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2017 federal budget

Building a strong middle class

2017 federal budget: Building a strong middle class

March 22, 2017

Federal Minister of Finance, Bill Morneau, presented his budget on March 22, 2017. The government is continuing with its planned focus on building a strong middle class through innovation, skills, partnership and fairness. Budget 2017 focuses on giving talented people the skills they need to drive our most successful industries and high-growth companies forward, while investing in Canadians' well-being through a focus on mental health, home care and indigenous health care.

Forecasted deficits

As widely anticipated, the budget projects significant deficits over the next several years. The government forecasts a deficit of $23 billion for 2016–17 and $28.5 billion in 2017–18. Over the next four years, deficits are expected to decline gradually from $27.4 billion in 2018–19 to $18.8 billion in 2021–22.

Canada continues to have the lowest total government net debt-to-GDP ratio of all G7 countries. The federal debt-to-GDP ratio is projected to decline gradually after 2018–19 reaching 30.9 percent in 2021–22.

Investing in priorities

The government is committed to making smart, necessary investments in the economy to ensure a thriving middle class, and remains committed to a responsible approach to fiscal management.

The government will initiate three new expenditure management initiatives:

1. A comprehensive review of at least three federal departments (to be determined), with the aim to eliminate poorly targeted and inefficient programs, wasteful spending and inefficient programs, and ineffective and obsolete government initiatives.

2. Initiate a three-year review of federal fixed assets to identify ways to enhance or generate greater value from government assets.

3. Initiate a review of all federal innovation and clean technology programs across all departments, as federal programs are dispersed to simplify programming and better align resources to improve the effectiveness of innovation programs.

The government will report on the progress of these reviews in Budget 2018.

The government will also introduce legislative changes to improve the organization and efficiency of government operations, as needed.

Previously announced tax measures

The government confirmed its intention to proceed with the following previously announced tax and related measures:

- Improve fairness to the capital gains exemption on the sale of a principal residence (announced on October 3, 2016);

- Information-reporting requirements for certain dispositions of an interest in a life insurance policy (announced in Budget 2016);

- Legislative proposals released on September 16, 2016, relating to income tax technical amendments;

- Legislative and regulatory proposals released on July 22, 2016 relating to the Goods and Services Tax/Harmonized Sales Tax (GST/HST) and

- Measures confirmed in Budget 2016 relating to the GST/HST joint venture election.

The government also confirmed its commitment to move forward as required with technical amendments to improve the certainty of the tax system.

The following pages provide an overview of the budget's tax measures.

Corporate tax measures

There are no changes to the corporate tax rates or to the $500,000 small business deduction. The federal corporate tax rates for 2017 are summarized below:

	Active business income			
	General	Small business (CCPC)	Business limit	Investment income
Federal 2017	15%	10.5%	$500,000	38.7%

Personal income tax measures

There are no changes to the personal tax rates. The federal tax rate and the combined top federal/provincial tax rates are summarized in the table below.

Province	Ordinary income		Capital gains		Eligible dividends		Regular dividends	
	2016	2017	2016	2017	2016	2017	2016	2017
Federal	33.00%	33.00%	16.50%	16.50%	24.81%	24.81%	26.30%	26.30%
BC	47.70%	47.70%	23.85%	23.85%	31.30%	31.30%	40.61%	40.95%
Alberta	48.00%	48.00%	24.00%	24.00%	31.71%	31.71%	40.24%	41.24%
Saskatchewan	48.00%	48.00%	24.00%	24.00%	30.33%	30.33%	39.91%	39.91%
Manitoba	50.40%	50.40%	25.20%	25.20%	37.78%	37.78%	45.74%	45.74%
Ontario	53.53%	53.53%	26.76%	26.76%	39.34%	39.34%	45.30%	45.30%
Quebec	53.31%	53.31%	26.65%	26.65%	39.83%	39.83%	43.84%	43.84%
New Brunswick	53.30%	53.30%	26.65%	26.65%	34.20%	33.51%	45.80%	45.96%
Nova Scotia	54.00%	54.00%	27.00%	27.00%	41.58%	41.58%	46.97%	46.97%
PEI	51.37%	51.37%	25.69%	25.69%	34.22%	34.22%	43.87%	43.87%
Newfoundland	49.80%	51.30%	24.90%	25.65%	40.54%	42.61%	41.51%	43.62%

What does this mean for you? Attracting investment and talent to Canada will be key, along with taking concrete steps to equip Canadians with the skills they need to get the most out of an innovation-driven economy.

