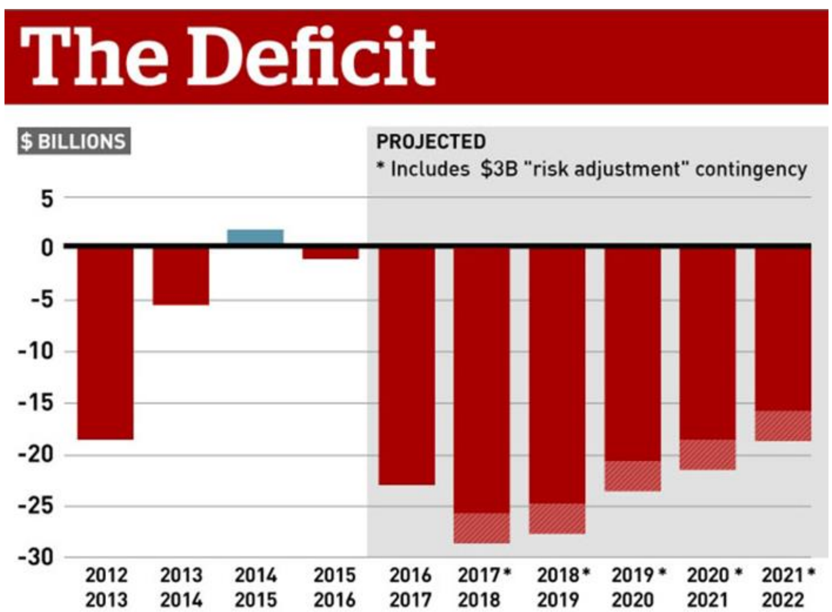
On March 22, Liberal Finance Minister Bill Morneau delivered the Federal Budget for 2017. Titled Building a Strong Middle Class, Budget 2017 builds on the theme of support for the middle class that characterized the previous budget.

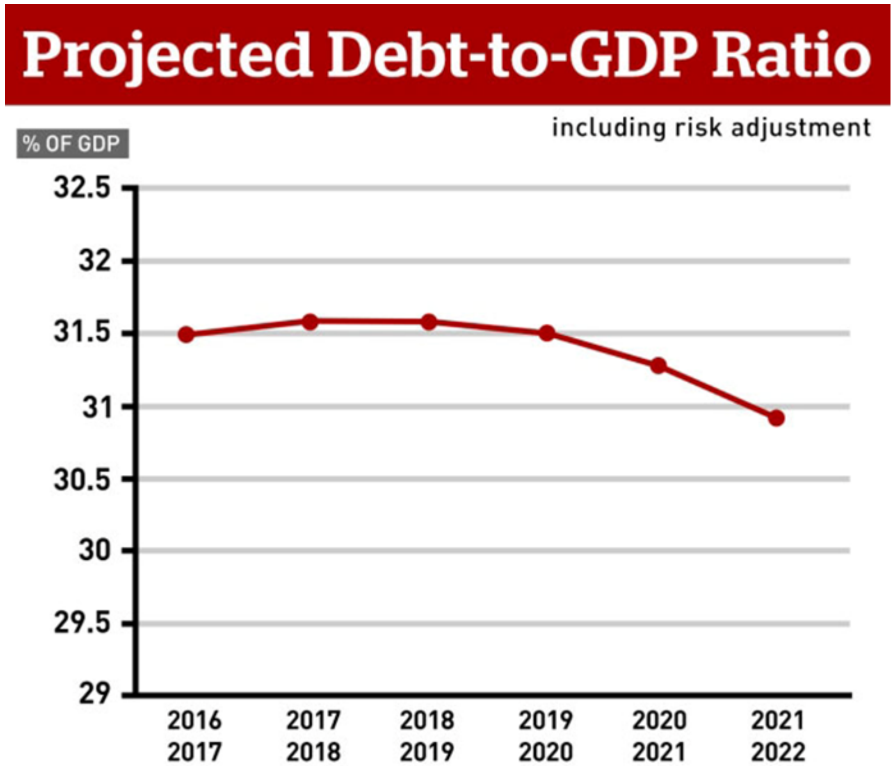
While little new spending is proposed, the document provides more details on where funds already earmarked for investment will be directed. For example, the budget announced an $8.2 billion investment in skills, innovation and jobs to help Canadians succeed in a fast-changing global economy. Some of the cost, $2.8 billion, will come from existing funds, and the programs are expected to generate $1.4 billion in revenue. Budget 2017 also revealed that $7 billion in previously announced funding will be spent over 10 years to improve access to child care, starting 2018-19.

The budget slightly increases the 2016-2017 deficit prediction to $23 billion and forecasts a deficit for 2017-2018 of $28.5 billion, including a $3-billion "risk adjustment." The budget does not provide a timeframe of when the government will balance the books.



Despite the government's pledge to increase taxes on high earners, no significant new tax measures were announced in the budget. Instead, the focus was more on correcting and consolidating aspects of the tax code.

