Weekly Updates Issue # 557

1. Weekly Markets Changes

[March 25, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,358.11 -138.96 -1.03%	2,035.94 -13.64 -0.67%	17,515.73 -86.57 -0.49%	4,773.51 -22.14 -0.46	$0.7532 -1.58¢ -2.05%	$1,216.70 -41.90 -3.33%	$39.59 +0.24 +0.61%

2. Are wealthy people affected by further changes to top tax rate?

[March 23, 2016] Tuesday’s budget made changes to reflect the new top marginal tax rate of 33%, which was originally announced in December 2015. These measures will apply to the 2016 and later taxation years.

What this means

The amendments don’t change much for top earners—if they earn more than $200,000, they’ll still be taxed at the 33% rate, say experts.

“The consequential changes are not a surprise,” says Wilmot George, vice-president, Tax, Retirement and Estate Planning at CI Investments. “The changes are a natural follow-up to the decision to increase the top marginal rate.”

Jason Safar, tax partner at PwC, adds, “The news on this was in December when they bumped the top rate by 4%. This is really about the mechanics to make sure it gets done across the Income Tax Act.”

While the federal government has made changes to reflect the new top rate, some provinces haven't. In particular, Ontario is lagging behind when it comes to charitable tax donation credits.
Further amendments to the Income Tax Act will:

- provide a 33% charitable donation tax credit (on donations above $200) to trusts that are subject to the 33% rate on all of their 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 definition of "relevant tax factor" in the foreign affiliate rules to reduce the relevant tax factor from the current 2.2 to 1.9;
- 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;
- increase the Part XII.2 tax rate on the distributed income of certain trusts from 36% to 40%; and
- amend the recovery tax rule for qualified disability trusts to refer to the new 33% top rate.

"When you're looking at an Ontario donor, the credit they're getting is at a much lower rate than their top rate of tax," says Safar. "So they're disadvantaged compared to a donor in Alberta or B.C. The provincial government here has chosen not to adjust the donation credit to reflect the actual top marginal rate that's being incurred in Ontario."
He uses a simplified example. Say a high earner's total tax rate is 50%–35% federal and 15% provincial. She makes a $100 donation and should get a total $50 tax credit.
"What's happened is the feds have said, 'Yes, when you make that $100 donation, we'll give you the $35 tax credit.' But the province says, 'We're not going to give you the $15 tax credit. We'll give you $10."
Safar adds, "They've intentionally not done the housekeeping, which is a disadvantage."

Tips for wealthy people

Here are some options to help clients with income above $200,000.

Roll investments into a holding company

If individuals have income-earning investment portfolios and are in the highest marginal tax rate, they're looking at paying about 54% tax in Ontario. "If they took those investments and rolled them into a holding company, they would only pay about a 50% corporate tax rate," says Aaron Schechter, tax partner at Crowe Soberman. “There’s a little bit of a deferral there. You’d have to have a very large portfolio for that to make sense.”

Take advantage of capital gains through buy-and-hold strategies

“Anything that triggers a capital gain is clearly the most favoured income type,” says Safar. He suggests buying assets that accrue in value and holding them for the long term.

“If I have $100,000 and I buy a bond and it pays me interest income every year, then every year I get taxed on that income. If I take that same $100,000 and buy a stock, then I sit on that stock for 15 years, I have no taxable event if it’s not paying any dividends.

“When I sell, that’s the only time I have to pay taxes. And I’m paying taxes at half the rate, compared to my tax rate on interest income.”

Kevin Stienstra, senior manager, Tax Services at Grant Thornton notes high-income earners didn’t “get much solace” from the budget.

“It’s still going to cost those taxpayers to look for different tax strategies to reduce their income or split their income so they’re not paying tax at that rate,” says Stienstra.

He adds the new top rate hurts Canada’s economic competitiveness. “We would’ve liked to see them repeal that increase. Canada has the second highest [tax rate] among the G7 countries, with only France ahead of it. So if a doctor or other professional is looking for places to work, and they’re taking into consideration how much they’re able to take home after tax, Canada is not overly competitive.”

3. Small biz hit yet again by changes to eligible capital property

[March 23, 2016] It took them two years, but the government has finally addressed eligible capital property.

The 2016 Budget proposes to put eligible capital property (ECP) – which includes intangible assets like goodwill and client lists — into its own Capital Cost Allowance class as of January 1, 2017. ECP currently has its own special rules.

Over the past few years, tax practitioners had argued against the new regime, saying it would create disadvantages and confusion for small business owners.

