N.S. RETSINAS PROFESSIONAL CORPORATION

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FEDERAL BUDGET COMMENTARY
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Business

Loss trading transactions
The 2013 Budget has measures to tighten up the acquisition of control measures related to corporations and to extend such rules to Trusts and the utilization of losses in acquired companies. The idea of consolidated corporate returns is not a priority right now.

Investing in research and development
The 2013 budget proposes the following measures on business innovation:

- $121 million over two years to invest in the National Research Council's strategic focus to help the growth of innovative businesses in Canada.
- $20 million over three years for a new pilot program to be delivered through NRC-IRAP to help SMEs access research and business development services at universities, colleges and other non-profit research institutions
- $325 million over eight years to Sustainable Development Technology Canada in support of new, clean technologies.

Scientific Research and Experimental Development (SR&ED) legislative measures
The SR&ED prescribed claim forms will require more detailed information to be provided about SR&ED program tax preparers and their billing arrangements.

Added SRED information requirements are: the Business Number of each third party preparer; and whether contingency fees were used and the amount of the fees payable. This is intended to allow the CRA to identify claims that carry a higher risk.

New Accelerated capital cost allowance (CCA)

- **Manufacturing and processing equipment (Class 29) —** The temporary increase to the 50% CCA rate that was set to expire on December 31, 2013 has been extended for eligible assets acquired in 2014 and 2015. The half-year rule will apply, such that a full write-off may be claimed over three taxation years.

- **Clean energy generation equipment (Class 43.2) —** For assets acquired on or after March 21 2013, the budget proposes to expand Class 43.2 by making biogas production equipment that uses more types of organic waste eligible for inclusion. Specifically, it will include pulp and paper waste and wastewater, beverage industry waste and wastewater and separated organics from municipal waste.

- **Restricted farm losses** amend the restricted farm loss rules to provide that a taxpayers other sources of income must be subordinate to farming in order for farming losses to be deductible against income from those other sources. This amendment is in response to the Supreme Court of Canada decision in *Queen vs Craig* (2012 SCC 43). In addition, the deductible limit has been increased to $17,500.

International Initiatives

The Minister introduced some new initiatives designed “to combat tax evasion and aggressive tax avoidance. The IRS in prior years adopted similar measures which proved successful in capturing some offshore tax evaders.

Treaty shopping

”The government notes that it has “been largely unsuccessful in challenging treaty shopping cases in court,” and is now considering taking unilateral measures.

Electronic fund transfers (EFT)

Certain financial intermediaries will now be required to report fund transfers of $10,000 or more. These measures would apply as of 2015.

A new “Stop international tax evasion” program

Canada has proposed a program similar to the USA –IRS program which pays rewards to individuals who provide information to the CRA concerning international tax non-compliance and that leads to the conviction and collection of outstanding taxes exceeding $100,000, the informant can collect up to 15% of any taxes collected on the basis of that information.

Foreign reporting requirements

Currently a Canadian resident must file a Foreign Income Verification Statement (Form T1135) with the CRA if that person owns specified foreign property costing more than $100,000 in total. The 2013 Budget proposes to extend the normal reassessment period for a taxation year of a taxpayer by an added three years if the taxpayer has failed to report income from a specified foreign property on their annual income tax return, and the form was not filed on time, or a foreign property was improperly identified. This measure will apply to the 2013 and subsequent taxation years.

Currently not filing a Form T1135 carries a $2,000 per person per annum penalty.

The form will be revised to require taxpayers to provide more detailed information regarding each specified foreign property, including the specific country to which the property relates, and the foreign income generated from the property.

Individuals

There are no individual tax rate changes in this budget.

Proposed new tax credits and changes to existing ones:

- **Dividend tax credit –** The budget proposes to increase the effective tax rate on non-eligible dividends from 19.58% to 21.22%. This change applies to non-eligible dividends paid after 2013.

- **First-time donor’s super credit —** A first-time donation (defined as someone who has not claimed a donation since 2007) will now be entitled to a one-time federal credit equal to 40% for money donations of $200 or less, and 54% for donations between $200 and $1,000. The maximum donation amount that may be claimed per couple is $1,000. This one-time credit applies to donations made on or after 21 March 2013 and before 2018.

