Federal Budget 2016:
Individual Tax Changes

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The 2016 federal Budget brought down on Tuesday March 22, 2016 by Minister of Finance, Bill Morneau, contained a number of measures which affect both the taxation of individuals and current federal benefit programs. Significant changes have been made to such benefit programs for families, and some current tax credits claimable by families will be eliminated. Investors will benefit from changes to two federal tax credit programs, but post-secondary students will no longer be able to claim either the education or textbook tax credit.

What follows is a summary of the significant tax measures announced in the Budget which affect individuals and families.

Measures affecting families

The federal government provides a wide range of benefits and tax credits intended to help families offset the cost of raising children. Some of those benefits are provided through direct payments to qualifying families, while others take the form of refundable or non-refundable credits claimed on the annual tax return. The 2016 federal Budget makes a number of changes to the current system of such benefits and credits, and most of those changes are effective during the 2016 taxation year.

New Canada Child Tax Benefit

Canadian families currently receive direct benefits in the form of the non-taxable Canada Child Tax Benefit and the taxable Universal Child Care Benefit. Families having a child or children with a disability can also receive the Child Disability Benefit. The Budget proposes to replace all of those benefits with a single Canada Child Benefit, beginning in July 2016.

The new Canada Child Benefit will provide a maximum benefit of $6,400 per child under the age of 6 and $5,400 per child aged 6 through 17. On the portion of adjusted family net income between $30,000 and $65,000, the benefit will be phased out at a rate of 7% for a one-child family, 13.5% for a two-child family, 19% for a three-child family, and 23% for larger families. Where adjusted family net income exceeds $65,000, remaining benefits will be phased out at rates of 3.2% for a one-child family, 5.7% for a two-child family, 8% for a three-child family and 9.5% for larger families, on the portion of income above $65,000.

To recognize the additional costs of caring for a child with a severe disability, the Budget also proposes to continue to provide an additional amount of up to $2,730 per child eligible for the disability tax credit. The phase-out of this additional amount will align generally with that proposed for the Canada Child Benefit. Specifically, it will be phased out at a rate of 3.2% for families with one eligible child and 5.7% for families with more than one eligible child, on adjusted family net income in excess of $65,000, effective July 1, 2016.

The first payment of the new Canada Child Benefit for the July 2016 to June 2017 benefit year will be made in July 2016, and will be based on adjusted family net income for the 2015 taxation year. Payment of the existing CCTB and UCCB will also cease as of July 2016.

All amounts received as part of the new Child Tax Benefit will be non-taxable. As well, an eligible family which was entitled to the Benefit but failed to make an application will be able to request retroactive payments of the Benefit, for a period of up to 10 years.

Elimination of family income splitting credit

Families having at least one child under the age of 18 may currently take advantage of an income-splitting credit through which up to $50,000 in income is notionally transferred from the higher income to the lower-income spouse.

The Budget proposes to eliminate that credit, effective for the 2016 and subsequent taxation years.

Children's fitness and arts credits

Parents are able to offset the cost of enrolling their children in arts-related or fitness activities by claiming a tax credit for qualifying expenses incurred.

The children's fitness tax credit provides a 15% refundable tax credit on up to $1,000 of eligible fitness expenses for children under 16 years of age at the beginning of the taxation year. For children who are eligible for the disability tax credit and have at least $100 of eligible expenses, the credit amount is increased by $500 and is provided to children under 18 years of age.

The children's arts tax credit provides a 15% non-refundable tax credit on up to $500 in eligible fees for programs of artistic, cultural, recreational, and developmental activity for children under 16 years of age. As with the children's fitness tax credit, the age limit of the children's arts tax credit is extended to children under 18 years of age and an additional $500 credit amount is available in respect of children eligible for the disability tax credit.

The Budget proposes to eliminate both the children's fitness and arts credits over a two-year period. For 2016, the maximum eligible amount for the children's fitness tax credit will be reduced to from $1,000 to $500, but the credit will remain refundable. The amount of the children's arts tax credit will be reduced for 2016 from $500 to $250. The supplemental amounts for children eligible for the disability tax credit will remain at $500 for 2016. Both credits will be eliminated for the 2017 and subsequent taxation years.

Measures affecting high-income individuals

In December 2015, the federal government announced that a new tax bracket and tax rate would be introduced, beginning in 2016, on individual taxable income over $200,000. Specifically, such income would be taxed at a federal rate of 33%.

The introduction of the new top tax rate necessitated a number of consequential amendments. Additional such amendments were announced in the Budget, and those include the following:

- providing a 33% charitable donation tax credit (on donations above $200) to trusts that are subject to the 33% on all of their taxable income; and
- applying the new 33% top rate on excess employee profit sharing plan contributions.

