TD Wealth

Federal Budget 2017:

Prudent Prologue

While the federal government waits to see what will happen south of the 49th parallel, it has brought down a cautious, prudent budget. With regard to tax measures affecting investment and personal income tax, Ottawa has decided to hold tight. For example, despite all the ink shed on a potential hike of the capital gains inclusion rate and strategies for dealing with an increase, the federal government has held off for the time being.

The biggest target on the personal taxation side of the ledger is taxpayers with private corporations. As described below, using them simply as income-splitting tools is on Ottawa's radar.

Private corporations under scrutiny

A review of federal tax expenditures in the summer of 2016 highlighted issues regarding private corporations used by individuals for tax planning.

For example, private corporations can be used to split income with family members, who are often subject to lower personal tax rates.

It is also possible to use a private corporation to take advantage of planning resulting in converting regular income into capital gains. Presently only one-half of capital gains are included as income for tax purposes, which often results in a lower tax rate than receiving income in the form of dividends or regular income.

In Budget 2017, the government states that in the coming months it intends to review tax planning strategies that "inappropriately reduce personal taxes of high income earners". In addressing these issues, the government seeks to ensure that private corporations which actively invest in their business and create economic growth will continue to benefit from a competitive tax system.

If you own a private corporation, talk to your TD Advisor about ways to effectively invest the income. Review your tax planning strategies with your tax advisor to help ensure your company is compliant with the new rules.

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Canada Savings Bonds

The post-war Canada Savings Bond (CSB) Program is being phased out. Since reaching its peak in the late 1980s, the CSB program has declined to less than 1% (about $5 billion) of total federal market debt. It's no longer a cost-effective way for Ottawa to source funds, and it has lost its position among Canadians as a safe and easily accessible investment option. CSB sales will be discontinued in 2017, but all outstanding retail debt will be honoured.

Talk to your TD Advisor about what to do with any CSBs you own, and possible alternative investments as you review your overall asset allocation.

Strengthening the Ecogift Program

The ecological gifts program provides a way for Canadians who own ecologically sensitive land to contribute to the protection of Canada's environment. The "ecogift" program is administered by Environment and Climate Change Canada (ECCC). In the 2017 Budget Ottawa is proposing a number of measures to ensure protection of such gifts of land:

- If the transferee of the property changes the use of the property or disposes of it without the consent of the ECCC, it shall be subject to a 50% tax.
- The ECCC will have the ability to determine whether proposed changes to the use of land would degrade conservation protection.
- The ECCC will have the ability to approve ecogift recipients on a gift-by-gift basis.
- As the directors of private foundations are generally not at arm's length from each other, ecogifts can give rise to conflicts of interest. To prevent conflicts of interest, Budget 2017 is proposing that private foundations no longer be able to receive ecogifts.

These measures will apply to transactions occurring on or after March 22, 2017.

Do you have ecologically sensitive land that you intend to donate? You can ensure the transferee understands the implications of the new federal rules on your gift.

New "Canada Caregiver Credit"

The federal government is proposing a new "Canada Caregiver Credit" that will replace the existing Caregiver Credit, Infirm Dependant Credit and Family Caregiver Credit. This single, new, non-refundable credit will provide tax relief in the amount of:

- $6,883 (in 2017) with respect to expenses for care of dependent relatives with infirmities (including people with disabilities) – parents, brothers, sisters, adult children and other specific relatives.
- $2,150 (in 2017) with respect to expenses for care of a dependent spouse/common-law partner or minor child with an infirmity (including a disability).

The previous credits had varying eligibility rules, maximum amounts and income phase-outs. It's expected that the new credit will extend tax relief to more caregivers, particularly those providing care to relatives that do not live with their caregivers.

The new credit will start to be reduced when the dependent person's net income is above $16,163 (in 2017). Going forward the income threshold and the amount of the credit will be indexed to inflation.

Does your family benefit from one of the caregiver credits that Ottawa is eliminating? How will the new credit work within your overall financial plan? Talk to your TD Advisor.

Expanding some tax credits – eliminating others

Ottawa proposes to extend the Tuition Tax Credit to students taking occupational skills courses at a post-secondary institution. This change is to take effect as of the 2017 tax year.

Budget 2017 is proposing to clarify the application of the Medical Expense Tax Credit to individuals who require medical intervention in order to conceive a child. This measure will apply to the 2017 tax year and subsequent tax years.

Meanwhile Ottawa is eliminating several tax measures which it has deemed inefficient. They include:

The Public Transit Tax Credit, effective as of transit use occurring after June 30, 2017. Budget 2017 states the credit has not been effective in encouraging use of public transit or reducing greenhouse gas emissions.

The 25% Investment Tax Credit for Child Care Spaces. Budget 2017 says there has been very low uptake of this credit and it has not been effective in increasing the number of childcare spaces by employers. However, the Budget proposes to invest an additional $7 billion over the next 10 years, beginning in 2018-19 to create affordable child care spaces across Canada.

The first-time donor super credit will be allowed to expire. Budget 2017 states that it has not encouraged charitable donations as previously anticipated and other tax measures aimed at encouraging giving are sufficient.

The deduction for employee home relocation loans will be eliminated. Ottawa says this benefit disproportionately benefits wealthier Canadians and does little to help the middle class or Canadians working hard to improve their lives.

Closing tax loopholes

The 2017 Budget proposes several measures to close tax loopholes. They include:

- Extend anti-avoidance rules similar to the one applied to Registered Retirement Savings Plans and Tax-Free Savings Accounts to Registered Education Savings Plans and Registered Disability Savings Plans. These rules include the "prohibited investment rules", which generally ensure that investments held by a registered plan are arm's length portfolio investments, and the non-qualified investment rules, which restrict the classes of investments that may be held by a registered plan. Meanwhile, the federal government recognizes these proposals "are not expected to have an impact" on most RESP and RDSP holders, who usually invest in ordinary portfolio investments.
- Prevent the avoidance or deferral of tax through the use of offsetting derivative positions in "straddle transactions". In simple form, a straddle is a transaction in which a taxpayer concurrently holds two or more derivative positions, expected to generate equal, offsetting gains and losses. The Budget proposes to introduce a "stop-loss" rule that will defer the realization of any loss on the disposition of a position to the extent of any unrealized gain on an offsetting transaction.
- In the past there was uncertainty around whether taxpayers could mark to market their derivatives held on income account under the general principles of profit computation. To provide a clear framework for exercising the choice of using the mark-to-market method and ensure it does not lead to tax avoidance, the 2017 Budget proposes to introduce an election for choosing this method. Once made, the election will remain effective for all subsequent tax years, unless it is revoked with the consent of the Minister of National Revenue.

Have you engaged in any of these strategies? Speak with your TD Advisor about any necessary changes to your approach.

Strengthening tax enforcement

The Budget proposes to strengthen the Canada Revenue Agency's (CRA) ability to combat tax evasion and avoidance by:

- Increasing verification activities
- Hiring more auditors and specialists with a focus on the underground economy
- Improving the quality of investigative work

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