Canada issues Federal budget 2015-16

Executive summary

On 21 April 2015, Canadian Finance Minister Joe Oliver tabled his first budget. Continuing the legacy of his predecessor, Jim Flaherty, the budget focuses on creating jobs, supporting growth, keeping taxes low and long-term prosperity across the country. This has been the mantra of the Conservative Government's Economic Action Plans since they took office in 2006. This budget is no exception.

In his budget speech, Oliver states, “Around the world, many nations – including some of our friends and allies – remain mired in a struggle for fiscal security. Global growth coming out of the Great Recession has been lacklustre. Geopolitical uncertainty continues to hobble the recovery. And, of course, the dramatic plunge in oil prices has taken its toll on our economy.”

“Still, the news for Canada is, by and large, good. Amid the tumult, our country remains a beacon of economic stability and security built on a foundation of sound financial management.”

Detailed discussion

Government policy measures

Canada's Budget 2015 includes a number of measures to support economic growth by focusing on support for specific industries and research programs, providing additional support to small businesses and promoting high-skilled employment.

Some of the more significant measures include:

Support for manufacturing

• **Automotive**: $100 million over five years for the creation of the Automotive Supplier Innovation Program to help Canadian automotive suppliers gain a competitive edge through new innovative products and processes. The program will strengthen Canada's parts supply base and create a favorable environment for automotive research and development (R&D) while providing firms with new opportunities to enter global supply chains.
Aerospace: Government will work with the Aerospace Industries Association of Canada and other industry and provincial stakeholders to develop a national aerospace supplier development initiative (modelled on the MACH program launched in 2011 by Aero Montreal). Budget 2015 proposes to reallocate $6 million from the Strategic and Aerospace Defense Initiative to this new initiative.

Defense: $2.5 million per year, starting in 2016-17, to increase the analytical capacity needed to support the Defense Procurement Strategy.

Investing in research

$1.33 billion over six years (starting in 2016-17) to the Canada Foundation for Innovation to support advanced research infrastructure at universities, colleges and research hospitals.

$105 million over five years for CANARIE, starting in 2015-16, to continue to operate Canada’s national world-class high-speed research and education network.

$46 million in 2016-17 and ongoing to the granting councils focused in areas that will fuel economic growth, including the Natural Sciences and Engineering Council, Social Sciences and Humanities Research Council, Canadian Institutes of Health Research and Research Support Fund.

$119.2 million over two years to support the industry-partnered research and development activities of the National Research Council.

$56.4 million over four years (starting in 2016-17) to national research network Mitacs in support of more than 6,000 new graduate-level research and development internships focused on business-related challenges (Accelerate Program).

Helping small businesses and entrepreneurs

Amendment of the Canada Small Business Financing Act to increase the maximum loan amount for real property from $500,000 to $1 million and raise the small-business eligibility criteria from firms with gross annual revenues of $5 million or less to firms with gross annual revenues of $10 million or less.

Increasing access to venture capital financing to help innovative, high-growth companies grow and create jobs.

Training a highly skilled workforce

Making a one-time investment of $65 million over four years (starting in 2016-17) to business and industry associations to allow them to work with willing post-secondary institutions to better align curricula with the needs of employers.

$50 million over five years to create an export market development program to share the financial costs with small and medium-sized enterprises as they explore and pursue new export opportunities.

Providing $1 million over five years to promote the adoption of the Blue Seal Certification program across Canada.

Following is a brief summary of the key tax measures.

Business income tax measures

Corporate tax rates

No changes are proposed to the general corporate income tax rate.

Small-business tax rate

The small-business deduction currently reduces the federal income tax rate from 15% to 11% on the first $500,000 per year of qualifying active business income of a Canadian-controlled private corporation. Budget 2015 proposes to reduce the 11% rate by one half of one percent per year, commencing 1 January 2016, over the next four years to a 9% rate effective 1 January 2019.

On a related matter, the Government announced it will undertake a review of the circumstances in which income from a business, the principal purpose of which is to earn income from property, should qualify as active business income.

In conjunction with this reduction in the small-business tax rate, the personal gross-up factor and dividend tax credit for non-eligible dividends will be adjusted to result in a phased-in increase in personal tax on all non-eligible dividends paid out over the next four years. See the personal tax changes for a table of the impact on personal tax rates.

