

MoneySense

25 ways the Liberal budget affects you

The federal budget means big changes for seniors, families, students and investors

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Want to focus on deficit reduction, tax cuts and seniors? You've got the wrong budget. Much as they did with their election platform, the Liberals took aim at middle-class Canadians, with a few small business hits and misses, lots of infrastructure spending promises and a great deal of promises that focused on Canada's health and well-being of First Nations communities.

The key takeaway from Finance Minister Bill Morneau is that Budget 2016 works to improve the lives of middle-class Canadians. Here are 25 ways the budget will impact you and your pocketbook.

Income Tax:

1. Reduction of middle-income tax bracket

As previously announced, the Liberals confirmed in this budget that the middle-class income tax bracket would be cut from 22% to 20.5%, starting this year. That means if your taxable income is between \$45,282 and \$90,563, you'll pay less tax.

A single Canadian in this tax bracket will see an average tax reduction of \$330 every year, while couples will see an average tax reduction of \$540 per year.

According to Budget 2016, nearly 9 million Canadians will benefit from this tax cut, which took effect Jan. 1, 2016.

2. New HNW tax bracket

The Liberals also made good on their promise to introduce a new 33% tax bracket for high net worth people who earn more than \$200,000 each year.

3. Crackdown on tax evasion

The Liberals will invest \$444.4 million over five years to help the Canada Revenue Agency to crack down on tax evasion. This money will go to hiring more tax auditors and specialists, developing robust business intelligence infrastructure, increasing verification activities and investigating criminal tax evaders.

The Liberals will also spend \$351.6 million over the next five years to help the Canada Revenue Agency improve its ability to collect outstanding tax debts. The new federal government assumes this will help bring in \$7.4 billion in tax debt over this time frame.

4. Closing tax loopholes for HNW

For those private corporation business owners, this Budget will close loopholes that allow them to use a life insurance policy to make distributions tax free.

Seniors:

5. Retirement age officially rolled-back to 65

The Liberals are keeping the retirement age at 65 by officially reversing the Conservatives' decision to raise it to 67 beginning in 2023.

As stated: "Restoring the eligibility age for Old Age Security and Guaranteed Income Supplement benefits to 65 will put thousands of dollars back in the pockets of Canadians as they become seniors. These benefits are an important part of the retirement income of Canadians, particularly for lower-income seniors. Vulnerable seniors depend on this support, and without it, face a much higher risk of living in poverty."

6. Low-income seniors get 10% more in GIS benefits

Starting in July 2016, low-income seniors who rely almost exclusively on Old Age Security and Guaranteed Income Supplement (GIS) benefits can expect a 10% increase to their total maximum GIS benefits.

This top-up will increase annual GIS payouts to \$947 annually for those single seniors living on \$4,600 or less per year (not including OAS and GIS benefits), and more than doubles the current GIS maximum limit.

According to the Budget, this should help improve the financial security of roughly 900,000 single seniors in Canada—those seniors most susceptible to living in poverty in Canada.

7. Couples can now split their GIS benefits

In an effort to reduce the number of seniors living in poverty, the Liberals propose to amend the *Old Age Security Act* to allow senior couples who qualify for GIS and Allowance benefit to receive higher benefits should they be forced to live apart due, for example, to health reasons.

Legislation is already in place to allow senior couples, who are both GIS recipients, to receive these benefits when forced to live apart. The proposed amendments would extend this to seniors eligible for Allowance payments.

Families

8. Introduction of the Canada Child Benefit

Starting in July, the UCCB and CCTB will be replaced with one non-taxable Canada Child Benefit. The Budget declares that the Canada Child Benefit will be simpler, tax-free, better-targeted and "much more generous."

Under the current system, families with one child and with annual earnings of \$30,000 would receive \$4,852, after tax, if their child was under age 6, or \$3,916 if their child is aged 6 to 17.

Under the Canada Child Benefit, these low-income families could see \$6,400 per child under age 6 and up to \$5,400 per child per year for children aged 6 to 17. As such, most Canadian families will see an average increase in child benefits of almost \$2,300 starting this year.

The Liberal rationale, as outlined in Budget 2016 is that: “Canada’s existing child benefit system is complicated, consisting of a tax-free, income-tested Canada Child Tax Benefit with two components (the base benefit and the National Child Benefit supplement) and a taxable Universal Child Care Benefit received by all families, regardless of income. It is a system that is both inadequate (it does not provide families with the support they need) and not sufficiently targeted to those who need it most (families with very high incomes receive benefits).”

According to the Liberals, nine out of 10 families will receive more in child benefits than under the current system.

9. Increased Child Disability Benefits

“To recognize the additional costs of caring for a child with a severe disability,” Budget 2016 will continue the Child Disability Benefit but add an additional amount of up to \$2,730 for each child who is eligible for the Disability Tax Credit.

10. Eliminate income splitting for couples with kids

Income splitting for couples with children under age 18 will be eliminated.

While not referenced in the Budget document by name, this decision eliminates the prior Conservative government’s introduction of the Family Tax Cut, which allowed couples to income split and save up to \$2,000 in taxes each year.

11. No more fitness or arts tax credit for kids

Currently, families can get a tax credit of \$150 and \$75 per child through Children’s Fitness and Arts Tax Credits (up to \$1,000 and \$500 in eligible expenses, respectively).

