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Federal Budget Commentary 2016

On March 22, 2016 the Honourable Bill Morneau, Minister of Finance, presented the 2016 Federal Budget, Growing the Middle Class, to the House of Commons.

The Government's fiscal position includes a deficit in 2015-2016 of $5.4 billion, and projected deficits in the coming years as follows: 2016-2017 of $29.4 billion, 2017-2018 of $29.0 billion, 2018-2019 of $22.8 billion, 2019-2020 of $17.7 billion and 2020-2021 of $14.3 billion.

The Federal Government notes:

- Investment of more than $120 billion over 10 years in infrastructure will be made (initially including areas such as public transit, affordable housing, and water and wastewater systems).
- The Canada Child Benefit will replace the Universal Child Care Benefit and Canada Child Tax Benefit in July 2016.
- The Arts, Fitness, Education, and Textbook tax credits will be eliminated for 2017. The Family Tax Cut will be eliminated for 2016.
- Various anti-avoidance rules targeting strategies to multiply access to the small business deduction were introduced.
- A Teacher and Early Childhood Educator School Supply Tax Credit valued at up to $150 will be introduced for 2016.
- Numerous enhancements to Employment Insurance benefits were proposed.
- No changes to the taxation of stock options nor the inclusion rate on taxable capital gains were announced.

	Actual	Projection (in billions of $)			
	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 - 19
Budgetary revenues	282.3	291.2	287.7	302.0	315.3
Program expenses	253.8	270.9	291.4	304.6	308.7
Public debt charges	26.6	25.7	25.7	26.4	29.4
Total expenses	280.4	296.6	317.1	331.0	338.0
Budgetary Balance	1.9	(5.4)	(29.4)	(29.0)	(22.8)

Note: Totals may not add due to rounding.

TAX HIGHLIGHTS

A. Personal Income Tax
B. Business Income Tax
C. International Tax
D. Sales and Excise Tax Measures
E. Other Tax Measures
F. Previously Announced Measures

A. Personal Income Tax

Canada Child Benefit

Budget 2016 proposes to replace the Canada Child Tax Benefit (CCTB) and Universal Child Care Benefit (UCCB) with a new Canada Child Benefit. The Canada Child Benefit will provide a maximum benefit of $6,400 per child under the age of 6 and $5,400 per child aged 6 through 17. The benefit will be phased out based on adjusted family net income as follows:

	Phase-Out Rates (%)	
# of children	$30,000	Over

(for phase-out rates)	to $65,000	$65,000
1	7.0	3.2
2	13.5	5.7
3	19.0	8.0
4 or more	23.0	9.5

Budget 2016 proposes to continue to provide an additional amount of up to $2,730 per child eligible for the disability tax credit and the phase-out rates will generally align with the Canada Child Benefit.

Entitlement to the Canada Child Benefit for the July 2016 to June 2017 benefit year will be based on adjusted family net income for the 2015 taxation year.

The rules governing the Canada Child Benefit will generally be based on those which apply to the old CCTB. For example:

- The Canada Child Benefit will be paid monthly to eligible families.
- Amounts received under the new Canada Child Benefit will not be taxable and will not reduce the goods and services tax credit. They will also not be included in income for the purposes of federal income-tested programs delivered outside of the income tax system, such as the Guaranteed Income Supplement, the Canada Education Savings Grant, the Canada Learning Bond, the Canada Disability Savings Bond and the Canada Disability Savings Grant.
- To be eligible for the Canada Child Benefit, an individual must be a resident of Canada for tax purposes and must reside with the qualified dependant and be the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant or be a shared custody parent.

Canada Child Benefit payments will start in July 2016. The UCCB and CCTB will be eliminated for months after June 2016.

It is also noted that the phase-out rates have been increased as compared to what was presented in the Liberal Election Platform. Therefore, the point at which the Benefits will be fully eroded has slightly dropped.

