Budget Canada

2015 - 2016

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Individuals

Tax-Free Savings Account

Increase of the contribution limit

Budget 2015 proposes to increase the TFSA annual contribution limit to $**10,000**. This increase will apply as of January 1, 2015, so that a single annual contribution **limit of $10,000 applies to the 2015 and subsequent calendar years**. The TFSA annual contribution limit will no longer be indexed to inflation

Minimum Withdrawal Factors for Registered Retirement Income Funds (RRIF)

Budget 2015 proposes to reduce the RRIF minimum withdrawal factors that apply in respect of ages 71 to 94. There will be no change to the minimum withdrawal factors that apply in respect of ages 70 and under, which will continue to be determined by the 1/(90 – age) formula. The new RRIF factors will apply for the 2015 and subsequent taxation years. The following table shows the existing and proposed new RRIF factors.

Existing and New RRIF Factors

Age (at start of year))	Existing Factor %	New Factor %	Δ
71	7.38	5.28	39,77%
72	7.48	5.40	38,52%
73	7.59	5.53	37,25%
74	7.71	5.67	35,98%
75	7.85	5.82	34,88%
76	7.99	5.98	33,61%
77	8.15	6.17	32,09%
78	8.33	6.36	30,97%
79	8.53	6.58	29,64%
80	8.75	6.82	28,30%
81	8.99	7.08	26,98%
82	9.27	7.38	25,61%
83	9.58	7.71	24,25%
84	9.93	8.08	22,90%
85	10.33	8.51	21,39%
86	10.79	8.99	20,02%
87	11.33	9.55	18,64%
88	11.96	10.21	17,14%
89	12.71	10.99	15,65%
90	13.62	11.92	14,26%
91	14.73	13.06	12,79%
92	16.12	14.49	11,25%
93	17.92	16.34	9,67%
94	20.00	18.79	6,44%
95 & over	20.00	20.00	0,00%

To provide flexibility, RRIF holders who at any time in 2015 withdraw more than the reduced 2015 minimum amount will be permitted to re-contribute the excess (up to the amount of the reduction in the minimum withdrawal amount provided by this measure) to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year. Similar rules will apply to those receiving annual payments from a defined contribution RPP or a PRPP.

Streamlining Reporting Requirements for Foreign Assets (T1135)

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.

To reduce the compliance burden on taxpayers while maintaining the Government's commitment to combating international tax evasion and aggressive tax avoidance, Budget 2015 proposes to simplify the foreign asset reporting system 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.

Repeated Failure to Report Income Penalty

Where a taxpayer fails to report an amount of income in a taxation year and had 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

Budget 2015 proposes to amend the repeated failure to report income penalty to apply in a taxation year only 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 (or the overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount (e.g., by an employer as employee withholdings).

This measure will apply to the 2015 and subsequent taxation years.

Home Accessibility Tax Credit

Budget 2015 proposes to introduce a new Home Accessibility Tax Credit. The proposed non-refundable credit will provide tax relief of 15 per cent on up to $10,000 of eligible expenditures per calendar year, per qualifying individual (individuals who are 65 years of age or older and persons with disabilities), to a maximum of $10,000 per eligible dwelling. Expenses will be eligible for the Home Accessibility Tax Credit if they are made or incurred in relation to a renovation or alteration of an eligible dwelling, provided that the renovation or alteration:

- allow the qualifying individual to gain access to, or to be more mobile or functional within, the dwelling; or
- reduce the risk of harm to the qualifying individual within the dwelling or in gaining access to the dwelling.

Registered Disability Savings Plan – Legal Representation

Budget 2012 introduced a temporary measure to allow a qualifying family member (i.e., a beneficiary's parent, spouse or common-law partner) to become the plan holder of a Registered Disability Savings Plan (RDSP) for an adult individual who may lack the capacity to enter into a contract

A number of adults with disabilities have experienced difficulties in establishing an RDSP because their capacity to enter into a contract was in doubt; Budget 2015 proposes to extend the temporary measure introduced in Budget 2012 to apply to the end of 2018.

Financial Literacy Strategy

In 2015–16, the Government will release a National Strategy to strengthen the financial literacy of Canadians.

In the fall of 2014, under the guidance of the new Financial Literacy Leader, the Government released a strategy to enhance the financial literacy of seniors. Its aim is to help seniors and near-seniors plan for and manage their finances during their later years. A National Strategy, for Canadians of all ages, will be released shortly that builds on this initial step. This Strategy will set out goals and priorities to strengthen the financial literacy of Canadians throughout their lives.

Corporations

Small Business Tax Rate

The small business deduction currently 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 further reduce taxes paid by small businesses, Budget 2015 proposes a two-percentage-point decrease in the 11-per-cent small business tax rate. The reduction will 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.