Businesses

Business measures	
Elimination of investment tax credit for child care spaces	Eliminate the current 25% non-refundable investment tax credit for businesses that incur expenditures to build or expand child care spaces. This credit will be eliminated for any expenditures incurred on or after March 22, 2017, with transitional relief provided for expenditures incurred before 2020, pursuant to a written agreement entered into before March 22, 2017.
Elimination of additional deduction for gifts of medicine	Current tax rules provide an additional deduction, above the standard charitable donation deduction, to businesses who donate medicine from their inventory to eligible charities. This deduction will be eliminated for gifts of medicine that are made on or after March 22, 2017. This measure does not impact the general income tax rules dealing with donations by corporations to registered charities.
Meaning of de facto, or "factual" control	Factual control can establish important relationships between companies that must share certain tax preferences (e.g., when determining associated corporations that must share the $500,000 small business deduction). A recent court decision established limitations on interpreting the extent of factual control of a corporation for these purposes, which is contrary to the intended policy of the tax legislation. Specifically, the court ruled that factual control must include "a legally enforceable right and ability to effect a change to the board of directors or its powers, or to exercise influence over the shareholder or shareholders who have that right and ability." Proposed amendments to the *Income Tax Act* will clarify factual control and require consideration of factors that are not limited to the requirement set out by the court decision outlined above. This measure will apply in respect of taxation years that begin on or after March 22, 2017.
Clean energy generation equipment: geothermal energy	Expand CCA Classes 43.1 and 43.2 to include geothermal energy equipment, used primarily for the purpose of generating heat or a combination of heat and electricity. Under current rules, just thermal energy equipment used primarily in the generation of electricity qualifies for these accelerated classes. In addition, geothermal energy equipment will be considered an eligible thermal energy source for use in a "district energy system," also qualifying for Class 43.1 and 43.2 treatment. Exploration-related expenses (i.e., those for determining the extent and quality of a geothermal resource) and the cost of all drilling for geothermal energy used in heating and electrical production will qualify as a Canadian renewable and conservation expense.
Investment fund mergers	Extend current mutual fund merger rules—currently available on a limited basis to certain mergers of mutual fund trusts and mutual fund corporations that merge into mutual fund trusts—to circumstances where mutual fund corporations structured as switch corporations reorganize into multiple mutual fund trusts. This measure will allow these reorganizations to occur on a tax-deferred basis and will apply to qualifying reorganizations that occur on or after March 22, 2017.

