large, long-established, mature firms. For start-ups and growing Canadian businesses, employee stock option benefits would remain uncapped.

Additional details regarding this measure will be released before the summer of 2019. Any changes would apply on a go-forward basis only and would not apply to employee stock options granted prior to the announcement of legislative proposals.

Change in Use Rules for Multi-Unit Residential Properties

The *Income Tax Act* deems a taxpayer to have disposed of, and reacquired, a property when the taxpayer converts the property from an income-producing use (e.g., a rental property) to a personal use (e.g., a residential property) or *vice versa*. Where the use of an entire property is changed, the taxpayer may elect that this deemed disposition not apply. Consequently, the election can provide a deferral of the realization of capital gains until the property is sold in the future. In certain cases, where an election is made, the property can be designated as a taxpayer's principal residence for an additional period of up to four years before or after the period for which the taxpayer could otherwise claim the exemption.

The deemed disposition also occurs when the use of part of a property is changed. However, under the current rules, a taxpayer cannot elect out of the deemed disposition that arises on a partial change in use of a property. Budget 2019 proposes to allow a taxpayer to elect that the deemed disposition that normally arises on a partial change in use of a property not apply. This measure will apply to changes in use of property that occur on or after March 19, 2019.

Additional Types of Annuities Under Registered Plans

The tax rules allow funds from certain registered plans to be used to purchase an annuity to provide income in retirement, subject to conditions.

To provide flexibility in managing retirement savings, Budget 2019 proposes to permit two new types of annuities for certain registered plans:

- **Advanced life deferred annuities** will be permitted under a registered retirement savings plan (RRSP), registered retirement income fund (RRIF), deferred profit-sharing plan (DPSP), pooled registered pension plan (PRPP) and defined contribution registered pension plan (RPP); and

- **Variable payment life annuities** will be permitted under a PRPP and defined contribution RPP.

The measures will apply to the 2020 and subsequent taxation years.

Advanced Life Deferred Annuities

The tax rules generally require an annuity purchased with registered funds to commence by the end of the year in which the annuitant attains 71 years of age. Budget 2019 proposes to amend the tax rules to permit an advanced life deferred annuity (ALDA) to be a qualifying annuity purchase, or a qualified investment, under certain registered plans. An ALDA will be a life annuity in which the commencement may be deferred until the end of the year that the annuitant attains 85 years of age.

An individual will be subject to a lifetime ALDA limit equal to 25% of a specified amount in relation to a particular qualifying plan. The specified amount will equal the sum of:

- the value of all property (other than most annuities, including ALDAs) held in the qualifying plan as at the end of the previous year; and
- any amounts from the qualifying plan used to purchase ALDAs in previous years.

An individual will be subject to a comprehensive lifetime ALDA dollar limit of $150,000 from all qualifying plans. The lifetime ALDA dollar limit will be indexed to inflation for taxation years after 2020, rounded to the nearest $10,000. Additional rules will be included in draft amendments for the measure to be released for public comment.

Variable Payment Life Annuities

Budget 2019 proposes to amend the tax rules to permit PRPPs and defined contribution RPPs to provide a variable payment life annuity (VPLA) to members directly from the plan. A VPLA will provide payments that vary based on the investment performance of the underlying annuities fund and on the mortality experience of VPLA annuitants. Like ALDAs, additional rules will be included in draft amendments for the measure to be released for public comment.

Pensionable Service Under an Individual Pension Plan

Budget 2019 proposes to prohibit Individual Pension Plans (IPPs) from providing retirement benefits in respect of past years of employment that were pensionable service under a defined benefit plan of another employer other than the IPP's participating employer (or its predecessor employer). In addition, any assets transferred from a former employer's defined benefit plan to an IPP that relate to benefits provided in respect of prohibited service will be considered a non-qualifying transfer and required to be included in the income of the member for income tax purposes.

This measure applies to pensionable service credited under an IPP on or after Budget Day.

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

The current rules generally require that a registered disability savings plan (RDSP) be closed within a short time period once the beneficiary of the RDSP is not eligible for the disability tax credit (DTC). The plan holder may elect to keep the RDSP open for an additional four years; however, a medical practitioner must certify that the nature of the beneficiary's condition makes it likely that the beneficiary will, because of the condition, be eligible for the DTC in the foreseeable future.