- **Adoption expense tax credit —** The adoption expense tax credit allows an individual to claim a non-refundable credit on eligible adoption expenses (up to a maximum of $11,669 per child for 2013) in the taxation year in which the adoption period ends.

- **Mineral exploration credit —** The mineral exploration tax credit, equal to 15% of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors, will be extended to flow-through share agreements entered into on or before 31 March 2014.

- **Labour-sponsored venture capital corporations (LSVCCs) tax credit –** The current 15% federal credit for an investment of up to $5,000 in LSVCC shares will be phased out beginning in 2015. The credit rate will be reduced to 10% in 2015, 5% in 2016 and eliminated thereafter.

Lifetime capital gains exemption
The budget proposes to increase the current $750,000 lifetime capital gains exemption limit by $50,000 to $800,000. The increase is effective for dispositions of qualified small-business corporation shares, qualified farm property and qualified fishing property in 2014 and beyond.

Insurance

Leveraged life insurance arrangements
The budget announced measures intended to block what it considers unintended tax benefits resulting from the use of certain leveraged life insurance products:

1) Leveraged insured annuities
New tax rules will be introduced for policies where a person or partnership becomes obligated on or after budget day to repay an amount to the lender at a time determined by reference to the death of the individual, and the annuity contract and the policy are assigned to the lender.

Where an arrangement is subject to the new rules, the income earned within the insurance policy will be annually subject to income tax on an accrual basis and a tax deduction will be denied in respect of any portion of the policy premium paid.Leveraged insured annuities for which all borrowings were entered into before budget day, will not be subject to these measures.

2) 10/8 insurance arrangements
The budget proposes to deny unintended tax benefits arising from investments in 10/8 arrangements. Where a life insurance policy, or an investment account under the insurance policy, is assigned as collateral on a borrowing, the associated tax benefits will be denied in respect of taxation years after budget day. Under the proposed measures:

- Associated interest paid or payable that relates to a period after 2013 will be not be deductible.
- Premiums paid or payable under the policy related to a period after 2013 will not be deductible.
- The capital dividend account will not be increased by the amount of the death benefit that becomes payable after 2013 under the policy that is associated with the borrowing.

Harmonized Sales Tax (HST)

GST/HST and Health-Care Services
The GST/HST legislation currently exempts certain publicly subsidized or funded homemaker services that are rendered to an individual in their residence. Exempt services currently include cleaning, laundry, meal preparation and child care services. The definition of exempt "home care services" will be expanded to include bathing, feeding and assistance with dressing and medication.

GST/HST pension plan rules
Under existing rules, employers that participate in a registered pension plan operated on behalf of their employees are deemed to have supplied and collected tax on certain property or services acquired for use in activities related to the pension plan. The budget proposes two changes to simplify compliance with these rules:

Affected employers may jointly elect with a pension trust or corporation (the pension entity) to treat an actual taxable supply by the employer to the pension entity as being made for no consideration where the employer accounts for and remits tax on the deemed supply, thus removing the requirement for tax to be accounted for and remitted twice on the same supply. Once made, the election will remain in effect until it is revoked by the parties or cancelled by the minister of national revenue.

A "de minimis" threshold will be introduced to relieve an employer's obligation to apply the deemed supply rules in any fiscal year where the amount of GST (and the federal component of the HST) accounted for and remitted under the rules during the previous fiscal year is both less than $5,000 and less than 10% of the total net GST (and the federal component of the HST) paid by all pension entities of the pension plan in that preceding fiscal year.

Specific rules will apply with respect to the application of the new de minimis thresholds in the case of related employers who participate in the pension plans and mergers, amalgamations or wind-ups of participating employers.

GST/HST business information requirement
The budget proposes to withhold any GST/HST refunds for all business until all outstanding business information is provided.

Customs tariff measures
The budget proposes to permanently eliminate all existing tariffs on baby clothes and sports and athletic equipment (except for bicycles).