	Proposed measures will provide parallel rules allowing insurers to merge segregated funds on a tax-deferred basis. Further, segregated funds will be able to carry over any non-capital losses that arise in taxation years that begin after 2017, to apply them in computing taxable income for subsequent years beginning after 2017. These measures will apply beginning in 2017.
Consultation on cash purchase tickets for deliveries of listed grains	A consultation on the income tax deferral currently available for deferred cash purchase tickets for deliveries of listed grains will be launched. Interested parties may submit comments to the government on this matter by May 24, 2017.
Elimination of work in progress deferral	Eliminate the ability of designated professionals (i.e., accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) to follow "billed-basis" accounting, whereby the recognition of income related to work-in-progress is deferred until the year the work is billed. This measure will apply to taxation years that begin on or after March 22, 2017. However, to mitigate the impact on taxpayers, a transitional period will be provided to allow a short phase-in of current work in progress into income by allowing a 50% deferral of work in progress for the first taxation year that begins on or after March 22, 2017.
Insurers of farming and fishing property	Eliminate the tax exemption currently available to insurers of farming and fishing property. This measure will apply to taxation years that begin after 2018.
Timing of gains and losses on derivatives	A new mark-to-market election to businesses which hold derivative financial instruments on account of income, allowing taxpayers to follow mark-to-market reporting of gains and losses on eligible derivative instruments. The election will be available for taxation years beginning on or after March 22, 2017, and once made, will remain in force for the electing taxpayer for all subsequent taxation years unless revoked by the minister. A new anti-avoidance rule is also proposed, designed to prevent abuses where the timing of losses on "straddle transactions" is managed to achieve a tax advantage. The rule will introduce a stop-loss provision that will deny the loss realized on the disposition of a position to the extent there remains an unrealized gain on an offsetting position. Certain exceptions are proposed to the anti-avoidance rule, but it will otherwise apply to any loss realized on a position entered into on or after March 22, 2017.
Changes for Canadian exploration expenses	Changes to the treatment of costs incurred for drilling oil and gas discovery wells and certain related preparatory costs. Currently such costs are treated as Canadian exploration expenses (CEE) and are deductible in full in the year incurred, they are proposed to be generally classified instead as Canadian development expenses (CDE), which are deductible on a 30% declining balance basis. Certain discovery well costs can remain as CEE in situations where the well will be abandoned or production is delayed. Eligible small oil and gas corporations will no longer be permitted to treat their first $1 million of CDE as CEE when renounced to shareholders owning flow through shares. These measures will apply to expenses incurred after 2018.

Personal

Personal tax credits	
Canada caregiver credit	This credit will replace the existing caregiver credit, infirm dependent credit and family caregiver credit and can be claimed in relation to infirm dependents for the 2017 and subsequent taxation years. While no longer available for non-infirm seniors who reside with their adult children, the dependent will not be required to live with the caregiver. The new credit will be • $6,883 for infirm dependents who are parents, grandparents, brother, sisters, aunts, uncles, nieces, nephews, adult children of the caregiver claiming the credit or the caregiver's spouse or common law partner. • $2,150 for either – an infirm dependent spouse or common-law partner for whom the individual claims the spouse or common-law partner amount, – an infirm dependent for whom the individual claims an eligible dependent credit, or – an infirm child who is under the age of 18 years at the end of the tax year. Where the dependent's net income is above $16,163 (in 2017), the new credit will be reduced dollar-for-dollar. Credit amounts that may be claimed and income thresholds above which the credit will be phased out, will be indexed to inflation after 2017.
Disability Tax Credit	Under current legislation, an eligible medical practitioner must certify that the effects of the impairment result in the individual meeting the requirements for the disability tax credit. Proposals include adding nurse practitioners as eligible medical practitioners that could certify eligibility for the disability tax credit. This measure is expected to apply for disability tax credit certifications on or after March 22, 2017.
Medical expenses	Clarify the application of the medical expense tax credit, so individuals who require medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals incurring those expenses on account of a medical infertility condition. As part of these proposals, a taxpayer will also be entitled to elect in a year for this measure to apply for any of the immediately preceding 10 taxation years in their return of income in respect of the year. This measure will apply to 2017 and subsequent taxation years.
Tuition Tax Credit	Extend the eligibility criteria for the tuition tax credit to fees for an individual's tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level. The tuition tax credit will be available in these circumstances where the course is taken for the purpose of providing the individual with skills, or improving the