EI premium rate reduction

Commencing in 2017, the Government will implement the seven-year break-even Employment Insurance (EI) premium rate-setting mechanism, which will ensure that
EI premiums are no higher than needed to pay for the EI program over time.

Under the proposal, any cumulative surplus recorded in the EI Operating Account will be returned to employers and employees through lower EI premium rates once the new mechanism takes effect.

Based on current estimates, it is expected to result in a reduction in the EI premium rate, from $1.88 in 2016 to an estimated $1.49 in 2017.

**Accelerated capital cost allowance**

*Manufacturing and processing machinery and equipment:* The temporary Class 29 pool (with a 50% straight-line CCA rate) that is applicable for acquisitions prior to 2016 has been replaced with a new CCA Class 53 (with a 50% declining-balance CCA rate) for eligible assets acquired after 2015 and before 2026. The half-year rule will apply to the taxation year when the asset is first available for use. These assets will also be considered “qualified property” for the purpose of the Atlantic Investment Tax Credit.

**Tax avoidance of capital gains (subsection 55(2))**

Subsection 55(2) is an anti-avoidance rule intended to prevent the inappropriate reduction of a capital gain by way of the payment of a deductible inter-corporate dividend.

Currently, subsection 55(2) generally applies where one of the purposes of the dividend was to effect a significant reduction in the portion of a capital gain that, but for the dividend, would have been realized on a disposition of any share, unless an exception applies. Exceptions to the application of subsection 55(2) include where:

- The dividend can reasonably be attributed to safe income
- The dividend is subject to Part IV tax
- The dividend is received as part of certain related-party transactions or a qualifying butterfly transaction

If subsection 55(2) applies, the dividend is treated as proceeds of disposition of the share or a gain from the disposition of capital property (depending on whether the share has been disposed of).

Subsection 55(2) does not currently apply to dividends that create or increase an unrealized capital loss. In this circumstance, a shareholder may be able to use the unrealized loss to effectively shelter a capital gain on another property.

Budget 2015 proposes to amend subsection 55(2) such that the anti-avoidance rule applies where one of the purposes of the dividend is to significantly reduce the fair market value of any share or significantly increase the total cost of properties of the dividend recipient (regardless of whether the dividend reduces a capital gain). Related proposals ensure that the same subsection 55(2) implications arise where the value of the relevant share is or becomes nominal.

Special rules apply in respect of stock dividends depending on the fair market value of the shares issued relative to the increase in the paid-up capital of the corporation. Any dividend to which the anti-avoidance rule applies would be treated as a gain from the disposition of capital property.

Budget 2015 also proposes to restrict the exception for certain related party transactions to dividends deemed received as a result of the redemption, acquisition or cancellation of shares.

The amendments are proposed to apply to dividends received by a corporation on or after budget day.

**Dividend rental arrangement rules and synthetic equity arrangement**

The existing dividend rental arrangement rules are intended to deny a deduction for an inter-corporate dividend received as part of an arrangement under which the economic exposure to the underlying share is borne by another person.

Budget 2015 proposes to modify the dividend rental arrangement rules to deny a deduction for an inter-corporate dividend on a share in respect of which there is a “synthetic equity arrangement.” In a synthetic equity arrangement, a taxpayer uses an equity derivative to transfer substantially all of the risk of loss and opportunity for gain or profit in respect of a share to a counterparty, such as a tax-exempt entity or a nonresident (a “tax-indifferent investor”), while the
taxpayer retains legal ownership of the share. On the basis that the current dividend rental arrangement rules do not apply, the taxpayer claims a deduction for the dividend as well as for a dividend-equivalent payment made to the counterparty, and the counterparty (being a tax-indifferent investor) does not pay tax on the dividend-equivalent payment.

A synthetic equity arrangement would exist where the taxpayer, or a person that does not deal at arm’s length with the taxpayer, enters into one or more agreements that have the effect of providing to the counterparty all or substantially all of the risk of loss and opportunity for gain or profit in respect of the underlying share. An exception to the rules would apply where the taxpayer can establish that no tax-indifferent investor (or affiliate group of tax-indifferent investors) has all or substantially all of the risk of loss and opportunity for gain or profit in respect of the share.

