KPMG

TaxNewsFlash Canada

2019 Federal Budget Highlights

March 19, 2019
No. 2019-09

Finance Minister Bill Morneau delivered the government's 2019 federal budget on March 19, 2019. The budget expects a deficit of $14.9 billion for fiscal 2018-2019 and forecasts deficits of $19.8 billion for 2019-2020 and $19.7 billion for fiscal 2020-2021.

Although the budget does not include any personal or corporate tax rate changes, it did include several measures affecting corporate and personal taxpayers. Among other notable changes, the budget announces a $200,000 annual cap on employee stock option grants that may receive tax-preferred treatment. While the budget indicates that the cap applies for employees of certain "large firms", it did not include full details on this measure and noted that Finance plans to release further details before the summer of 2019.

The budget also includes several changes targeted towards boosting corporate innovation. Specifically, the budget changes the calculation of the fully refundable enhanced tax credit of 35% for CCPCs, to repeal the use of taxable income as a factor in determining the annual expenditure limit for the purposes of the enhanced SR&ED credit for CCPCs.

The budget introduces measures to support Canadian journalism, including allowing eligible Canadian journalism organizations to be allowed to register as qualified donees. In addition, a refundable labour tax credit is introduced for qualifying journalism organizations, and the budget announces a non-refundable tax credit of up to $75 annually for subscriptions to Canadian digital news.

Other corporate changes in the budget include rules to deny a mutual fund trust a deduction for the portion of an allocation made to a unitholder on redemption that is greater than the capital gain that would otherwise have been realized by the unitholder on the redemption. The budget also introduces rules that will not allow derivative transactions to convert income that would otherwise be treated as taxable ordinary income into capital gains. Finally, the budget makes changes to the character conversions transactions to limit the exception for certain commercial transactions that are not subject to these rules.

On the personal tax side, the budget focuses on skills training, assistance with home acquisition, and also increases the age for commencing withdrawals from certain registered pension plans. The budget introduces a Canada Training Benefit, a refundable tax credit that individuals can use to cover up to half of eligible tuition and training costs, with a $250 notional account each year and a lifetime limit of $5,000. The budget also bumps the Home Buyers' Plan withdrawal limit to $35,000 (from $25,000) and announces the Advanced Life Deferred Annuity, a life annuity where the commencement may be deferred until the annuitant turns 85.

The budget did not make changes to the capital gains rate nor was there an announcement for comprehensive tax reform. It did not introduce any new rules related to intergenerational business transfers, although the government did reiterate its commitment to developing new proposals in this area. In addition, the budget reiterated that Finance will proceed with the CCA rate enhancements that it previously introduced in the fall economic statement.

Finally, there were several tax-tightening measures related to international taxation. The budget expands the foreign affiliate dumping rules to ensure that they apply to a corporation resident in Canada (CRIC) controlled by non-resident individuals, trusts or groups. Further, the budget contains changes affecting the rules on cross-border securities lending and transfer pricing.

As expected, the budget also introduced a Canadian Drug Agency as part of its pharma-care initiative, and furthered its housing proposals by introducing a first-time home buyer incentive. The budget also announced an EI small business premium rebate and increased the Guaranteed Income Supplement (GIS) exemption.

The tax highlights of the budget are as follows.

Business Tax Changes

Scientific Research & Experimental Development

The budget proposes to repeal the use of taxable income as a factor in determining a CCPC's annual expenditure limit for the purpose of the enhanced Scientific Research & Experimental Development (SR&ED) tax credit. As a result, small CCPCs with taxable capital of up to $10 million will be able to access the enhanced refundable SRED credit, on an unreduced basis, regardless of their taxable income.

Under the current rules, the refundable enhanced tax credit of 35% on up to $3 million of qualifying SR&ED annual expenditures is gradually phased out where taxable income for the previous tax year is between $500,000 and $800,000. This measure applies to tax years that end on or after March 19, 2019.

