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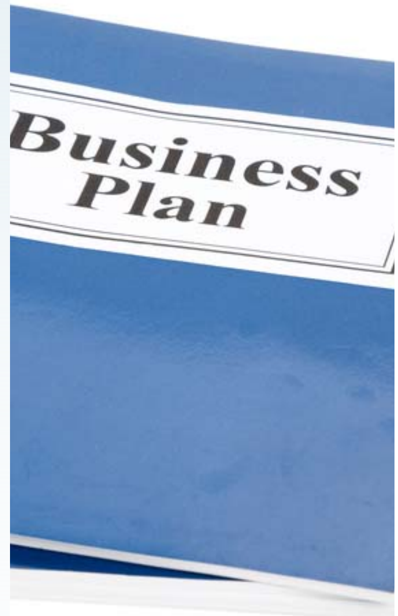
TAX & BUSINESS

Federal Budget 2019



The Minister of Finance, Bill Morneau, tabled the Government of Canada's Federal Budget—***Investing in the Middle Class*** —in the House of Commons this afternoon. The deficit for 2018-2019 is estimated to be $14.9 billion and a deficit of $19.8 billion is predicted for 2019-2020. The deficit is projected to decline gradually, reaching $9.8 billion by 2023-2024.

The following is a summary of the tax highlights.

First-Time Home Buyer Incentive

To help make homeownership more affordable for first-time home buyers, Budget 2019 proposes to introduce the First-Time Home Buyer Incentive.

The Incentive enables home buyers to reduce the amount of money required from an insured mortgage without increasing the amount they must save for a down payment.

How the First-Time Home Buyer Incentive Would Work

Eligible first-time home buyers who have the minimum down payment for an insured mortgage would apply to finance a portion of their home purchase through a shared equity mortgage with CMHC.

The Incentive would reduce the monthly payments required to buy a home.

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A New Canada Training Benefit

The Canada Training Benefit includes two key components—a new, non-taxable Canada Training Credit to help with the cost of training fees, and a new Employment Insurance (EI) Training Support Benefit to provide income support when an individual requires time to take off work.

After four years, workers will have four weeks for training, up to $1,000 to help pay for the training, money to help cover living expenses, and the security of knowing they'll have a job to come back to when their training is done.

Canada Training Credit

This new, non-taxable credit would help Canadians pay for training fees.

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First-Time Home Buyer Incentive (Continued from page 1)

CMHC would offer qualified first-time home buyers a 10 per cent shared equity mortgage for a newly constructed home or a 5 per cent shared equity mortgage for an existing home.

The Incentive would be available to first-time home buyers with household incomes under $120,000 per year. At the same time, participants' insured mortgage and the incentive amount cannot be greater than four times the participants' annual household incomes.

Modernizing the Home Buyers' Plan

To help with the down payment and costs associated with the purchase of a first home, the Home Buyers' Plan (HBP) allows first-time home buyers to withdraw up to $25,000 from their Registered Retirement Savings Plan (RRSP) to purchase or build a home, without having to pay tax on the withdrawal.

Unlike regular RRSP withdrawals, HBP withdrawals are not added to a person's income when withdrawn. Instead, the HBP withdrawals must be repaid over a 15-year period or included in the individual's income if not repaid.

The HBP maximum withdrawal amount—currently $25,000—has not been adjusted for 10 years.

To provide first-time home buyers with greater access to their RRSP savings to purchase or build a home, Budget 2019 proposes to increase the Home Buyers' Plan withdrawal limit to $35,000. This would be available for withdrawals made after March 19, 2019.

Making Canada Student Loans More Affordable

Budget 2019 proposes the following changes to Canada Student Loans and Canada Apprentice Loans:

- Lower the floating interest rate to prime, from its current rate of prime plus 2.5 percentage points, starting in 2019–20.
- Lower the fixed interest rate to prime plus 2.0 percentage points, from its current rate of prime plus 5.0 percentage points, starting in 2019–20.
- In addition, Budget 2019 proposes to amend the Canada Student Financial Assistance Act, so that student loans will not accumulate any interest during the six-month non-repayment period (the "grace period") after a student loan borrower leaves school.

Taking Action to Enhance Tax Compliance in the Real Estate Sector

Budget 2019 proposes to provide the CRA with $50 million over five years, starting in 2019–20, to create four new dedicated residential and commercial real estate audit teams in high-risk regions, notably in British Columbia and Ontario. These teams will work to ensure that tax provisions regarding real estate are being followed, with a focus on ensuring that:

- Taxpayers report all sales of their principal residence on their tax returns;
- Any capital gain derived from a real estate sale, where the principal residence tax exemption does not apply, is identified as taxable;
- Money made on real estate flipping is reported as income;
- Commissions earned are reported as taxable income; and
- For Goods and Services Tax/Harmonized Sales Tax (GST/HST) purposes, builders of new residential properties remit the appropriate amount of tax to the CRA.

