Federal Budget 2015: **Individual Tax Changes**

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The 2015-16 federal Budget brought down on April 21, 2015 by Minister of Finance Joe Oliver contained a number of tax changes affecting individuals, but many of those changes are not scheduled to take effect until after 2015. The two major exceptions are also the changes which will likely affect the largest number of Canadian taxpayers—the decrease in minimum withdrawal percentages for holders of registered retirement income funds (RRIFs) and an increase in the maximum allowable annual contribution which can be made to tax-free savings accounts (TFSA).

Increase in TFSA annual contribution limit

When TFSAs were first introduced in 2009, the annual contribution limit was $5,000. That limit was maintained until 2013 when it increased to $5,500, due to indexation. The Budget includes a proposal to increase the annual TFSA contribution limit to $10,000, effective as of the 2015 taxation year. As part of the change, the TFSA annual contribution limit will no longer be indexed to inflation.

The contribution limit change means that an individual who has never contributed to a TFSA will now have a contribution limit of $41,000 for 2015, made up of a combination of current year ($10,000) and carryforward ($31,000) contribution amounts.

Measures affecting seniors

Changes to withdrawal rate for RRIFs

An individual who holds funds within a registered retirement savings plan (RRSP) must collapse that plan by the end of the year in which he or she turns 71. Most such individuals opt to transfer those funds to a RRIF, where they can be invested in the same way and continue to grow on a tax-deferred basis.

One of the major differences between RRSPs and RRIFs is that holders of RRIFs are required to withdraw (and pay tax on) a specified percentage of funds held in the RRIF each year. The percentage schedule, which has been in effect since 1992, has been criticized as requiring individuals to withdraw too much of their savings too early in retirement, leaving them at risk of depleting the funds which were intended to provide them with a retirement income stream for the remainder of their lives.

The Budget proposes changes which will alter the required withdrawal schedule for RRIF holders over the age of 71. The new percentages are generally between two and two and a half percentage points lower than the ones currently in effect. The new RRIF withdrawal percentages will apply for 2015 and subsequent years. To provide flexibility, individuals who withdraw more than the new minimum percentage in 2015 will be allowed to re-contribute any excess before March 1, 2016 and claim a deduction on their 2015 tax return for re-contributed amounts.

Home Accessibility Tax Credit

The first of the baby boomers are nearing the age of 70—part of the overall aging of the Canadian population. That aging trend accelerates the demand for assisted housing for those no longer able to live on their own, and such demand will inevitably increase significantly in future years.

To assist older Canadians (and disabled individuals who are eligible for the federal disability tax credit) to remain in their own homes as long as possible, the Budget proposes a new Home Accessibility Tax Credit. That new credit, which will be effective after 2015, allows individuals 65 years of age and older and those who are disabled to claim a 15% non-refundable tax credit on up to $10,000 of eligible expenditures per year. The credit will therefore enable an individual who claims the credit to reduce his or her federal tax payable by up to $1,500 per year.

For purposes of the new credit, eligible expenditures are those which are related to the renovation or alteration of a principal residence for the purpose of allowing a person to gain access to, or be more mobile or functional within that residence, or in order to reduce the risk of harm to the individual in gaining access to or living in the residence.

The Budget papers include a listing of some eligible expenditures, which include walk-in bathtubs, wheel-in showers, wheelchair ramps, and grab bars. Where an eligible expenditure is made, costs allowed for purposes of the credit include materials, labour, equipment rentals, and permits.

Not all home maintenance or renovation costs will qualify for the credit. Specifically, no credit can be claimed for the cost of routine repairs or maintenance or costs for outdoor maintenance and gardening, housekeeping, or security. Similarly, interest costs incurred to finance a renovation will not qualify for the credit.

While the credit is intended to benefit seniors and disabled individuals, it may be claimed by family members of either group. Provided all other conditions for the credit are met, the Home Accessibility Tax Credit may be claimed by the spouse of the eligible individual. A claim may also be made by the parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece, or nephew of the individual, or that of his or her spouse.

Increase to Lifetime Capital Gains Exemption

Under current tax law, individuals who sell shares of a qualified small business corporation or qualified farm or fishing property can claim an exemption from tax on up to (for 2015) $813,600 in capital gains realized on such a sale. Effective for such sales made on or after April 21, 2015, that limit is increased, for dispositions of eligible farming or fishing property, to $1 million.

There is no change to the capital gains exemption limit applicable to sales of small business corporation shares, which remains at $813,600 for 2015.

Registered disability savings plans

Individuals who have significant disabilities can benefit from the establishment of a Registered Disability Savings Plan (RDSP) to provide for their future financial well-being. However, in order for a disabled adult to be the beneficiary of an RDSP, it was necessary for that adult (or, if he or she was incapable, for his or her guardian) to also be the plan holder. That requirement caused difficulties for a number of disabled people in establishing a plan where their capacity to enter into a contract was in doubt. In many provinces and territories, the only means by which an RDSP could be established for such persons was for them to be declared legally incompetent and to have a guardian named. Taking that step was often costly and time-consuming, and carried legal implications in other areas of the disabled person's life.

