# 2015 Federal Budget Special Report

April 21, 2015

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## 2015 Federal Budget Overview – THE BIG WINNERS: SAVERS, SENIORS AND SMALL BUSINESS

Tax breaks and economic incentives have been peppered throughout Canada's pre-election budget document with savers, seniors and small business corporations emerging as big winners. This despite the fact that tax revenues are expected to rise at a slower rate in the forecast period to 2020.

Further, the budget was silent on longer term issues outlined last November's fiscal update, which pre-warned that slower nominal GDP growth will limit the capacity of the federal government to continue to finance public expenditures at previous higher rates at the very time that population aging will put upward pressure on age-related programs like elderly benefits and health care.

The Fraser Institute, for example, estimates that by the year 2040, taxpayers will need to find $109.4 billion *for* Old Age Security (OAS) benefits to payable to Canada's 9.6 million baby boomers.

Self-sufficiency in self-funding future retirements is clearly an issue and the big news coming out of this budget is the opportunity to do so: by max-funding a new $10,000 annual TFSA contribution limit, pre-retirees as well as those in retirement can take advantage of the tax-free savings opportunities to better withstand future shocks to equity or cash flow including OAS limitations or reductions, should they occur.

Highlights in this Special Budget Report include submissions by Walter Harder, DFA-Tax Service Specialist, Murray Leiter, CFA and Evelyn Jacks, MFA.

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## Economic Quick Tips: New Measures In The April 21, 2015 Budget

**ESPECIALLY FOR SAVERS**

**The Tax Free Savings Account (TFSA) Contribution Limit** is raised from $5,500 to $10,000 effective January 1, 2015 – that's immediately – making the cumulative maximum contribution available now $41,000. However, the annual limit will no longer be CPI-indexed.

**ESPECIALLY FOR SENIORS**

**The Registered Retirement Income Fund (RRIF)** withdrawal minimums are reduced, based on factors of 5% nominal ROR and 2% indexing (versus previous 7% ROR and CPI 1% factors):

- This means that at age 71 the withdrawal minimum is lowered from 7.38% to 5.28% (or 28.45%). In addition the reduction decreases with age: at age 94 from 20% to 18.79% (- 6.05%)
- These changes will apply effective 2015 / Excess 2015 withdrawals may be re-contributed to 2/29/2016

**A new Home Accessibility Tax Credit (HATC)** will bring a 15% non-refundable tax credit to seniors (those age 65 or older) and disabled people (those eligible for the Disability Tax Credit) to supplement the costs of home renovations and improvements required for safety and accessibility. The credit will be available for expenditures made on or after January 1, 2016 to a maximum of $10,000 per year.

**Registered Disability Savings Plan Changes.** Qualifying family members will be allowed to continue to be the plan holder to the end of 2018 if the disabled person cannot enter into the contract.

**T1135 – Foreign Asset Reporting** is to be streamlined for 2015 & beyond for those with foreign assets valued under $250,000. This will be welcome news for seniors who rent southern properties or own significant financial assets offshore.

**ESPECIALLY FOR SMALL BUSINESS OWNERS**

**The Lifetime Capital Gains Exemption for Qualified Farm and Fishing Properties** will rise from $813,600 to $1 million on sales on or after April 21, 2015. The exemption will now be greater of $1 million and the indexed LCGE for QSBC shares.

**Employment Insurance (EI):** Compassionate care benefits coverage will be increased from 6 weeks to 6 months, effective January 1, 2016. In addition, the EI premium rate will be subject to a seven-year break-even premium rate-setting mechanism starting in 2017 to ensure that EI premiums collected do not exceed the EI program payment demands over time. Over time this is expected to result in reduction in EI premium rates from $1.88 in 2016 to an estimated $1.29 in 2017. The projected savings for contributors will be 21%.



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**Small Business Tax Rate is reduced** from 11% to 10.5% effective January 1, 2016, then 10% (2017), 9.5% (2018), and finally 9% on January 1, 2019. There is no change to Small Business Deduction limit of $500,000 active income for these purposes but changes have been made to non-eligible dividend gross-up and dividend tax credit rates to coincide with these changes.

**The Accelerated 50% CCA for Manufacturing and Processing Equipment** has been extended to 2026 and the claim will be made in new class 53.

**Charities**
The Capital Gains Exemption for donated shares has been extended to shares of private corporations and real estate, provided the transactions are at arms-length and subject to special GAAR rules over 5 subsequent years. Charities may now also be invested in Limited Partnerships.