The budget predicts modest economic growth in 2017, with the ratio of federal debt to GDP staying relatively flat over the next five years.



The following highlights the proposed tax changes and policy decisions that you need to know about.

▶ Investment Tax Measures that May Affect You

Capital Gains Left Unchanged

During the run-up to the budget, the government floated a trial balloon over a potential revision to the capital gains inclusion rate. The capital gains tax applies to earnings from investments such as stocks and real estate. In the end, no adjustment was made, but Finance Minister Bill Morneau doesn't rule out changes in the future.

When asked, following the release of the budget, whether revisions to the capital gains tax could be implemented down the road, Morneau left the door open: "We decided not to put that in our budget," he said.

Wave Good-Bye to Canadian Saving Bonds

The Canada Savings Bond program, started in 1946, is being phased out, with no new sales planned for 2017. Back when your granny was buying you interest-bearing gifts, Canada Savings Bonds represented a significant portion of federal market debt, but the program has declined precipitously to the current level of less than one percent.

New Rules for Mutual Fund Corporations

Remember the government's proposal in Budget 2016 to revise the taxation rules for corporate-class funds (also known as "switch funds"). Since the new rule went into effect on January 1, 2017, you can no longer exchange units of one corporate-class fund for another on a tax-deferred basis.

Budget 2017 introduces a follow-up revision that would allow the reorganization of corporate class funds into multiple mutual fund trusts on a tax-deferred basis. As outlined, the new rule requires each share class within a class fund to be merged into a separate mutual fund trust. All or substantially all of the assets that could be allocated to a particular share class would be required to be transferred to a single mutual fund trust, and the shareholders of the class must become unitholders of the mutual fund trust.

To qualify for this tax deferral, it's necessary that all share classes of the corporation be merged into separate mutual fund trusts at the same time. It's not permitted to selectively merge particular share classes of the corporation.

This new measure will give investors more manoeuvrability in managing their savings. The budget says the rule will apply to reorganizations that happen on or after March 22, 2017

Segregated Fund Mergers

Segregated funds are life insurance policies that demonstrate similar characteristics to mutual fund trusts. Unlike mutual fund trusts, however, segregated funds cannot be merged on a tax-deferred basis. Budget 2017 proposes to level the playing field by allowing insurers to effect tax-deferred mergers of segregated funds in a manner generally aligned with the rules for mutual fund mergers.

Further, the budget proposes that non-capital losses in a segregated fund arising after 2017 may be carried over to later taxation years. This proposal would be subject to the existing regime governing the carrying forward and back of non-capital losses.

Anti-Straddle Measures

A straddle is defined as a combination of two or more derivatives or other transactions that are expected offset each other economically. Under current law, a taxpayer can defer taxation on a straddle by realizing the loss on the losing leg in one year and realizing the profits on the winning leg in the subsequent year. The government proposes to introduce a stop-loss rule as an anti-avoidance measure that will effectively defer the realization of a loss on a position comparable to any unrealized gain on an offsetting position. This measure will apply to any loss realized on a position opened on or after March 22, 2017.

Anti-Avoidance Rules for Registered Plans

The Income Tax Act features numerous anti-avoidance rules that apply to tax-free savings accounts (TFSAs), registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). The rules are designed to prevent the plans from giving taxpayers unintended excess tax benefits. Examples of anti-avoidance rules for registered plans include advantage rules, prohibited investments and non-qualified investments.

Budget 2017 proposes to extend these anti-avoidance rules to cover registered education savings plans (RESPs) and registered disability savings plans (RDSPs). The goal is to create consistency in the tax rules that apply to investments held in registered plans.

▶ Personal Tax Matters that May Affect You

Federal Income Tax Brackets for 2017

There are no changes to federal income tax brackets and rates, other than the usual annual indexing of brackets from 2016. The 2017 tax brackets and rates are as follows:

Income from	Rate
$11,635	15.00 %
$45,916	20.50 %
$91,831	26.00 %
$142,353	29.00 %
$202,800	33.00 %

Simplified Caregiver Tax Credit

Tax credits targeting caregivers recognize the burden that non-discretionary, out-of-pocket expenses place on a caregiver's ability to pay tax. In a move similar to last year's replacement of several supports for families with a single benefit, the Canada Child Benefit, the government is consolidating its supports for caregivers. Three existing tax caregiver credits (Caregiver Credit, Infirm Dependant Credit and Family Caregiver Tax Credit) are being integrated in the new **Canada Caregiver Credit**.

This revised approach is intended to make tax-credit-based financial support for caregiver more robust and accessible to more people. It will apply to caregivers regardless of whether they live with the person they're caring for.

Easier Access to the Disability Tax Credit

The 15% non-refundable Disability Tax Credit recognizes the impact of disability related expenses on an individual's ability to pay tax. Previously, a doctor's certification was required when applying for the credit. Effective March 23, nurse practitioners are also authorized to approve their patients for the credit. This measure is intended to help people living in areas with limited access to doctors, by reducing the barriers to applying for the tax credit.

