LEVI & LEVI

CHARTERED PROFESSIONAL ACCOUNTANTS

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TAX & BUSINESS

Federal Budget 2018

The Minister of Finance, Bill Morneau, tabled the Government of Canada's Federal Budget—EQUALITY GROWTH *A Strong Middle Class*—in the House of Commons this afternoon. The deficit for 2017-2018 is estimated to be $19.4 billion and a deficit of $18.1 billion is predicted for 2018-2019. The deficit is projected to decline gradually, reaching $12.3 billion by 2022-2023.

The following is a summary of the tax highlights.

Holding Passive Investments Inside a Private Corporation

In October 2017, the Government announced it would lower taxes on small businesses from 10.5 per cent to 9 per cent by 2019, while making sure the small business tax rate was not being used to gain a personal tax advantage for a very small number of wealthy individuals.

Budget 2018 proposes to introduce an additional eligibility mechanism for the small business deduction, based on the corporation's passive investment income.

Under the proposal, if a corporation and its associated corporations earn more than $50,000 of passive investment income in a given year, the amount of income eligible for the small business tax rate would be gradually reduced.

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Limiting Access to Refundable Taxes for Larger CCPCs

Currently, the tax system is designed to tax investment income earned by private corporations at a higher rate, roughly equivalent to the top personal income tax rate, and to refund a portion of that tax when investment income is paid out to shareholders.

Budget 2018 proposes that CCPCs no longer be able to obtain refunds of taxes paid on investment income while distributing dividends from income taxed at the general corporate rate. Refunds will continue to be available when investment income is paid out.

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For the corporations earning that level of passive income, their corporation's active business income would potentially be taxed at the general corporate income tax rate.

It is proposed that the small business deduction limit be reduced by $5 for every $1 of investment income above the $50,000 threshold such that the business limit would be reduced to zero at $150,000 of investment income.

The proposal represents an important departure from the July approach. Importantly, the design does not directly affect taxes on passive investment income. Under this proposal, the tax applicable to investment income remains unchanged—refundable taxes and dividend tax rates will remain the same, unlike the July 2017 proposal.

Furthermore, capital gains realized from the sale of active investments or investment income incidental to the business (e.g., interest on short-term deposits held for operational purposes) will not be taken into account in the measurement of passive investment income for purposes of this measure.

Extending Tax Support for Clean Energy

The existing accelerated deduction of energy efficient equipment is scheduled to expire in 2020. Through Budget 2018, the Government proposes to extend the preference to property acquired before 2025.

Tobacco Taxation

The Government proposes to advance the inflationary adjustments for tobacco excise duty so that they occur on an annual basis rather than every five years.

The Government also proposes to increase the excise duty by an additional $1 per carton of 200 cigarettes, along with corresponding increases to the excise duty rates on other tobacco products.

Cannabis Taxation

The Government is proposing an excise duty framework for cannabis products.

Under the framework, excise duties will be imposed on federally licensed producers at the higher of a flat rate applied on the quantity of cannabis contained in a final product, or a percentage of the sale price of the product sold by a federal licensee.

The excise duty framework would come fully into effect when cannabis for non-medical purposes becomes accessible for retail sale.

Support for Canada's Veterans

On December 20, 2017, the Government unveiled its Pension for Life plan, a program designed to reduce the complexity of support programs available to veterans and their families.

The Government will introduce legislation for the Pension for Life plan, which will include the choice of tax-free monthly payments for life to recognize pain and suffering caused by a service-related disability up to a maximum monthly amount of $2,650 for those most severely disabled; and income replacement for veterans who are facing barriers returning to work after military service at 90 per cent of their pre-release salary.

International tax measures

Effective for taxation years beginning in 2020, the budget proposes to require taxpayers to file form T1134, Information return relating to controlled and not-controlled foreign affiliates, by the date on which the tax return for the year is due.

Employment Insurance Measures

Budget 2018 introduces a new **EI Parental Sharing Benefit**. The new benefit will be available to eligible two-parent families, including adoptive and same-sex couples.

The **EI Working While on Claim** measure will help individuals stay in the workforce and ensure that EI claimants always benefit from accepting available work. In addition, Working While on Claim provisions will be extended to EI maternity and sickness claimants.