Others had encouraged the change, calling the special rules too complex.

Here’s what you need to know about the old and new regimes.

What is Capital Cost Allowance?

When businesses buy buildings, equipment, computer hardware, vehicles and other tangible assets, they go on the balance sheet as capital. Businesses cannot deduct those purchase costs from revenue.

But, CRA recognizes that over time, things wear out or become obsolete. So, it allows businesses to deduct an amortization expense, or Capital Cost Allowance (CCA), each year. The type of asset determines the annual amortization: each asset belongs to one of a few dozen CCA classes. Class 1, for instance, applies to buildings and amortizes at 4%. Class 38 includes power-operated equipment "used for excavating, moving, placing or compacting earth, rock, concrete or asphalt," and amortizes at 30%.

In the first year a business acquires an asset, it can only claim amortization on half the asset's value (known in accounting circles as the "half-year rule").

What happens when you sell an amortized asset?

Let's say you bought a truck for $100, and it's been amortized down to $20. If you sell it for $20, there is no capital gain or loss (so, no tax effect). But, if you sell it for more than the original cost – say, $125 – then the $25 difference is considered a capital gain, and taxed as such. And, $80 ($100 minus $20) is recaptured CCA and included in income.

Other details

- For small CEC balances transferred to the new system, taxpayers will be able to deduct the greater of $500 per year and the amount otherwise deductible from Jan 1., 2017 to Dec. 31, 2026. Say you have $1,000 in your account. "Normally you would be able toclaim 5%, or $50," says tax lawyer Michael Friedman. Instead, you'll be able to claim $500, and clear the $1,000 in two tax years.
- Many businesses create CEC balances only by virtue of incorporating. The first $3,000 of these expenditures will be treated as a current expense rather than being added to the new CCA class.

What is the Eligible Capital Property regime?

Intangible assets, such as goodwill and client lists, do not have their own CCA classes. Instead, they're considered Eligible Capital Property (ECP). But, intangibles like goodwill (i.e., a company's reputation) can still become obsolete. So, CRA lets businesses put 75% of an ECP's value into a cumulative eligible capital (CEC) pool, and that value amortizes at 7%. This regime is in place until December 31, 2016.

Right now, what happens when you sell ECP?

Let's say you bought a client list for $100. At time of purchase, 75% ($75) would have gone into the CEC pool. Now, let's say there's nothing else in the pool, and over time the client list amortizes down to $20 in the CEC pool

($26.67 including the non-amortized part outside the pool). If you sell the list for $26.67, 75% of that ($20) is subtracted from the CEC pool.

But, if you sell the list for between $26.67 and the original cost of $100 – say, $35 – then the CEC pool becomes negative. In this case, 75% of $35 ($26.25) would be subtracted from the CEC pool, and the pool would be negative by $6.25. Since CRA doesn't allow a CEC pool to have a negative balance, the business has to recapture the $6.25 by including it in its income.

If the list is sold for more than its original cost of $100 – say, $120 – the CEC pool becomes negative. In this case, 75% of $120 ($90) would be subtracted from the CEC pool, and the pool would be negative by $70. The business would have to recapture the $55 of deductions in respect of ECP previously claimed ($75 minus $20) by including it in its income. The business would also have to account for the $20 gain on the ECP sale.

The good news: CRA only requires you to include half the gain. The other half goes to the business' Capital Dividend Account, which the company can pay out as a tax-free dividend after the first day of the following tax year. That's unique to ECP – by contrast with "genuine" capital gains, you can pay the dividend the day after. Kim Moody, director at Moodys Gartner Tax Law, told us in 2015 that many business owners forget about that difference and pay out dividends before the next tax year, incurring penalties.

An ECP gain's treatment is capital gain-like (since only half of capital gains are taxed), but there's a key difference: generally, the ECP gain is still considered income, not a capital gain. That means a business can't offset the ECP gain with a capital loss; it can only offset it with a business loss.

These rules are complicated. That had prompted folks to ask the government to simplify things, which is why the Department of Finance is now giving intangible property its own CCA class.

How will the new regime work?

Budget 2016 confirms that ECP will have its own CCA class, and be included in the class at 100%. The amount in the CEC pool (which, as we recall, only represents 75% of the intangible asset's value) will be transferred to a new CCA class. To give businesses time to transition, former ECP will amortize at 7% from January 1, 2017 to December 31, 2026, and at 5% thereafter. Any new eligible property purchased after January 1, 2017 will amortize at 5%.

