

2019 Federal budget

A summary of key tax measures that may impact you and your family

March 19, 2019



1 Affordable housing

2 Job training

3 Securing Canadian retirement

4 Clean energy

On March 19, 2019, Federal Minister of Finance, Bill Morneau, delivered the last federal budget prior to the upcoming federal election in October 2019. Amidst slow economic growth¹ and increased tax and trade competition from south of the border, the government delivered a budget that favours capital expenditures and job creation over a balanced budget. Budget 2019 continues with the federal government's *Investing in the Middle Class* while continuing to tax the top 1% in the country.

Budget 2019 introduced a number of tax incentives to address affordable housing, securing Canadian retirement, education, training, and health care. There are few incentives for small businesses with the exception of clean energy and scientific research, while favouring government investment in pharmacare, entrepreneurs, innovation and developing stronger communities.

Note to readers: The Canada Revenue Agency ("CRA") has a long-standing practice of allowing taxpayers to file their tax returns based on proposed legislation. However, a taxpayer will remain potentially liable for taxes under the current law in the event that a proposed budget is ultimately not passed. It is recommended that you consult with your own tax advisors before relying on the specific budget proposals as they relate to you.

¹ Statistics Canada, Gross domestic products, income and expenditure, fourth quarter 2018, March 1, 2019

Providing Canadians with affordable housing

First-time Home Buyer Incentive

Budget 2019 proposes funding of up to \$1.25 billion for the Canada Mortgage and Housing Corporation (“CMHC”) to provide shared equity mortgages. A qualified first-time home buyer can receive incentives of up to 10% shared equity on a newly constructed home or up to 5% shared equity for an existing home. No ongoing monthly payments are required as part of this proposal, and the buyer would repay the shared equity mortgage upon re-sale of the home. This aims to reduce the cost of monthly payments of home ownership, reducing the principal amount required to finance the remainder of the property from traditional means.

Who’s eligible?

- < First-time home buyers with household incomes under \$120,000 per year; and
- < The participant’s insured mortgage and the shared equity amount cannot be greater than four times their annual household income (e.g. maximum mortgage of \$480,000);

Programs are expected to be operational by September 2019.

Modernizing the Home Buyers’ Plan (“HBP”)

Budget 2019 proposes for a qualified first-time home buyer to withdraw a maximum amount of \$35,000 (currently \$25,000) from their Registered Retirement Savings Plan (“RRSP”) tax-free. This would be available for withdrawals made after March 19, 2019.

\$35,000 maximum
The Home Buyer Plan maximum withdrawal amount has not been adjusted for 10 years.

Individuals experiencing a marriage or common-law partnership breakdown will be permitted to participate in the HBP even if they do not meet the first-time home buyer requirement. This measure will be available for withdrawals made after 2019.

Change in use rules for multi-unit residential properties

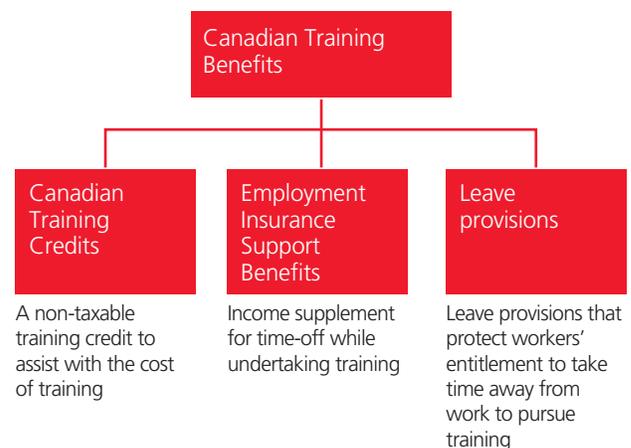
When a taxpayer converts a portion of their multi-unit residential property from income-producing to personal use (or vice versa), the budget proposes that they may elect to not apply the related deemed disposition created as a result of this change in use. This measure will apply to changes in use of the property on or after March 19, 2019.

Employee stock options

Under the current treatment, employees receive preferential personal tax treatment which allows them to claim a deduction that effectively results in the benefit being taxed at half of the normal rate of taxation as an employee benefit. As it is proposed, the tax measures would introduce an annual limitation of \$200,000 on employee stock option grants that may receive the current stock option deduction. This is based on the fair market value of the underlying shares, for high-income earners employed at large, matured companies, however this does not apply to start-up and rapidly growing companies. Further details on this measure will be released before the summer of 2019.

Helping Canadians access job training

Canada Training Benefits



The government is aiming to assist working Canadians to get the training they need to keep their existing jobs or prepare for a new one, through the provision of training credits designed to assist employees with the related costs.

The Canada Training Credit is a non-taxable credit that allows eligible workers to accumulate a credit balance of \$250 per year, up to a lifetime limit of \$5,000. The eligible worker must be:

- < Between the ages of 25 and 64
- < A Canadian resident for tax purposes, and
- < Earning over \$10,000, but not exceeding \$147,667 (2019, to be indexed in future years)

In addition to the Canada Training Credit, the individual may also qualify for Employment Insurance support benefits for up to four weeks paid leave, at 55% weekly earnings.

Canada Student Loans

For Canada Student Loans, the budget includes several proposals for lower interest rates, including:

- < Reducing the floating interest rate from prime plus 2.5 percentage points to prime; or
- < Reducing the fixed interest rate from the current rate of prime plus 5.0 percentage points, to prime plus 2.0 percentage points

In addition, consideration for a new six month grace period where the student does not have to pay interest for a six month period after leaving school has also been included.

