

2014 Federal budget: More tightening, few tax breaks

February 11, 2014

In brief

On February 11, 2014, the Federal Minister of Finance, Jim Flaherty, presented the majority government's budget. The budget does not change corporate or personal tax rates. This *Tax Insights* discusses the tax initiatives proposed in the budget.

In detail

International Taxation

Treaty Shopping

Canada has an extensive network of bilateral tax treaties with other countries that support cross-border trade and investment. In the March 21, 2013 federal budget, the government announced that in response to 'treaty shopping' concerns, it would consult on possible measures that would 'protect the integrity of Canada's tax treaties while preserving a business tax environment that is conducive to foreign investment.'

According to the 2013 budget documents, 'treaty shopping' involves situations when a resident of a foreign country that is not a party to a particular Canadian tax treaty enjoys benefits under that treaty. Historically, the Canadian government has largely been

unsuccessful in challenging treaty shopping cases in the courts.¹

Further to the budget announcement, on August 12, 2013, the Department of Finance (Finance) released a consultation paper *Treaty Shopping – The Problem and Possible Solutions* to aid in examining the range of possible approaches to address the practice of treaty shopping in Canada.

In the consultation paper, Finance provides additional commentary and background on treaty shopping in the Canadian

context, including its views on the hallmarks of treaty shopping. Finance also invited interested parties to respond to seven specific questions by December 13, 2013, which in essence explored whether:

- rules should be incorporated into domestic legislation or the treaties themselves
- general or specific anti-treaty shopping rules should be adopted

In the handful of submissions received, parties questioned whether changes to address treaty shopping are necessary, but assuming they are, the majority favoured the adoption of specific anti-treaty shopping rules into Canada's tax treaties.

1. See **The Queen v. MIL (Investments) S.A.**, 2007 FCA 236, aff'g 2006 TCC 460; **Prévost Car Inc. v. The Queen**, 2009 FCA 57, aff'g 2008 TCC 231; and **Velcro Canada Inc. v. The Queen**, 2012 TCC 57.

- Base Erosion Profit Shifting (BEPS)

On July 19, 2013, the Organisation for Economic Co-operation and Development (OECD) released an action plan on base erosion and profit shifting (BEPS). The BEPS initiative contemplates changes to the OECD's model tax convention and recommendations regarding the design of domestic rules to address tax treaty abuse, including treaty shopping, by September 2014.

The BEPS calendar dated January 30, 2014 notes that a discussion draft on tax treaty abuse is expected to be released by the OECD in March 2014, with comments due within 30 days after publication of the discussion draft.

- 2014 Budget Proposal

The budget stated that the OECD recommendations will be relevant in developing a Canadian approach to treaty shopping. The budget invites comments before April 13, 2014, on a proposed domestic rule to prevent treaty shopping. This rule would use a general approach focused on avoidance transactions and would contain specific provisions setting out the ambit of its application. The approach would ensure that treaty benefits are provided for ordinary commercial transactions.

The budget sets out the main elements of this proposed rule, for discussion:

1. *Main purpose provision:* subject to the relieving provision, a benefit under a treaty would not be provided if it is reasonable to conclude that one of the main purposes for undertaking a transaction, or a transaction that is part of a series of transactions

or events, was to obtain the benefit

2. *Conduit presumption:* it would be presumed, in the absence of proof to the contrary, the above main purpose was met for a person if income is primarily used to pay, distribute, or otherwise transfer, directly or indirectly, at any time or in any form, an amount to another person or persons that would not have been entitled to an equivalent or more favourable benefit had the other person or persons received the income directly
3. *Safe harbor presumption:* subject to the conduit presumption, it would be presumed, in the absence of proof to the contrary, that none of the main purposes for undertaking a transaction was for a person to obtain a benefit under a tax treaty if: the person (or a related person) carries on an active business (other than managing investments) in the state with which Canada has concluded the tax treaty and, where the income is derived from a related person in Canada, the active business is substantial compared to the activity carried on in Canada; the person is not controlled by another person or persons that would not be entitled to an equivalent or more favourable benefit if the income had been received directly; or the person is a corporation or trust the shares or units of which are regularly traded on a recognized stock exchange
4. *Relieving provision:* if the main purpose provision applies, the benefit is to be provided in whole,

or in part, to the extent that it is reasonable in the circumstances

The budget also invites comments on five examples in relation to the intended application of the proposed rule.

