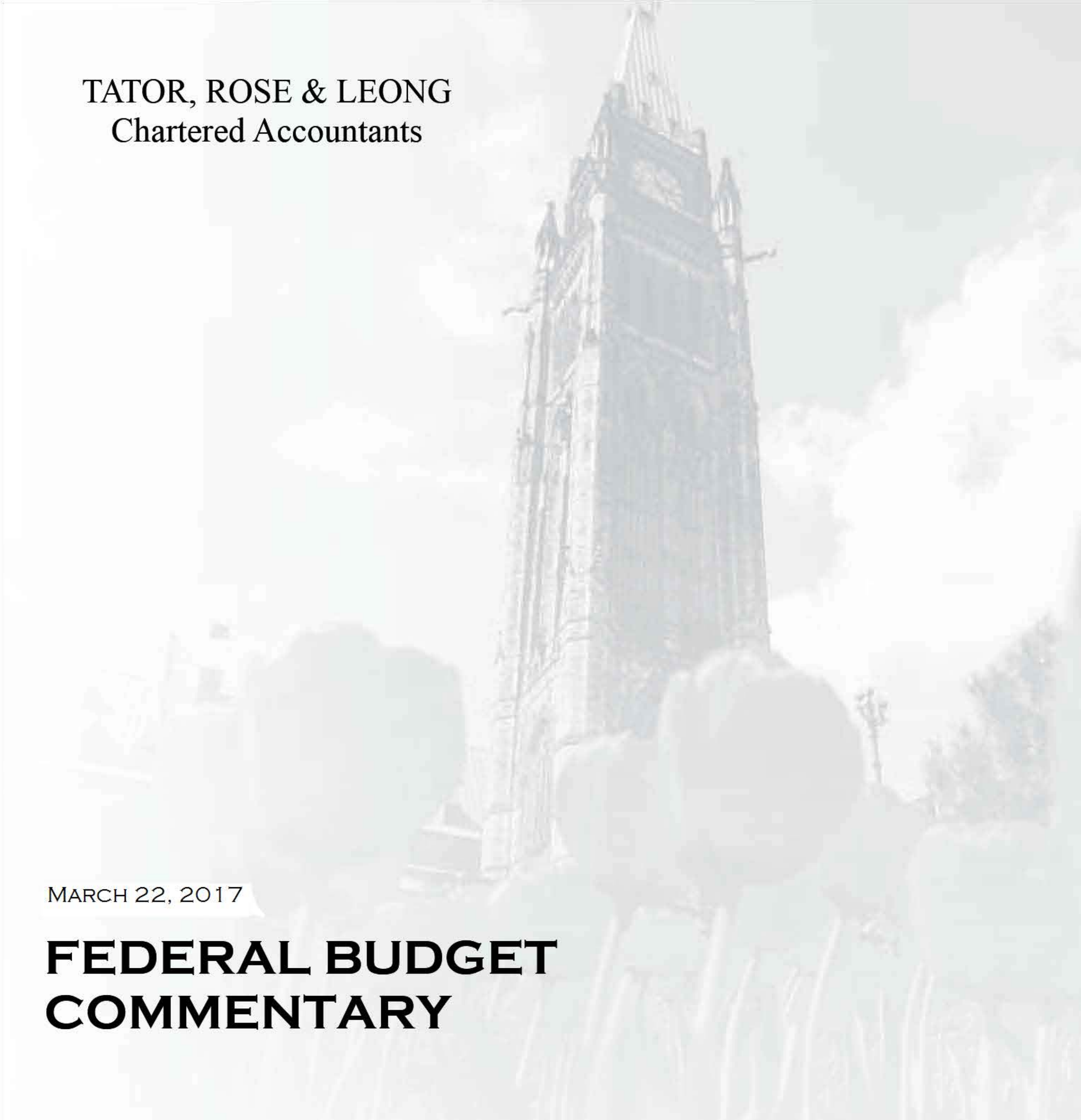
TATOR, ROSE & LEONG
Chartered Accountants



MARCH 22, 2017

FEDERAL BUDGET COMMENTARY

2017

BUDGET COMMENTARY

On March 22, 2017 Bill Morneau tabled his second budget as Finance Minister entitled “Building a Strong Middle Class”. The budget forecasts a deficit of $23 billion for 2017, a $6.4 billion decrease from the $29.4 billion deficit projected a year ago, a $28.5 billion deficit for 2018 and a $27.4 billion deficit for 2019. The deficit is projected to reduce to $18.8 billion by 2022.

The minister indicated that the $6.4 billion decrease in the forecasted deficit for 2017 can be attributed to the increase in corporate income tax revenue and a reduction in public debt charges. Although the projected deficits for 2018 through 2022 are higher than projected a year ago, the debt measured in relation to the size of the economy, the federal debt is expected to remain at approximately the same level as a percentage of the gross domestic product over the forecasted period.

In his budget speech Mr. Morneau indicated that “In the past seven months, the Canadian economy has created a quarter of a million new jobs – the largest seven months of job gains in Canada in over a decade. In addition, the unemployment rate has fallen in the time since we took office.”

Although the budget does not include any changes to the individual and corporate income tax rates or tax brackets, there were some personal tax credit proposals, including the elimination of the public transit tax credit and the creation of the new Canada caregiver credit, and some specific measures relating to individuals and businesses.

Keeping in line with the 2016 federal budget, the minister outlined plans for government investments in innovation and skill training, including $950 million over five years to support a small number of business led innovation clusters and $400 million over five years to support certain clean technology.

