On March 22, the new Liberal government in Ottawa tabled its first federal budget entitled "Growing the Middle Class". Against a backdrop of increased volatility in global equity markets, the government followed through on its election campaign promise to increase spending in areas such as infrastructure and employment insurance benefits to hard-hit regions. Of particular interest to investors, a number of proposals in the budget will have an impact on financial, tax and estate planning. The following highlights the proposed tax and policy changes that you need to know about.

Personal Tax Measures

Federal Tax Rates

In December 2015, the federal government announced a reduction of the middle income tax bracket from 22% to 20.5% as well as a 4% increase to taxpayers earning income in excess of $200,000. No further changes were introduced by Budget 2016 to personal federal income tax rates or income brackets.

A number of tax rules use the top federal income tax rate in their calculation. Therefore, the budget introduced the following amendments to reflect the new top marginal income tax rate for individuals that will:

- ☑ provide a 33% charitable donation tax credit (on donations above $200) to trusts that are subject to 33% on taxable income;
- ☑ apply the new 33% top rate on excess employee profit sharing plan contributions;
- ☑ increase from 28% to 33% the tax rate on personal services business income earned by corporations;
- ☑ amend the capital gains refund mechanism for mutual fund trusts to reflect the new 33% top rate in the formulas that are used in computing refundable tax;
- ☑ amend the recovery tax rule for qualified disability trusts to refer to the new 33% top rate.

These measures will apply to the 2016 and later taxation years.

Measures for Investors

Elimination of Tax-Deferral Benefit Available in Corporate-Class Mutual Funds

While most mutual funds in Canada are structured as trusts, some are structured as corporations. Many of these mutual fund corporations are set up as "switch funds," also known as **Corporate Class Funds**. Investors are able to exchange shares of one class of the corporation for shares of another class in order to switch between different funds offered by the mutual fund corporation. Under a provision in the Income Tax Act, capital gains tax has been deferred until the investor sells the investment for cash or switches to an investment outside the mutual fund corporation.

However, the new federal budget proposes changes to the Income Tax Act so that an exchange of shares of a mutual fund corporation that results in a mutual fund investor switching between funds in that corporation will be considered a disposition at fair market value for tax purposes. These changes would eliminate the tax deferral and trigger a capital gain if the investment has increased in value at the time of the switch.

The proposed measure will not apply to switches made between different series of shares within the same class, otherwise deriving their value from the same portfolio or mutual fund within the mutual fund corporate structure, and where the only difference is in respect of management fees or expenses to be borne by investors.

This budget proposal will apply to dispositions of shares that occur after September 2016. This leaves a six-month window for investors to reposition their portfolios on a tax-deferred basis. Your GP Wealth financial advisor will be able to help you to review your portfolio and make appropriate, informed investment decisions.

GP Wealth will be closely monitoring this issue in the coming weeks and months. As more details emerge, we will provide further information about what it means to you.

Return of the Labour-Sponsored Venture Capital Corporation (LSVCC) Tax Credit

Before 2015, individual investors purchasing shares in labour-sponsored venture capital corporations (LSVCCs) qualified for a 15% federal tax credit for investments of up to $5,000 each year. In the 2015 taxation year, the tax credit was reduced to 10%, and it was scheduled to be reduced to 5% for the 2016 taxation year. For the 2017 and subsequent taxation years, the tax credit was to be eliminated.

Budget 2016 restores the LSVCC credit to 15% for share purchases of provincially registered LSVCCs.

Cancellation of Proposed Tax Exemptions on Certain Donations of Private Company Shares or Real Estate

Budget 2015 included a proposal to provide, beginning in 2017, a capital gains tax exemption on certain dispositions of private company shares or real estate, where cash proceeds from the disposition are donated to a registered charity or other qualified donee within 30 days of the sale. Budget 2016 has confirmed that the government will not proceed with this income tax exemption.

Sales of linked notes

A linked note is a debt instrument in which the return on investment is linked to the performance of a reference asset or index over the term of the obligation. The reference asset or index can be a basket of stocks, an index, a commodity, a currency or units of an investment fund. Under the current Income Tax Act, the return on these investments is deemed to be interest income if the linked note is held to maturity and capital gains if the linked note is sold prior to maturity.