Consultation on Tax Planning by Multinational Enterprises

Due to the government's commitment to ensure tax fairness and protect the Canadian tax base, input is invited on:

- What are the impacts of international tax planning by multinational enterprises on other participants in the Canadian economy?
- Which of the international corporate income tax and sales tax issues identified in the BEPS Action Plan should be considered the highest priorities for examination and potential action by the government?
- Are there other corporate income tax or sales tax issues related to improving international tax integrity that should be of concern to the government?
- What considerations should guide the government in determining the appropriate approach to take in responding to the issues identified – either in general or with respect to particular issues?
- Would concerns about maintaining Canada's competitive tax system be alleviated by coordinated multilateral implementation of base protection measures?

In addition, input is sought on what actions should be taken to ensure the effective collection of sales tax on e-commerce sales to residents of Canada by foreign-based vendors.

Comments must be submitted before June 12, 2014.

Captive Insurance

An anti-avoidance rule in the foreign accrual property income (FAPI) regime is intended to prevent Canadian taxpayers, e.g. financial institutions, from shifting income from the insurance of Canadian risks (i.e. risks in respect of persons resident in Canada, property situated in Canada or businesses carried on in Canada) offshore.

The anti-avoidance rule will be amended relating to the insurance of Canadian risks. For taxation years beginning after February 10, 2014, clarifications will ensure the rule applies when:

- taking into consideration one or more agreements or arrangements entered into by the foreign affiliate, or by a person or partnership that does not deal at arm's length with the affiliate, the affiliate's risk of loss or opportunity for gain or profit in respect of one or more foreign risks can – or could if the affiliate had entered into the agreements or arrangements directly – reasonably be considered to be determined by reference to the returns from one or more other risks (the tracked risks) that are insured by other parties, and
- at least 10% of the tracked risks are Canadian risks

If the anti-avoidance rule applies, the affiliate's income from the insurance of the foreign risks and any income from a connected agreement or arrangement will be included in computing its FAPI.

Offshore Regulated Banks

The budget amends the exception from the FAPI regime for regulated

foreign financial institutions by requiring the following conditions to be met for this exception to apply:

- the relevant taxpayer (i.e. the Canadian taxpayer of which the foreign corporation is a foreign affiliate) is a regulated Canadian financial institution (defined for this purpose to mean a Schedule I bank, a trust company, a credit union, an insurance corporation or a trader or dealer in securities or commodities that is resident in Canada, and carries on a business the activities of which are supervised by the Superintendent of Financial Institutions or a similar provincial regulator), a subsidiary wholly-owned corporation of such an institution or a corporation that wholly owns such an institution (and is also subject to regulation)
- more than 50% of the total taxable capital employed in Canada of the taxpayer and all related Canadian corporations is attributable to taxable capital employed in Canada of regulated Canadian financial institutions

The latter condition will be deemed to be met by:

- certain regulated Canadian financial institutions that have (or that are deemed under an applicable federal statute to have) equity of at least \$2 billion
- subsidiary wholly-owned corporations of such institutions or corporations that wholly own such institutions

In addition, for the income of a foreign affiliate of a taxpayer from proprietary activities to be considered income from an active business:

- the affiliate must carry on a regulated foreign financial

services business, as required under the existing law, and

- the proprietary activities must comprise part of that business

The government will continue to monitor developments in this area to determine whether further action is required to ensure that the regulated foreign financial institution exception, as modified by this proposal, is not used by taxpayers to obtain unintended tax advantages.