Measures affecting students

Education and textbook tax credits to be eliminated

Students enrolled in qualifying post-secondary education programs can claim a number of non-refundable tax credits to reduce tax otherwise payable, and those credits can be carried forward and claimed in future years. The available credits include a credit for the amount of tuition paid, as well as education and textbook credits. Fixed amounts for the education and textbook credit are based on whether a student is enrolled part-time or full-time, and on the number of months of enrollment during the taxation year.

The 2016 Budget proposes to eliminate the education and textbook credits, effective as of January 1, 2017. There is no change to the tuition tax credit, which will continue to be claimable, at a rate of 15%, on all qualifying tuition amounts.

Individuals who have unused education and textbook credit amounts carried forward from taxation years prior to 2017 will continue to be able to claim those amounts in subsequent years.

School supply tax credit introduced

Teachers and early childhood educators frequently acquire, at their own expense, teaching supplies for use in the classroom. Beginning with the 2016 taxation year, an employee who is an eligible educator will be able to claim a 15% refundable tax credit on up to $1,000 in qualifying expenditures made for such supplies during a taxation year.

For purposes of the new credit, an eligible educator will include individuals who hold a valid teacher's certificate or a recognized early childhood educator's certificate or diploma. Eligible supplies include both consumable goods (like construction paper or flashcards) and durable goods (like books and puzzles). Employers will be required to certify that the supplies were purchased for classroom purposes and receipts will be required for verification purposes.

Measures affecting investors

Mineral exploration tax credit extended

Individuals who invest in mining flow-through shares of a resource company can benefit by claiming the mineral exploration tax credit, where the company renounces or "flows-through" eligible tax expenses to such investors. The credit is equal to 15% of specified mineral exploration expenses incurred in Canada.

The Budget includes a proposal to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements en-

tered into on or before March 31, 2017. Under the existing "look-back" rule, funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the following calendar year (e.g., funds raised with the credit during the first three months of 2017 can support eligible exploration until the end of 2018).

Changes to labour-sponsored venture capital corporations tax credit

Before 2015, individual taxpayers who purchased shares in a labour-sponsored venture capital corporation (LSVCC) could claim a 15% federal tax credit on up to $5,000 in such investments. The LSVCC credit was reduced to 10% for the 2015 taxation year, to 5% for the 2016 taxation year, and was scheduled to be eliminated for the 2017 and subsequent taxation years.

Several of the provinces provide a corresponding credit, at various rates and investment limits. The Budget proposes a change to the federal regime, in order to support provinces that use LSVCC programs to facilitate access to venture capital for small and medium-sized businesses. Specially, the federal LSVCC credit will be restored, at a rate of 15%, for share purchases of provincially registered LSVCCs which are already prescribed under federal legislation. Such change is effective as of the 2016 taxation year. Investments in newly registered LSVCCs under existing provincial legislation will also be eligible for the federal credit, where certain criteria are met.

The Budget Papers also note that while significant funding to small and medium-sized businesses has been provided in a number of provinces through provincial LSVCC programs, the national LSVCC program has not had a similar impact. Consequently, the federal LSVCC tax credit for federally registered LSVCCs will remain at 5% for the 2016 taxation year, and be eliminated for the 2017 and subsequent taxation years. The prohibition on new federal LSVCC registrations and the transition rules for federally registered LSVCCs will be maintained.

Other measures

Increase in northern residents' deduction

Individuals who live in prescribed areas in northern Canada for at least six consecutive months beginning or ending in a taxation year may claim the northern residents' deductions in computing their taxable income for that year. Those deductions include both a residency deduction and a deduction for certain travel benefits. The residency deduction allows each member of a household to deduct up to $8.25 per day. Alternatively, one member of a household can claim a maximum residency deduction of $16.50 per day if no other member of the household claims the residency deduction (including where there is no other member of the household). Residents of the Northern Zone may claim the full amounts, while those living in the Intermediate Zone may deduct half of the amounts.

Budget 2016 proposes to increase the maximum residency deduction that each member of a household may claim from $8.25 to $11 per day and, where no other member of the household claims the residency deduction, to increase the maximum residency deduction from $16.50 to $22 per day for the 2016 taxation year. Residents of the Intermediate Zone will be entitled to deduct half of these increased amounts.

Amounts received under Ontario Electricity Support Program

The Ontario government provides assistance with the cost of electricity to low-income households in the province through the Ontario Electricity Support Program (OESP). Such amounts received, while effectively non-taxable, can affect the recipient's eligibility for federal and provincial income-tested benefits. The Budget proposes a change which will exempt from income any amounts received under the OESP, effective for 2016 and subsequent years.

Those wishing to obtain more details of the proposed budgetary changes can consult the 2016 federal Budget papers, which are available on the Department of Finance website at www.budget.gc.ca/2016/docs/tm-mf/si-rs-en.html.