In conjunction with the proposed reduction in the small business tax rate, Budget 2015 also proposes to adjust the gross-up factor and DTC rate applicable to non eligible dividends (generally dividends distributed from corporate income taxed at the small business tax rate). Specifically, Budget 2015 proposes to adjust the gross-up factor applicable to non-eligible dividends from:

- 18 per cent to 17 per cent effective January 1, 2016,
- 16 per cent effective January 1, 2018
- 15 per cent effective January 1, 2019

The corresponding DTC rate will also be adjusted, moving from:

- 13/18 to 21/29 of the gross-up amount effective January 1, 2016
- 20/29 of the gross up amount effective January 1, 2017
- and 9/13 of the gross-up amount effective January 1, 2019.

Lifetime Capital Gains Exemption for Qualified (LCGE) - Farm or Fishing Property

The income tax system provides an individual with a lifetime tax exemption for capital gains realized on the disposition of qualified small business corporation shares and qualified farm or fishing property. The amount of the Lifetime Capital Gains Exemption is $813,600 in 2015 and is indexed to inflation.

Budget 2015 proposes to increase the Lifetime Capital Gains Exemption to apply to up to $1 million of capital gains realized by an individual on the disposition of qualified farm or fishing property. For taxation years after 2015, the LCGE for qualified farm or fishing property will be maintained at $1 million until the indexed LCGE applicable to capital gains realized on the disposition of qualified small business shares ($813,600 in 2015) exceeds $1 million. At that time, the same LCGE limit, indexed to inflation, will once again apply to the three types of property. This measure will apply to dispositions of qualified farm or fishing property that occur on or after Budget Day.

Agricultural Cooperatives: Deferral of Tax on Patronage Dividends Paid in Shares

Agricultural cooperative corporations play an important role in rural communities. To support the capitalization of these cooperatives, Budget 2005 introduced a temporary measure to provide a tax deferral that applies to patronage dividends paid to members by an eligible agricultural cooperative in the form of eligible shares. The tax deferral measure allows eligible members of eligible agricultural cooperatives to defer the inclusion in income of all or a portion of any patronage dividend received as an eligible share until the disposition (or deemed disposition) of the share.

Currently, to be eligible for this tax deferral, a share must be issued after 2005 and before 2016.

Budget 2015 proposes to extend this measure to apply in respect of eligible shares issued before 2021.

Lowering the EI Premium Rate in 2017

Economic Action Plan 2015 reaffirms the Government's commitment to reducing Employment Insurance premiums for over 16 million Canadians in 2017.

Employment Insurance (EI) provides temporary financial assistance to unemployed Canadians who have lost their job through no fault of their own, while they look for work or upgrade their skills.

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.

This is expected to result in a substantial reduction in the EI premium rate, from $1.88 per $100 of insurable earnings in 2016 to an estimated $1.49 in 2017, a reduction of 21 per cent.

Charities

Donations Involving Private Corporation Shares or Real Estate

Presently, donations to registered Canadian charities and other qualified donees are eligible for a charitable donation tax credit (if the donor is an individual) or deduction (if the donor is a corporation).

In addition, donations of publicly listed securities to qualified donees are exempt from capital gains tax. Donations of ecologically sensitive land and certified cultural property to certain qualified donees are also exempt from capital gains tax.

In contrast, taxable capital gains can arise on donations of private corporation shares or other types of real estate. Budget 2015 proposes to provide an exemption from capital gains tax in respect of certain dispositions of private corporation shares and real estate. The exemption will be available where:

- cash proceeds from the disposition of the private corporation shares or real estate are donated to a qualified donee within 30 days after the disposition; and
- the private corporation shares or real estate are sold to a purchaser that is dealing at arm's length with both the donor and the qualified donee to which cash proceeds are donated.

This measure will apply to donations made in respect of dispositions occurring after 2016.

Investments by Registered Charities in Limited Partnerships

Presently, charitable organizations and public foundations are permitted to engage in business activities to raise revenues, provided that the activities qualify as a related business. A related business includes a business that is linked to a charity's purpose and that is subordinate to that purpose, as well as a business that is run substantially by volunteers. Private foundations are not permitted to engage in any business activities.

Budget 2015 proposes to amend the *Income Tax Act* to provide that a registered charity will not be considered to be carrying on a business solely because it acquires or holds an interest in a limited partnership.

Partnerships are used extensively as investment vehicles to pool funding received by institutional and other large investors in order to invest in private market opportunities. Allowing registered charities to invest in limited partnerships would permit them to access a wider range of investment opportunities and diversify their investment portfolios. Since limited partnerships can also be used to structure social impact investments, allowing registered charities to invest in limited partnerships would also provide them the flexibility to use more innovative approaches to address pressing social and economic needs in Canada.