DICKSON DUSANJ & WIRK

2017 Federal Budget Highlights

The federal government's 2017-2018 budget, tabled on March 22, 2017, has changes that will likely impact you, your family and your business. We have highlighted some of the most significant items to bring to your attention.

We hope you find this information interesting and useful. Feel free to pass this document along to your friends and colleagues.

Should you have any questions relating to how the following will affect you and your family please contact one of the members of our tax group at info@ddwca.com or (250) 220-7311.

Corporate Tax Measures - Highlights

Tax Planning for Private Corporations

The government's review of federal tax expenditures highlighted issues in respect of tax planning strategies available to owners of private corporations. The government feels that these strategies can result in high-income individuals gaining unfair tax advantages not available to other Canadians. As the Budget papers indicate, measures have been put in place over the years to limit the scope of certain types of these arrangements. However, the government is of the opinion that such measures have not always been as effective as desired. Accordingly, the government is further reviewing the use of private corporation tax planning strategies that may reduce the personal tax of high-income earners in a manner considered inappropriate. In particular, the government has identified the following strategies for review:

1. Income sprinkling—causing income that would be taxable to an individual at a high rate to be realized by, and therefore taxed in the hands of, a family member subject to a lower marginal tax rate, commonly achieved through dividends or capital gains
2. Holding of portfolio investments—corporate tax rates on ordinary business income are generally much lower than personal rates; retaining income in a private corporation can therefore facilitate accumulation of a larger pool of funds for investment
3. Conversion of regular income into capital gains—causing income that would normally be paid to the shareholder as salary or dividend to be converted to capital gains, taxed at a significantly lower tax rate

As part of its review of this area, the government will also examine current legislation that may have inappropriate tax consequences in connection with genuine business transactions between family members, including inter-generational transfers of family businesses. In the coming months, a paper will be released that will review these issues in detail and provide proposed policy responses.

We will continue to monitor the proposed changes and keep you informed of their status as these changes could potentially have a significant impact to current and future tax planning strategies.

Corporate Tax Measures - Highlights (continued)

Billed Based Accounting

Members of designated professions (accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) may elect to exclude the value of their work in progress (WIP) in computing their income. Where this election is made, a tax deferral is achieved as the costs associated with the WIP are deducted as incurred whereas the revenue is recognized only when the WIP is actually billed to clients.

The Budget proposes to eliminate the WIP exclusion over a two-year period, effective for taxation years beginning after March 21, 2017. For the first affected taxation year, WIP will be valued at 50 per cent of the lesser of its cost and fair market value and must be recognized for tax purposes and not excluded from income. For subsequent years, WIP, valued at the lesser of its cost and fair market value, must be recognized for tax purposes and cannot be excluded from income.

These provisions will require a determination of the cost of the WIP, which may not be readily available.

Distribution of T4 Slips

Effective for 2017, employers will not be required to obtain express consent from employees to electronically distribute T4s (Statement of Remuneration Paid). Privacy policy safeguards specified by the Minister of National Revenue will be required to be in place before an employer can electronically distribute T4s without employee consent.

Meaning of Factual Control

There are two main definitions of control for tax purposes — de jure or legal control and de facto or factual control. Some provisions rely on de jure control whereas others rely on de facto control.

De facto control is broader than legal control and takes into account influence which, if exercised, would result in control in fact of a corporation. It is particularly relevant for purposes of determining whether or not corporations are associated and therefore required to share the annual $500,000 small business deduction limit and certain other limits.

Recent jurisprudence essentially restricted control in fact to circumstances where the potential controller has an enforceable right to change the board of directors or its powers or can exercise influence over shareholders who have the right and ability to make such changes. The Budget proposes to effectively override the case law.

For taxation years beginning after March 21, 2017, all factors relevant in the particular situation, not just those that meet the criteria set out in the recent jurisprudence, shall be included in assessing whether or not de facto control is present.

Clean Energy Generation Equipment

Capital cost allowance (CCA) classes 43.1 and 43.2 provide for accelerated CCA on clean energy generation equipment. The Budget expands the assets qualifying for these classes to include geothermal energy equipment used primarily for the purpose of generating heat or a combination of heat and electricity and certain equipment in district energy systems that use geothermal heating as an energy source.

Canadian renewable and conservation expenses may be deducted in the year incurred, carried forward indefinitely for use in future years or transferred to investors through a flow-through share mechanism. The Budget proposes to include expenses incurred to determine the quality and extent of geothermal resources and the cost of geothermal drilling for electricity and heating projects in this category.

The measures are applicable for new property acquired for use and expenses incurred after March 21, 2017.

Personal Tax Measures - Highlights

Capital Gain Inclusion Rate and Employee Stock Option Deduction - Remained Unchanged

The Budget did not propose a number of changes that were the subject of heavy speculation. In particular, the capital gains inclusion rate will not increase and remains at 50 percent. A dollar limit is not imposed on the employee stock option deduction and thus it will continue to be calculated as half the stock option benefit amount.

Tuition Tax Credit

Effective January 1, 2017, the Budget proposes to expand the types of courses that are eligible for the Tuition Tax Credit.

The Tuition Tax Credit can currently be claimed with respect to occupational skills courses taken at a non-post-secondary institution. In contrast, the credit cannot be claimed for similar non-post-secondary level courses taken at a college or university.

The Budget proposes to allow the Tuition Tax Credit to be claimed in the latter instance and, further, to allow the scholarship exemption for bursaries related to such courses, provided that all other conditions for the exemption are met.

Simplifying the Caregiver Credit System

The existing Caregiver Credit, Infirm Dependent Credit and Family Caregiver Tax Credit each have different eligibility rules. The Budget proposes to simplify these existing credits by replacing them with a single new, non-refundable credit, the Canada Caregiver Credit. This credit will provide tax relief of up to 15 per cent of $6,883 (in 2017) for expenses for care of dependent relatives with infirmities, and up to 15 per cent of $2,150 (in 2017) for expenses for care of a dependent spouse/common-law partner or minor child with an infirmity.

There is no requirement for the dependent to live with the caregiver to claim the credit.

This new credit will start to be reduced when the dependent’s net income is above $16,163 (in 2017, indexed to inflation for taxation years after 2017).

Disability Tax Credit — Certification by Nurse Practitioners

The Budget proposes to allow nurse practitioners to certify impairments for purposes of the Disability Tax Credit. This measure will be effective for certifications made after March 21, 2017.

Medical Expense Tax Credit — Fertility-Related Expenses

For the 2017 taxation year and beyond, the Budget proposes to clarify the types of fertility-related expenses that are eligible for the Medical Expense Tax Credit. In particular, persons who require medical intervention to conceive, even if not infertile, will explicitly be allowed to claim the credit for expenses that would generally be eligible for someone who has an infertility condition.

Mineral Exploration Tax Credit for Flow-Through Share Investors

Eligibility for the Mineral Exploration Tax Credit is proposed to be extended for one year under the Budget. The credit will apply to flow-through share agreements entered into on or before March 31, 2018.

Public Transit Tax Credit

The Public Transit Credit is proposed to be eliminated under the Budget for transit use after June 30, 2017.

Home Relocation Loans Deduction

The Budget proposes to eliminate the home relocation loans deduction for benefits realized on January 1, 2018, and beyond. Accordingly, an individual who receives a loan from their employer that qualifies as an eligible home relocation loan will no longer be entitled to offset any imputed interest benefit in the 2018 taxation year and beyond.