

2017 Federal budget: What could be in it

December 8, 2016

In brief

With Canada's 2017 federal budget looming, we consider what tax measures our government might have in store for us. We look at:

- tax-related recommendations made in the House of Commons *Report of the Standing Committee on Finance* on 2017 budget priorities
- outstanding tax changes in the Liberal party's election platform
- other possible tax changes

In detail

House of Commons Standing Committee report

On December 7, 2016, the House of Commons issued its *Report of the Standing Committee on Finance*, "Creating the Conditions for Economic Growth: Tools for People, Businesses and Communities."

The 199-page report is the culmination of the Committee's annual pre-budget consultations. It considers witness testimony and written submissions made by interested parties on 2017 budget priorities.

The report includes 81 recommendations of which 12 are tax-related and outlined below. The Department of Finance often takes the Committee's recommendations

into account when developing budget proposals.

Tax-related recommendations

The Committee stated that the government should:

For business

- Intergenerational transfers of businesses – conduct an exhaustive review of the tax treatment of these transfers
- Income earned by campgrounds and storage facilities – recognize this income as "active business income" for purposes of determining eligibility for the small business deduction
- Capital cost allowance (CCA) rates – review and alter CCA rates to reflect changes in technology and the useful life of assets

- Patents – create a first patent program, similar to that launched by Quebec; this program should subsidize the expenses incurred by small and medium-sized businesses obtaining a first patent
- Mining sector – review recent changes made to:
 - the Atlantic Investment Tax Credit
 - the Corporate Mineral Exploration and Development Tax Credit
 - accelerated CCA rates
 - the Canadian Exploration Expense and the Canadian Development Expense
- Telecommunication companies – work with telecommunication

companies that agree to participate in a rural broadband program that would be funded through changes to the CCA rates for classes 8, 42 and 46, which address communications networks equipment, including broadband networks

For individuals

- Disability tax credit –
 - review the effectiveness of this credit and consider making it refundable
 - expand the Canada Revenue Agency's (CRA's) interpretation of the *Income Tax Act* (ITA) or amend section 118.3 of the ITA to include all activities related to insulin administration in the disability tax credit's eligibility criteria
- Community Volunteer Income Tax Program – ensure this program operates throughout the year and assists individuals determine their eligibility for benefits
- Seniors – implement a senior's index to determine the amount by which Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits should be increased (this is also mentioned below under "Liberal party platform: Outstanding tax changes")
- Artists – amend the ITA (and the *Copyright Act*) to provide for artists' resale rights in Canada

Other tax measures

- Tax simplification – undertake a comprehensive tax review with the objective of simplifying the ITA (this is also mentioned below under "Other possible tax changes")

Liberal party platform: Outstanding tax changes

Tax changes in the Liberal party platform that have not been implemented and therefore could be proposed in the 2017 budget include measures that would:

- Seniors – introduce a Seniors Price Index to increase the OAS and GIS for rising costs (this is also mentioned above under "House of Commons Standing Committee report")
- Registered Retirement Savings Plans (RRSPs) – enhance the flexibility of the RRSP Home Buyer's Plan for individuals facing a job relocation, spouse's death, marital breakdown or a decision to accommodate an elderly family member
- Employment insurance (EI) – waive employer premiums for 12 months in respect of employees between 18 and 24 who are hired in a permanent position
- Charitable and non-for-profit sector – modernize the rules for this sector (e.g. by clarifying the rules governing "political activity" and developing a new legislative framework to strengthen the sector)
- Goods and Services Tax (GST) – remove the GST on new capital investments in affordable rental housing
- CRA –
 - make the CRA more client-focused (e.g. by proactively contacting individuals who are not receiving tax benefits they are entitled to and offering to complete returns for lower-income individuals)
 - curb tax evasion and increase enforcement; more measures on these ongoing initiatives are certainly possible

Other possible tax changes

The 2017 federal budget could also reflect the following:

- Innovation measures – it is expected that the 2017 budget will focus on innovation, so we might see tax measures that encourage innovation
- President-elect Trump's tax platform – the President-elect promises significant cuts to US corporate and individual tax rates; Canada's 2017 budget may respond to these potential changes to remain competitive
- Government goal to eliminate poorly targeted and inefficient tax measures – the 2016 budget has already taken steps to address this goal, which is aimed particularly at measures that allow high net worth individuals to reduce or defer tax through the use of private corporations, but further action in this regard is possible
- Tax simplification – the government could achieve this by eliminating more tax credits, in addition to those already eliminated in the 2016 budget (this is also mentioned above under "House of Commons Standing Committee report")
- Mining exploration tax credit for flow-through shares – as in previous years, this credit could be extended by one year, in which case it would apply to flow-through share agreements entered into before April 1, 2018
- Base erosion and profit shifting (BEPS) – a focus for our government has been the work of the Organisation for Economic Co-operation and Development (OECD) and Group of 20 (G20) on BEPS (the OECD uses the term "BEPS" to describe tax planning strategies that exploit gaps and mismatches in international tax

rules to minimize a corporation's overall tax); the 2017 budget might provide guidance as to how the government will proceed on outstanding recommendations in the OECD's BEPS final reports, such as on treaty shopping

- Review of income tax exemptions and reporting requirements for non-profit organizations – this review, which was announced by our previous government in the 2014 federal budget, is still pending and may be addressed in the 2017 budget
- Close down what the government perceives as loopholes – this is an ongoing effort that will almost certainly yield additional “integrity” measures (as the government calls them) in the 2017 budget

Next steps

To stay informed about the 2017 federal budget, be sure to:

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- refer to our budget web page – soon to be updated for the upcoming 2017 budget – at www.pwc.com/ca/budget
- reach out to your PwC adviser or the individuals listed on the next page, to discuss what the budget could mean for you or your business

Let's talk

For a deeper discussion of these issues, please contact your PwC adviser or the following:

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