Canadian journalism support

The budget proposes to introduce three new tax measures to support Canadian journalism. "Qualified Canadian Journalism Organization" (QCJO) status is required to be eligible for the three tax measures. To qualify, a QCJO must be a corporation, partnership or trust primarily engaged in the production of original written news content. A QCJO that is a corporation will be required to meet additional conditions to qualify. In particular, if a corporation is a public corporation, it must be listed on a stock exchange in Canada and not be controlled by non-Canadian citizens. If the corporation is a private corporation it must be at least 75% owned by Canadian citizens or by public corporations (as described above). For a partnership or trust to qualify, corporations as described above and Canadian citizens, must own at least a 75% interest in the partnership or trust.

The budget provides further details, including further conditions that must be met for an entity to qualify as a QCJO. The three tax measures are:

- *Qualified Donee Status* — Allow journalism organizations to register as qualified donees; this measure applies as of January 1, 2020
- *Refundable Labour Tax Credit* — A new 25% refundable tax credit on salary or wages paid to eligible newsroom employees of qualifying QCJOs, subject to a cap on labour costs of $55,000 per eligible newsroom employee per year. This measure, which provides a maximum tax credit on eligible labour costs per individual per year of $13,750, applies to salary or wages earned in respect of a period on or after January 1, 2019
- *Non-refundable tax credit* — A temporary non-refundable 15% tax credit on amounts paid by individuals for eligible digital news subscriptions, allowing individuals to claim up to $500 in costs paid towards eligible digital subscriptions in a tax year. This measure applies to eligible amounts paid after 2019 and before 2025.

Zero-emission vehicles

The budget provides a temporary enhanced first-year CCA rate of 100%. Two new CCA classes will be created:

- Class 54 — For zero-emission vehicles that would otherwise be included in Class 10 or 10.1; limit of $55,000 (plus sales tax) on the amount of CCA deductible
- Class 55 — For zero-emission vehicles that would otherwise be included in Class 16.

The budget also amends the GST/HST rules to align them with the proposed income tax treatment.

This measure applies to eligible vehicles acquired on or after March 19, 2019 and that become available for use before 2028, subject to a phase-out for vehicles that become available for use after 2023.

Intergenerational business transfers

The budget states that the government will continue its outreach to farmers, fishers, and other business owners to develop new proposals to better accommodate intergenerational transfers of businesses while protecting the integrity and fairness of the tax system.

Farming and fishing — Small Business Deduction

The budget eliminates the requirement that farming and fishing businesses' sales must be to a farming or fishing cooperative in order to be excluded from the specified corporate income rules (i.e., in general terms, the rules that disqualify certain income of a CCPC from being eligible for the small business deduction). In particular, the exclusion will apply to a CCPC's income from the sales of farming products or fishing catches of its farming or fishing business to any arm's-length purchaser corporation. However, consistent with current rules, amounts allocated to a CCPC as patronage payments from a purchaser corporation will not qualify for the exclusion. This measure applies to tax years that begin after March 21, 2016.

Character Conversion Transactions

Generally, a character conversion transaction is a transaction that converts what would have been taxed as income to a capital gain using derivative agreements.

For example, a taxpayer seeking to gain economic exposure on a portfolio of investments that would produce fully taxable income would enter into an agreement to acquire Canadian securities at a specified future date. The value of the Canadian securities to be delivered on the settlement of the forward purchase agreement was based on the performance of the reference portfolio. On settlement, the taxpayer acquired the securities and then immediately sold them. Because the taxpayer elected to treat its Canadian securities as capital property, the gain would be treated as a capital gain.

Under rules introduced in 2013, any gain from a "derivative forward agreement" is treated as ordinary income rather than a capital gain. A derivative forward agreement includes any agreement to purchase a capital property where:

- The term of the agreement exceeds 180 days, and
- The difference between the fair market value of the property delivered on settlement and the amount paid is derivative in nature.

There is an exception to these rules where the economic return is based on the performance of the actual property being purchased or sold. This exception is intended to exclude commercial transactions (e.g., merger and acquisition transactions) from the rules.

A transaction has been developed between mutual funds where the first mutual fund (Investor Fund) enters into a forward purchase agreement with a counterparty pursuant to which it agrees to acquire units of a second fund (Reference Fund) at a specified future date. Reference Fund holds investments that produces fully taxable income. On settlement, the Investor Fund acquires the Reference Fund and immediately sells the Reference Fund realizing a capital gain.