The expected revenue from this initiative is $68 million over five years, starting in 2019–20.

Every year, eligible workers between the ages of 25 and 64 would accumulate a credit balance of $250 per year, up to a lifetime limit of $5,000. With this credit, a Canadian worker would accumulate $1,000 every four years, to be used for training fees.

The accumulation of this refundable tax credit would be available to workers with earnings of at least $10,000 (including maternity and parental benefits) and income less than around $150,000 a year ($147,667 in the 2019 tax year).

Canadians would be able to apply their accumulated Canada Training Credit balance against up to half the cost of training fees at colleges, universities, and eligible institutions providing occupational skills training starting in 2020.

EI Training Support Benefit

This new benefit—expected to be launched in late 2020—would be available through the EI program and would provide up to four weeks of income support, every four years. This income support—paid at 55 per cent of a person's average weekly earnings—would help workers cover their living expenses, providing support for ongoing payments such as mortgage payments, electricity bills, and general life costs, while on training and without their regular paycheque.

The new EI Training Support Benefit would provide workers with the flexibility to train when it works best for them, within a four-year period (for example, taking three weeks of paid leave in the first year, and the final week in the last year).

Leave Provisions

Recognizing that many workers cannot afford to risk their employment while they pursue training, the Government proposes to consult with provinces and territories on changes to labour legislation to support new leave provisions.

These new leave provisions would ensure that workers are entitled to leave and job protection while they are on training and receiving the EI Training Support Benefit. Employers, for their part, will benefit from motivated employees with upgraded skills, and small business will be protected against any increases in EI premiums.

Making Zero-Emission Vehicles More Affordable

Budget 2019 proposes to provide Natural Resources Canada with $130 million over five years, starting in 2019–20, to deploy new recharging and refueling stations in workplaces, public parking spots, commercial and multi-unit residential buildings, and remote locations.

Budget 2019 proposes to provide $5 million over five years, starting in 2019–20 to Transport Canada to work with auto manufacturers to secure voluntary zero-emission vehicle sales targets to ensure that vehicle supply meets increased demand.

Budget 2019 proposes to provide $300 million over three years, starting in 2019–20, to Transport Canada to introduce a new federal purchase incentive of up to $5,000 for electric battery or hydrogen fuel cell vehicles with a manufacturer's suggested retail price of less than $45,000.

To further support businesses' adoption of zero-emission vehicles, Budget 2019 proposes that these vehicles be eligible for a full tax write-off in the year they are put in use. Qualifying vehicles will include electric battery, plug-in hybrid (with a battery capacity of at least 15 kWh) or hydrogen fuel cell vehicles, including light, medum and heavy-duty vehicles purchased by a business.

Immediate expensing will apply to eligible vehicles purchased on or after March 19, 2019 and before January 1, 2024.

Capital costs for eligible zero-emission passenger vehicles will be deductible up to a limit of $55,000 plus sales tax.

Canada Pension Plan Enhancements

Budget 2019 proposes a series of measures to help Canada's seniors keep more money in their pockets, receive the Canada Pension Plan benefits they are entitled to, and stay active and involved in their communities.

To allow low-income older Canadians to effectively take home more money while they work, Budget 2019 proposes to introduce legislation that would enhance the GIS earnings exemption beginning with the July 2020 to July 2021 benefit year. The enhancement would:

- Extend eligibility for the earnings exemption to self-employment income.
- Provide a full or partial exemption on up to $15,000 of annual employment and self-employment income for each GIS or Allowance recipient as well as their spouse, specifically by:
  - ♦ Increasing the amount of the full exemption from $3,500 to $5,000 per year for each GIS or Allowance recipient as well as their spouse;
  - ♦ Introducing a partial exemption of 50 per cent, to apply to up to $10,000 of annual employment and self-employment income beyond the initial $5,000 for each GIS or Allowance recipient as well as their spouse.

Access to High-Speed Internet for All Canadians

In Budget 2019, the Government is announcing its commitment to set a national target, in which 95 per cent of Canadian homes and businesses will have access to internet speeds of at least 50/10 Mbps by 2026 and 100 per cent by 2030, no matter where they are located in the country.