Budget 2016 proposes to amend the Income Tax Act so that so that, after September 2016, returns on linked notes will be in the form of interest income – and, thus, fully taxable – regardless of whether the investor sells the linked note prior to maturity or holds the linked note to maturity.

Life Insurance Proceeds

The budget notes that life insurance proceeds received as a result of the death of an individual insured under a life insurance policy are generally not subject to income tax. In particular, a corporation may add the amount of the policy benefit it receives to its capital dividend account (CDA) and then pay tax-free capital dividends to shareholders. In the case of a partnership, the adjusted cost base (ACB) of a partner's interest in a partnership is increased to the extent of the partner's share of a policy benefit received by the partnership. A partner can generally withdraw funds from a partnership tax-free to the extent of the partner's ACB. The budget proposes amendments to ensure that the CDA rules for private corporations and the ACB rules for partnership interests apply as intended.

Transfer of Life Insurance Policies

The budget also noted similar concerns with the transfer of life insurance policies. The budget proposed amendments to ensure that amounts are not inappropriately received tax free by a policyholder as a result of a disposition of an interest in a life insurance policy. This amendment will apply to dispositions that occur on or after March 22, 2016.

Measures for Families

Canada Child Benefit

Budget 2016 proposes to replace the Canada Child Tax Benefit (CCTB) and the Universal Child Care Benefit (UCCB) with a new Canada Child Benefit (CCB). The CCB will provide a maximum annual benefit of up to $6,400 per child under the age of 6 and up to $5,400 per child for those aged 6 through 17. Families with less than $30,000 in net income will receive the maximum 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. Canada Child Benefit payments under this measure will start in July 2016. For families caring for a child with a severe disability, the Child Disability Benefit will continue to provide an additional amount of up to $2,730 per child eligible for the Disability Tax Credit.

Elimination of Family Tax Credit (Income Splitting for Couples)

Introduced in 2014, the Family Tax Credit was a non-refundable tax credit for two-parent families with at least one child under 18 living at home. This tax credit allowed a higher-income spouse or common-law partner to notionally transfer up to $50,000 of taxable income to their spouse or common-law partner for the purpose of reducing the couple's total income tax by up to $2,000. Budget 2016 proposes to eliminate the Family Tax Credit starting in the 2016 taxation year. Pension income splitting will not be affected by this change.

Elimination of Children's Fitness and Arts Credits

The Children's Fitness and Arts Tax Credits are currently worth up to $150 and $75 per child on up to $1,000 and $500 in eligible expenses, respectively. These tax credits will be cut in half in 2016 and eliminated in 2017.

Northern Residence Deduction

Budget 2016 proposes to raise 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.

Improving Employment Insurance

Immediate action is being taken to improve Employment Insurance (EI) by changing the eligibility rules for new entrants and re-entrants, and temporarily enhancing benefits in certain regions. Starting in 2017, the waiting period for benefits will be reduced from two weeks to one week.

Measures for Students and Educators

Increasing Canada Student Grants

Budget 2016 proposes to enhance Canada Student Grants by 50%:

- ☑ from $2,000 to $3,000 per year for students from low-income families;
- ☑ from $800 to $1,200 per year for students from middle-income families; and
- ☑ from $1,200 to $1,800 per year for part-time students.

Increased grant amounts will be available for the 2016–17 academic year. In addition, Budget 2016 proposes to introduce a flat-rate student contribution to determine eligibility for Canada Student Loans and Grants to replace the current system of assessing student income and financial assets. The new eligibility thresholds are expected to be in place for the 2017–18 academic year.

Student Loan Repayments

Budget 2016 proposes to increase the loan repayment threshold under the Canada Student Loans Program's Repayment Assistance Plan to ensure that no student will have to repay their Canada Student Loan until they are earning at least $25,000 per year.

Elimination of the Education Tax Credit and the Textbook Tax Credit

Budget 2016 proposes to eliminate the education and textbook tax credits. This measure will apply effective January 1, 2017. Unused education and textbook credit amounts carried forward from years prior to 2017 will remain available to be claimed in 2017 and subsequent years. This measure does not eliminate the tuition tax credit.