(In reality, 5% on 100% of an asset is initially less advantageous for business owners than 7% on 75% of the same asset. The government picks up 25 basis points — indeed, the regime change is projected to net the government $220 million from 2016 to 2018.)

Former ECP will then be subject to the CCA regime: new purchases after January 1, 2017 are subject to the half-year rule. And, when the property's sold for more (or less) than its depreciated amount, that action would create a capital gain (or loss).

Selling former ECP will reduce the CCA pool by 75% instead of 100% until all the former ECP is sold.

Issues with the new regime

Actually simpler?

Michael Friedman, co-chair of the tax group at McMillan, says as suspected, the new regime will create accounting headaches. “The complications we envisioned are here,” he says. “The transitional rules are quite dense and detailed.”

Companies have 10 years of dealing with a hybrid regime for old property (75% of the property amortized at 7%) and the new regime for new property (100% of the property amortized at 5%). “There are fairly detailed rules that will dictate how you track capital costs and assets,” he says.

The transitional rules are “designed so you should be indifferent from a tax perspective” between the new and old rules. And Finance does not want business owners taking advantage of the new rules to save tax. “They’re disallowing games people might play to artificially increase the undepreciated capital cost of eligible capital property held prior to January 1, 2017,” says Friedman.

The half-year rule

Since intangible assets would be subject to the half-year rule, the depreciation amount deductible in the year of purchase would be reduced by half.

Capital gain/loss versus income

Under CCA, sale of an intangible asset would create a capital gain or loss, not an income, gain or loss. That would let businesses offset capital gains with capital losses. But some businesses prefer ECP gains to be treated as income.

Disadvantages for CCPCs

The old ECP regime was advantageous for clients who own Canadian-Controlled Private Corporations (CCPCs).

CCPCs pay an additional 26.67% tax on investment income, above the small business tax. So, on $100 of investment income, it’s another $26.67. That $26.67 goes into a notional pool called the Refundable Dividend Tax on Hand (RDTOH) pool.

The CCPC can get that $26.67 refunded if it issues a taxable dividend equivalent to 3x the tax, or $80. So, “you’re going to pay roughly 20% corporate tax on $100 of investment income,” Moody told us. The person who receives the dividend then pays personal tax on it.

Under the current regime, an ECP gain is considered regular income (not investment income), so there's no additional tax on it. An ECP gain is eligible for the lower small business rate.

"We may see a lot of people undertaking transactions prior to the end of the year to crystallize that advantage," says Friedman.

That's because under the new regime, a gain from the proceeds of an ECP sale will become a capital gain, and be considered investment income. That will make the ECP gain subject to the additional 26.67% tax. And the only way to recover that 26.67% is to push out a dividend equivalent to 3x the tax.

"It never makes sense not to try to recover that 26.67%," said Moody. "But you do that at the expense of deferral."

In other words, since the corporate tax bill is lower under the current regime, more cash remains inside the corporation. The business owner can hold off on distributing the cash to herself as a dividend, deferring the personal tax. This may be helpful if she knows she'll be in a lower personal tax bracket in future.

Under the new regime, the business owner will be forced to push out a dividend to recover the 26.67%. That's because it would cost more to keep the ECP proceeds in the CCPC than it would to pay the dividend, and the business owner would lose out on the deferral.

What should you do?

You will have to look carefully at the transition rules and be careful when disposing of property that was purchased prior to January 1, 2017. And, corporations with non-calendar fiscal years that sell property prior to 2017 will have complicated elective rules to follow.

But aside from the compliance headache, people who own regular corporations have no tax reason to panic, says Friedman. "The intention was for this to be neutral — [but] CCPCs will be the exception," he adds.

CCPC could sell ECP prior to 2017 to get ahead of the new regime. "But, are you going to sell your business before you're ready, just to capture the tax advantage? Many would say no, but for those who are nearing retirement, this may become relevant," says Friedman. "For people who were already contemplating a transaction, there might be an added incentive to carry out that transaction this year. That comes at a cost, though. You have to pay the tax. It'll only be a certain class of taxpayers thinking actively about that."

4. Budget narrows access to small biz deduction

[March 23, 2016] People using sophisticated tax strategies to maximize access to the small business deduction (SBD) will be disappointed with two changes in this year's federal budget.

Association rules

The first is a change that closes a loophole in the association rules for corporations. To illustrate, consider the following example.

Opco is owned 50%/50% by Holdco A and Holdco B. Holdco A is owned by Marsha and Holdco B is owned by William, who are siblings.