The synthetic equity arrangement rules would not apply to agreements that are traded on a recognized derivatives exchange unless it can reasonably be considered that the taxpayer knows, or ought to know, the identity of the counterparty to the agreement.

Budget 2015 proposes an alternative synthetic equity arrangement regime in which the dividend rental arrangement rules would apply regardless of the counterparty’s tax status. Although broader, the alternative regime would be less complex.

The Government has invited stakeholders to submit comments by 31 August 2015 regarding whether the broader alternative proposals should be adopted.

Quarterly remitter category for new employers

Employers are required to remit source deductions to the government in respect of employees’ income tax, in addition to the employer and employee portions of Canada Pension Plan contributions and Employment Insurance premiums. These withholdings must be remitted weekly, twice monthly, monthly or quarterly. The employer’s remittance frequency is determined based on its average monthly withholding in the preceding calendar years. New employers must remit on a monthly basis for at least one year, after which they may qualify to apply for quarterly remitting if they have an average monthly withholding amount of less than $3,000 and a perfect compliance record over the past 12 months.

Budget 2015 proposes to decrease the required frequency of remittances for certain new employers by allowing eligible employers to immediately remit on a quarterly basis. Eligible employers will be new employers with withholdings of less than $1,000 each month. Ongoing eligibility for quarterly remitting will require that the employer maintain a perfect compliance record.

Employers will continue to be eligible for quarterly remitting under this measure, if their required monthly withholding amount remains under $1,000. If withholdings rise above this level, the Canada Revenue Agency (CRA) will classify an employer as a more frequent remitter in accordance with the existing remittance rules.

This measure will apply to withholding obligations that arise after 2015.

Agricultural cooperatives

Budget 2015 proposes to extend the Budget 2005 measure that defers the taxation of a patronage dividend paid in stock that is issued before 2016 to before 2021.

Consultation on eligible capital property

The government is still considering submissions from various stakeholders on its announcement in Budget 2014 to repeal the eligible capital property regime and replace it with a new capital cost allowance class, and therefore only indicated that it was its intention to release detailed draft legislative proposals for stakeholder comment before introducing a bill.

International measures

Captive insurance

The Canadian tax system contains anti-avoidance rules that prevent taxpayers from shifting certain Canadian-source income to non-Canadian jurisdictions. Under these rules, such income earned by a controlled foreign affiliate of a taxpayer resident in Canada is considered “foreign accrual property income” (FAPI) and is taxable in the hands of the Canadian taxpayer on an accrual basis.
One of the specific anti-avoidance rules in this area is intended to prevent Canadian taxpayers from shifting income from the insurance of Canadian risks to a foreign affiliate. This anti-avoidance rule was amended as part of Budget 2014 to address certain “insurance swaps.” In general, the transactions targeted by the 2014 amendments are those where a foreign affiliate insures a pool of foreign risks but retains economic exposure to a pool of Canadian risks. In these circumstances, the rules effectively deem the pool of foreign risks to be Canadian risks.

Budget 2015 indicates that the government has become aware of alternative arrangements that are intended to achieve tax benefits similar to those that the 2014 amendments were intended to prevent. According to Budget 2015, under these alternative arrangements the affiliate cedes its Canadian risks in exchange for a portfolio of insured foreign risks, which is considered to have earned FAPI in respect of the ceding of the Canadian risks in an amount equal to the difference between the fair market value of the Canadian risks ceded and the affiliate’s costs in respect of having acquired those Canadian risks.

This type of insurance swap is a common business transaction used by insurance entities to diversify their risk, and is generally done without significantly reducing profitability on the basis that the expectation of profit on risks ceded and assumed is similar. Therefore, the Budget 2015 changes are designed to ensure that any profit component on the ceding of Canadian risks is effectively deemed to be income from insuring those risks.

This measure will apply to taxation years of taxpayers that begin after 20 April 2015, giving certain taxpayers a brief transitional period. There is also a consultation period on this measure and the Government invites interested parties to submit comments by 30 June 2015.