Other budget measures announced, which will be discussed in more detail on the following pages, include:

- introduction of the new Canada caregiver credit which will replace the family caregiver tax credit;
- elimination of the public transit tax credit after June 30, 2017;
- tuition tax credit eligibility for occupational skill courses that are not at the post-secondary level;
- new medical practitioner who can complete disability tax credit certificates;
- government’s future review of private corporations that income split with family members of the shareholders;
- elimination of the billed based accounting practices for some designated professionals including dentists, lawyers, medical practitioners, veterinarians and accountants;

In contrast to the Liberal’s inaugural budget of a year ago, this budget does not contain many significant tax rate changes but on the other hand is still focused on increasing infrastructure spending and closing perceived tax loopholes for taxpayers near or at the highest tax bracket.

In closing, this budget could be categorized as a “Stay the Course” budget that does not contain any major surprises or significant changes in the government’s economic or fiscal policies.

PERSONAL TAX CHANGES

Personal tax rates

There are no individual income tax rate or tax bracket changes proposed in this budget.

However, the budget does include the following changes to personal tax credits and other measures, as follows:

Caregiver credits

The budget introduces a new 15% non-refundable Canada Caregiver Credit that replaces the existing caregiver credit, infirm dependant credit and the family caregiver tax credit. The amount that may be claimed under the new credit is consistent with the amount that can be claimed under the current caregiver credit and family caregiver tax credit. This new credit provides that $6,883 may be claimed for the care of an infirm dependant relative and $2,150 for certain other situations.

The credit will be reduced dollar-for-dollar by the dependent's net income above $16,163. The caregiver will not be required to live with the dependant to claim the new credit, and the credit will not be available where non-infirm seniors reside with their adult children.

The new credit applies for the 2017 and subsequent taxation years.

Public transit tax credit

The budget proposes to eliminate the public transit tax credit, effective July 1, 2017, such that the cost of public transit passes and electronic fare cards for public transit use after June 2017 will no longer be eligible for the credit.

Tuition tax credit for occupational skills course

The budget extends the eligibility criteria for the 15% tuition tax credit to amounts paid for tuition to a post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level.

This measure will apply to the 2017 and subsequent taxation years.

Disability tax credit

The budget proposes to add certain registered nurse practitioners to the list of medical practitioners that can certify eligibility for the disability tax credit.

This measure applies to disability tax credit certification made on or after March 22, 2017.

First-time donor's super tax credit

The budget confirms that the first-time donor's tax credit will expire, as planned, after 2017.

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PERSONAL TAX CHANGES (CONTINUED)

Medical expense tax credit – Eligible expenditures

The budget proposes to clarify the application of the medical expense tax credit so that individuals who incur costs related to the use of reproductive technologies (in-vitro fertilization), but do not have a medical infertility condition, are eligible to claim the credit.

This measure applies to the 2017 and subsequent taxation years. However, an individual may elect in a year for this measure to apply for any of the immediately preceding 10 taxation years.

BUSINESS TAX CHANGES

Corporate tax rates

There are no changes to the corporate income tax rates or to the $500,000 small-business income limit for a Canadian-controlled private corporation (CCPC).

However, the budget does include the following business tax proposals:

Review of tax planning using private companies

Although the budget does not include any specific measures that will impact the taxation of private companies and their shareholders, the budget states that the government will review the use of tax planning strategies involving private companies that in its view inappropriately reduce the personal tax liability of high-income earners. The tax planning strategies that are cited in the budget as offensive planning includes income splitting arrangements through private companies to use the lower personal tax rates of other family members who are shareholders of the company, earning investment income within a private corporation and converting investment income to capital gains that are taxed at a lower effective rate.

The budget states that the government will be releasing a paper in the coming months setting out the nature of these issues in more detail as well as proposed policy responses.

Billed-basis accounting

Certain professionals (i.e. accountants, dentists, lawyers, medical practitioners) may elect under the current income tax rules to have a deduction for expenses as incurred and the reporting of revenue only when amounts are billed to clients/patients. This allows for a deferral of tax by permitting the costs associated with work in progress (WIP) to be expensed without the matching inclusion of the related income.

The budget eliminates the ability to elect to use billed-basis accounting. Transitional relief is provided. For tax years that commence after March 22, 2017, a deduction for WIP will be available for 50% of the lesser of cost and fair market value of the unbilled WIP. In subsequent years, no deduction will be available for unbilled WIP. As a result, for practices that have a calendar tax year, 50% of the WIP will be included as income in 2018 and starting in 2019, the entire amount of unbilled WIP will be included as income.

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INDIRECT TAX AND CUSTOMS CHANGES

Ride-sharing services

The budget proposes to require providers of ride-sharing services to register and collect GST/HST on their fares regardless on the annual revenue they earn. To date, drivers for ride-sharing services were not required to be registered or collect GST/HST on their fares if the annual revenue is less than $30,000.

This measure will be effective as of July 1, 2017.

ADMINISTRATIVE AND OTHER CHANGES

Employment Insurance benefits expanded

The budget expands employment insurance (EI) benefit by creating a new EI caregiving benefit up to 15 weeks, giving parents a flexibility to choose to receive EI parental benefits over an extended period of 18 months at a lower benefit rate and allowing women to claim EI maternity benefits up to 12 weeks before their due date (from the current 8 weeks).

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Tator, Rose & Leong
Chartered Accountants
160 Eglinton Avenue East, #603
Toronto, Ontario
M4P 3B5
(416) 924-1404
email@tarole.ca
www.tarole.ca