Under this scenario, tax rules say all three companies are associated, which means all three have to share a single SBD, explains David Steinberg, co-leader of EY's Private Mid-Market practice in Toronto. But there's a rule that says if Opco files a special election, it can forfeit its SBD, which would then allow Holdco A and Holdco B to each get their own SBD. In that case, Steinberg says, you would go from one SBD shared by all three companies, to two SBDs—one for Holdco A, one for Holdco B.

From the government's point of view, so far, so good. Here's where the perceived abuse comes in.

Say Opco pays $400,000 of loan interest to Holdco A and $400,000 of loan interest to Holdco B. Normally, that interest income would be subject to a high rate of tax, notes Steinberg. "But under the association rules, there's a deeming rule that deems the interest to be active [business income] if it's received from an associated company. And that deeming rule still continued even if you made that special election not to be associated with Opco," i.e., the special election that forfeited Opco's SBD.

The net result: $800,000 of passive income is converted into active business income that qualifies for the small business deduction.

Steinberg explains that this year's budget ends this practice by saying that if Opco makes the election to forfeit its SBD and become disassociated from Holdco A and Holdco B, then Marsha and William are no longer able to invoke the provision that allows them to deem the $400,000 in interest they each get as active business income eligible for the SBD.

So, post-budget, it's still possible to elect to forfeit Opco's SBD, resulting in a separate SBD for each of Holdco A and Holdco B; as of March 22, 2016, if Marsha and William make this election, they are no longer able to use it in combination with the deeming provision that converts interest income from Opco into active income eligible for the SBD.

Multiplying the SBD

The second change is less an alteration of the current rules than a tightening of their drafting to prevent a practice that thwarts the law's original intention. Each small business should be entitled to one SBD, notes Dave Walsh, leader, Tax Services practice, BDO Canada in Ottawa. In their current form, the rules contain a loophole that allows a single business to be structured in a way that multiplies its access to the SBD.

Say you have a small law firm, XYZ Legal Services, that's structured as a partnership, and there are three partners. Walsh explains that currently, each partner could set up her own professional corporation on the side, with each corporation entitled to its own SBD. The three corporations then provide services to the partnership, and the income generated by those services goes into the side corporations as active business income.

The spirit of the law is that XYZ Legal Services should get one SBD, which would then be shared by the three partners. But thanks to the loophole, the partners are able to structure the business so that each partner gets her own SBD via the professional corporation they each set up on the side. This structure has been used by legal, accounting and other partnerships.

"The abuse," says Steinberg, "is avoiding what's called specified partnership income; partnerships were intended only to get one small business deduction. Now, they're doubling up, tripling up, or quadrupling up, depending on how many partners you have." The budget ends this practice of multiplying the SBD. So, if the partners see greater advantage in staying together as a single business, they'll need to be content with a single, shared SBD. If having one SBD each is more important to them than the benefits of combining their services under one banner, they'll need to go their separate ways.

Steinberg adds that the loophole also existed—and is being closed by the Liberals—in cases where the business was structured as a corporation rather than a partnership. In this scenario, the business owners would still set up side corporations, as in the previous example, except in this case the side corporations would be billing a corporation rather than a partnership for services rendered.

5. What's new with CPP, OAS and EI?

[March 23, 2016] Budget 2016 included some changes to CPP, the OAS allowance, and Employment Insurance. Here's what you need to know.

CPP

While the government has been in talks to enhance CPP since December 2015, no official changes were announced in Budget 2016. The government is asking provinces and territories for their input in the coming months.

Kevin Stienstra, senior manager, Tax Services, Grant Thornton says one of the possible enhancements could be increasing the amount of CPP contributions. He notes while there's a benefit to having a forced retirement savings plan since people are living longer, it could negatively impact employers.

"If you increase CPP, you're increasing the cost to the employer," says Stienstra. "They're funding 50% of all contributions to the CPP for their employees. And then the employees are having 50% of their portion held from their pay. So it would be an additional payroll tax for companies.

"It would also result in less money to individuals as well, because they'd be taking less money home. That's less money to put into the economy to buy consumer goods, or put into [their own] TFSAs or RRSPs."

OAS

The government had already announced it would reverse the OAS and GIS changes made by the conservatives, decreasing the age back to 65.

In Budget 2016, it also restored the OAS allowance benefit back to age 60, instead of increasing it from age 60 to 62 over the 2023 to 2029 period.