Retroactive Child Benefit Related Payments

Budget 2016 proposes to allow a taxpayer to request a retroactive payment of the Canada Child Benefit, CCTB or UCCB in respect of a month on or before the day that is 10 years after the beginning of that month, effective for requests made after June 2016. Previously, retroactive payments could be requested as far back as when the programs were introduced.

Income Splitting Credit (Family Tax Cut)

Budget 2016 proposes to eliminate the income splitting tax credit for couples with at least one child under the age of 18 for the 2016 and subsequent taxation years. The credit was previously valued at up to $2,000 and based on a notional transfer of up to $50,000 of taxable income.

Pension income splitting, however, is not being removed or modified.

Northern Residents Deduction

Budget 2016 proposes to increase the maximum residency deduction that each member of a household may claim from $8.25 to $11 per day and, where no other member of the household claims the residency deduction, to increase the maximum residency deduction from $16.50 to $22 per day for the 2016 taxation year. Residents of the Intermediate Zone will be entitled to deduct half of these increased amounts.

Labour-Sponsored Venture Capital Corporations (LSVCC) Tax Credit

Budget 2016 proposes to restore the federal LSVCC tax credit to 15 per cent for share purchases of provincially registered LSVCCs prescribed under the Income Tax Act for the 2016 and subsequent taxation years.

The federal LSVCC tax credit for federally registered LSVCCs will remain at five per cent for the 2016 taxation year and be eliminated for the 2017 and subsequent taxation years.

Teacher and Early Childhood Educator School Supply Tax Credit

Budget 2016 proposes to introduce a teacher and early childhood educator school supply tax credit. This 15 per cent refundable tax credit is based on an amount of up to $1,000 in expenditures made by the “eligible educator” employee in a taxation year for “eligible supplies”.

For the cost of supplies to qualify for the credit, employers will be required to certify that the supplies were purchased for the purpose of teaching or otherwise enhancing learning in a classroom or learning environment. Receipts will be required.

This tax credit will not be available in respect of an amount that has already been claimed under any other provision of the Income Tax Act.

Eligible Educator – Teachers will qualify as eligible educators if they hold a teacher's certificate that is valid in the province or territory in which they are employed. Certain early childhood educators will qualify as well.

Eligible Supplies – Expenditures will be eligible for the teacher and early childhood educator school supply tax credit if they were made to purchase supplies for use in a school or in a regulated child care facility for the purpose of teaching or otherwise enhancing students' learning in the classroom or learning environment. Eligible supplies may include both durable goods (eg. games and puzzles, books etc.) and consumable goods (eg. construction paper, art supplies etc).

This measure will apply to supplies acquired on or after January 1, 2016.

Ontario Electricity Support Program (OESP)
Budget 2016 proposes to exempt from income amounts received under the OESP, to ensure that income-tested benefits are not reduced. This measure will apply to the 2016 and subsequent taxation years.

Mineral Exploration Tax Credit for Flow-Through Share Investors
Budget 2016 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2017.

Education and Textbook Tax Credits
Budget 2016 proposes to eliminate the education and textbook tax credits after 2016. The tuition tax credit will remain available. Changes will be made to ensure that other income tax provisions - such as the tax exemption for scholarship, fellowship and bursary income - that currently rely on eligibility for the education tax credit or use terms defined for the purpose of the education tax credit will be unaffected by its elimination. Unused credits carried forward from prior years will remain available to be claimed after 2016.

Children's Fitness and Arts Credits
Budget 2016 proposes to phase out these credits by halving the 2016 maximum eligible amounts to $500 from $1,000 for the fitness credit (which will remain refundable) and to $250 from $500 for the arts credit. Both credits will be eliminated for 2017 and later years. The supplemental amounts for children eligible for the disability tax credit will remain at $500 for 2016.