### Withholding for nonresident employers

Employment income earned by nonresidents in Canada is subject to Canadian tax. However, a resident of a country that has a tax treaty with Canada is often exempt from Canadian tax on such employment income if certain conditions are met. An employer (including a nonresident employer) is generally required to withhold amounts on account of the employee's income tax liability for working in Canada, even if the employee is a nonresident who will be exempt from Canadian tax because of a tax treaty. While a waiver can be obtained from the CRA to relieve the withholding obligation, the waiver system is not efficient, as waivers must be obtained separately for each employee.

Budget 2015 proposes to allow an exemption to the withholding obligations for payments by qualifying nonresident employers to qualifying nonresident employees. An employee will be a qualifying nonresident employee if the employee:

- Is exempt from Canadian income tax in respect of a payment because of a tax treaty
- Is not present in Canada for 90 or more days in any 12-month period that includes the time of the payment

Qualifying employers must be resident in a country with which Canada has a tax treaty. The employer must not carry on business through a Canadian permanent establishment of the employer in the fiscal period that includes the time of the payment. Further, the employer must be certified by the Minister at the time of the payment.

Although a qualifying nonresident employer will not be required to withhold if these conditions are met.
met, it will be responsible for its reporting requirements with respect to amounts paid to its employees. Employers will be liable for any withholding for employees who do not meet these conditions.

This measure will apply to payments made after 2015.

**Streamlining reporting requirements for foreign assets**

A Canadian-resident individual, corporation or trust that, at any time in a taxation year, owns specified foreign property with a total cost of more than $100,000 must file a Foreign Income Verification Statement (Form T1135) with the CRA. Specified foreign property generally includes funds and investments held outside Canada, but excludes property used exclusively in carrying on an active business, property that is for personal use and property held in registered plans.

The CRA introduced a revised Form T1135 in 2013, which requires more detailed information on each specified property. This new level of reporting has resulted in a significant compliance burden for some taxpayers.

To reduce the compliance burden, Budget 2015 proposes to simplify the reporting for taxation years that begin after 2014. Under a revised form being developed, if the total cost of a taxpayer’s specified foreign property is less than $250,000 throughout the year, the taxpayer will be able to report the assets under a new simplified reporting system. The current reporting requirements will continue to apply to taxpayers with specified foreign property that has a total cost at any time during the year of $250,000 or more.

**Update on tax planning by multinational enterprises**

Canada continues to work with the Organisation for Economic Co-operation and Development (OECD) and other members of the G20 on the issues identified in the OECD’s Action Plan on Base Erosion and Profit Shifting (BEPS). In Budget 2014, the Government invited input from stakeholders on issues related to international tax planning, and this has helped shape Canada’s ongoing participation in the international discussions related to BEPS.

Budget 2015 does not propose any specific legislative action relating to BEPS. The Government has indicated that it looks forward to the conclusion of the project and to discussion with the international community on the implementation of its recommendations. Budget 2015 also indicates that the Government will proceed in this area in a manner that balances tax integrity and fairness with the competitiveness of Canada’s tax system. The Government recognizes that taxes are one of the main factors that drive investment decisions and it is committed to maintaining Canada’s advantage as an attractive destination for business investment.

**Update on the automatic exchange of information for tax purposes**

The exchange of tax information between countries is an important tool for promoting compliance and combating tax evasion. In 2013, the G20 committed to automatic exchange of tax information in respect of financial accounts as the new global standard. In November 2014, the G20 endorsed a new common reporting standard and committed in February 2015 to work towards completing the necessary legislative procedures within an agreed timeframe. In February 2014, Canada also signed an intergovernmental agreement with the US for the enhanced exchange of tax information.

Canada proposes to implement the G20 common reporting standard starting on 1 July 2017, allowing a first exchange in 2018. As of the implementation date, financial institutions will be expected to have procedures in place to identify accounts held by nonresidents and to report that information to the CRA. In advance of the first exchange, the CRA will formalize exchange agreements with other jurisdictions, ensuring that each has appropriate capacity and safeguards in place to, for example, protect taxpayer confidentiality and ensure exchanged information is used only by tax authorities and only for tax purposes.

Draft legislative proposals will be released for comments in the coming months.
Tax relief for individuals and families

**Personal income tax rates**

There are no individual tax rate or tax bracket changes in this budget. However, there are changes to the gross-up factor and dividend tax credit rate for non-eligible dividends (as described below).