Back-to-Back Loans

Interest on obligations owing to non-arm's length non-resident persons can be subject to Part XIII withholding tax, subject to certain exceptions under a tax treaty, and deductions for such interest can be limited by the thin capitalization rules. Certain back-to-back loan arrangements have been undertaken by taxpayers with an unrelated third party to avoid the application of these existing rules. The budget introduces a new anti-avoidance rule in respect of withholding tax on interest payments, and amends an existing avoidance measure in the thin capitalization rules, to address these back-to-back loan arrangements.

In both cases, the new rule will apply to arrangements when:

- a taxpayer has a debt owing to a third-party intermediary, and
- a non-resident person uses its property to secure the debt, holds limited recourse debt of the intermediary, or makes a loan to the intermediary on condition that a loan be made to the taxpayer

When such arrangements exist, the taxpayer will be deemed to owe amounts to the non-resident person, for thin capitalization purposes, equal

to the lesser of the outstanding debt and the fair market value of pledged property or the amount of the limited recourse loan or the loan made on condition.

Related amounts of interest will also be deemed to have been paid or payable to the non-resident person for thin capitalization purposes, and for Part XIII purposes to the extent that tax under that Part would otherwise be reduced by virtue of the arrangement.

The new anti-avoidance rules will apply, for the thin capitalization rules, to taxation years that begin after 2014 and, for Part XIII withholding tax, to amounts paid or credited after 2014.

Update on Automatic Exchange of Information for Tax Purposes

The US *Foreign Account Tax Compliance Act* (FATCA), enacted in 2010, would require non-US financial institutions, starting July 1, 2014, to:

- identify accounts held by US persons, which includes US citizens living abroad, and
- report to the US Internal Revenue Service (IRS) information in respect of these accounts

To address concerns about FACTA raised by both US citizens living in Canada and Canadian financial institutions, Canada and the US signed an intergovernmental agreement (IGA) on February 5, 2014.

Under the IGA, Canadian financial institutions will report to the Canada Revenue Agency (CRA) information in respect of US persons that will be transmitted by the CRA to the IRS under the Canada-US tax treaty and be subject to its confidentiality safeguards.

Reporting exemptions apply to, among other things:

- Registered Retirement Savings Plans
- Registered Retirement Income Funds
- Registered Education Savings Plans
- Registered Disability Savings Plans
- Tax-Free Savings Accounts
- smaller deposit-taking institutions, such as credit unions, with assets under \$175 million

The CRA will receive information from the US in respect of Canadian resident taxpayers that hold accounts at US financial institutions, which will assist Canadian tax authorities in administering and enforcing compliance with Canadian tax laws.

The CRA will not collect the US tax liability of a Canadian citizen if the individual was a Canadian citizen at the time the liability arose (whether or not the individual was also a US citizen at that time).

This new reporting regime will come into effect starting in July 2014, with Canada and the US beginning to receive enhanced tax information from each other in 2015.

Update on Tax Treaties and Tax Information Exchange Agreements

Canada continues to actively negotiate and conclude tax treaties to reduce tax barriers to international trade and investment, combat international tax evasion and aggressive tax avoidance, strengthen Canada's bilateral economic relationships, and create enhanced opportunities for Canadian businesses abroad.

Canada now has 92 tax treaties in force, three tax treaties signed but not yet in force, and eight tax treaties and protocols under negotiation.

Canada has brought into force 18 Tax Information Exchange Agreements (TIEAs), signed four TIEAs that are not yet in force and is negotiating TIEAs with eight other jurisdictions.

Business Tax Measures

Remittance Thresholds for Employer Source Deductions

The budget announces changes to source deduction thresholds. The frequency of employer remittances is based on average monthly withholdings from two calendar years ago, and will change as follows after 2014:

Current bracket average/month	Remit per month	Future bracket average/month
\$15,000 to <\$50,000	Up to 2	\$25,000 to <\$100,000
\$50,000 and up	Up to 4	\$100,000 and up

Tax Incentives for Clean Energy Generation

The capital cost allowance (CCA) system provides accelerated CCA deductions under Class 43.1 (30%) and Class 43.2 (50%) on a declining-balance basis for certain clean energy generation and energy conservation equipment acquired before 2020.