	individual's skills in an occupation and the individual has attained the age of 16 before the end of the year. In addition, proposals will include extending the eligibility as a "qualifying student" in order to meet the specific circumstances described above. Applicable to the 2017 and subsequent tax years.
Elimination of Public Transit Tax Credit	Effective July 1, 2017, the public transit tax credit which provides a 15% non-refundable tax credit in respect of the cost of eligible public transit passes will be eliminated.
Home Relocation Loans Deduction	Under existing legislation, the taxable benefit associated with a loan from an employer may be reduced to the extent the loan relates to an eligible home relocation. For benefits arising in 2018 and subsequent taxation years, the deduction in respect of the eligible home relocation loans will be eliminated.
Anti-avoidance rules for registered plans	A number of anti-avoidance rules exist for tax-assisted registered plans (i.e., TFSAs, RRSPs, and RRIFs), to ensure such registered plans do not provide excessive tax advantages beyond their intended objectives. These anti-avoidance rules which include the advantage rules, prohibited investment rules, and non-qualified investment rules, are proposed to be extended to Registered Education Savings Plans and Registered Disability Savings Plans to transactions occurring and investments acquired after March 22, 2017. However, there are certain exceptions to these rules applying after March 22, 2017.
Allowances for members of legislative assemblies and certain municipal officers	Applicable to the 2019 and subsequent tax years, proposals will require non-accountable allowances received by certain officials for which the individual does not have to provide details or submit receipts to justify amounts paid for work expenses, to be included into income. Previously, such non-accountable allowances received by certain officials were not included in computing their income.
Mineral exploration tax credit for flow-through share investors	Proposals include extending the eligibility for the mineral exploration tax credit for an additional year to flow-through share agreements entered into on or before March 31, 2018. Under the existing "look-back" rule, funds raised with this credit during the first three months of 2018 can support eligible exploration until the end of 2019.
Electronic distribution of T4 information slips	Applicable for T4s issued for the 2017 and subsequent taxation years, proposals will allow issuers to distribute T4 information slips electronically to current active employees without express consent. However, sufficient privacy safeguards specified by the Minister of National Revenue are required to be in place before electronic T4s can be sent without express consent. Where employees do not have confidential access to view or print their T4s, or where employees request, paper copies of the T4s are to be provided.
National Child Benefit supplement	While the repeal of the National Child Benefit supplement occurred after June 2016, in order to provide time for provinces and territories to make the necessary changes to their social assistance and child benefit programs which relied on federally determined national child benefit supplement amounts, the reference to the National Child Benefit supplement in the Canada Child Benefit rules was retained and scheduled to be repealed effective July 1, 2017. The budget proposes to further delay the repeal of the National Child Benefit supplement reference in the Canada Child Benefit rules in the *Income Tax Act* until July 1, 2018.
Ecological gifts	For transactions or events that occur on or after March 22, 2017, proposals include measures to better protect gifts of ecologically sensitive land. Where ecogifts are transferred between organizations for consideration, proposals

	include that the transferee of the property will be subject to a tax of 50% of the fair market value of the land if the transferee changes the use of property, or disposes of the property, without consent of Environment and Climate Change Canada (ECCC). In addition, other measures for the ecological gifts program include no longer permitting private foundations to receive ecogifts, qualifying certain donations of personal servitudes as ecogifts to encourage more ecogifts in Quebec, and proposals to clarify that the minister of the ECCC has the ability to determine whether proposed changes to the use of lands would degrade conservation protection.

Sales and excise tax

GST/HST rebate to non-residents for tour package accommodations

Budget 2017 proposes to repeal the current GST/HST rebate available to non-resident individuals and non-resident tour operators in relation to GST/HST payable in respect to the accommodation portion of eligible tour packages. This repeal will apply to supplies of tour packages or accommodations made after March 22, 2017, however a transitional measure will allow the continuance of the rebate for a supply of a tour package of accommodations made after March 22, 2017 but before January 1, 2018, if all of the consideration for the supply is paid before January 1, 2018.

Ride sharing services

Under current rules, taxi operators (as they are defined in the *Excise Tax Act*) must register for GST/HST and charge tax on their fares, regardless of the amount of sales they make. Currently, suppliers of ride-sharing services may fall outside of the current definition of taxi operator, largely because they are not subject to regulation in the same manner as taxis. Proposals to amend the definition of a taxi business to require providers of ride-sharing services to register for GST/HST and charge tax on their fares in the same manner as taxi operators. The amendment shall be effective as of July 1, 2017.