The 2015 personal tax rates are summarized in Table D.

**Table D: Federal personal income tax rates**

<table>
<thead>
<tr>
<th>First bracket rate</th>
<th>Second bracket rate</th>
<th>Third bracket rate</th>
<th>Fourth bracket rate</th>
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<tbody>
<tr>
<td>15%</td>
<td>22%</td>
<td>26%</td>
<td>29%</td>
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**Non-eligible dividend tax rate changes**

Related to the small-business tax rate changes described above, the budget proposes to adjust the gross-up factor and dividend tax credit (DTC) rate for non-eligible dividends.

The gross-up factor for non-eligible dividends will be reduced from 18% to 17% effective 1 January 2016, to 16% effective 1 January 2018 and to 15% effective 1 January 2019. The DTC rate will be adjusted from 13/18 to 21/29 of the gross-up amount effective 1 January 2016, to 20/29 of the gross-up amount effective 1 January 2017, and to 9/13 of the gross-up amount effective 1 January 2019.

Table E summarizes the impact of these changes on the federal top marginal non-eligible dividend rate:

**Table E: Federal top marginal non-eligible dividend rates**

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<tbody>
<tr>
<td>21.22%</td>
<td>21.62%</td>
<td>22.21%</td>
<td>22.61%</td>
<td>22.97%</td>
</tr>
</tbody>
</table>

The combined federal and provincial impact will vary by province.

**Lifetime capital gains exemption for qualified farm or fishing property**

Budget 2015 proposes to increase the capital gains exemption (CGE) for dispositions of farm property or fishing property after 20 April 2015 up to $1 million.

The 2015 CGE for capital gains realized on the disposition of qualified small business corporation shares is $813,600, which is indexed for inflation.

**Registered retirement income fund: minimum withdrawals**

Effective for 2015 and subsequent taxation years, the budget proposes to reduce the factors used to calculate the annual minimum amount required to be withdrawn from a registered retirement income fund (RRIF) in respect of individuals aged 71 to 94. The new minimum withdrawal factors will be based on a 5% nominal rate of return and a 2% indexing factor (for inflation). The reduced factors will permit individuals to keep more money in their RRIF for a longer period of time. There are no changes proposed to the RRIF withdrawal factors that apply in respect of individuals under the age of 71.

As a transitional measure, individuals who at any time in 2015 withdraw more than the reduced 2015 minimum amount will be permitted to recontribute the excess (up to the amount of the proposed reduction in the minimum amount for 2015) to their RRIF. The excess must be recontributed by 29 February 2016, and will be deductible for the 2015 taxation year.
Similar changes will apply to annual payments from a defined contribution registered pension plan or a pooled registered pension plan.

**Registered disability savings plan (RDSP): legal representation**

Budget 2012 introduced a temporary measure to permit certain family members (parents, spouses and common-law partners) to become plan holders of an RDSP for adults who might not be able to enter into contracts. Budget 2015 proposes to extend this measure, which was set to expire at the end of 2016, to the end of 2018.

**Tax-free savings account (TFSA)**

As recently speculated in the media, the TFSA annual contribution limit will increase from $5,500 to $10,000 for 2015 and subsequent calendar years, and will no longer be indexed to inflation.

**Tax credits**

The budget includes the following tax credit proposals:

- **Home accessibility tax credit:** The home accessibility tax credit (computed using the lowest personal tax rate of 15%) allows seniors and persons with disabilities relief on eligible expenditures up to $10,000 per calendar year, per qualifying individual. Qualifying individuals are individuals 65 years of age or older at the end of a particular year and individuals eligible for the Disability Tax Credit at any time in a particular year. The credit can also be claimed by an eligible individual, which includes someone who claims the spouse or common-law partner amount, the eligible dependant amount, the caregiver amount or infirm dependant amount for the qualifying individual for the year. Where there is more than one qualifying individuals or eligible individuals in respect of a single eligible dwelling (which must be the principal residence of the qualifying at any time during the year) the maximum credit among all individuals is $10,000.

  Eligible expenditures (work performed and/or goods acquired after 2015) must be enduring in nature to allow the qualifying individual to gain access to, or be more mobile or functional within, the dwelling or reduce the risk of harm to the qualifying individual within the dwelling.