The budget expands Class 43.2 by making certain water-current energy equipment and gasification equipment eligible for inclusion. These measures apply to equipment acquired after February 10, 2014, that had not previously been used or acquired for use.

Consultation on Eligible Capital Property

The budget announces a public consultation to repeal the eligible capital property (ECP) regime, replace it with a new capital cost allowance (CCA) class available to businesses and transfer taxpayers' existing cumulative eligible capital (CEC) pools to the new CCA class. Detailed draft legislative proposals will be released for comment and the timing of the implementation will be determined after the consultation.

The proposed rules include:

- a new class of depreciable property for CCA purposes, with a 5% annual depreciation rate, in which eligible expenditures (those currently added to CEC) would be included at a 100% inclusion rate
- special treatment for goodwill and other expenditures and receipts that do not relate to a specific 'property' of the business, and that would be eligible capital expenditures or eligible capital receipts under the ECP regime - expenditures will be grouped together and treated as the cost of a single 'goodwill' property, and for receipts, the lesser of that cost and the amount of the receipt will reduce the CCA pool, with the excess (if any) treated as a capital gain
- transitional measures, such as for calculating and transferring CEC pool balances to the new CCA class as of the implementation date (the opening balance of the new CCA class for a business would equal the balance at that time of the existing CEC pool for that business), for the first ten years the depreciation rate for the new CCA class would be 7% for expenditures incurred before the implementation of the new rules,

and certain receipts related to pre-transition property or expenditures will reduce the new CCA pool balance at a 75% rate

Special rules to simplify the transition for small businesses will be considered as part of the consultation.

Personal Tax Measures

Tax on Split Income

The 'tax on split income' limits income-splitting techniques that seek to shift certain types of income from a higher-income individual to a lower-income minor.

To maintain the integrity of the tax on split income, commencing the 2014 taxation year, the definition 'split income' will include income that is, directly or indirectly, paid or allocated to a minor from a trust or partnership, if:

- the income is derived from a source that is a business or a rental property, and
- a person related to the minor (i) is actively engaged on a regular basis in the activities of the trust or partnership to earn income from any business or rental property, or (ii) has, in the case of a partnership, an interest in the partnership (whether held directly or through another partnership)

Taxation of Trusts and Estates

The 2013 budget announced the intention to consult on the potential elimination of graduated rates for testamentary trusts, certain estates, and grandfathered inter vivos trusts. The budget proposes to generally proceed with these measures. Specifically, the budget proposes to apply flat top-rate taxation to the above trusts and estates and make certain consequential changes. One exception to this proposal is that

graduated rates will still apply for the first 36 months of an estate that arises as a consequence of an individual's death and that is a testamentary trust. Another exception is for testamentary trusts for the benefit of disabled individuals.

Further proposed changes will ensure such trusts (except for the first 36 months of an estate) no longer benefit from special treatment under certain rules including:

1. the requirement to remit instalments
2. the requirement to have a calendar year-end
3. alternative minimum tax requirements
4. classification as a personal trust without regard to the circumstances in which beneficial interest are acquired
5. liability for Part XII.2 tax

Testamentary trusts that do not already have a calendar year-end will be deemed to have a year that ends on December 31, 2015 (or, for an estate, the end of its 36-month period, if later).

Estate Donations

The budget proposes for the 2016 and subsequent taxation years to provide more flexibility in the tax treatment of charitable donations made in the context of a death that occurs after 2015. Donations made by a will, and those made by designation under a Registered Retirement Savings Plan, Registered Retirement Income Fund, Tax-Free Savings Account or life insurance policy, will no longer be deemed to be made by the individual immediately before the individual's death. Instead, these donations will be

deemed to have been made by the individual's estate at the time the property is transferred to a qualified donee, provided the transfer occurs within 36 months after death. In addition, the trustee of the individual's estate will have the flexibility to allocate the available donation among: the taxation year of the estate in which the donation is made; an earlier taxation year of the estate; or the last two taxation years of the individual. The current annual credit limits will continue to apply.

