Federal Budget 2016 – What You Need to Know

On March 22, 2016, the first budget of Finance Minister Bill Morneau was tabled, with a focus on supporting the middle class. Based on a weaker economic outlook largely due to continued low oil prices, the budget announced an increase in spending, with significant amounts dedicated to the areas of public transit, green and social infrastructure. This is expected to result in a forecasted deficit of $29.4B for 2016-2017. In addition to greater government spending to try and stimulate economic growth, and in response to the current economic slowdown, the budget announced changes to the Employment Insurance (EI) system to reduce the period of time that out-of-work Canadians are without income, in light of growing unemployment rates.

There were also some surprises that came with the release of the budget. The government abandoned its election pledges to increase the taxation of stock options, continue to reduce the small business corporate income tax rate, as well as provide lifelong pensions to injured veterans.

Here are some of the more notable changes proposed by the budget that are expected to affect taxpayers.

Personal Measures

Changes to Federal Personal Income Tax Rates – As announced on December 7, 2015 and effective January 1, 2016, the federal income tax bracket for middle-income earners for taxable income between $45,282 and $90,563 (for the 2016 tax year) will be taxed at a federal rate of 20.5 percent, reduced from the 2015 rate of 22.0 percent. A new federal tax bracket for taxable income in excess of $200,000 will be taxed at a rate of 33.0 percent. (Other tax rules that either use or are affected by the introduction of the top personal tax rate of 33.0 percent are proposed to be amended, such as the charitable donation tax credit on donations above $200, as an example).

Elimination of the Family Tax Cut – For 2016 and subsequent tax years, the budget proposes to eliminate the family tax cut, which provided income splitting for couples with children. Generally, this non-refundable tax credit allowed a higher-income spouse/common-law partner (CLP) to notionally transfer up to $50,000 of taxable income to a spouse/CLP in a lower tax bracket, providing a tax credit of up to $2,000.

Brent Todd
604-643-0106
Brent.todd@canaccord.com

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Changes to Child Benefits: Introduction of the Canada Child Benefit (CCB) – Effective July 1, 2016, the CCB program is proposed to replace the Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB). Generally, the CCB will provide a maximum benefit of up to $6,400 per child under the age of 6 and up to $5,400 per child ages 6 through 17. The benefit amount will be reduced and gradually phased out when adjusted family net income exceeds $30,000, at a rate dependent upon the adjusted family net income and number of children per family. An additional amount of up to $2,730 will be available for each child eligible for the disability tax credit. The phase out of this amount will be made to generally align with the CCB.

Elimination of the Child Fitness Tax Credit and Children’s Art Credit – For 2017 and subsequent tax years, the budget proposes to eliminate these credits. For the 2016 tax year, the budget proposes to reduce the maximum eligible amount for the 15 percent refundable children’s fitness tax credit from $1,000 to $500 and the maximum eligible amount for the 15 percent non-refundable children’s art tax credit from $500 to $250.

Elimination of the Education Tax Credit and Textbook Tax Credit – For 2017 and subsequent tax years, the budget proposes to eliminate the education and textbook tax credits. Unused education and textbook credit amounts carried forward from years prior to 2017 may be claimed in 2017 and subsequent years.

Changes to the Guaranteed Income Supplement (GIS) – The budget proposes to increase the GIS top-up benefit by $947 annually for low-income single seniors starting July 2016. The age of eligibility for the GIS and Old Age Security benefits will be decreased to 65 years old (from 67 years old) over the 2023 to 2029 period.

Business Measures

Elimination of the Small Business Tax Rate Reduction – Previously announced reductions to the corporate federal income tax rate for small business income of Canadian-controlled private corporations (CCPCs) have been removed. The rate was to decrease to 9.0 percent by 2019. Instead, the budget proposes to keep the small business tax rate at 10.5 percent after 2016.

Introduction of Small Business Deduction Limits – The budget proposes to limit access to the small business deduction (the annual eligible income limit of $500,000 for small business CCPCs) under certain corporate and partnership structures that have been able to multiply the number of small business deduction limits within a group. Generally, this measure will apply to taxation years that begin on or after March 22, 2016.

Change in Eligible Capital Property – The budget proposes to cancel the eligible capital property (ECP) regime and replace it with a new capital cost allowance (CCA) class. This will generally eliminate a tax-deferral opportunity that may arise from the treatment of gains on the sale of ECP as active business income. These measures will apply beginning January 1, 2017 and transitional rules will apply to implement these new measures.

Changes to the Treatment of Life Insurance Policies – The budget proposes amendments to address a perceived tax loophole regarding the transfers of life insurance policies. Under existing tax law, there has been a way to extract tax-free corporation money through the transfer of a life insurance policy to a corporation. The budget proposes to limit the tax benefits of such transfers, as well as proposes to retroactively adjust certain benefits associated with transfers that have occurred before March 22, 2016.

For more details, please see www.budget.gc.ca