Investor Fund takes the position that the agreement falls within the commercial transaction exception, as the Investor Fund's return is based on the performance of the acquired units.

The budget modifies the commercial transaction exception so that it will be unavailable if it can be reasonably considered that one of the main purposes of the series of transactions is to convert an amount into a capital gain.

This measure is effective for transactions entered into on or after March 19, 2019. This change will also generally apply after December 31, 2019 to transactions that were entered into before March 19, 2019.

Personal Tax Changes

Employee stock options

Employee stock options are viewed as an alternative method of compensating employees. Where a stock option is granted to an employee of a public company and the exercise price is equal to the value of the shares at the time the option is granted, the employee is subject to income tax, at the time the option is exercised, on 50% of the difference between the fair market value of the stock at the time the option is exercised and the option price.

Relief is also provided where stock options are granted in Canadian controlled private corporations (CCPCs). The option price may be less than the value of the share at the time the option is granted and the timing of taxation is deferred until the stock is sold. In addition, the employee may claim a deduction equal to 50% of the stock option benefit, provided that the share is held for two years.

The budget indicates that the public policy rationale for preferential tax treatment of employee stock options is to support younger and growing Canadian businesses, and that employee stock options should not be used as a tax-preferred treatment method of compensation for executives of large, mature companies.

The budget proposes that there would be no changes made to the stock option provisions for start-ups and rapidly growing Canadian businesses.

The budget proposes to apply a $200,000 annual cap on employee stock option grants that may receive the current tax-preferred treatment for employees of “large, long-established, mature firms”. The cap is based on the fair market value of the underlying shares at the time that the option is granted.

As an example of how the proposed new cap would work, assume that an employee is granted an option to acquire 100,000 shares at a price of $50, the fair market value at the time the option is granted and that the share price is $70 when the option is exercised. In this situation, 4,000 (4,000 x $50=$200,000) of the options would qualify for the current treatment and the remaining options would be fully taxed. As a result, $1.92 million of the option ($20 x 96,000) would be fully taxed while one-half of the remaining $80,000 stock option benefit ($20 x 4,000) would be taxed. This would result in an overall income inclusion of $1.96 million, as compared to $1 million under existing legislation.

The budget states that Finance will release further details before the summer of 2019. Any changes would apply on a go-forward basis and would not apply to employee stock options granted before the announcement of the legislative proposals.

Canada Training Credit

The budget introduces the Canada Training Credit, a refundable tax credit. This credit allows eligible individuals to accumulate $250 each year in a notional account. To accumulate $250 in a year, an individual must:

- File a tax return for the year
- Be at least 25 years old and less than 65 years old at the end of the year
- Be resident in Canada throughout the year
- Have certain earnings of $10,000 or more in the year
- Have individual net income for the year that does not exceed the top of the third tax bracket for the year (i.e., $147,667 in 2019).

Individuals can claim a tax credit that is equal to the lesser of half of the eligible tuition and fees paid for the taxation year and the individual’s notional account balance for the taxation year. Individuals will be able to accumulate up to a maximum amount of $5,000 over a lifetime. Eligible fees include:

- Tuition fees
- Ancillary fees and charges (e.g., admission fees, exemption fees and charges for a certificate, diploma or degree)
- Examination fees.

To be eligible, an educational institution in Canada must be a university, college or other educational institution providing courses at a post-secondary level, or an institution providing occupational-skills courses that is certified by the Minister of Employment and Social Development.

This measure will apply to the 2019 and subsequent taxation years, so that the annual accumulation to the notional account will start for the 2019 taxation year and the credit will be available for expenses claimed for the 2020 taxation year. Earning and income thresholds under the new credit will be subject to annual indexation.

Home Buyers' Plan

The budget proposes to increase the Home Buyers' Plan withdrawal limit to $35,000 (from $25,000). This increased limit will also apply to individuals who are eligible for the disability tax credit, even if the first-time homebuyer requirement is not met. This increase in the withdrawal limit will apply to the 2019 and subsequent calendar years for withdrawals made after March 19, 2019.