EI

- Key enhancements to EI include:
- reducing the EI waiting period from two weeks to one, effective January, 2017. This means EI claimants will be able to get their benefits faster;
- expanding access for new entrants and re-entrants to the job market. Many new workers, including young Canadians or immigrants, have a hard time accessing EI benefits. Under current rules, they must accumulate 910 hours of insurable employment in 52 weeks before they can benefit. They'll now face the same criteria as other claimants in their regions;
- extending the Working While on Claim Pilot Project until August 2018;
- simplifying job search responsibilities. This reverses a change made in 2012, which specified the type of job unemployed workers had to search for; and
- extending EI benefits in certain regions where unemployment is highest — for instance, in Alberta due to the oil crisis.

6. IIAC reacts to federal budget

[March 23, 2016] The 2016 federal budget comes in the midst of a marked deceleration in economic growth and the prospect of a modest recovery over the next year.

"Stepped-up program spending over the next two fiscal years, averaging 6% annually, provides support for growth and a buffer to cushion the economic downturn through enhanced programs for the elderly and the unemployed, and for families under the new Canada Child Benefit," says Ian Russell, president and CEO of the Investment Industry Association of Canada (IIAC).

"The federal spending trajectory, however, is mindful of keeping the debt-to-GDP in check."

The budget deficit balloons to just under $30 billion in the coming fiscal year and next, then tails off over the next four years to $14 billion in 2020-21. The public debt burden stays relatively stable, peaking in 2016-17 at 32.5% of GDP. The debt-to-GDP ratio then declines modestly to 30.9% in 2020-21.

"We are pleased the government has taken a careful and measured approach to infrastructure spending. Spending will be staggered over ten years, with the lion's share of spending back-ended to allow sufficient time for planning and consultation. This ensures the optimal projects will be funded, resulting in a more productive Canadian economy," says Russell.

The budget has earmarked $120 billion in federal spending on infrastructure projects over the next 10 years. Most of the $11.9 billion slated for Phase 1 of the spending plan will be spent in the next two years. In coming months, the government will lay out its longer term priorities for spending the residual amount, some $100 billion. "We anticipate the private sector will engage in this planning exercise through arrangements such as P3s, to help identify and manage worthwhile projects, and supplement federal funding with private capital. The IIAC looks forward to these discussions."

The expansion of small and mid-sized business is critical to recovery of the Canadian economy and to its competitive success in global markets. Small, and mid-sized companies in particular, have difficulty accessing new equity capital. The announced 15% federal tax credit for Labour-Sponsored Venture Capital Corporations will be much less effective than a tax incentive that allows the marketplace and individual investors make the investment decision. The IIAC will raise these concerns in further discussions in coming months.

We are also disappointed not to see measures to improve tax-assisted retirement savings programs, such as extending the eligible age for RRSP accounts beyond age 71 and permitting payroll tax deductions for contributions to Group RRSPs. While most Canadians are on track in saving for retirement, impediments such as falling coverage of workplace pensions can be most effectively addressed through changes to the existing tax-assisted retirement programs.

The IIAC commends the federal government for plans to undertake a comprehensive review of the fairness and efficiency of the Canadian tax system, a process long overdue. A modernized tax system is essential for a globally competitive economy like Canada.

The industry group is also pleased the federal government has reaffirmed support for the Canadian Capital Markets Regulatory Authority through its commitment to release a revised draft of the proposed Capital Markets Stability Act by the summer.

7. Budget quick hits

[March 22, 2016] Here's a roundup of key changes the Liberal government introduced in this year's budget:

- **Corporate class mutual funds.** Tax-free switching within corporate class mutual funds is over: After September 2016, moving from one share class to another is a taxable event.
- **Small business tax rate.** The previous government introduced a plan to reduce the tax rate on the first $500,000 of active business income from 11% to 9% by 2019. The Liberals are freezing the rate at its current level of 10.5%.
- **Donations of private company shares and real estate.** The previous government introduced a proposal that would have made donations involving the proceeds from the sale of private company shares or real estate exempt from capital gains tax, as long as the donation took place within 30 days of the sale. The Liberal government will not proceed with this proposal.
- **An end to income splitting for families with children under 18** (the Family Tax Cut, which allowed for savings of up to $2,000 per year), and a phasing out of **the children's fitness tax credit** and the **children's arts tax credit.** The fitness and arts tax credits, worth up to $150 and $75 respectively for those who claim them, will be cut in half for 2016 and eliminated for 2017.
- A new **Canada Child Benefit program** that replaces the current Canada Child Tax Benefit, National Child Benefit and Universal Child Care Benefit. The new program will pay up to $6,400 per child under six and up to $5,400 per child for those aged six through 17. However, the benefits begin to phase out starting at $30,000 in net family income.
- The government is **eliminating the education and textbook tax credits effective next year** because it said they were not targeted based on income. The tuition tax credit will remain unchanged.
- To facilitate access to venture capital for small and medium-sized businesses and support saving by the middle class, the budget restores the **Labour-Sponsored Venture Capital Corporations (LSVCC) tax credit** to 15% for share purchases of provincially registered LSVCCs for 2016 and subsequent tax years.