- **Family tax cut and transfer of education credits:** Budget 2015 proposes to revise the calculation of the family tax cut for couples who transfer education-related amounts (i.e., for the tuition, education and textbook tax credits) between themselves to ensure these couples receive the appropriate value of the family tax cut. This change will apply for 2014 and subsequent years. Once the amending legislation becomes enacted, the CRA will automatically reassess affected taxpayers for the 2014 taxation year.

Penalties for repeated failure to report income

Taxpayers that fail to report all of their income on their income tax return may be subject to penalties. Currently, taxpayers could be subject to a penalty of 10% of unreported income for a taxation year if they fail to report an amount of income in a taxation year, as well as in any of the three preceding taxation years. In addition, a gross negligence penalty may apply if the taxpayer knew, or under circumstances amounting to gross negligence, ought to have known that an amount of income should have been reported. This penalty is generally equal to 50% of the understatement of tax payable (or overstatement of tax credits) related to the omission.

In some cases, and particularly for lower-income individuals, the penalty for repeated failure to report income can sometimes be disproportionate to the actual associated tax liability, and in some cases exceed the gross negligence penalty.

Budget 2015 proposes to amend the penalty to apply only if in a taxation year the taxpayer fails to report at least $500 of income in the year and any of the three preceding years. The amount of the penalty will be the lesser of:

- 10% of the amount of unreported income
- An amount equal to 50% of the difference between the understatement of tax (or the overstatement of tax credits) related to the omission and the amount of any tax paid in respect of the unreported amount (e.g., by an employer as employee withholdings)
No changes are proposed to the gross negligence penalty.

This measure will apply to 2015 and subsequent taxation years.

Charities and non-profit organizations

Budget 2015 proposes the following measures relating to charities:

- **Private corporation shares and real estate dispositions**: Subject to anti-avoidance rules, a capital gains exemption is introduced in respect of arm’s-length dispositions of private corporation shares or real estate, where cash proceeds from the disposition are donated within 30 days. (Applicable to donations made in respect of dispositions occurring after 2016.)

- **Investments in limited partnerships**: Amendments to allow registered charities and registered Canadian amateur athletic associations (RCAAAs) to invest in limited partnerships. Registered charities and RCAAAs will thus no longer be considered to carry on a business solely because of the acquisition or the holding of an interest in such partnerships. These investments will be allowed, subject to a maximum 20% interest-holding condition is met and to the registered charity (or the RCAA) dealing at arm’s length with each general partner of the partnership. Consequential amendments will also be made to the existing excess corporate holding rules, the non-qualifying security rules and the loanback rules. (Applicable in respect of investments made or acquired on or after 21 April 2015.)

- **Gifts to foreign charitable foundations**: Amendments to allow foreign charitable foundations to be registered as qualified donees under certain circumstances. (Applicable on Royal Assent to the enacting legislation).

Sales and excise tax measures

**GST/HST measures**

Although Budget 2015 includes no significant new GST/HST proposals, the accompanying Notice of Ways and Means Motion to Amend the Excise Tax Act included two general administrative tax measures described below.

**Customs measures**

Budget 2015 includes no proposals for legislative amendments to the Customs Act or the Customs Tariff.

**Excise duty measures**

Although Budget 2015 includes no significant new excise duty proposals, the accompanying Notice of Ways and Means Motion to Amend the Excise Act, 2001 included two general administrative tax measures, described below.

Other administrative tax measures

**Alternative arguments in support of assessments**

The CRA has been unsuccessful in raising alternative arguments with respect to individual items in certain tax appeals, resulting in several adverse court decisions in cases it might otherwise have won. As a consequence, Budget 2015 is proposing to amend the Income Tax Act to allow the Minister to advance alternative arguments after the relevant reassessment period has expired with respect to individual items within an assessment, as long as the total amount of the assessment does not increase. There are also corresponding proposals to amend the Excise Tax Act and the Excise Act, 2001.

**Information sharing for the collection of non-tax debts**

The confidentiality of taxpayer information collected under each of the federal tax statutes is protected under legislative provisions which restrict the extent to which information the CRA obtains for purposes of the administration of particular tax programs may be used for other purposes.