Top Marginal Income Tax Rate – Consequential Amendments
Budget 2016 proposes further amendments to reflect the new top marginal income tax rate for individuals that will:

- provide a 33 per cent charitable donation tax credit (on donations above $200) to trusts that are subject to the 33 per cent rate on all of their taxable income;
- apply the new 33 per cent top rate on excess employee profit sharing plan contributions;
- increase from 28 per cent to 33 per cent the tax rate on personal services business income earned by corporations; and,
- amend the definition of "relevant tax factor" in the foreign affiliate rules to reduce the relevant tax factor from the current 2.2 to 1.9.

These measures will apply to the 2016 and later taxation years. The charitable donation tax credit measure will be limited to donations made after the 2015 taxation year. In the case of the rate increase on personal services business income earned by corporations in taxation years that straddle 2015 and 2016, the rate increase will be prorated according to the number of days in the taxation year that are after 2015.

The measure will also extend the proposed 33 per cent charitable donation tax credit in Bill C-2 (which currently applies to donations made after 2015) to be available for donations made by a graduated rate estate during a taxation year of the estate that straddles 2015 and 2016.

Taxation of Switch Fund Shares
Investors are able to exchange shares of one class of a mutual fund corporation for shares of another class, in order to switch their economic exposure between a mutual fund corporation's different funds. By virtue of a general provision in the Income Tax Act that applies to convertible corporate securities, this exchange is deemed not to be a disposition for income tax purposes. This deferral benefit that is available to taxable investors in switch funds is not available to taxpayers investing in mutual fund trusts or investing on their own account directly in securities.

Budget 2016 proposes that an exchange of shares of a mutual fund corporation (or investment corporation) that results in the investor switching between funds will be considered for tax purposes to be a disposition at fair market value. The measure will not apply to switches where the shares received in exchange differ only in respect of management fees or expenses to be borne by investors and otherwise derive their value from the same portfolio or fund within the mutual fund corporation.

This measure will apply to dispositions of shares that occur after September 2016.

B. Business Income Tax

Small Business Income Tax Rate

Budget 2016 proposes that the small business tax rate will remain at 10.5 per cent after 2016. In order to preserve the integration of the personal and corporate income tax systems, Budget 2016 also proposes to maintain the current gross-up factor and dividend tax credit (DTC) rate applicable to non-eligible dividends.

Under the current legislation, the small business rate was to be reduced by 0.5% annually, to 9% in 2019.

Multiplication of the Small Business Deduction

Budget 2016 proposes measures to prevent business owners from multiplying access to the $500,000 small business deduction limit using complex partnership and corporate structures.

Partnerships

The small business deduction that a CCPC which is a member of a partnership can claim in respect of its income from the partnership is limited to the lesser of the active business income that it receives as a member of the partnership (its “partnership ABI”) and its pro-rata share of a notional $500,000 business limit determined at the partnership level (its specified partnership income limit, or “SPI limit”). A CCPC’s SPI is added to its active business income from other sources, if any, and the CCPC can claim the small business deduction on the total (subject to its annual business limit).

Some taxpayers have implemented structures to circumvent the application of the SPI rules. In a common structure, a shareholder of a CCPC is a member of a partnership and the partnership pays the CCPC as an independent contractor under a contract for services. As a result, the CCPC claims a full small business deduction in respect of its active business income earned in respect of the partnership because, although the shareholder of the CCPC is a member of the partnership, the CCPC is not a member.

To address this, Budget 2016 proposes to extend the SPI rules. Basically, income paid by the partnership to a CCPC which is a member of the partnership, has a shareholder who is a partner in the partnership, or does not deal at arm’s length with a member of the partnership, will be restricted by the SPI provisions unless substantially all of the CCPC’s active business income is derived from provision of property or services to arm’s length persons other than the partnership.

As the CCPC is not a member of the partnership, its SPI limit will be nil. However, a partner who does not act at arm’s length to the CCPC will be permitted to allocate all, or a portion, of its own SPI limit to the CCPC.

This provision will apply to taxation years commencing on or after Budget Day.

Payments Between Private Corporations

Some tax planning to enhance small business deduction eligibility does not involve a partnership, and is also targeted in the 2016 Federal Budget. Such multiplication could occur in circumstances using multiple CCPCs.

