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**FEDERAL BUDGET  
COMMENTARY**

**2019**

## **BUDGET COMMENTARY**

Titled “Investing in the Middle Class” federal Finance Minister Bill Morneau tabled his fourth budget in the House of Commons on March 19, 2019. The budget forecasts a deficit of \$14.9 billion for 2019, a \$3.2 billion decrease compared to what was forecasted in the 2018 federal budget, a \$19.8 billion deficit for 2020 and for 2021 the budget projects a deficit of \$19.7 billion.

In the budget speech the Minister stated “Compared to where we were just a few years ago, our economy is doing very well. Since November 2015, hard-working Canadians have created more than 900,000 new jobs—most of them full-time. In the last year alone, of all the new jobs created, more than half—54 per cent—went to Canada’s talented, hard-working, ambitious women.”

In addition, he stated that in October 2018 the International Monetary Fund indicated that Canada’s total government net debt to GDP ratio is the lowest of any G7 country.

Consistent with Mr. Morneau’s previous budgets the budget focused on economic growth, job creation, income equality, clean energy and a national pharmacare initiative. In addition, changes were made to assist new home buyers, provide refundable tax credit incentives for qualifying news organizations and to implement a \$200,000 limited access to the employee stock option deduction in certain situations.

Although the budget does not include any changes to the individual and corporate income tax rates or tax brackets, the budget confirmed the previously announced reduction to the corporate small business tax rate from 10% to 9% in 2019.

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

- the RRSP home buyer’s plan withdrawal limit has been increased by \$10,000 to \$35,000;
- introduction of a non-refundable tax credit for digital subscriptions to a qualified Canadian journalism organization;
- owners of multi unit rental residences now have access to an election to defer the capital gain when there is a partial change in use of the property;
- introduction of the new Canada Training Credit;
- gifts of cultural property no longer have to meet the definition of “national importance” to qualify for the enhanced tax incentives;
- 100% business deduction for zero emission vehicle purchases;
- adjustment to the scientific research & experimental development tax credit calculation;
- improved application of GST/HST relating to a number of health care services;
- relaxed rules relating to the conversion of registered disability savings plans;
- introduction of a new advanced life deferred annuity (ALDA) which will defer income until the annuitant turns 85;

## **BUDGET COMMENTARY (CONTINUED)**

As this is a pre-election budget, it includes some tax measures that will benefit Canadian taxpayers such as the increased RRSP home buyer's plan withdrawal limit and the new Canada training credit but overall this budget contains no 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:

#### **Employee stock options**

Currently, where a stock option is granted to an employee of a public company and the exercise price is equal to the value of the shares at the time the option is granted, the employee is subject to income tax, at the time the option is exercised, on 50% of the difference between the fair market value of the stock at the time the option is exercised and the option price.

Although, the budget proposes that there would be no changes made to the stock option provisions for start-ups and rapidly growing Canadian businesses, the budget proposes to apply a \$200,000 annual cap on employee stock option grants that may receive the current tax-preferred treatment for employees of "large, long-established, mature firms". The cap is based on the fair market value of the underlying shares at the time that the option is granted.

The proposed changes will result in only a portion of the stock option may be eligible for the current tax-preferred treatment, the remaining stock options would be fully taxed.

The budget states that Finance will release further details before the summer of 2019. Any changes would apply on a go-forward basis and would not apply to employee stock options granted before the announcement of the legislative proposals.

#### **RRSP Home Buyer's Plan**

The budget proposes to increase the Home Buyer's Plan withdrawal limit to \$35,000 (from \$25,000). This increase in the withdrawal limit will apply to the 2019 and subsequent calendar years for withdrawals made after March 19, 2019.

The budget also extends access to the Home Buyer's Plan after the breakdown of a marriage or common-law partnership, effective for withdrawals made after 2019.

## **PERSONAL TAX CHANGES (CONTINUED)**

### **Non-refundable tax credit for digital subscriptions**

The budget proposes a 15% non-refundable tax credit on amounts paid by individuals for eligible digital news subscriptions, subject to a cap on \$500 annually. The credit will apply to amounts paid after 2019 and before 2025.

### **Change of use rules for multi-unit residential properties**

The budget allows a taxpayer to elect that the deemed disposition that normally arises on a change in use of part of a property not apply. As a result, a taxpayer who owns a multi-unit residential property (e.g., a duplex), and either starts renting or moves into one of the units will now be able to elect out of the deemed disposition that arises on a change-in-use of part of a property. This measure will apply to changes in use of property that occur on or after March 19, 2019.

### **Canada Training Credit**

The budget introduces the Canada Training Credit, a refundable tax credit. This credit allows eligible individuals to accumulate \$250 each year in a notional account which can be used to cover the training cost.