New Teacher and Early Childhood Educator School Supply Tax Credit

This proposed new tax credit is aimed at compensating educators for costs they often incur at their own expense for supplies (such as paper, glue and paint for art projects, games and puzzles, and supplementary books). The measure will allow an employee who is an eligible educator to claim a 15% refundable tax credit based on an amount of up to $1,000 in expenditures made by the employee in a taxation year for eligible supplies. This measure applies to supplies acquired on or after January 1, 2016. Individuals making claims will be required to retain their receipts for verification purposes.

Measures for Seniors

Restoring Eligibility Ages of the Old Age Security Program

The eligibility age for OAS and GIS benefits will be restored to 65. Budget 2016 proposes to cancel the provisions in the Old Age Security Act that increase the age of eligibility for Old Age Security and Guaranteed Income

Supplement benefits from 65 to 67 and Allowance benefits from 60 to 62 over the 2023 to 2029 period.

Increase the Guaranteed Income Supplement Top-up Benefit

Budget 2016 proposes to increase the Guaranteed Income Supplement (GIS) top-up benefit by up to $947 annually for single seniors starting in July 2016. This enhancement more than doubles the current maximum GIS top-up benefit and represents a 10% increase in the total maximum GIS benefits available to the lowest-income single seniors.

Single seniors with annual income (other than OAS and GIS benefits) of about $4,600 or less will receive the full increase of $947. Above this income threshold, the amount of the increased benefit will be gradually reduced and will be completely phased out at an income level of about $8,400. Benefits will be adjusted quarterly with increases in the cost of living.

Increased Support for Seniors Living Apart

Budget 2016 proposes to introduce amendments to the Old Age Security Act that will ensure that couples who receive Guaranteed Income Supplement and Allowance benefits and have to live apart for reasons beyond their control (such as a requirement for long-term care) will receive higher benefits based on their individual incomes.

Enhancing the Canada Pension Plan (CPP)

The Federal government will continue consultations with the provincial and territorial governments with the goal of making a collective decision on enhancing CPP before the end of 2016.

Business Tax Measures

Small Business Tax Rate

Small business tax rates apply on the first $500,000 of active business income and were legislated to decrease by 0.50% per year until 2019, when the rate is scheduled to reach 9%. Budget 2016 proposes that the small business tax rate remain at 10.5% after 2016 and further reductions to the small business rate will be deferred.

Small Business Deduction

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. Expressed as a percentage of the grossed-up amount of a non-eligible dividend, the effective rate of the DTC in respect of such a dividend will remain at 10.5% after 2016.

Corporate Investment Tax Rates

The Federal Government has already announced a 4% increase to the tax rate on investment income earned in a Canadian-controlled private corporation (CCPC). In addition, Part IV tax applicable to dividends earned by a CCPC has also increased from 33 1/3% to 38 1/3% with a similar change to the dividend refund rate on taxable dividends paid by a corporation. All changes are effective January 1, 2016.

Multiplication of the Small Business Deduction

The small business deduction includes rules that are intended to preclude the multiplication of access to the deduction. Budget 2016 proposes changes to address concerns about partnership and corporate structures that multiply access to the small business deduction.

Eligible Capital Property

Eligible Capital Property (ECP) for income tax purposes includes intangible property such as goodwill and licences, franchises and quotas of indeterminate duration, as well as certain other rights. Budget 2016 proposes to repeal the eligible capital property regime, which is currently 7%, and replace it with a new capital cost allowance (CCA) class to simplify tax compliance. As part of this change, Budget 2016 also proposes to allow small balances of eligible capital property carried over to the new CCA class to be deducted more quickly, and to allow up to $3,000 in incorporation costs to be deducted as a current expense. The latter measure will allow approximately 80% of newly incorporated businesses to deduct the full amount of the incorporation expenses in their initial year.

Consultation on Active vs. 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 complete and the Government is not proposing any modification to these rules at this time.

Getting Advice

Reviewing your tax plan? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.