Budget 2016 proposes to deny the small business deduction to a CCPC which earns active business income from providing services or property (directly or indirectly, in any manner whatever) to another private corporation (PCo) in which the CCPC, one of its shareholders or a person who does not deal at arm’s length with such a shareholder has a direct or indirect interest.

Budget 2016 proposes that a CCPC’s active business income from providing such services or property to PCo will be ineligible for the small business deduction unless all or substantially all of the CCPC’s active business income for the taxation year is earned from providing services or property to arm’s length persons other than PCo.

The Budget indicates that a payer, which is also a CCPC, will be permitted to assign a portion of its own unused small business deduction limit to the service provider CCPC

(SCo). The assignment is limited to the least of SCo's income from the services provided, PCo's unused business limit not assigned to other corporations and, the amount determined by the Minister of National Revenue to be reasonable in the circumstances.

Avoidance of the Small Business Limit and the Taxable Capital Limit

Where two corporations are not otherwise associated, but are each associated with the same third corporation, they are also deemed associated with each other. Where that third corporation is not a CCPC, or files an election, then, for limited purposes (mainly access to the small business deduction), it is deemed not to be associated with the other two corporations. Therefore, the first two companies will not be associated with each other. The third corporation is not permitted to claim the small business deduction where it files such an election.

Property income, like rent and interest, paid to an associated corporation, will be active business income to the recipient if deductible against the payer's active business earnings. This provision is not affected by the election described above.

Budget 2016 proposes to restrict the ability to claim the small business deduction in such cases. Income of this nature which is paid from the electing corporation to one of the other corporations will no longer be eligible for the small business deduction. It will remain active business income not eligible for the small business deduction.

Further, Budget 2016 indicates that the taxable capital of the electing corporation will be added to the taxable capital of each of the other corporations for the purpose of determining any reduction to their small business deduction limit. The small business deduction limit begins to be reduced where this taxable capital exceeds $10 million in the previous year.

These changes will apply to taxation years commencing on or after Budget Day.

Eligible Capital Property

Eligible capital property for income tax purposes includes intangible property such as goodwill and licences, franchises and quotas of unlimited duration, as well as certain other rights.

Budget 2016 proposes to replace the ECP regime with a new capital cost allowance (CCA) class (Class 14.1) available to businesses, and to provide rules to transfer taxpayers' existing cumulative eligible capital (CEC) pools to the new CCA class. The proposal is not intended to affect the application of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) in this area.

Expenditures that are currently added to CEC (at a 75 per cent inclusion rate) will be included in the new CCA class at a 100 per cent inclusion rate. Because of this increased expenditure recognition, the new class will have a 5 per cent annual depreciation rate (instead of 7 per cent of 75 per cent of eligible capital expenditures). To retain the simplification objective, the existing CCA rules will generally apply, including rules relating to recapture, capital gains and depreciation (e.g., the "half-year rule").

As gains on property of this nature will now be capital gains, the tax deferral which was previously available on sales of ECP will be eliminated.

As part of this change, Budget 2016 also proposes some transitional rules, as follows:

- Under the proposal, CEC pool balances will be calculated and transferred to the new CCA class as of January 1, 2017. The opening balance of the new CCA class in respect of a business will be equal to the balance at that time of the existing CEC pool for that business.
- For the first ten years, the depreciation rate for the new CCA class will be 7 per cent in respect of expenditures incurred before January 1, 2017.
- A taxpayer will be permitted to deduct as CCA, in respect of expenditures incurred before 2017, the greater of $500 per year and the amount otherwise deductible for that year. This additional allowance will be provided for taxation years that end prior to 2027.
- A separate business deduction will be provided for incorporation expenses, such that the first $3,000 of these expenditures will be treated as a current expense rather than being added to the new CCA class.

This measure, including the transitional rules, will apply as of January 1, 2017.

Active versus Investment Business

Budget 2015 announced 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 and therefore potentially be eligible for the small business deduction. The examination of the active versus investment business rules is now complete. No changes to these rules are proposed.