To accumulate the \$250 each year, a Canadian resident individual (who is between 25 and 64 years of age at the end of the year) must file a tax return, have working-type earnings in excess of \$10,000 and have net income that does not exceed the top of the third tax bracket (2019 - \$147,667). The maximum accumulation over a lifetime will be \$5,000, which will expire at the end of the year in which the individual turns 65.

Individuals can claim a tax credit that is equal to the lesser of half of the eligible tuition and fees paid for the taxation year and the individual's notional account balance for the taxation year.

This measure will apply to the 2019 and subsequent taxation years so that the first credit will be able to be claimed for the 2020 taxation year.

### **Donations of cultural property**

The budget proposes to remove the requirement that property must be of "national importance" to qualify for the enhanced tax incentives (i.e. the charitable donation tax credit for individuals, the donation taxable income deduction for corporation, and the income tax exemption for capital gains that may arise on the disposition).

This measure will apply to donations made on or after March 19, 2019.

## **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 of a Canadian-controlled private corporation (CCPC).

The budget includes the following business tax proposals:

### **Zero-emission vehicles**

The budget proposes a temporary enhanced first-year CCA rate of 100% for eligible zero-emission vehicles. Two new CCA classes will be created. First, class 54 will be created for zero-emission vehicles that would otherwise be included in class 10 or 10.1, with a limit of \$55,000 (plus sales tax) on the amount of CCA deductible. Second, class 55 will be created for zero-emission vehicles otherwise be included in class 16.

The budget also amends the GST/HST rules to align them with the proposed income tax treatment.

On the other hand, for individuals, the budget includes a new federal purchase incentive of up to \$5,000 for electric battery or hydrogen fuel cell vehicles retailing for less than \$45,000.

This measure applies to eligible vehicles acquired on or after March 19, 2019 and that become available for use before 2028, subject to a phase-out for vehicles that become available for use after 2023.

### **Scientific Research & Experimental Development**

The budget proposes to eliminate the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced Scientific Research & Experimental Development (SRED) tax credit. As a result, small CCPCs with taxable capital of up to \$10 million will be able to access on an unreduced basis, the enhanced refundable SRED credit regardless of their taxable income.

This measure applies to tax years that end on or after March 19, 2019.

## **INDIRECT TAX (GST/HST) CHANGES**

### **Foot care devices supplied on the order of a podiatrist or chiropractor**

Currently, certain medical and assistive devices can be supplied on a zero-rated basis only when supplied on the written order of a physician, nurse, physiotherapist or occupational therapist. Podiatrist and chiropractor, although they are regulated health professional in most provinces, are not listed among practitioners on whose order certain medical devices can be sold on a zero-rated basis.

The budget adds licensed podiatrist and chiropractors to the list of practitioners on whose order supplies of foot care devices are zero-rated, effective for supplies of these items made after March 19, 2019.

## **INDIRECT TAX (GST/HST) CHANGES (CONTINUED)**

### **Human ova and in vitro embryos**

The budget relieves GST/HST on supplies and imports of human ova and import of human in vitro embryos.

This measure will apply to supplies and imports of human ova made after March 19, 2019, and to imports of human in vitro embryos made after March 19, 2019.

The budget also announces that the government intends to review the tax treatment of fertility-related medical expenses under the medical expense tax credit for fairness and consistency.

### **Multidisciplinary health care services**

The budget exempts the supply of certain multidisciplinary health services from GST/HST. The relief will apply to a service rendered by a team of health professionals, such as doctors, physiotherapists and occupational therapists, whose services are GST/HST-exempt when supplied separately. The exemption will apply provided that all or substantially all (i.e., generally 90% or more) of the service is rendered by such health professionals acting within the scope of their profession.

This measure will apply to supplies of multidisciplinary health services made after March 19, 2019.

## **ADMINISTRATIVE AND OTHER CHANGES**

### **Tax Compliance**

The budget invests an additional \$150.8 million over five years, starting in 2019-2020, to combat tax evasion and aggressive tax avoidance. The CRA will hire additional auditors, create a new data quality examination team to ensure proper withholding, remitting and reporting of income earned by non-residents, and will extend programs aimed at combating offshore non-compliance, among other things.

The budget proposes to invest \$65.8 million over five years to improve the CRA's information technology systems in order to help CRA stay ahead of non-compliance scheme driven by the use of new and advanced technologies.

The budget proposes to give the CRA \$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.

### **Beneficial ownership transparency**

The budget amends the Canada Business Corporations Act to make the beneficial ownership information maintained by federally incorporated corporations more readily available to tax authorities and law enforcement.

**ADMINISTRATIVE AND OTHER CHANGES (CONTINUED)**

**Electronic delivery of requirements for information**

The budget proposes to all the CRA to send requirements for information to banks and credit unions electronically, in respect of third-party financial information. Currently, such requests are generally sent by registered mail.

This measure becomes effective January 1, 2020.

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