ODLUM BROWN
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ODLUM BROWN FINANCIAL SERVICES LIMITED

2019 Federal Budget Highlights

On March 19, 2019, Canadian Minister of Finance Bill Morneau delivered the government's 2019 Federal Budget, forecasting a lower than expected deficit of $14.9 billion for the fiscal year,[1] which will increase to $19.8 billion for 2020. Here is a brief overview of some of the notable proposals.

Budget 2019 can be viewed online in its entirety on the Department of Finance Canada's website[2] and is subject to parliamentary approval.

Personal Tax Measures

Introduction of the Canada Training Credit

Off the heels of the recent elimination of the Education and Textbook tax credits, the 2019 budget proposes a Canada Training Credit – a refundable credit aimed at providing tax incentives for Canadians to expand education and training. Effective 2019 onward, Canadians will accumulate $250 annually (upon filing their tax returns) in a notional account. To be eligible, a taxpayer must be between the ages of 25 and 65, be a resident of Canada throughout the taxation year and have employment or self-employed earnings of $10,000 or more for the year. Individuals earning in excess of a prescribed amount ($147,667 for 2019) will not be eligible for the credit.

Upon incurring training or education costs, an individual will be entitled to receive the lesser of:

- 50% of their eligible tuition and fees; and
- The balance accumulated in the notional account up to $5,000.

Increased withdrawal limit for the Home Buyers' Plan

The Home Buyers' Plan (HBP) provides first-time home buyers with the opportunity to withdraw, on a tax-deferred basis, a limited amount from their RRSP. Budget 2019 proposes to increase the current per person withdrawal limit from $25,000 to $35,000, subsequent to March 19, 2019.

The budget also proposes to eliminate the first-time requirement for disabled individuals and individuals who were living apart from their spouse or partner, due to a marriage breakdown, for at least 90 days. These changes are effective after 2019.

Amendment to the change-in-use rules

When an individual converts the use of a property from personal to income earning and vice versa, they are deemed to have disposed of the property and to have immediately reacquired it at fair market value. This can trigger a capital gain. Under current tax rules, an election can be filed to deem that the change of use has not occurred and potentially extend the time that the property is eligible as an individual's principal residence, but only where the change of use impacts the entire property.

Budget 2019 proposes to extend the availability of the election to partial changes of use for owners of multi-unit residential properties.

Employee stock options

Employee stock options generally receive preferential tax treatment via a deduction equal to 50% of the taxable benefit received, so long as specific criteria are met. Budget 2019 proposes to put a $200,000 annual cap on the stock option grants (based on the fair market value of the underlying shares) eligible for this preferential tax treatment for employees of 'large and mature' firms. Employee stock options granted by start-up companies will receive an exemption. As of the budget date, a detailed definition of 'large and mature' firms has not been provided.

Automatic enrolment in the Canada Pension Plan (CPP)

Commencing in 2020, the budget proposes that CPP contributors age 70 or older be automatically enrolled to begin receiving benefits by that age. Generally, individuals begin receiving CPP benefits at age 65. However, CPP benefits can be applied for as early as age 60, with a 0.6% reduction for each month benefits are received prior to age 65. Further, CPP can be deferred until age 70, with a corresponding increase in benefits of 0.7% per month taken after age 65.

Changes to Registered Disability Savings Plans (RDSP)

An RDSP is a tax-deferred investment vehicle which allows contributions to be made to an account for a beneficiary who is eligible for the Disability Tax Credit (DTC). Income within the RDSP grows tax free until it is paid out to the beneficiary and reported as taxable income in their hands. However, it is sometimes the case that the beneficiary loses the DTC. Currently, legislation requires that the RDSP be closed by the end of the first full year in which the beneficiary was not DTC eligible. This could result in significant adverse tax consequences. Furthermore, certain government grants received by the RDSP must be repaid.

Budget 2019 proposes to allow the RDSP to remain open (albeit without the ability to receive additional contributions and with some remaining tax consequences on distributions to the beneficiary). The amendments will be in effect for years ending after 2020.

Expanding annuities eligible for registered plans

The budget proposes to allow Canadians to invest in two new annuities through certain registered plans:

> **Advanced Life Deferred Annuities** – These are life annuities which begin to provide income at age 85, ensuring an annual guaranteed level of income each year. Such annuities can be effective at delaying income, and the associated tax, until later in retirement.
>
> **Variable Payment Life Annuities** – These annuities provide income payments based on the underlying performance of the fund. This option will only be available under pooled registered pension plans and defined contribution registered pension plans.

These proposals may provide additional flexibility in the income needs of retirees.

New and expanded personal tax credits

Budget 2019 proposes to introduce a non-refundable tax credit for digital subscriptions to Canadian digital news organizations. The credit is valued at up to $75 annually.

The budget also seeks to enhance the ability of Canadians to donate cultural property by eliminating a requirement that such property be of 'national importance.'

Business and Other Tax Measures

Accelerated deductibility of zero-emission vehicles

Budget 2019 proposes to increase the rate at which businesses can depreciate zero-emission vehicles acquired after

March 19, 2019. Currently, passenger vehicles are limited to a Capital Cost Allowance (CCA) rate of 30% per annum. Furthermore, there is a $30,000 limit on the cost of a vehicle for which CCA can be claimed. Under the new proposal, the cost limit would be increased to $55,000 and the CCA rate would increase to 100% in the first year for eligible vehicles. The accelerated CCA rate would decline to 75% and 55% in 2024 and 2026, respectively.

Excise taxes on cannabis

Budget 2019 proposes to tax cannabis goods a duty of $0.01 per milligram of THC contained within a given product. The duty will be assessed against the licensee of the product and not the end consumer.

Update on intergenerational business transfers

While no new legislation was proposed with respect to intergenerational business transfers, the government announced during the budget release that it intends to continue to consult with farmers, fishermen and business owners to formulate and update tax rules to better facilitate such transfers.

March 2019

[1] Ending March 31, 2019
[2] https://www.budget.gc.ca/2019/home-accueil-en.html?utm_source=FIN&utm_medium=Home-e&utm_campaign=CAbdgt19