

2019 Federal Budget Tax Highlights

March 19, 2019

Budget 2019's tax measures support skills and home ownership

On March 19, 2019, the Honourable Bill Morneau tabled his fourth budget as Minister of Finance and the final budget of the current government's mandate. This budget projects a deficit of \$14.9 billion for 2018-19, which is about \$3 billion less than projected in the Fall Economic Statement. The deficit is projected to climb to \$19.8 billion in 2019-20 and then decline to \$9.8 billion by 2023-24.

The budget doesn't propose any change to Canada's personal, corporate or indirect tax rates, nor does it announce plans for a comprehensive review with the aim of improving Canada's current tax system. Many of the budget's tax measures support its broader focus on fostering skills training, promoting home ownership and supporting research and development.

Some of the top tax changes announced today, which take effect on varying dates, are summarized below.

Support for skills training

Canada Training Benefit — Budget 2019 introduces two key measures to help working Canadians upgrade their skills:

- A new, non-taxable Canada Training Credit will allow eligible workers aged 25 to 64 a credit balance of \$250 per year, which can accumulate to a lifetime limit of \$5,000 to be used to cover up to half of eligible fees
- A new Employment Insurance Training Support Benefit will provide income support when an individual needs time to take off work for skills training

Support for home ownership

Home Buyers' Plan (HBP) — Budget 2019 proposes to increase the amount that first-time home buyers can withdraw from their Registered Retirement Savings Plans to buy or build a new home to up to \$35,000 (from \$25,000) under the HBP. Eligibility for the HBP is being extended to help Canadians maintain home ownership after marital or common-law relationship breakdowns.

Change-in-use of multi-residential properties — The budget proposes to allow the same preferred capital tax treatment that now applies for single-unit properties to owners of multi-unit residential properties when they convert a portion of those properties from rental to residential properties (or vice versa).

Support for research and development

Scientific research and experimental development (SR&ED) — Budget 2019 proposes to improve the support for small and medium-sized businesses currently provided through the enhanced 35% SR&ED tax credit (rather than the regular 15% SR&ED credit rate). The income threshold for accessing the enhanced credit will be eliminated, which will help smaller companies as they grow through a more predictable phase-out of the enhanced 35% rate. These companies will no longer need to reduce taxable income using bonuses to \$500,000 for SR&ED purposes. (The existing \$10 million capital threshold for accessing the enhanced credit will still apply.)

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Support for Canadian journalism

The government announced its intention to support Canadian journalism as part of the 2018 Fall Economic Statement. To support Canadian journalism, Budget 2019 commits to:

- Allow journalism organizations to register as qualified donees for charitable donations tax purposes
- Introduce a refundable labour tax credit for qualifying journalism organizations
- Introduce a non-refundable tax credit for subscriptions to Canadian digital news

The government will form an independent panel to recommend eligibility criteria for these measures.

Employee stock options

Employee stock option deduction — Budget 2019 announces the government's intent to limit the use of the current employee stock option tax regime to make it fairer and more equitable for Canadians, while ensuring that start-ups and emerging Canadian businesses that are creating jobs can continue to grow and expand.

The government plans to apply a \$200,000 annual cap on employee stock option grants (based on the fair market value of the underlying shares) for employees of large, long-established, mature companies. For start-ups and rapidly growing Canadian businesses, employee stock option benefits would remain uncapped. More details will be released before the summer of 2019.

Improving tax administration

Canada Revenue Agency (CRA) services — Following a review of the CRA's service model, CRA resources will be reallocated internally to:

- Improve digital services by notifying Canadians promptly as their files progress and allowing them to view this progress online
- Provide more timely resolution to taxpayers' objections
- Expand the CRA's Liaison Officer Program by adding more CRA auditors to help new unincorporated businesses understand their tax obligations and by extending the program to incorporated businesses

The CRA is also allocated \$50 million over five years for:

- Reducing the time it takes to process T1 post-filing adjustments, by allowing CRA to hire additional staff in this area
- Making permanent the pilot program providing a dedicated telephone support line for technical questions from tax practitioners

Canada Workers Benefit (CWB) — The CRA is allocated \$4 million over two years, starting in 2019–20, to improve access to the Canada Workers Benefit through targeted outreach. This includes promoting the CWB's little-used advance payment provision, which allows to receive up to four advance payments of the benefit throughout a year (limited to half of their estimated CWB entitlement for the year).

Improving tax compliance

Compliance in the real estate sector — Budget 2019 proposes to provide the CRA with \$50 million over five years to enhance its ability to detect and pursue complex real estate transactions where parties have not paid the

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required taxes. The CRA will create four new dedicated residential and commercial real estate audit teams in high-risk regions, including in British Columbia and Ontario.

Improving tax compliance — Measures to improve tax compliance in Canada include:

- Extending the joint and several liability under the rules preventing the carrying on of business in Tax-Free Savings Accounts (TFSA) beyond financial institutions (as trustees) to also include TFSA holders
- Preventing certain arrangements that inappropriately defer tax or convert ordinary income into lower-taxed capital gains (i.e., through mutual fund trusts, derivative transactions, individual pension plans)

Budget 2019 commits \$150.8 million to help the CRA improve its enforcement activities related to the digital economy, data quality examination and offshore non-compliance. Also in the international tax area, the budget introduces specific measures that target transfer pricing, foreign affiliate dumping and cross-border share lending arrangements.

More personal tax measures

Other personal tax measures announced in Budget 2019 include:

- Broadening the tax rules for certain registered plans to allow new types of annuities
- Changing the rules for Registered Disability Savings Plans to better protect the long-term savings of persons with disabilities

More business tax measures

Other business tax measures announced in Budget 2019 include:

- Supporting businesses' adoption of zero-emission vehicles by making them eligible for a 100% capital cost allowance rate in the year they are put in use
- Continuing to consult with farmers, fishers and other business owners to develop proposals to better accommodate intergenerational transfers of businesses while protecting the tax system's integrity and fairness
- Extending relief for Canadian-controlled private corporations carrying on a farming or fishing business from the tax rules designed to prevent the multiplication of the small business deduction to sales of farming products and fishing catches to any arm's length corporation

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