Life Insurance Policies

Budget 2016 proposes a number of complex changes to the rules surrounding taxation of life insurance policies, generally targeting strategies perceived as abusive. The discussion which follows is limited to a simplified outline of these changes.

Corporate and Partnership Life Insurance

Life insurance proceeds received due to the death of an insured individual are not taxable. A private corporation receiving such benefits adds them, to the extent they exceed the adjusted cost basis of the policy, to its capital dividend account (CDA), which can be paid out as a tax-free dividend to its shareholders.

Budget 2016 addresses structures perceived to allow excessive amounts to be received tax-free as a consequence of these provisions, generally involving a corporation being a beneficiary of a life insurance policy it does not also own. In very general terms, Budget 2016 proposes new measures to ensure that the adjusted cost basis of the policy reduces the amounts which a corporate recipient of insurance proceeds may add to its CDA.

Where a partnership receives life insurance proceeds, the adjusted cost base of the partners' interest in the partnership is increased in the same manner a corporation's CDA is increased. Budget 2016 proposes similar rules to restrict the increase in the adjusted cost bases of partnership interests.

Budget 2016 also introduces information reporting requirements for such situations. All of these provisions will be effective for policy benefits received in respect of deaths on or after Budget Day.

Transfer of Life Insurance Policy Interests

Prior to the Budget changes, a transfer of a life insurance policy between non-arm's length parties was taxed on the basis that proceeds equaled the cash surrender value of the policy, if any. Budget 2016 proposes to tax the parties on the basis of proceeds equal to the full fair market value of the policy. As a result, such transfers will often attract significantly higher income tax costs. This change will apply to transfers on or after Budget Day.

For transfers which occurred prior to Budget Day for consideration in excess of the deemed proceeds (i.e. the cash surrender value), the increase to a corporate policyholder's CDA, or the adjusted cost basis of the interests in a partnership to which a policy was transferred, will be reduced by any proceeds paid for the policy in excess of the cash surrender value. This change will apply to policy benefits received as a result of deaths occurring on or after Budget Day, regardless of how long ago the policy was transferred to the corporation or partnership.

Valuation of Derivatives

Budget 2016 proposes to exclude derivatives from the application of the inventory valuation rules while maintaining the status of such property as inventory. A related rule will also be introduced to ensure that taxpayers are not able to value derivatives using the lower of cost and market method under the general principles for the computation of profit for tax purposes. Declines in value will not generate a deduction until and unless the position is closed at a loss. The measure will apply to derivatives entered into on or after Budget Day.

Expanding Tax Support for Clean Energy

Budget 2016 proposes to make electric vehicle charging stations eligible for inclusion in Class 43.1 or 43.2, based upon whether they meet certain power thresholds, and to make changes to Class 43.1 and 43.2 for electrical energy storage. These measures will apply in respect of property acquired for use on or after Budget Day that has not been used or acquired for use before Budget Day.

C. International Tax

Base Erosion and Profit Shifting (BEPS)

Budget 2016 proposes new legislation to strengthen transfer pricing documentation by introducing country-by-country reporting for large multinational enterprises (MNEs).

The Government is also acting on certain other recommendations from the BEPS project:

- CRA is applying revised international guidance on transfer pricing by multinational enterprises relating to the arm's length principle.
- Canada is participating in international work to develop a multilateral instrument to streamline the implementation of treaty-related BEPS recommendations, including addressing treaty

abuse.
- CRA will undertake the spontaneous exchange with other tax administrations of tax rulings.

The Government is continuing to examine the recommendations pertaining to the other aspects of BEPS. Canada is committed to the BEPS project and will continue to work with the international community to ensure a coherent and consistent response to BEPS.

Back-to-Back Rules
The Income Tax Act contains “back-to-back loan” rules that prevent interposing a third party between a Canadian borrower and a foreign lender in an attempt to avoid the application of rules that would otherwise apply if a loan were made directly between the two taxpayers. For example, such back-to-back loans cannot be used to reduce withholding taxes on interest payments.