## Detailed Personal Tax Roundup

**TFSA Contribution Limits**
Effective for 2015 and subsequent taxation years, the TFSA contribution limit is set to $10,000 per year. The indexing that increased the previous limit from $5,000 to $5,500 is gone. The $10,000 limit will remain at that level until legislation is introduced to change it. This, of course, means the real dollar limit will drift lower over time as inflation eats away at the value of the $10,000 contribution.

This is great news for both young taxpayers and the elderly.

For the younger taxpayer, the potential to earn a tax-free retirement income has increased immensely. Consider a younger taxpayer who contributes $10,000 annually to their TFSA, earning a modest 5% return over a 40-year period. The deposits will have grown to more than $1.2 million. Even taking into account inflation, the dollar value of the TFSA will be almost $600,000 in current dollars. This will result in a tax-free annuity of almost $24,000 annually for a 40-year retirement. Add on OAS and CPP and that single savings plan could adequately fund their retirement.

For the elderly, the increased contribution limit will make it easier to minimize taxes while melting down their RRSPs or RRIFs. Although the time horizons are much shorter, the ability to earn income on more non-registered funds without paying the tax man will increase the income available to fund expenses in retirement.

**Changes for Seniors**
Two budget provisions are targeted squarely at seniors. The revised RRIF minimum withdrawal rates and the new Home Accessibility Tax Credit.



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**RRIF Rules**

Beginning this year, the minimum required withdrawal amount between ages 71 and 94 is reduced. The minimum before age 71 remains at (1 – age)/90 while the minimum for age 95 and over remains at 20%. All other minimums are reduced. For example, at age 71, the minimum withdrawal rate is reduced from 7.38% to 5.28%. The result is that seniors can keep their RRIF accumulations sheltered for a longer period of time and have greater flexibility over the way the money is withdrawn.

**Example**

Henry is 71 and has just converted his RRSP savings of $300,000 into a RRIF. Under the old rules, he would have to have withdrawn a minimum of $22,140 from his RRIF for 2015. Under the new rules, his minimum withdrawal for 2015 is only $15,840. This reduces his taxable income for the year by $6,300 and leaves the $6,300 in the RRIF for use in later years.

Seniors who have already withdrawn more than the new required minimum from their RRIFs in 2015 will be allowed to return the amount in excess of the new minimum (but not any amounts in excess of the old minimum) to their RRIFs for 2015.

**Home Accessibility Tax Credit**

The new Home Accessibility Tax Credit is a non-refundable credit for the cost of renovations or alterations to a dwelling that allow a taxpayer who is 65 or older or who is eligible for the disability amount to gain access to or be more mobile or functional within the dwelling. The maximum credit is 15% of $10,000 or $1,500. The requirements for the renovations are similar to those for claiming renovations for disabled individuals as a medical expense. Where the expenditure qualifies for both credits, both credits may be claimed.

The credit may be claimed by the senior or disabled person or by anyone who is claiming any of the following credit for that person:

- Amount for spouse or common-law partner;
- Amount for an eligible dependant;
- Caregiver amount; or
- Amount for an infirm dependant.



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**Small Business Owners and Investors**

The federal corporate tax rate applicable to small business corporations (taxable income less than $500,000) will be reduced by 0.5% per year for years 2016 to 2019. The rates are shown in the following table:

| Year | Small Business Tax Rate |
|---|---|
| **2015** | 11.0% |
| **2016** | 10.5% |
| **2017** | 10.0% |
| **2018** | 9.5% |
| **2019** | 9.0% |

This reduction in corporate tax rates will mean more after-tax income for the corporation to use to build the business or to pay out as dividends. For the investors receiving dividends, this could be good news as dividend rates could increase as tax rates decrease. On the flip side of the coin, the last column in the table above shows the dividend tax credit rate available to investor. As the corporate taxes decrease, the dividend tax credit decreases resulting in a higher marginal tax rate on that dividend income. Here's how that looks:

| Year | Gross Up | Dividend Tax Credit |
|---|---|---|
| **2015** | 18% | 11.0% |
| **2016** | 17% | 10.5% |
| **2017** | 17% | 10.0% |
| **2018** | 16% | 9.5% |
| **2019** | 15% | 9.0% |

For businesses that pay their after-tax income to their investors rather than using it to build the business, these changes simply moves the taxation of the income from the corporation to the investor.