Non-Resident Trusts

An exemption for 'immigration trusts' from the non-resident rules applies where the contributors to the trust are individuals each of whom is resident in Canada for a total period of not more than 60 months (i.e. newly resident Canadians).

The budget proposes to eliminate the 60-month exemption for immigration trusts, including related rules, for taxation years:

- that end after 2014 if (i) at any time that is after 2013 and before February 11, 2014, the 60-month exemption applies in respect of the trust, and (ii) no contributions are made to the trust after February 10, 2014, and before 2015, or
- that end after February 10, 2014, in any other case

Adoption Expense Tax Credit

Adoptive parents can claim a 15% non-refundable tax credit on eligible adoption expenses. The budget increases the maximum amount of such expenses for 2014 to \$15,000 per child. The maximum will be indexed to inflation for subsequent years.

Medical Expense Tax Credit

The budget expands the list of expenses eligible for the Medical Expense Tax Credit to include, for amounts incurred after 2013:

- expenses for the design of a therapy plan for individuals with severe and prolonged mental or physical impairment, and
- certain expenses incurred for service animals trained to assist individuals with severe diabetes

Search and Rescue Volunteers Tax Credit

The budget introduces a \$450 non-refundable tax credit, beginning in 2014, for certain search and rescue volunteers who provide at least 200 hours of services in a year. An individual who claims this new credit cannot also claim the existing volunteer firefighters tax credit, and claiming either credit will make the individual ineligible for the existing tax exemption of up to \$1,000 for honoraria received for volunteer efforts.

Mineral Exploration Tax Credit

The mineral exploration tax credit is extended by one year to flow-through share agreements entered into before April 1, 2015.

Farming and Fishing Businesses

The budget proposes, for dispositions and transfers that occur after the 2013 taxation year, to extend eligibility for the intergenerational rollover of farming and fishing property and the lifetime capital gains exemption to:

- property of an individual used principally in a combination of farming and fishing
- an individual's shares in a corporation, or interest in a

partnership, if the corporation or partnership carries on both a farming business and a fishing business (in particular, if a property of the corporation or partnership is used principally in either business, or is used principally in a combination of farming and fishing, the property will count towards the existing 'all or substantially all' test)

Tax Deferral for Farmers

The budget proposes, starting 2014 taxation years, to extend the tax deferral for farmers who dispose of breeding livestock due to drought, flood or excess moisture conditions existing in prescribed regions, to disposals of bees, and horses that are over 12 months of age, that are kept for breeding.

Amateur Athlete Trusts

The budget proposes to allow income contributed to an amateur athlete trust after 2013 to qualify as earned income for purposes of determining the Registered Retirement Savings Plan (RRSP) contribution limit of the trust's beneficiary.

If an individual who contributed to an amateur athlete trust before 2014 makes an election in writing and submits it to the CRA before March 3, 2015, any contributions made in 2011, 2012 and 2013 will also qualify as earned income. The individual's RRSP limit will be re-determined for each of these years and any additional RRSP room will be added to the individual's RRSP contribution room for 2014.

Pension Transfer Limits

In 2011, a special rule was introduced in certain situations allowing a member leaving a defined benefit Registered Pension Plan (RPP) whose estimated pension benefit was reduced due to plan underfunding to

disregard that benefit reduction in calculating the portion of a lump-sum commutation payment from the RPP that may be transferred to an RRSP on a tax-free basis (i.e. the transferable amount). If the rule applies, the maximum transferable amount for a plan member who leaves an underfunded RPP will be the same as if the RPP were fully funded.