Budget 2016 proposes to extend the application of these provisions to rents and royalties, add character substitution rules, add similar rules to the existing shareholder loan rules and clarify the rules where multiple intermediaries are used.

D. Sales and Excise Tax Measures

Health Measures
Zero-Rated Medical Devices
Budget 2016 proposes to add insulin pens, insulin pen needles, and intermittent urinary catheters to the list of zero-rated medical devices. This measure will, with certain exceptions, apply to supplies made after Budget Day

Purely Cosmetic Procedures
Budget 2016 proposes to clarify that the GST/HST generally applies to supplies of purely cosmetic procedures provided by all suppliers, including registered charities. This clarification will apply to supplies made after Budget Day.

Exported Call Centre Services
Zero-rated supplies do not attract GST/HST but related input tax credits can be claimed. Budget 2016 proposes to modify the zero-rating rules for certain exported supplies of call centre services. Specifically, rendering technical or customer support to individuals by means of telecommunications (e.g., by telephone, email or web chat) will be zero-rated for GST/HST purposes only if:

- the service is supplied to a non-resident person that is not registered for GST/HST purposes; and,
- it can reasonably be expected at the time the supply is made that the technical or customer support is to be rendered primarily to individuals who are outside Canada at the time the support is rendered to those individuals.

This measure will apply to supplies made after Budget Day, and in certain cases, prior to Budget Day.

GST/HST on Donations to Charities
Budget 2016 proposes a relieving change when a charity supplies property or services in exchange for a donation, and an income tax receipt is issued for a portion of the donation. Under the proposal, only the value of the property or services supplied will be subject to GST/HST, ensuring that the portion of the donation in excess of the value of the property or services is not subject to the GST/HST. The proposal will apply to supplies that are not already exempt from GST/HST, and will apply to supplies made after Budget Day.

Where a charity did not collect GST/HST on the full value of donations made in exchange for an inducement, for supplies made between December 21, 2002 (when the income tax split-receipting rules came into effect) and Budget Day, transitional relief will be provided.

Closely Related Test
Special relieving rules allow the members of a group of closely related corporations or partnerships to neither charge nor collect GST/HST on certain intercompany supplies. To qualify for these relieving rules, each member of this group must, among other requirements, be considered to be closely related to each other member of the group.

Budget 2016 proposes to require that, in addition to meeting the conditions of the current test, a corporation or partnership must also hold and control 90 per cent or more of the votes in respect of every corporate matter of the subsidiary corporation (with limited exceptions) in order to be considered closely related.

This measure will generally apply as of the day that is one year after Budget Day.

Collection Provisions
Budget 2016 proposes to give the Minister of National Revenue the authority to require security for payment of assessed amounts and penalties in excess of $10 million

that are not otherwise collected under the Excise Act, 2001. This measure will apply to amounts assessed and penalties after the day of Royal Assent to the enacting legislation.

E. Other Tax Measures

CRA Initiatives

Budget 2016 proposes funding for a variety of CRA initiatives, including:

- $185.8 million over five years, and $14.6 million ongoing for the CRA to address the Government's commitments to service excellence through a number of initiatives such as a new dedicated telephone support line for tax service providers, revamping the structure, design and format of its correspondence, engaging with charities to clarify the rules governing their political activities, and increasing capacity to resolve taxpayer objections as soon as possible;
- an ongoing investment of about $4.0 million per year to extend coverage of the Community Volunteer Income Tax Program;
- additional funding to implement a targeted strategy notifying lower-income non-filers who are likely eligible to receive tax credits.
- $444.4 million over five years for the CRA to enhance its efforts to crack down on tax evasion and combat tax avoidance by: hiring additional auditors; developing robust business intelligence infrastructure; increasing verification activities; and improving the quality of investigative work; and,
- $351.6 million over five years to improve CRA's ability to collect outstanding tax debts.