**Farmers and Fishers**

Good news for taxpayers who are transitioning out of their businesses through a sale of qualified farm or fishing property: the maximum capital gains exemption increases to $1,000,000 ($500,000 taxable gains) on the sale of the property after April 20, 2015. This is an increase over the $813,600 exemption available on the sale of qualified small business corporation shares. The exemption is, of course, a lifetime exemption and is reduced by any capital gains exemption claimed previously. The $1,000,000 figure will not be indexed.



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**Patronage Dividends**

Patronage dividends received by farmers from agricultural co-ops are taxable income in so much as they represent a reduction in the cost of deductible farm expenses. Currently, the tax on such dividends may be deferred if the dividends are received in the form of shares in the co-op. The current tax deferral provision expires in 2015. The Budget extends this deferral by five year to 2020.

**Students**

The budget proposes to reduce the expected level of parental contribution under the Canada Student Loans Program making loans available to a larger number of students. In addition, the current reduction in support for working student who earn more than $100 per week while studying will be eliminated.

**Donations of Capital Gains Proceeds**

Currently taxpayers who donate publicly-traded shares, ecologically sensitive land, and certified cultural property are exempted from the capital gain on the increase in value of the donated shares.

For donations made after 2016, the exemption from capital gains will be extended to the proceeds from the disposition of shares in a private corporation or from real estate if the proceeds are donated within 30 days of the sale of the property.

**Example**

Phil purchased his cottage in 2008 for $100,000 and sold it in 2017 for $450,000. The cottage was never designated as Phil's principal residence so the entire $350,000 capital gain is taxable. If Phil donates $150,000 of the proceeds to a registered charity, he can exempt $150,000 / $450,000 x $350,000 = $116,667 of the capital gain from tax, in addition to receiving a charitable donation credit for the $150,000 donation.

**Donation to Foreign Charitable Foundations**

The budget proposes that foreign charitable donations may be classed as qualified donees (i.e. the donation tax credit may be made for donations made to the foundation) if the foundation receives a gift from the Government of Canada and they are providing disaster relief or humanitarian aid or if they are carrying on activities in the national interest of Canada.

**Foreign Asset Reporting**

Form T1135 *Foreign Income Verification Statement* and the rules around reporting foreign holding have changed several times over the last couple of years. For 2015 and subsequent years, the government will be changes those rules again. The Budget proposes to simplify the reporting requirements when the value of the foreign assets does not exceed $250,000. The newer simplified rules will thus apply to assets with values between $100,000 and $250,000. The existing rules will apply where the taxpayer has foreign assets whose value exceeds $250,000.



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**Failure to Report Income**

For taxpayers who fail to report income more than once in a four-year period, some relief is in store.

Penalties will no longer be assessed if the amount that is nor reported is less than $500. In addition, the penalty will not exceed 50% of the tax saved by not reporting the income. Previously, the penalty was a flat 10% of the income not reported. This penalty will thus be eliminated for non-taxable individuals who fail to report taxable income.

**Employment Insurance Compassionate Care Benefits**

As of January 2016, the maximum benefit period for claiming Compassionate Care Benefits from Employment Insurance will increase from the current six weeks to six months.

## Budget 2015: What's In It for You…

How did the Pre-Election Budget help you?

Here are a few scenarios to help you consider whether you were a winner. Remember, many of the tax and benefit changes you'll enjoy in 2015 and beyond were already introduced last fall. They include:

- **UCCB - Universal Child Care Benefit.** This benefit rises to $160/month for children under age 6, and there is now a new benefit of $60/month for children 6-17. This change is effective January 1, 2015 but you'll receive the money in a lump sum for the first half of the year in July. Happy vacationing… or better yet – top up that TFSA!
- **The Non Refundable CTC - Child Tax Credit** is now replaced by the UCCB; so it won't appear on your 2015 tax return anymore.
- **The Child Care Expense Deduction** maximum claim increased by $1,000 to $8,000 per child under age 7, and to $5,000 for each child aged 7 to 16 as well as infirm dependent children over age 16, and to $11,000 for children who are eligible for the Disability Tax Credit. This will be claimed on your 2015 tax return
- **Family Tax Cut Credit**. Up to $2,000 for couples with children under 18, effective back in 2014. However the calculation changed in this budget to now include an optimization of transferred education credit amounts
- **Children's Fitness Tax Credit.** This doubled to $1,000 in 2014, and is a refundable credit as of 2015.
- **Family Caregiver Relief Benefit and Critical Injury Benefits** now non-taxable to Veterans, as per March 2015 announcements.