Budget 2019 proposes to remove the time limitation on the period that a Registered Disability Savings Plan (RDSP) may remain open after a beneficiary becomes ineligible for the DTC. It also proposes to eliminate the requirement for medical certification that the beneficiary is likely to become eligible for the DTC in the future in order for the plan to remain open.

The general rules that currently apply in respect of a period during which an election is valid will continue to apply to the RDSP in any period during which the beneficiary is ineligible for the DTC. If a beneficiary regains eligibility for the DTC, the regular RDSP rules will apply commencing with the year in which the beneficiary becomes eligible for the DTC.

Budget 2019 also proposes to exempt RDSPs from seizure in bankruptcy, with the exception of contributions made in the 12 months before the filing.

This measure will apply after 2020. An RDSP issuer will not be required to close an RDSP on or after Budget Day and before 2021 solely because the RDSP beneficiary is no longer eligible for the DTC.

Carrying on Business in a Tax-Free Savings Account

A TFSA is liable to pay tax on income from a business carried on by the TFSA or from non-qualified investments. Currently, only the trustee of a TFSA (i.e., a financial institution) is jointly and severally liable with the TFSA for the tax.

Budget 2019 proposes that the joint and several liability for tax owing on income from carrying on a business in a TFSA be extended to the TFSA holder.

The joint and several liability of a trustee of a TFSA at any time in respect of business income earned by a TFSA will be limited to the property held in the TFSA at that time plus the amount of all distributions of property from the TFSA on or after the date that the notice of assessment is sent.

This measure will apply to the 2019 and subsequent taxation years.

Tax Measures for Kinship Care Providers

Several provinces and territories offer kinship and close-relationship care programs (referred to as kinship care programs) as alternatives to foster care (or other formal care by the state) for children in need of protection who require out-of-home care on a temporary basis. As part of their kinship care programs, some of these jurisdictions provide financial assistance to care providers to help defray the costs of caring for the child.

A concern has been raised that receipt of financial assistance under a kinship care program could preclude a care provider from being eligible for certain benefits under other programs, such as the Canada Workers Benefit or social assistance payments. Budget 2019 proposes to amend the *Income Tax Act* to clarify that kinship care payments will not impact eligibility for these benefits.

This measure will apply for the 2009 and subsequent taxation years.

CORPORATE TAX MATTERS

Corporate Income Tax Rates

There were no proposed changes to federal corporate income tax rates or the small business limit for 2019.

The table below shows federal tax rates and the small business limit for 2019.

Category	2019 tax rates
General rate	15.0%
Manufacturing & processing rate	15.0%
Small business rate	9.0%
Small business limit	$500,000

Small Business Deduction – Farming and Fishing

Currently, relief from tax rules that are designed to prevent the multiplication of the small business deduction is given to Canadian-controlled private corporations (CCPC) carrying on a farming or fishing business. Currently, certain income of a CCPC's farming or fishing business that arises from sales to a farming or fishing cooperative corporation is excluded from these rules and, as a result, remains eligible for the small business deduction. Budget 2019 proposes to extend that relief to sales of farming products and fishing catches to any arm's length corporation. This measure applies to taxation years that begin after March 21, 2016.

Scientific Research and Experimental Development Program

Budget 2019 proposes to repeal the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced Scientific Research and Experimental Development (SR&ED) program tax credit. As a result, CCPCs with taxable capital of up to $10 million will benefit from unreduced access to the enhanced refundable SR&ED credit regardless of their taxable income. As a CCPC's taxable capital begins to exceed $10 million, this access will gradually be reduced.

Enhanced Deductions for Zero-Emission Vehicles

Budget 2019 proposes to provide a temporary enhanced first-year capital cost allowance (CCA) rate of 100% in respect of eligible zero-emission vehicles.