Employment Insurance (EI) Improvements

Budget 2016 proposes many changes to the EI rules, including the following:

- elimination of the higher eligibility requirements for new entrants and re-entrants to the labour market - effective July 2016, they will be subject to the same requirements as any other employee in the same region;
- effective January 1, 2017, the EI waiting period will be reduced from 2 weeks to 1 week;
- extension until August 2018, of the "Working While on Claim" pilot project, which permits workers to keep 50 cents of EI benefits for every dollar earned, up to a maximum of 90% of the weekly insurable earnings used to compute their benefits;
- reversal of changes in 2012 which required workers to accept work with lower pay rates and/or longer commute;
- extension of regular benefits by five weeks, to a maximum of 50 weeks, for claimants in twelve regions which have experienced the most severe increases in unemployment (Newfoundland/ Labrador, Sudbury, Northern Ontario, Northern Manitoba, Saskatoon, Northern Saskatchewan, Calgary, Northern Alberta, Southern Alberta, Northern British Columbia, Whitehorse, and Nunavut), with a further 20 weeks for long-tenured workers. These changes are effective July 2016 with the measure being retroactively applied to eligible claims back to January 4, 2015; and,
- extension of the maximum duration of Work-Sharing Agreements from 38 weeks to 76 weeks.

In addition, funds will be allocated to cope with the increase in claims, both to speed processing and improve access to EI Call Centres.

Finally, the Budget noted a $21 million investment over three years to promote compliance with program rules, and a commitment to further improvements, including easier access to Compassionate Care benefits, provision of care to seriously ill family members and greater flexibility in parental leave benefits.

Emissions Trading Regimes

Budget 2016 proposes to introduce specific rules to clarify the tax treatment of emissions allowances and to eliminate the double taxation of certain free allowances. This measure will apply to emissions allowances acquired in taxation years beginning after 2016. It will also apply on an elective basis in respect of emissions allowances acquired in taxation years ending after 2012.

Reviewing Spending and the Tax System

In the coming year, the Government will undertake a review of the tax system to determine whether it works well for Canadians, with a view to eliminating poorly targeted and inefficient tax measures.

Canada Pension Plan (CPP)

The Federal Government will launch consultations on enhancing the CPP, with the goal of making a collective decision before the end of 2016.

Old Age Security (OAS)

Budget 2016 proposes to allow all Canadians to commence receiving OAS at age 65, reversing legislation that would have increased the age of eligibility to 67. The Guaranteed Income Supplement for low income seniors will be enhanced, with the lowest-income seniors receiving an additional $947 annually.

Canada Student Grants

Budget 2016 proposes to increase grant amounts by 50% for low-income, middle-income, and part-time students.

F. Previously Announced Measures

Budget 2016 confirms the Government's intention to proceed with many tax and related measures that were announced but have not yet been legislated, including:

- the common reporting standard established by the Organization for Economic Co-operation and Development for the automatic exchange of financial account information between tax authorities;
- legislative proposals on the income tax rules for certain trusts and their beneficiaries (draft legislative proposals were released for comment on January 15, 2016);
- "synthetic equity arrangements" under the dividend rental arrangement rules;
- the conversion of capital gains into tax-deductible inter-corporate dividends (section 55);
- alternative arguments in support of an assessment;
- an exception to the withholding tax requirements for payments by qualifying non-resident employers to qualifying non-resident employees;
- the repeated failure to report income penalty;
- the acquisition or holding of limited partnership interests by registered charities;
- the qualification of certain costs associated with undertaking environmental studies and community consultations as Canadian exploration expenses;
- the sharing of taxpayer information within the Canada Revenue Agency to facilitate the collection of certain non-tax debts;
- the GST/HST joint venture election; and,
- the relief of the GST/HST for feminine hygiene products.

Budget 2016 announced that the outstanding proposal to allow capital gains on shares of private corporations or real estate to be realized at no tax cost if the proceeds were donated to a registered charity which was proposed to commence in 2017, will not proceed.