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**The Tax Multiple Benefits of the TFSA**

The TFSA was introduced in the February 26, 2008, federal budget, made available to taxpayers who are resident in Canada and over the age of 17, for tax year 2009 and beyond. The original annual contribution limit to the TFSA was $5,000, and subsequently increased to $5,500 starting in 2013, due to indexing. Historical annual contribution levels are summarized below:

| Year | TFSA New Contribution Room | Accumulated Maximum Contribution Room | Noteworthy |
|---|---|---|---|
| 2009 | $5,000 | $5,000 | |
| 2010 | $5,000 | $10,000 | |
| 2011 | $5,000 | $15,000 | |
| 2012 | $5,000 | $20,000 | |
| 2013 | $5,500 | $25,500 | Indexed increase |
| 2014 | $5,500 | $31,000 | |
| 2015 | $10,000 | $41,000 | Indexing stops |
| 2016 | $10,000 | $51,000 | |
| 2017 | $10,000 | $61,000 | |
| 2018 | $10,000 | $71,000 | And so on. . . |

The TFSA is a great savings option for people who do not have the required earned income for RRSP contribution purposes and therefore, have few opportunities for tax-sheltered retirement savings. This includes those in receipt of inactive income sources like pension income, investment income or employment insurance benefits.

In addition, the TFSA is a great savings option for people who cannot afford to lock up their savings in an RRSP (which penalizes withdrawals by taxing them). In fact, the TFSA provides anyone at lower income levels the flexibility of tax-free withdrawals if needed, with the advantage of saving for retirement tax free.

Here's how this translates into a series of tax planning scenarios for Canadians:



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## Financial Education Scenarios

### Scenario 1: Young Couple No Children

Michael and Jessica are a young couple living in their condo in Vancouver. Condo fees are $250 per month. They have no children and both work earning a total of $100,000. Michael has a registered pension plan at work but Jessica does not. Jessica has accumulated a small RRSP. The couple has no TFSA savings.

Will Michael and Jessica be better off in 2015 than in 2014?

This couple is generally unaffected by changes announced in October 2014 or the 2015 Budget changes. If income in 2015 is unchanged from 2014, the couple's taxes will be reduced slightly as a result of indexation of personal amounts and tax brackets. Depending on income levels, Michael or Jessica may pay slightly more in Employment Insurance Premiums and contribute more to CPP in 2015 as a result of the increase in the maximum insurable and pensionable earnings.

This couple has the potential to derive major benefits from increase in TFSA contribution room. As a young couple, they have a significant period to make contributions to their own TFSAs to generate a significant tax-free retirement income.

In fact, with Michael's pension plan, their TFSA accumulations could be more than enough to support a comfortable lifestyle in retirement. Jessica needs not use her RRSP contribution room at all – at least until her income is in the highest tax bracket.

### Scenario 2: A Young Family

Matthew and Ashley live in Winnipeg. They have two children, ages 3 and 5. They own their own home. Ashley earns $45,000 annually and has an RPP through work. Matthew operates a small business (proprietorship) and nets $80,000 annually. He has RRSP savings. Child care costs total $12,000 annually. The couple has no TFSA savings.

Will Matthew and Ashley be better off in 2015 than in 2014?

This couple were major beneficiaries of the Family Tax Cuts announced in October 2014.

The Family Tax Cut (income averaging) saved this couple a few hundred dollars in 2014 because after claiming Child Care Expenses the two spouses are in different tax brackets. The couple is likely to continue to benefit from the Family Tax Cut unless Ashley's income increases so she moves into the second tax bracket.

The increased UCCB of $60 per month per child will increase Ashley's income in 2015 by $1,440. Because the UCCB is taxable, Ashley will have to repay 25.8% of it in increased income taxes. The increased income will also reduce the couple's Family Tax Cut.

As a consequence of the increased UCCB,



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Matthew's claim for the two children will be eliminated for 2015, increasing his tax bill by just under $700.

If the couple pays more than $14,000 in Child Care Expenses, their claim will increase in 2015 as the upper limit for children under 7 increased from $7,000 to $8,000. This will decrease Ashley's taxable income and increase the Family Tax Cut.

As a young couple, Matthew and Ashley could benefit greatly from the increase in TFSA contribution room. At $80,000, Matthew's first avenue for retirement savings should be the TFSA at least until his income increases.

This couple could have benefitted from the increase in the Amount for Children's Fitness in 2014 – if their expenditures exceeded $500 per child. The 2015 change to make the credit refundable will have no effect on this couple as this change really only effects couples who are not taxable.

### Scenario 3: Retired Couple with RRIF's

Brian and Patricia retired a few years ago. Brian is 74 and Patricia is 72. The couple live in Halifax, NS and have RRIF balances of $300,000 and $400,000 respectively.