- In their election campaign the Liberals said they would change the rules to allow people to **dip into their RRSPs more than once to buy a home**. This **was not in the budget**.

8. Life insurance loophole closed for biz owners

[March 22, 2016] Budget 2016 wasn't kind to business owners.

Not only did the small business tax rate get frozen, but a popular life insurance strategy is no longer tax-advantaged.

A loophole in the tax act allowed business owners to transfer their life insurance policies to their corporations in return for tax-free proceeds of the policy's fair market value (FMV), usually in the form of a note. Then, when the business owner died, the corporation would receive the proceeds of the death benefit – again, essentially tax-free. Private corporations can add the value of the benefit, less the adjusted cost basis, to their capital dividend accounts, and then pay out capital dividends, which aren't taxable in the hands of shareholders.

"This [strategy] was marketed for the last 20 years, and prolifically, I would say, for the last five to 10 years" to older business owners, says Kim Moody, director, Canadian Tax Advisory at Moodys Gartner Tax Law.

This double-dip has finally caught the ire of the Department of Finance.

The 2016 budget proposes to tax the initial transfer from the policyholder to the corporation as full income*, says Moody.

Now, for instance, if a business owner has an insurance policy with a FMV of $800,000 and a death benefit of $1 million, he would be taxed on the $800,000 value of the note he receives back from the corporation.

"Is it a good fix? In my view it is, because those plans were inappropriate," Moody says. "There's no way the Income Tax Act should [have] allowed [this]."

Moody says if there are compelling reasons to transfer policies to a corporation, policyholders should be aware of these new tax rules.

Corporations and partnerships will be required to report information on policies where they aren't policyholders but would still receive policy benefits.

9. Surprise end to small business tax cuts

[March 22, 2016] In an unexpected move, future tax cuts for small businesses have been cancelled.

The 2016 federal budget leaves the rate for Canadian-controlled private corporations at 10.5% for future years, instead of declining to 9% by 2019.

The rate applies to a business' first $500,000 of income. Above that, businesses pay the corporate tax rate of 15%.

"People are going to be disappointed that it's not happening, but candidly I don't think anybody's too surprised," says Nancy Graham, portfolio manager at PWL Capital. "All the messaging that's been coming out [from the government] is about reversing some of the tax changes that were made by the previous administration."

During the election, however, the Liberals had said they were in favour of continuing small business tax cuts, which were initiated by the Conservative government.

"We think small business is crucial to the economy, so we are happy to accept this reduction in the tax rate," John McCallum, now Liberal Minister of Minister of Immigration, Refugees and Citizenship, told Advisor.ca during the federal election last fall.

The move is disappointing, but not disastrous, says Doug Carroll, vice-president of Tax and Estate Planning at Invesco.

"Given that it was only announced last year, I can't see that there were likely any major initiatives that any business owner would have taken based on a 1.5% difference over the next three years," he says.

Still, the cancellation of further tax cuts is a departure from what the tax community had been expecting in the budget. Experts had thought the government would change eligibility for the tax rate to deter wealthy clients from using CCPCs to avoid paying personal income tax.

Using a CCPC in this way "is very attractive for doctors and dentists who make a significant amount of money, to the extent they leave profits in their corporations," James Kraft, vice-president and head of Business Advisory & Succession at BMO Wealth Management in Toronto. "If they had taken that same profit out and ran it through a personal tax cycle, they would have 47% [left] after 53% tax."

Kraft notes many of these professionals keep as much as they can within the corporation and do their stock and bond investing there. "The investment earnings will be taxed at a higher rate, but they're saving 85 cents on the dollar." That gives them "a much larger pool [to invest]."