Medically-Assisted Reproduction

Previously, the 15% Medical Expense Tax Credit (METC) applied to individuals who, due to medical infertility, were struggling to conceive and had to rely on medical technology (artificial insemination, IVF, etc.). However, the credit did not help single individuals or same-sex couples to offset the costs they might incur for medical intervention to have a child. The budget proposes to clarify the application of the METC so that all individuals who require medical intervention in order to conceive are eligible to claim the credit. This measure will come into effect immediately.

Uber Taxation – Ride-Sharing and GST/HST Rules

Budget 2017 proposes a levy on Uber and similar ride-hailing services that would, for the first time, impose GST/HST on fares, in the same way that these taxes are charged on regular taxi services. This measure will amend the definition of a taxi business to ensure Uber and other web-based ride-hailing services are required to charge and remit GST/HST, adding to the cost of each trip. The amendment will be effective July 1, 2017.

Higher Sin Taxes on Tobacco and Alcohol

For cigarettes, the excise duty rate is rising to $21.56 per 200 cigarettes from $21.03. For alcohol, the excise duty rate is increasing by two per cent and, starting next year, will be adjusted every April 1, based on the consumer price index.

This new measure, which took effect March 22, 2017, is expected to put an exta $55 million from tobacco and $30 million from alcohol into the government's coffers in the 2017-18 fiscal year.

Home Relocation Loans Deduction

In certain circumstances, taxpayers may receive interest-free or low-interest home-relocation loans from their employers. These loans are intended to help employees defray the expense associated with buying a new residence that is at least 40 kilometres closer to the new work location than the previous home. Such loans result in a taxable benefit being included in the employee’s income. Since 1985, the Income Tax

Act has provided for a tax deduction designed to offset the taxable benefit associated with the first $25,000 of a home relocation loan for up to five years. Budget 2017 proposes to eliminate that deduction starting with benefits arising in 2018, with the result that home relocation loans would become a less tax-effective.

Tuition Tax Credits Expanded

Budget 2017 expanded eligibility for the Tuition tax credit to include occupational skills courses that are not at a post-secondary level. As long as the student is over age 16, any institution that provides added skills will qualify for the credit. These changes will take effect as of the 2017 tax year.

Public Transit Tax Credit Eliminated

Canadians can claim the full amount they spend each year on eligible transit passes for buses, streetcars, subways, commuter trains and local ferries. This non-refundable credit will be eliminated effective July 1, 2017.

▶ Business Tax Measures that May Affect You

Review of Tax Planning Using Private Corporations

In Budget 2016, the government announced it would review all tax expenditures with the goal of identifying tax-planning strategies that gave unfair tax advantages to individuals with incomes of $200,000 or more. The current budget indicates the review highlighted a number of concerns surrounding tax planning strategies that use private corporations. Some of strategies in the government's crosshairs include:

- ☑ Sprinkling income to family members who are subject to lower personal tax rates
- ☑ Holding a passive investment portfolio inside a private corporation
- ☑ Converting a private corporation’s regular income into capital gains

The government intends to release a paper in the coming months detailing the nature of the issues, along with proposed policy responses. The government also intends to look into whether certain elements of the current income tax system may have an inappropriate negative impact on legitimate business transactions among family members.

Interpreting Factual Control

Budget 2017 proposes an amendment to the Income Tax Act that would clarify the factors involved when determining whether the factual control of a corporation exists. Factual control is an important issue in these decisions, with implications for a corporation's ability to access certain tax benefits, such as the $500,000 small business deduction limit and the scientific research and development tax credit.

The proposed amendments would address the decision in a recent Federal Court of Appeal case, which is thought to have limited the scope of factors that can be used to determine factual control. In effect, the measure would overturn the court's decision. This measure will apply to tax years that begin on or after March 22, 2017.

Elimination of Billed-Basis Accounting

Certain professionals, including accountants, dentists, lawyers and medical doctors, can elect to exclude the value of work in progress—that is, work not billed before yearend—when calculating their income for tax purposes. This practice, known as billed-basis accounting, allows deferral of taxes because it permits the costs associated with work in progress to be expensed in a given year without, in the same year, recognizing the associated revenues.

The federal government is proposing to eliminate billed-basis accounting. This measure will apply to taxation years that begin on or after March 22, 2017. To mitigate the impact of the change on taxpayers, it will be phased in over a two-year period.

Timing of Recognition of Gains and Losses on Derivatives

With Budget 2017, the government proposes to introduce an elective mark-to-market regime for eligible derivatives. Under the measure, taxpayers can elect into the regime. Those who do not would be required to apply the realization method for reporting gains and losses from income account derivatives. Once elected into the regime, taxpayers will be required to annually include the increase or decrease in value of eligible derivatives in income calculations. The proposal would apply to all taxpayers, including financial institutions. This election will be available for taxation years that begin on or after March 22, 2017.

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.