In the 2012 Budget, the federal government provided a temporary solution which would allow certain family members to become RDSP plan holders for disabled adults who might not be able to enter into a contract. That measure was intended to apply until the end of 2016, in order to allow time for the provinces to amend legislation which would otherwise have required that the disabled individual be declared incompetent in such circumstances. This year's federal Budget proposes to extend that temporary measure until the end of 2018, in order to give all of the provinces and territories the opportunity to address the competency and legal representation issue. As well, a qualifying family member who becomes an RDSP plan holder before the end of 2018 can remain the plan holder after the end of that year.

Administrative measures

Penalty for failure to report income

Under current tax law, individuals who fail to report income are subject to a penalty. Where a taxpayer who fails to report income in the current year also failed to do so in any of the three previous taxation years, the penalty is equal to 10% of the unreported income for the current year.

In the federal government's view, the penalty for a repeated failure to report income can, especially for lower-income individuals, be disproportionate to the actual tax payable on that income. Consequently, for 2015 and subsequent years, a penalty for a repeated failure to report income will be assessed only if a taxpayer fails to report at least $500 in income in the current year and in any one of the three preceding years. Where such a penalty is assessed, it will be calculated as 10% of the unreported income or 50% of the difference between the understatement of tax payable on the unreported income and the amount of any tax actually paid (e.g., through employee withholdings) on that unreported income, whichever is less.

Information sharing on debts owed to government

Where a taxpayer owes an amount to the federal or a provincial government, whether for a tax debt or a non-tax debt, the Canada Revenue Agency is empowered to collect on those debts. However, the Agency is not currently allowed to share confidential taxpayer information between CRA staff collecting tax debts and those collecting non-tax debts.

The Budget includes a measure to remove that restriction, effective once the enabling legislation is in place. That measure will permit the sharing of taxpayer information within the CRA in respect of non-tax debts under certain federal and provincial programs. The specific programs affected were not identified in the Budget papers.

Measures affecting charities and charitable donations

Capital gains exemption for donations of private company shares and real estate

Donations made to registered charities entitle the donor to claim a charitable donations tax credit. Certain specialized types of donations, including those of publicly listed securities, ecologically sensitive land, and certified cultural property, where they are made to qualified donees, are also exempt from capital gains tax. However, under current tax law, taxable capital gains can arise on donations of private corporation shares or other types of real estate.

The Budget includes a proposed change (effective for dispositions made after 2016) which will amend the tax treatment of qualifying donations of private company shares and real estate, to provide an exemption from such capital gains tax. The proposed measure will provide that exemption where the shares or real estate are sold to a purchaser who is at arm's length with both the donor and the donee. In addition, the cash proceeds of the sale must be donated to the qualified donee within 30 days after the sale takes place. Anti-avoidance rules will apply to prevent the re-acquisition of the donated property or, in the case of shares, property (shares) substituted for it. Those anti-avoidance rules, where applied, will reverse the exemption and include the previously exempted amount in the income of the donor.

Gifts to foreign charitable foundations

For purposes of the charitable donations tax credit, Canadian registered charities are "qualified donees", meaning that donations made to those charities are eligible for that credit. The Budget proposes a change which will allow foreign charitable foundations to be registered as qualified donees in certain circumstances. The change will be effective when the enabling legislation is enacted.

A foreign charitable foundation will be able to register as a qualified donee where it receives a gift from the Government of Canada and where it is carrying on activities related to disaster relief or urgent humanitarian aid, or activities which are in the national interest of Canada. A designation of status as a qualified donee will be provided by the Minister of National Revenue and will last for a period of 24 months. That 24-month period will normally start on the date of the gift from the Government of Canada.

Investments by registered charities in limited partnerships

Canadian registered charities and public foundations are allowed to engage in business activities only where those activities are related, and subordinate to, their charitable or public welfare purposes. Private foundations are not, however, permitted to engage in any business activities.

The Budget papers note that partnerships are widely used as investment vehicles which can pool funding from multiple large investors. Allowing registered charities to invest in limited partnerships would expand the range of investment opportunities available to them, and could increase their flexibility in meeting their charitable and public welfare objectives. Consequently, effective as of the Budget date, registered charities will be permitted to invest in limited partnerships, within limits, without being considered to be carrying on a business. Specifically, such investments will permitted where the charity holds 20% or less of the interests in the limited partnership and it deals at arm's length with each general partners of that limited partnership.

The change will also apply to investments made in limited partnerships by registered Canadian amateur athletic associations.