New annual reporting requirements for trusts

New annual reporting requirements for trusts are proposed effective for 2021 and subsequent taxation years, along with additional penalties for failing to file a T3 return or failing to report requisite information. Highlights of the proposals include the following:

- Affected trusts will be required to report the identity of all trustees, beneficiaries and settlors as well as any person who has the ability to exert control over certain trustee decisions.
- Certain trusts will be required to file T3 returns, where no such requirement previously existed.
- A number of types of trusts are exempted from the requirements, including, among others, mutual fund trusts, trusts governed by registered plans and graduated rate estates.

40,000 New Subsidized Child Care Spaces

To create more of the high-quality, affordable child care spaces that Canadian families need, and to make it more affordable for parents to return to work, the Government is investing $7.5 billion over 11 years.

This investment will increase the number of affordable child care spaces for low- and modest-income families by supporting up to 40,000 new subsidized child care spaces over the first three years after agreements are in place with provinces and territories. This will, in turn, allow thousands of parents, especially women, to return to the labour market, increasing their family's financial security and contributing to economic growth that benefits all Canadians.

CPP Enhancement

The CPP Enhancement will be phased in gradually starting in 2019 and will raise the maximum CPP retirement benefit by up to 50 per cent over time. This translates into an increase in the current maximum retirement benefit of more than $7,000, from $13,610 to nearly $21,000 in today's dollar terms.

2018 Automobile Deduction Limits and Expense Benefit Rates for Businesses

The Department of Finance Canada announced the income tax deduction limits and expense benefit rates that will apply in 2018 when using an automobile for business purposes.

Most of the limits and rates that applied in 2017 will continue to apply in 2018, with two changes taking effect as of 2018:

1. The limit on the deduction of tax-exempt allowances that are paid by employers to employees who use their personal vehicle for business purposes for 2018 will be increased by 1 cent to 55 cents per kilometre for the first 5,000 kilometres driven, and to 49 cents per kilometre for each additional kilometer. For the Northwest Territories, Nunavut and Yukon, the tax-exempt allowance is 4 cents higher, and will be increased to 59 cents per kilometre for the first 5,000 kilometres driven, and 53 cents per kilometre for each additional kilometre.

2. The general prescribed rate that is used to determine the taxable benefit of employees relating to the personal portion of automobile operating expenses paid by their employers will also accordingly be increased by 1 cent to 26 cents per kilometre. For taxpayers who are employed principally in selling or leasing automobiles, the prescribed rate used to determine the employee's taxable benefit will be increased by 1 cent to 23 cents per kilometre.

The following limits from 2017 will remain in place for 2018:

The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at $30,000 (plus applicable federal and provincial-territorial sales taxes) for purchases after 2017. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.

The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at $300 per month for loans related to vehicles acquired after 2017.

The limit on deductible leasing costs will remain at $800 per month (plus applicable federal and provincial-territorial sales taxes) for leases entered into after 2017.

This limit is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.

LEVI & LEVI

is a firm of Chartered Professional Accountants that traces its origin in Montreal to 1970. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with steadfast commitment to consistently deliver excellence. The members of our firm possess unique talents, expertise and experience, giving our client access to a knowledge base of considerable breadth and depth.

Attention Snowbirds

Under IRS rules, you may be required to file IRS form 8840 - Closer Connection Exception Statement for Aliens if you meet the substantial presence test for 2017 .

Consult our newsletter "***Tax Rules and Guidelines for Canadians Travelling to the U.S. and Abroad***" which can be found on our website.

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Readers are reminded that while budget proposals are customarily given the effect of law immediately, the amending legislation, when ultimately adopted by Parliament, may be altered to some degree.

Wills & Living Wills

Do you have a current will?

Advice should be sought on how the family wealth should be dealt with in an unfortunate circumstance. Proper planning can minimize the tax burden on death.

Equally as important is the Living Will or Mandate of an individual who may become incapacitated without notice or warning. To minimize the strain on your family at a difficult time, a Living Will can prove to be an invaluable solution.

Do you have children who are US citizens or residents?

Proper planning can reduce or avoid US Estate Taxes.

Alert Dates

March 15, 2018	First instalment due for individuals required to make income tax instalments
March 31, 2018	Deadline for filing 2018 Non-Resident Tax Withholding (NR4) & Statement of Trust Income Allocations & Designations (T3).
April 30, 2018	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2018	Second instalment due for individuals required to make income tax instalments.
	Filing date for individuals reporting business income including professional income and their spouses.
September 15, 2018	Third instalment due for individuals required to make income tax instalments.

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