These will be eliminated. The justification is that the Liberals are trying to simplify the tax code and better target support for families with children.

But the elimination isn’t immediate or retroactive. Instead, expect a 50% reduction of the maximum eligible expenses for the Children’s Fitness and Arts Tax Credits in 2016, and a complete elimination of both credits by 2017.

12. Childcare investment

The Liberals want to invest \$500 million, starting in 2017, to establish a National Framework on Early Learning and Child Care (\$100 million of this is earmarked for Indigenous child care and early learning on reserve) that will facilitate how provinces address childcare needs.

Students:

13. Reforms to Canada Students Loans eligibility

The Liberals propose to introduce a flat-rate contribution to determine a student's eligibility for Canada Student Loans. This would replace the current system that assesses eligibility based on a student's income and assets.

This change would also enable students to work and earn, while attending school, without seeing a reduction in their level of financial loan assistance.

14. Increase in amounts for Canada Student Loans

Budget 2016 proposes to increase Canada Student Grant amounts 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.

These increased grant amounts will be available to students starting or continuing post-secondary schooling this coming September.

15. Help with student debt

As promised, the Justin Trudeau Liberals will increase the loan threshold payment, so that no student will be required to repay their Canada Student Loan until they earn at least \$25,000 per year.

16. Elimination of education and textbook tax credit

As expected, this Budget eliminates the Education and Textbook tax credits, effective Jan. 1, 2017. The reasoning is that these tax credits are not targeted based on income and “often provide little direct support to students at the time they need it most.”

Employment

17. Investment in youth employment

The Liberals will invest \$165.4 million in the Youth Employment Strategy this year that will include: creation of green jobs, increased access to Skills Link program and increased job opportunities in the heritage sector.

This funding is in addition to the \$339 million already announced for the Canada Summer Jobs Program—funding that will be rolled out over the next three years, starting in 2016.

18. More co-op placement opportunities

Under this Budget, the Liberals pledge to spend \$73 million over the next four years, to help employers and post-secondary institutions to create new co-op placements for students.

19. Shorter waits for Employment Insurance benefits

Those hit by job loss will find some significant changes to Employment Insurance (EI). The waiting period for benefits will be reduced from two weeks to one week.

20. Increased eligibility to EI benefits

Also, how a person qualifies for EI will change. For example, Donald lives in Winnipeg, Manitoba, where he has worked part time over the past six months since graduating from college. He was recently laid off. Under current EI eligibility rules, Donald would be considered a new entrant to the labour force. As a result, he would need to have worked at least 910 hours over the past 52 weeks to qualify for EI benefits. Since Donald only worked 780 hours over this period, he does not qualify for benefits.

Under the proposed changes, Donald would face the same EI eligibility requirements as other claimants in his region. That would mean he could qualify for EI as long as he worked 665 hours. Since, Donald qualifies for EI under the new rules he could receive up to 17 weeks of EI benefits while he looks for new work to start his career. These changes will take effect in July this year.

21. Help for oil workers

Because of dramatic job losses due to declines in global oil prices, this Budget proposes legislative changes to extend the duration of EI regular benefits by five weeks, up to a maximum of 50 weeks of benefits for anyone living in a resource-dependent region.

For long-tenured workers in these regions, these changes could mean an additional 20 weeks of EI regular benefits up to a maximum of 70 weeks of benefits.

These extended benefits will be available for one year starting in July 2016, with the measure being applied retroactively to all eligible claims as of January 4, 2015.

22. Working while on EI is extended until August 2018

The Working While on Claim pilot project lets people earn and keep up to 50 cents of their EI benefits for every \$1 they earn, up to a maximum of 90% of their weekly insurable earnings (used to calculate their EI benefit amount). This pilot project will be extended until August 2018.

Investors:

23. Investors can expect to pay more tax

This Budget will close loopholes that some investors use to reduce tax paid to the CRA. For instance, it will examine the use of “debt-parking transactions” by investors or private corporations in an effort to “preserve the integrity of the foreign exchange computational rules.”

This Budget will also “prevent the asymmetrical recognition of gains and losses on derivatives for tax purposes,” and “prevent the deferral of capital gains tax by investors in mutual fund corporations structured as switch funds.” This means investors holding C-class mutual funds will no longer be able to shelter their capital gains from tax.

This Budget will also “introduce a new rule that would effectively treat the portion of any gain realized on the sale of a linked note that is attributable to the variable return on the note as accrued interest on the note.”

24. Labour-Sponsored tax credit reinstated

Budget 2016 will restore the Labour-Sponsored Venture Capital Corporations (LSVCC) tax credit to 15% for share purchases of provincially registered LSVCCs for 2016 and subsequent tax years. The aim is to help small and medium-sized businesses gain access to venture capital and provide federal tax relief of about \$815 million over the 2015–16 to 2020–21 period.

Charitable Donations:

25. Elimination of capital gains tax exemption on donations

Budget 2015 included a proposal to provide, beginning in 2017, an income tax exemption on capital gains of donated private corporation shares or real estate. (To qualify the cash proceeds from the disposition would need to be donated to a registered charity or other qualified donee within 30 days.) This will be eliminated in Budget.