Employee Stock Option Grants

The budget proposes to introduce a $200,000 annual cap on employee stock option grants (based on the fair market value of the underlying shares) that may receive preferential tax treatment for employees of large, long-established, mature firms. More details of this measure will be released before this summer.

Transfer Pricing Rules

For taxation years beginning on or after March 19, 2019, the budget proposes the introduction of an ordering provision in the Income Tax Act to ensure that the transfer pricing rules apply before other rules. This will affect a number of computations, notably the computation of income and the calculation of transfer pricing penalties. The current exceptions to the application or the transfer pricing rules for situations involving amounts owing (and related guarantees in respect thereof) by a controlled foreign affiliate will continue to apply.

Canada Pension Plan Enhancements

The CPP enhancement, which is being phased-in starting in 2019, will give Canadian workers greater income security when they retire and offers a number of advantages over other types of savings:

• It will provide a secure, predictable benefit in retirement, so Canadians can worry less about outliving their savings and be less anxious about the safety of their investments.

• Benefits will be indexed, which means that they will keep up with the cost of living.

• It will be a good fit with young workers entering Canada's changing job market, helping to fill the gap left by declining workplace pension coverage.

• It will be portable across jobs and provinces, including in Quebec where the Quebec Pension Plan has been enhanced in a similar fashion.

The CPP enhancement is being phased in gradually and will raise the maximum CPP retirement benefit by up to 50 per cent over time. This means that the current maximum retirement benefit will increase by nearly $7,300, from $13,855 to more than $21,100, in today's dollar terms.

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New Refundable Dividend Tax on Hand

Starting on January 1, 2019, Canadian controlled private corporations earning investment income will be subject to a new set of complex tax rules relating to their refundable dividend tax on hand ("RDTOH") balance.

The new rules restrict the ability for corporations to recover their RDTOH in certain circumstances The new rules could increase the tax cost to individual shareholders when they receive dividends from their corporations by constraining the ability to pay eligible dividends which are taxed at a lower rate than non-eligible dividends.

Transitional Rules

Under the new rules, the pre-2019 RDTOH account will be split into an eligible pool and a non-eligible pool.

Transitional rules will apply to calculate the opening eligible pool and non-eligible pool of a corporation. In general terms, the opening eligible pool of a corporation will have a one-time addition equal to the lesser of:

- its existing RDTOH balance at the time of the transition; and
- 38.33% of its GRIP balance at the time of the transition.

The pre-2019 RDTOH balance of a corporation not added to its eligible RDTOH pool pursuant to the transitional rules (described above) will be added to the non-eligible RDTOH pool of the corporation.

Go-forward Rules

The following taxes will be added to the non-eligible RDTOH pool of a corporation:

- refundable Part I taxes paid on investment income (including taxable capital gain) earned,
- refundable Part IV taxes paid on a non-eligible dividend received from a corporation that is not 'connected' with the recipient corporation and
- Part IV taxes paid on a non-eligible dividend received from a 'connected' corporation to the extent that the dividend results in a dividend refund to the payor corporation.

A corporation will be entitled to a refund of the non-eligible RDTOH pool upon the payment to its shareholder (s) of a non-eligible dividend.

The following taxes will be added to the eligible RDTOH pool of a corporation:

- refundable Part IV taxes paid on an eligible dividend received from a corporation that is not 'connected' with the recipient corporation and
- Part IV taxes paid on an eligible dividend received from a connected corporation to the extent that the dividend results in a dividend refund to the payor corporation.

A corporation will be entitled to a refund of the eligible RDTOH pool upon the payment to its shareholder(s) of an eligible dividend if the non-eligible RDTOH pool has been fully refunded (i.e., is $0).

2019 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 2019 when using an automobile for business purposes.

Most of the limits and rates that applied in 2018 will continue to apply in 2019, with two changes taking effect as of 2019:

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 2019 will be increased by 3 cents to 58 cents per kilometre for the first 5,000 kilometres driven, and to 52 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 62 cents per kilometre for the first 5,000 kilometres driven, and 56 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 2 cents to 28 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 2 cents to 25 cents per kilometre.

The following limits from 2018 will remain in place for 2019:

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 2018. 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 2018.

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 2018.

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.

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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 2018 .

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?

Alert Dates

March 15, 2019	First instalment due for individuals required to make income tax instalments
March 31, 2019	Deadline for filing 2019 Non-Resident Tax Withholding (NR4) & Statement of Trust Income Allocations & Designations (T3).
April 30, 2019	Deadline for filing personal income tax returns other than those permitted to file by June 15.
June 15, 2019	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, 2019	Third instalment due for individuals required to make income tax instalments.

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