Budget 2019 also proposes to create two new CCA classes: Class 54 for zero-emission vehicles that would otherwise be included in Class 10 or 10.1 (passenger vehicles) and Class 55 for zero-emission vehicles that would otherwise be included in Class 16 (taxi cabs, vehicles used for short-term renting and heavy trucks). In the case of Class 54, there will be a limit of $55,000 (plus sales taxes) on the amount of CCA deductible in respect of each zero-emission passenger vehicle. This $55,000 limit will be reviewed annually.

Vehicles in respect of which assistance is paid under a new federal purchase incentive announced in Budget 2019 will be ineligible. The incentive will be up to $5,000 for electric or hydrogen fuel-cell vehicles under $45,000.

This measure will apply to eligible zero-emission vehicles acquired on or after Budget Day and that become available for use before 2028, subject to a phase-out for vehicles that become available for use after 2023.

Character Conversion Transactions

In the past, character conversion transactions sought to reduce tax by converting, with the use of derivative contracts, the returns on an investment that would have the character of ordinary income to capital gains.

Rules were introduced in 2013 to treat gains arising from derivative forward agreements as ordinary income rather than as a capital gain. An exception exists under the 2013 rules and Budget 2019 proposes an amendment to modify the existing exception. In general terms, the exception will not apply if the main purpose of a series of transactions involving an agreement to purchase a security in the future is to convert an amount into a capital gain.

This measure will apply to transactions entered into on or after Budget Day. It will also apply after December 2019 to transactions that were entered into before Budget Day, including those that extended or renewed the terms of the agreement on or after Budget Day. This grandfathering will incorporate the same growth limits used under the transitional relief provided under the derivative forward agreement rules introduced in 2013 to ensure that no new money flows into grandfathered transactions on or after Budget Day.

OTHER PROPOSALS

Cannabis Taxation

Currently, all cannabis products (including cannabis oils) are generally subject to an excise duty that is the higher of a flat rate applied on the quantity of cannabis contained in a final product and a percentage of the dutiable amount of the product as sold by the producer (ad valorem rate). Budget 2019 proposes that edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals be subject to excise duties imposed on cannabis licensees at a flat rate, applied on the quantity of total tetrahydrocannabinol (THC), the primary psychoactive compound in cannabis, contained in a final product. The THC-based duty will be imposed at the time of packaging of a product and become payable when it is delivered to a non- cannabis licensee (e.g., a provincial wholesaler, retailer or individual consumer).

Support for Canadian Journalism

Budget 2019 proposes to introduce three new tax measures to support Canadian journalism:

- Allowing journalism organizations to register as qualified donees (as of January 1, 2020);
- A refundable labour tax credit for qualifying journalism organizations (for qualifying labour costs paid on or after January 1, 2019); and
- A non-refundable tax credit for subscriptions to Canadian digital news (in respect of eligible amounts paid after 2019 and before 2025).

Tax Compliance in the Real Estate Sector

Budget 2019 proposes to provide the Canada Revenue Agency with $50 million over five years, starting in 2019–2020, to create four new dedicated residential and commercial real estate audit teams in high-risk regions, notably in British Columbia and Ontario, to ensure that tax provisions regarding real estate are being followed, with a focus on ensuring that:

- Taxpayers report all sales of their principal residence on their tax returns;
- Any capital gain derived from a real estate sale, where the principal residence tax exemption does not apply, is identified as taxable;
- Money made on real estate flipping is reported as income;
- Commissions earned are reported as taxable income; and
- For Goods and Services Tax/Harmonized Sales Tax (GST/HST) purposes, builders of new residential properties remit the appropriate amount of tax to the CRA.

Canada Student Loans – Interest-Free Grace Period

Budget 2019 proposes to amend the *Canada Student Financial Assistance Act*, so that student loans will not accumulate any interest during the six-month non-repayment period (the “grace period”) after a student loan borrower leaves school.

Published: March 19, 2019.

2 Queen Street East, Twentieth Floor, Toronto, Ontario M5C 3G7 | www.ci.com

Head Office / Toronto	Calgary	Montreal	Vancouver	Client Services
416-364-1145	403-205-4396	514-875-0090	604-681-3346	English: 1-800-563-5181
1-800-268-9374	1-800-776-9027	1-800-268-1602	1-800-665-6994	French: 1-800-668-3528