Securing Canadian retirement

Guaranteed Income Supplement (“GIS”)

Currently, seniors receiving GIS are entitled to this benefit if their earnings do not exceed \$3,500 per year per person. The budget proposes:

- < Basic earnings exemptions to increase from \$3,500 to \$5,000 per year, and
- < Earnings exceeding \$5,000 per year up to \$15,000 per year will receive a partial exemption.

Canada Pension Plan (“CPP”)

The budget proposes to proactively enroll CPP contributors over age 70 to ensure they are receiving their benefits.

Protecting Canadian pensions

In order to better protect workplace pensions in the event of corporate insolvency, the government proposes

to introduce legislative amendments to the Companies’ Creditors Arrangement Act, the Bankruptcy and Insolvency Act, the Canada Business Corporations Act and the Pension Benefits Standards Act (1985).

Individual Pension Plans (“IPP”)

In regards to pensionable service under a defined benefits plan provided by an employer other than the current sponsoring employer, the government proposes to prohibit providing retirement benefits in respect to these past years of service under the prior employer. Any assets transferred from a former employer’s defined benefits plan that relates to prohibited services would be included in the pensioner’s income.

This measure applies to pensionable service credited under an IPP on or after budget day (March 19, 2019).

Contributions to a Specified Multi-Employer Plan (“SMEP”) for older members

SMEPs can no longer accrue pension benefits for a member after the end of the year in which a member attains 71 years of age or if the member has returned to work for the same or similar employer and is receiving a pension from the plan (except under a qualifying phased retirement program). This measure will apply in respect of SMEP contributions made pursuant to collective bargaining agreements entered into after 2019.

Permitting additional types of annuities under registered plans

Budget 2019 proposes to permit two new types of annuities under the tax rules for certain registered plans:

- < Variable payment life annuities will be permitted under a Pooled Registered Pension Plan (“PRPP”) and Defined Contribution RPP (“DC RPP”), and
- < Advanced life deferred annuities will be permitted under a Registered Retirement Savings Plan (“RRSP”), Registered Retirement Income Fund (“RRIF”), Deferred Profit Sharing Plan (“DPSP”), PRPP and DC RPP.

Registered Disability Savings Plan (“RDSP”)

Budget 2019 proposes to eliminate the requirement to close a RDSP when a beneficiary no longer qualifies for the Disability Tax Credit.

Intergenerational business transfers

The government will continue to consult with farmers, fishers and other business owners in developing new proposals on intergenerational transfers of businesses.

Climate Action Incentive (“CAI”)

For residents of Ontario, Manitoba, Saskatchewan and New Brunswick who meet certain eligibility requirements, they may be eligible to receive the CAI payment of a basic amount per household, with an additional 10% supplement for small and rural communities. Basic payment amounts for a single person for 2018 by province are as follows:

Climate Action Incentive – Basic payment amounts by province

Saskatchewan	\$305
Manitoba	\$170
Ontario	\$154
New Brunswick	\$128

Health related tax relief

Within Budget 2019, there is GST/HST tax relief expected after March 19, 2019 for:

- < Certain fertility treatments
- < Definitions of health care services to include multidisciplinary health care services
- < Purchase of foot care devices as prescribed by licensed podiatrists or chiropodists

In addition to these changes, patients who are prescribed and purchase cannabis products legally in accordance with the Access for Cannabis for Medical Purposes Regulations, and Cannabis Regulations Act may be eligible to receive a medical expense tax credit.

Pharmacare

Last year, Budget 2018 proposed the establishment of an advisory council on lowering the cost of providing drugs to Canadians. Budget 2019 announces the government’s intention to move forward on:

- < The creation of a Canadian Drug Agency
- < Development of a national formulary; and
- < A national strategy for high-cost drugs for rare diseases.

Investing in research, innovation and clean energy

The following incentives are incorporated to encourage scientific innovation.

A number of proposals related to zero-emission vehicles has been included.

- < The introduction of a new federal purchase incentive of up to \$5,000 for electric battery or hydrogen fuel cell vehicles with a manufacturer’s retail price of less than \$45,000.
- < A temporary enhanced first-year write-off for eligible zero-emissions vehicles (vehicles that qualifies for the new federal purchase incentive will not be eligible for such write-off). This measure applies to eligible vehicles acquired on or after March 19, 2019 and that become available for use prior to 2028, but subject to a phase-out for vehicles become available for use after 2023.

The income threshold for accessing the enhanced tax credit on qualified Scientific Research and Experimental Development (“SRED”) expenditures will also be eliminated.

Closing tax loopholes

Another component proposed within the budget is the prohibition of mutual fund trusts from allocating capital gains to redeeming investors, in specific circumstances where the fund has triggered capital gains on dispositions of portfolio investments related to funding the redemption.

In addition, a proposal to refine existing rules associated with further limiting derivative transactions that re-characterizes income to capital gains. Investors or shareholders of entities engaged in these transactions will receive income treatment on their returns going forward.

Increased offshore compliance

Canada continues to remain a participant in the OECD/ G20 Base Erosion and Profit Sharing Initiatives (BEPS), and will continue to monitor avoidance schemes or reporting by foreign affiliates. The Canadian Revenue Agency will increase monitoring offshore taxable entities and transfer pricing practices.

This document provides highlights of some key tax measures. It is not a comprehensive review of the 2019 federal budget. For more details, please refer to *Budget 2019 – Investing in Middle Class Jobs* through Innovation on <https://www.budget.gc.ca/home-accueil-en.html>

Individuals should consult their tax advisor before implementing any strategies that are based on these new measures.

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