FINANCIAL POST

February 3, 2017

Here are the tax changes to watch out for in the upcoming federal budget

By Jamie Golombek

Bill Morneau's second Liberal budget is around the corner and when it comes to what's inside, it's anyone's guess - but here are some...

There's much speculation as to both the date of the upcoming federal budget and its potential contents. Typically, the budget is issued in February or March in anticipation of the start of the government's fiscal year, which begins on April 1. Over the past decade, prior years' budget dates have ranged from late January (in 2009, to hastily deal with the fall 2008 economic crisis) to as late as March 29 (in 2012).

Although the date is a tightly-guarded secret (until it's not), the rumoured date among policy wonks, based on the Parliamentary calendar on when the House of Commons is in session, is sometime during the last full week of February, with Wednesday Feb. 22 or Thurs. Feb. 23 being two popular guesses.

Of more interest, of course, is what the actual contents of Mr. Bill Morneau's second Liberal budget will be. And when it comes to what's in the budget, it's anyone's guess. Here are some possible tax changes we might see.

Tax rates

Last year saw the introduction of the middle-income tax cut (the rate drop to 20.5 per cent from 22 per cent for 2017 income between $45,916 to $91,831) coupled with the launch of the new 33 per cent high-income bracket (for 2017 income above $202,800). Given that the top, combined federal/provincial marginal tax rate for high-income earners in Canada is now over 50 per cent in seven provinces, it seems unlikely the government would raise tax rates any further, if for no other reason than to retain highly-skilled Canadian workers and professionals that are mobile and could be tempted to relocate south if President Donald Trump follows through on his promise to drop the top U.S. tax rate for high-income earners by 17 per cent.

"Boutique" tax credits

"Boutique" tax credits, sometimes known as "tax expenditures," refers to government spending to encourage certain programs and behaviours, such as public transit and post-secondary education, or that target certain segments of the population, such as parents, seniors or pensioners. These expenditures are administered through the tax system and are often delivered in the form of tax credits.

These credits have proliferated in recent years and fill up an entire page of the tax return. There are credits for volunteer firefighters, search and rescue volunteers as well as first-time home buyers. Last year's federal budget announced the elimination of four of the credits which you may see for the last time when you fill out your 2016 tax returns: the children's fitness and arts credits as well as the education and textbook credits for students.

A week after last year's budget, Mr. Morneau announced a review of the "tax expenditures in the code ... (to make) sure they are all consistent with our approach to tax fairness."

This year's budget may contain the further elimination of a variety of tax credits that are costly, narrowly-targeted, and don't have a meaningful impact on the taxpayers for whom they were designed.

Employee stock options

The 2015 Liberal election platform contained a proposal to limit the benefits of the 50 per cent employee stock option deduction by placing a cap of $100,000 on annual eligible stock option gains. This idea was abandoned by Mr. Morneau after intense lobbying by start-ups in the high-tech and resource industries, worried that such a measure would hamper their ability to attract talent as these companies rely heavily on non-cash, stock option compensation to pay their workers.

Capital gains inclusion rates

As I've stated in an earlier column[1], the government has never publicly campaigned on nor stated that it was studying an increase to the capital gains inclusion rate, currently set at 50 per cent. Yet an increase in the rate, to 66 2/3 per cent, which we had in 1988 or to 75 per cent, which lasted for a decade from 1990 to 2000, is not beyond the realm of possibility.

Private health & dental plans

On a positive note, it appears that your employer-provided group health and dental plans will remain tax-free. While previous reports[2] suggested that the government may start taxing Canadians who receive these benefits through work as a taxable employment benefit, on Wednesday during question period, Prime Minister Justin Trudeau said that he won't be following through on this rumoured change. "We are committed to protecting the middle class from increased taxes and that is why we will not be raising (those) taxes," he said.

Small business owners

Business owners, including incorporated professionals, who operate their businesses through a Canadian-controlled private corporation (CCPC) are able to claim the small business deduction on the first $500,000 of active business income, thereby paying an extremely low rate of tax when the income is initially earned. This results in a significant tax deferral advantage by leaving the after-tax corporate income inside the corporation as opposed to paying it out immediately.

Business owners also have the ability to income split after-tax profits from their (professional) corporation by issuing shares, directly or often via a family trust, to a spouse, partner or adult children, and paying those family members dividends which are then taxed at lower rates.

In the 2015 election platform, the Liberals stated that they "will ensure that.... CCPC status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses." The platform document also quotes University of Ottawa professor Michael Wolfson's research, which estimates that "approximately $500 million per year is lost, particularly as high-income individuals use CCPC status as an income splitting tool."

Some business owners and professionals are concerned that now that the government has had over a year to think about how to attack these issues, new measures may come out in the upcoming budget to curtail the use of the small business corporation and limit income splitting with family members.

Financial Post

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