Non-prescription drug list and naloxone

Proposals to include Naloxone—a drug used to treat opioid overdose—to its list of GST/HST-free non-prescription drugs. This is in response to Health Canada's removal of the prescription requirement of the drug in March of 2016. This measure generally comes into effect as of March 22, 2016, however does not apply to any supply, importation or bringing into a participating province of naloxone occurring on or before March 22, 2017 for which GST/HST was charged, collected, remitted or paid.

Tobacco taxation

Eliminate the tobacco manufacturer's surtax and adjust tobacco excise duty rates. Specifically, the excise duty rate on cigarettes, tobacco sticks, manufactured tobacco and cigars will be increased.

Proposals also include that inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of March 22, 2017 be subject to a tax of $0.00265 per cigarette (subject to certain exemptions). Taxpayers will have until May 31, 2017 to file returns and pay the inventory tax.

These measures will be effective as of the day after March 22, 2017. A corporation with a taxation year that includes March 22, 2017 and ends after will be required to prorate the surtax on its Canadian tobacco manufacturing profits based on the number of days in the taxation year that are on or before March 22, 2017.

Alcohol taxation

Excise duty rates on alcohol products be increased by 2% effective the day after March 22, 2017, in respect of duty that becomes payable after that date.

No special inventory tax will apply to alcohol products on which duty has been paid. It is also proposed that the rates be automatically adjusted by the Consumer Price Index on April 1 of every year, starting in 2018.

International tax measures	
Taxation of Canadian life insurance risks by foreign branches of life insurers	Under current tax rules, Canadian life insurers are taxable on income from their Canadian business, which does not include business carried on in a foreign jurisdiction (i.e., foreign branch income). This exemption of foreign branch income is irrespective of whether that income is derived from the insurance of Canadian risks (i.e., risks to persons in Canada), and is a departure from our current FAPI system where insurance of Canadian risks by a controlled foreign affiliate of a Canadian taxpayer is included in FAPI, and taxable to the Canadian taxpayer on an accrual basis in Canada. Proposals include to tax Canadian life insurers in relation to their income from the insurance of Canadian risks carried on through a foreign branch. The new rules will apply where 10% or more of the gross premium income earned by a foreign branch of a Canadian life insurer is premium income in respect of Canadian risks. The new rules will deem such insurance of Canadian risks to be part of a business carried on by the life insurer in Canada and the related policies to be life insurance policies in Canada. Also, complimentary anti-avoidance rules are proposed that will ensure the integrity of the proposed rule. This measure will apply to taxation years of Canadian taxpayers that begin on or after March 22, 2017.

Other

Customs, tariff and import measures	
Legislative and regulatory changes	In correlation with public consultations undertaken in 2016, several amendments to the *Special Import Measures Act* (SIMA) and related trade remedy regulations are proposed. These amendments include changes to • anti-circumvention investigations that will allow domestic producers to file a complaint regarding a trade or business practice that is intended to avoid trade or remedy duties; • allow interested parties to request that the Canada Border Services Agency (CBSA) conduct a formal review to determine whether a specific product falls within the scope of a trade remedy measure, • allow labour unions to participate as interested parties in trade remedy proceedings; • provide the CBSA greater discretion when assessing the reliability of prices in exporting countries involved in anti-dumping investigations; and • SIMA in respect of exporters found to be dumping at *de Minimis* levels, which will better align Canada's laws with its obligations under World Trade Organization rules.
Improved access to imports from least developed countries	Changes to the rules of origin under Canada's tariff regime for least developed countries (LDCs) to allow for more apparel products imported from these countries to qualify for duty-free treatment when imported into Canada.
Aboriginal tax policy	
Aboriginal tax policy	The Government of Canada has entered into more than 50 taxation arrangements in respect of sales tax and personal income tax with Aboriginal governments. The Government of Canada confirms its willingness to discuss and put into effect direct taxation arrangements with interested Aboriginal governments. The Government of Canada also supports direct taxation arrangements between interested provinces or territories and Aboriginal governments and will continue to facilitate such arrangements.

Contact your Grant Thornton advisor to discuss how these changes may affect you and/or your business, and ways to minimize their impact and take advantage of their benefits.