Will Brian and Patricia be better off in 2015 than in 2014?

This couple derived no benefit from the Family Tax Cuts announced in October 2014.

The reduction in RRIF minimum withdrawals will affect both Brian and Patricia. Under the old rules, Brian was required to withdraw at least $23,130 from his RRIF. Under the new rules, he is only required to withdraw $17,010. If he has already withdrawn more than $17,010, he will be able to redeposit the excess (to a maximum of $6,120).

Under the old rules, Patricia was required to withdraw at least $29,920 from her RRIF. Under the new rules she is only required to withdraw $21,600. If she has already withdrawn more than $21,600, she can put back up to $8,320.

By withdrawing less, both Brian and Patricia can reduce their tax bill for 2015. In addition, Patricia's age amount could be increased by the reduced withdrawal (depending on how much other income she has).

This couple may well be able to benefit from the Home Accessibility Tax Credit if they need to make renovations to their home to make it more accessible. Under this new program, 15% percent of the first $10,000 renovation costs could be eligible for a non-refundable tax credit.

If either Brian or Patricia has foreign assets with a value between $100,000 and $250,000, they'll be happy to learn that the sometimes onerous rules for reporting such assets will be simplified for 2015.

This couple may also be able to take advantage of the new rules exempting capital gains on small business corporation shares or real estate investments if a portion of the proceeds is donated to charity. If they are selling a family farm, they will be happy to know that the capital gains exemption on farm property has been increased to $1,000,000, exempting up to $500,000 taxable capital gains from tax. The increase in TFSA



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contribution limits may allow for more flexibility in retirement as any minimum RRIF withdrawals that are not needed to fund lifestyle, can still be sheltered from tax (after the tax is paid on withdrawal).

### Scenario 4: Seniors Without TFSAs

Robert and Jackie are contemplating retirement. Robert is 65, earns $55,000 from employment and also receives a $24,000 pension. He has not started to receive OAS or CPP but is contemplating retirement at age 67. Jackie is 62 and earns $45,000 employment income. Jackie has accumulated $150,000 in her RRSP. Both Robert and Jackie have no TFSA contribution room.

Will Robert and Jackie be better off in 2015 than in 2014?

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This couple derived no benefit from the Family Tax Cuts announced in October 2014.

Indexation of the tax brackets and personal amounts will result in slight reductions in taxes payable by both Robert and Jackie unless their income levels increase. Robert's contributions to CPP and his EI premiums will rise due to increases in the maximum pensionable and insurable earnings.

As the couple has no TFSA contribution room, they have been making the maximum contributions under the old limit so they will benefit from being able to contribute more. In the long term, the increased TFSA contribution room may help Jackie shelter earnings on RRIF minimum withdrawals if they money is not needed to fund their lifestyle.

The decrease in minimum RRIF withdrawals may help Jackie to plan her RRIF melt-down strategy once she reaches age 72.

If this couple is philanthropically inclined and have real estate such as a cottage that has increased in value, they could benefit from the new rules allowing the proceeds from real estate to be donated to charity in order to reduce capital gains tax.

Since both Robert and Jackie are currently working, they are not likely to be benefit from the new Home Accessibility Tax Credit in the short term. Should either develop mobility issues, they may be able to modify their home to accommodate their mobility issues while getting a 15% tax credit for the first $10,000 of their expenditures.

### Scenario 5: Single Taxpayer – No Children

Glen is single, age 55. He lives alone in a rental apartment in Hamilton, Ontario. His current salary is $55,000. His rent is $1,000/month. Glen has a defined contribution pension plan, no RRSP savings and some TFSA savings. He plans to retire in five years at age 65. Will Glen be better off in 2015 than in 2014?

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Glen is generally unaffected by changes announced in October 2014 or the 2015 Budget changes. If Glen's income in 2015 is unchanged from 2014, his taxes will be reduced slightly as a result of indexation of personal amounts and tax brackets. Glen will pay slightly more in Employment

Insurance Premiums and contribute more to CPP in 2015 as a result of the increase in the maximum insurable and pensionable earnings. Glen may

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benefit from the increased TFSA contribution limit but only if he is able to find the cash to make the contributions.

Should he come into some money, from an inheritance perhaps, the larger TFSA contribution room could allow him to eliminate taxes on the money as his RRSP contribution room will likely be very small.

Glen may also benefit from the increase in duration of Employment Insurance Compassionate Care Benefits from six weeks to six months if he has to care for ailing loved one in the future.



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