The budget proposes to extend this rule to commutation payments made after 2012, to a plan member who leaves an RPP if that payment has been reduced due to plan underfunding and either:

- if the plan is an RPP other than an individual pension plan, the reduction in the estimated pension benefit that results in the reduced commutation payment is approved pursuant to the applicable pension benefits standards legislation, or
- if the plan is an individual pension plan, the commutation payment to the plan member is the last payment made from the plan (i.e. the plan is being wound up)

The existing requirement that the Minister of National Revenue must approve the rule's application will be maintained.

GST/HST Credit Administration

The budget proposes to eliminate the need for an individual to apply for the GST/HST credit on their annual income tax returns and to allow the CRA to automatically determine if an individual is eligible to receive the GST/HST credit. This measure applies starting with income tax returns for the 2014 taxation year.

Charities and Non-Profit Organizations

Reducing Administrative Burden on Charities

The CRA will be provided with funding, over five years, to modernize its information technology, to enable charities to apply for registration and file their annual information returns electronically. Charities will also be allowed to conduct aspects of charitable lotteries by computer, to reduce administration costs.

Donations of Ecologically Sensitive Land

For donations of ecologically sensitive land, or easements, covenants and servitudes on such land made after February 10, 2014, the carry-forward period will be extended to ten years.

Donations of Certified Cultural Property

Previously, gifts of certified cultural property were measured at fair market value for the purpose of donation tax credits. The budget introduces a rule limiting the value of such a gift to its cost amount to the donor if the property was acquired as part of a tax shelter gifting arrangement. This restriction applies to gifts made after February 10, 2014.

State Supporters of Terrorism

The budget provides that if a charity or amateur athletic association accepts a donation after February 10, 2014, from a state (or agency thereof) that is considered to be a supporter of terrorism under the *State Immunity Act*, the Minister of National Revenue may refuse to register the organization, or revoke its registration.

Consultation on Non-Profit Organizations

The budget announces that the government plans to review whether the income tax exemption and related reporting requirements for non-profit organizations remain properly targeted and provide sufficient transparency and accountability. A consultation paper will be released for public comment.

Sales and Excise Tax Measures

Application of the GST/HST to the Health Care Sector

The budget proposes three changes to improve the application of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) to certain health-related services and medical and assistive devices. For supplies made after February 11, 2014:

- the exemption for training that is specially designed to assist individuals with a disorder or disability will be expanded to also exempt the services of designing such training
- acupuncturists and naturopathic doctors will be added to the list of health care practitioners whose professional services are exempt
- eyewear specially designed to treat or correct vision by electronic means, if supplied on the written order of a physician or optometrist for use by a consumer named in the order, will be a GST/HST zero-rated medical and assistive device

GST/HST Election for Closely Related Persons

Under the GST/HST, a group relief election, generally referred to as the 'nil consideration election,' is available allowing registrants that are resident in Canada, engaged exclusively in commercial activities and members of

a closely related group to not account for tax on certain transactions between them.

Effective January 1, 2015:

- the availability of the group relief is extended to new members that have not yet acquired any property, if the new members continue as going concerns engaged exclusively in commercial activities
- parties to a group relief election will be required to file the election in a prescribed manner with the CRA

In addition, parties to an existing or new group relief election (or persons that conduct themselves as if an election were in effect) will be jointly and severally (or solidarily) liable with respect to the GST/HST that may arise relating to supplies made between them after December 31, 2014.

Joint Ventures and GST/HST

Participants in certain joint ventures can make a joint venture election that simplifies the GST/HST accounting obligations in respect of their joint venture activities.

To allow more commercial joint venture activities and participants access to the GST/HST simplification benefits available under the joint venture election, the government will propose new joint venture election measures, as well as complementary anti-avoidance measures, that will allow the joint venture participants to make the election as long as the joint venture's activities are exclusively commercial and the participants are engaged exclusively in commercial activities.

Strengthening Compliance with GST/HST Registration

To strengthen GST/HST compliance and help the CRA combat the underground economy, the Minister of National Revenue will be given the discretionary authority to register and assign a GST/HST registration number when a person fails to comply with the requirement to register, even after having been notified of the requirement to register by the CRA.