Many believed Prime Minister Justin Trudeau was poised to end this practice by mimicking Quebec's system. Kraft explained that qualifying for the lower tax rates in la belle province now requires clients to meet one of two criteria:

1. they have more than three full-time employees throughout the year; or
2. their business is in the primary sector or manufacturing sector. (Primary sector activities involve extraction of raw materials from nature and

include “agriculture, forestry, [the] fishing and hunting sector and the mining, quarrying, and oil and gas extraction sector.”)

Kraft noted some estimates suggest the federal government stood to gain $500 million in tax revenue if it adopted the Quebec model nationwide.

In tandem with the stay on the tax rate, current dividend tax credit rates and gross-ups will continue to apply, the government says in the budget. The effective rate is currently 10.5%.

10. Highlights from 2016 budget

[March 22, 2016] Here are some of the highlights of the federal budget tabled Tuesday by Liberal Finance Minister Bill Morneau.

- A promised cut to the 10.5% small business tax rate has been deferred indefinitely.
- $2.5 billion over two years on a suite of changes to employment insurance, including reducing the required work experience for new entrants and re-entrants; halving the two-week waiting period; extending a pilot project to allow claimants to work while collecting benefits; simplifying job-search requirements; and extending the benefit eligibility window in specific regions with a higher unemployment rate.
- A deficit of $29.4 billion in 2016 to 2017, nearly three times the $10 billion promised during the fall election campaign, and a projected deficit of $17.7 billion in 2019 to 2020 rather than the balanced budget that was promised in October.
- $10 billion more over two years for a new Canada child benefit, absorbing and replacing both the Canada child tax benefit and the universal child care benefit. Targeted to low and middle-income families, the government says the new benefit provides an average increase of nearly $2,300 in 2016 to 2017.
- An end to income splitting for couples with children, the children’s fitness tax credit and the children’s arts tax credit.
- $2.6 billion over five years for primary and secondary education on First Nations reserves, including language and cultural programs, plus $969.4 million over five years for education infrastructure.
- $1.2 billion over five years for social infrastructure for Aboriginal Peoples, including First Nations, Inuit and northern communities.
- $10.4 million over three years for new women’s shelters in First Nations communities, and $33.6 million over five years and $8.3 million ongoing for support services.

- $5.6 billion more in benefits to veterans and their families over five years, including a disability award that increases to $360,000, retroactive to 2006, and an earnings loss benefit to injured vets of 90 per cent of pre-release salary. The government is also re-opening nine veterans' service offices across the country and adding a 10th.
- Planned National Defence purchases worth $3.7 billion — ships, planes and vehicles — are being deferred indefinitely.
- $1.53 billion over five years to increase Canada student grants to $3,000 from $2,000 for low-income students, to $1,200 from $800 for middle-income students and to $1,800 from $1,200 for part-time students.
- $3.4 billion over five years to increase the guaranteed income supplement top-up benefit by up to $947 annually for single seniors, and restore the old age security eligibility age to 65 from 67.
- $2.2 billion over five years in water and wastewater treatment and waste management as part of a 10-year green infrastructure investment plan.
- $1.9 billion over five years to support Canadian arts and culture organizations and cultural infrastructure, including the CBC and national museums.
- $2 billion over three years for a new strategic investment fund for infrastructure improvements at colleges and universities, in partnership with provinces and territories.
- $2 billion over two years for a low-carbon economy fund, beginning in 2017 to 2018;
- More than $1 billion over four years to support future clean technology investments, including in forestry, fisheries, mining, energy and agriculture, plus $130 million over five years to support clean technology research and development.
- $345.3 million over five years to Environment and Climate Change Canada, Health Canada and the National Research Council to take action to address air pollution.
- $40 million over two years for the inquiry into missing and murdered aboriginal women and girls.
- Up to $178 million over two years for the provinces for urgent affordable housing needs.
- $38.5 million over two years to strengthen and modernize Canada's food safety system.
- $142.3 million over five years to add new national parks and improve access during the 150th anniversary of Confederation.

11. A look at outstanding Liberal campaign promises

[March 22, 2016] The federal budget is again focusing attention on whether the Liberals will make good on some unfulfilled campaign spending promises. So far, they've delivered on one major commitment: Starting January 1, the income-tax rate dropped to 20.5%, from 22% for taxable earnings between $45,282 and $90,563.

Here are some others.

Tax

- Changing the rules to allow people to dip into their RRSPs more than once to buy a home.
- Bringing in a new, tax-free child benefit to replace the Conservative universal child benefit.
- Providing a refundable tax benefit of up to $150 for teachers who spend their own money on school supplies.