Generally speaking, unless a particular use or disclosure is specifically authorized under the legislation, information cannot be disclosed. This limits the extent to which information can be shared within the CRA. For example, although the CRA is responsible for the collection of a variety of debts under federal and provincial non-tax legislation, officials who are responsible for these debt collection activities are unable to access existing tax information, leading to administrative inefficiencies. The current legislative framework also limits the ability of CRA officials to disclose tax information to
federal or provincial colleagues for purposes of the administration of new or amended government programs.

Budget 2015 includes proposed amendments to Section 295 of the Excise Tax Act, Section 241 of the Income Tax Act and Section 211 of the Excise Act, 2001 to broaden the extent to which taxpayer information obtained under these statutes can be used by CRA officials for debt collection purposes, or supplied to other provincial or other federal officials for the purposes of administering the statutes identified in the amendments.

Pending legislation

Bill C-57, Support for Families Act
Bill C-57 includes the following personal income tax measures that were first announced in October 2014:

- Family tax cut credit of up to $2,000 per annum effective for 2014 and later years
- Child care expense deduction increase of $1,000 in each expense deduction limit effective for 2015 and later years
- Universal child care benefit increase to $160 from $100 per month for each child under the age of six and new benefit of $60 per month for each child aged 6 through 17 effective 1 January 2015
- Child tax credit (other than the family caregiver amount) repealed effective for 2015 and later years

Balanced budget legislation

On 8 April 2015, the Minister confirmed the Government’s plan to introduce balanced budget legislation. The proposed legislation would define concrete actions to be taken in the event of a deficit and require specific timelines for a return to balanced budgets.

Previously announced measures

The Government confirmed its intention to introduce a number of previously announced measures, as modified to take into account consultations and deliberations since their release.

Mining and oil & gas industries

On 1 March 2015, the Government issued a news release announcing proposed changes to the tax treatment of costs related to environmental studies and community consultation in order to obtain an exploration permit. These costs will be eligible for treatment as Canadian Exploration Expenses (CEE) and will also be eligible for flow-through share treatment. The proposals will apply to expenses incurred after February 2015.

The Government will also extend the mineral exploration personal tax credit for a further year (it will expire on 31 March 2016). (See EY Global Tax Alert, Canada announces new funding to support mining and oil and gas exploration, dated 5 March 2015.)

LNG facilities

On 19 February 2015, the Government released draft regulations to increase the capital cost allowance (CCA) rates for certain property acquired for use in liquefied natural gas (LNG) facilities in Canada. The new rules would apply to eligible property acquired after 19 February 2015 and before 2025. (See EY Global Tax Alert, Canadian Government proposes increased CCA for LNG facilities, dated 20 February 2015.)

Foreign affiliates

On 12 July 2013, the Government proposed draft legislation to ensure that stub period foreign accrual property income (FAPI) is included in the taxpayer’s income for the taxation year in which the taxpayer disposes of, or reduces, its interest in a foreign affiliate. Budget 2015 confirms the Government’s intention to proceed with this proposal.

Consultation papers or reports

Tax planning by multinational enterprises

On 11 February 2014, the Government launched a consultation on how fairness could be maintained between different categories of taxpayers (i.e., multinationals, small businesses and individuals) and how to better protect the Canadian tax base while maintaining an internationally competitive tax system that is attractive for investment. Consultation ended 11 June 2014.
Treaty shopping
On 11 February 2014, the Government announced its intention to move forward with a general domestic anti-treaty-shopping rule and to undertake consultations regarding specific provisions of the proposed rule. Consultation ended 12 April 2014.
The Government announced in a news release on 29 August 2014 its intention to await further work by the OECD and the G20 on the BEPS initiative. On 16 September 2014, OECD recommendations on this topic were released in a report entitled Preventing the Granting of Treaty Benefits in Inappropriate Circumstances.

Joint venture GST/HST accounting obligations
On 11 February 2014, the Government announced its intent to propose new joint venture election measures, as well as complementary anti-avoidance measures, to allow more commercial joint venture activities and participants to access the GST/HST simplification benefits available under the joint venture election. The consultation period remains open pending the release of draft legislative proposals.

Webcast
Members of the EY tax team will record their analysis and insights on the tax measures in the 2015 budget. View this webcast at ey.com/ca/Budget.

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