This measure will apply on royal assent to the enacting legislation.

Tobacco Taxation

Starting February 12, 2014, the rate of excise duty on cigarettes and on other tobacco products will increase to account for inflation since 2002.

In addition, starting February 12, 2014, the 'duty free' rate for cigarettes will increase and, going forward, will be legislatively linked to changes in the excise duty.

The excise duty rates on tobacco products, including the 'duty free' rates, will be indexed to the Consumer Price Index and automatically adjusted every five years, starting December 1, 2019.

To ensure that the rate changes are applied consistently to all cigarettes, inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of February 11, 2014, will be subject to a per cigarette tax.

An inventory tax on cigarettes will also apply at the time of each five-year inflationary excise duty adjustment.

Standardizing Sanctions Related to False Statements in Excise Tax Returns

A new administrative monetary penalty will apply, and the existing criminal offence will be amended, for the making of false statements or omissions in an excise tax return and related offences under the non-GST/HST portion of the *Excise Tax Act*.

The new administrative monetary penalty will be the greater of \$250 and 25% of the tax avoided.

For the revised criminal offence:

- on summary conviction – the fine will range from 50% to 200% of the tax evaded, along with a potential maximum two year term of imprisonment
- on conviction on an indictment – the fine will range from 100% to 200% of the tax evaded, along with a potential maximum five year term of imprisonment

When the amount of tax evaded is not ascertainable, the fine will range:

- on summary conviction – from \$1,000 to \$25,000
- on conviction on an indictment – from \$2,000 to \$25,000

These measures will apply to excise tax returns filed after the day of royal assent to the enacting legislation.

Other Tax Measures

Aboriginal Tax Policy

Canada supports initiatives that encourage the exercise of direct taxation powers by Aboriginal governments, and reiterates its willingness to discuss and put into effect direct taxation arrangements with interested Aboriginal governments.

Customs Tariff Measures

The *Customs Tariff* will be amended to make the Governor General subject to the same tariff rules as other government office holders. Consequential amendments to the GST/HST importation rules will also be proposed.

Supporting Offshore Oil and Gas Development

The 20% Most-Favoured-Nation rate of duty on imported mobile offshore drilling units (MODUs) will be eliminated in respect of goods imported into Canada after May 4, 2014.

Previously Announced Measures

The budget confirms that the government will proceed with the following previously announced measures:

- proposed changes to automobile expense deduction limits and the prescribed rates for the

automobile operating expense benefit for 2012 announced on December 29, 2011, and for 2013 announced on December 28, 2012

- legislative proposals released on November 27, 2012, relating to income tax rules applicable to Canadian banks with foreign affiliates
- legislative proposals released on July 12, 2013, relating to income tax and excise duties and sales tax technical amendments
- legislative proposals released on August 16, 2013, relating to the foreign affiliate dumping rules
- legislative proposals released on August 23, 2013, relating to changes to the life insurance policyholder exemption test
- modifications to the *Customs Tariff* to implement the Notice of Ways and Means Motion tabled on November 22, 2013, which clarified the tariff classification of certain imported food products

- legislative proposals released on November 27, 2013, relating to the tax rules governing Labour-Sponsored Venture Capital Corporations
- legislative proposals released on January 9, 2014, to require that international electronic funds transfers of \$10,000 or more be reported to the CRA
- legislative proposals released on January 17, 2014, clarifying GST/HST rules to prevent input tax credit claims that exceed tax actually paid
- legislative proposals released on January 24, 2014, relating to the provision of a GST/HST exemption for hospital parking for patients and visitors

The government will also move forward with technical amendments to improve the certainty of the tax system.

Let's talk

For a deeper discussion of how these tax issues might affect you or your business, please contact:

- your PricewaterhouseCoopers LLP tax advisor
- any of the individuals listed at www.pwc.com/ca/taxcontacts

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