Infrastructure

- Steps to increase federal infrastructure investment to almost $125 billion, from the current $65 billion, over the next decade.
- Provide $1.5 billion for public transit in Calgary as well as unspecified financing for flood control measures in the city.
- Help fund a Montreal rapid transit expansion, as well as a light-rail project on the Champlain Bridge linking Montreal to the suburban South Shore.

Healthcare

- Spend $3 billion over four years on home care and improve access to and reduce the cost of prescription medications through bulk purchasing.
- Establish a pan-Canadian expert advisory council on mental health.

Social Policy

- Spend $40 million over four years on the Nutrition North program, which is designed to help defray the high cost of nutritious food in the North. Increase the northern residents deduction by 33% to a maximum of $22 a day.

Defence

- Scrap the purchase of the F-35 fighter jet and instead buy cheaper planes. Spend the savings on navy vessels.
- Spend $300 million a year to reform veterans' benefits and delivery of services to vets.

Jobs

- Put up $200 million a year for three years to help research facilities, small business incubators and exporters and invest another $100 million a year for an industrial research assistance program.
- Give $500 million to the provinces for skilled trades training, and devote $200 million for federal training programs. Set aside another $50 million to help aboriginal people improve their skills and job prospects.
- Spend about $1.5 billion over four years on a youth job strategy to help 125,000 young people find a job.
- Reduce EI premiums to $1.65 per $100 earned from $1.88. That's less than the $1.49 rate that the Tories committed to in the 2015 budget, but the extra money would be reinvested, with $500 million going to the provinces for skills training.

Environment

- Reinstate $40 million cut from the ocean science and monitoring program at the Department of Fisheries and Oceans.

Aboriginals

- Add $515 million a year to funding for First Nations education, rising through the mandate to a total of $2.6 billion. Add another $500 million over three years for education infrastructure and $50 million more a year for a program that helps aboriginals in post-secondary education.

Culture

- Provide $380 million in additional funding for the arts and undo Conservative funding cuts to the CBC.

12. U.S. home sales slump

[March 21, 2016] Americans retreated from buying homes in February, reversing months of prior gains as low inventories push up prices to levels that restrict sales.

The National Association of Realtors says sales of existing homes fell 7.1% last month to a seasonally adjusted annual rate of 5.08 million. The decline follows robust yearly sales rates of 5.47 million in January and 5.45 million in December—a new regulation had delayed closings in November.

So, the housing market will enter the traditional spring buying season with relatively few properties listed for sale, even as steady job gains and low mortgage rates have bolstered demand from would-be buyers. The limited supplies have fueled rising prices that have, in turn, reduced affordability and limited sales levels.

The median home sales price was $210,800 in February, a 4.4% annual increase from a year ago. And, tight supplies have driven the increases in home prices, forcing buyers to bid more for hotly contested homes.
Listings in February fell 1.1% from a year ago. Many homeowners are hesitant to sell, since they would need more equity to cover the down payment for stepping-up to a new property. Investors have also turned homes into rentals, further depriving the market of supplies.
The Realtors have forecast that overall sales levels will be nearly unchanged this year, after a 6.5% gain in 2015. But median sales prices are forecast to rise 4%, meaningfully faster than wages.
The buying of homes fell sharply in the Northeast and Midwest last month, while slipping less severely in the South and West. Further, investors accounted for 18% of sales in February. Meanwhile, first-time buyers made up 30% of purchases, staying persistently below their historic share of 40%.
The shortage remains a consequence of the burst housing bubble, which initially flooded the market with distressed foreclosures and then left a limited selection of homes for buyers as the recovery from the recession has surpassed six and a half years.
Inventory is particularly low for starter homes, keeping first-time buyers out of the market, according to a separate report released Monday by the real estate firm Trulia.
At the bottom of the housing market in 2012, a typical homebuyer only needed to commit 32.2% of their income to buy the median priced starter home. That share of income has climbed to 37.7%, putting home ownership out of reach for many.
Trulia found a market tilting toward wealthier buyers. The inventory of starter and trade-up homes has tumbled more than 40% since the start of 2012, while premium homes with a median list price of $542,805 account for a larger share of all listings.
Still, sales have been aided over the past year by hiring that has pushed unemployment to a healthy 4.9%. And homebuyers are benefiting from relatively low borrowing costs. Mortgage buyer Freddie Mac said Thursday the average rate on a 30-year, fixed-rate mortgage was 3.73% last week, compared to a historic average of roughly 6%.

Have a nice and fruitful week!