The budget also extends access to the Home Buyers' Plan after the breakdown of a marriage or common-law partnership, effective for withdrawals made after 2019.

Change-in-use rules for multi-unit residential properties

The budget allows a taxpayer to elect for the deemed disposition that normally arises on a change in use of part of a property to not apply. As a result, a taxpayer who owns a multi-unit residential property (e.g., a duplex), and either starts renting or moves into one of the units will now be able to elect out of the deemed disposition that arises on a change-in-use of part of a property. This measure will apply to changes in use of property that occur on or after March 19, 2019.

Annuities allowed under registered plans

The budget allows two new types of annuities under the tax rules for certain registered plans. Specifically, the budget announces that advanced life deferred annuities (ALDA) will be permitted under an RRSP, RRIF, deferred profit sharing plan (DPSP), pooled registered pension plan (PRPP) and defined contribution RPP. In addition, the budget announces that variable payment life annuities (VPLA) will be permitted under a PRPP and defined contribution RPP. The measures will apply to the 2020 and subsequent taxation years.

The budget notes that draft amendments for measures related to ALDAs and VPLAs will be released for public comment, and that the government will consult on potential changes to federal pension benefits standards legislation to accommodate VPLAs for federally regulated PRPPs and defined contribution RPPs.

Registered Disability Savings Plan

The budget proposes to remove the time limitation on the period that a registered disability savings plan (RDSP) may remain open after a beneficiary becomes ineligible for the disability tax credit (DTC) and to eliminate the requirement for medical certification that the beneficiary is likely to become eligible for the DTC in the future in order for the plan to remain open. This measure will generally apply after 2020.

Kinship providers

The budget clarifies that an individual may be considered to be the parent of a child in their care for the purpose of the Canada Workers Benefit, regardless of whether they receive financial assistance from a government under a kinship care program. As a result, kinship care providers will be eligible for the Canada Workers Benefit amount available for families, provided all other eligibility requirements are met. This measure will apply for the 2009 and subsequent taxation years.

In addition, the budget clarifies that financial assistance payments received by care providers under a kinship care program are neither taxable, nor included in income for the purposes of determining entitlement to income-tested benefits and credits. This measure will apply for the 2009 and subsequent taxation years.

Donations of cultural property

The budget proposes to remove the requirement that property must be of “national importance” to qualify for the enhanced tax incentives for donations of cultural property, effective for donations made on or after March 19, 2019.

Specified multi-employer pension plans

The budget amends the tax rules to prohibit contributions to a specified multi-employer plan (SMEP) related to a member who, after the end of the year, is 71 years of age; and to a defined benefit provision of a SMEP if the member is receiving a pension from the plan, in certain circumstances. This amendment is intended to bring the SMEP rules in line with the pension tax provisions that apply to other defined benefit registered pension plans.

The measure applies to SMEP contributions made under collective bargaining agreements entered into after 2019, in relation to contributions made after the date the agreement is made.

Tax-Free Savings Account — Carrying on business

The budget extends the joint and several liability for tax owing on income from carrying on a business in a tax-free savings account (TFSA) to the TFSA unit holder. Currently, the trustee of a TFSA (i.e., a financial institution) is jointly and severally liable with the TFSA for

Part I tax while the holder of the TFSA is not. This measure applies to the 2019 and subsequent tax years.

Pensionable service under an individual pension plan

An individual pension plan (IPP) is a defined benefit registered pension plan that has fewer than four members, at least one of whom is related to an employer that participates in the plan. IPPs are intended to provide lifetime retirement benefits to owner-managers in respect of their employment.

Where an individual ceases to be a member in a defined benefit registered pension plan, the employee may transfer the accrued value in one of two ways:

- A transfer of the full commuted value to another defined benefit plan sponsored by another employer, or
- Subject to a prescribed transfer limit (normally about 50% of the member's commuted value), a transfer of a portion of the commuted value to a registered retirement savings plan or similar registered plan.

The budget indicates that planning is being undertaken to circumvent the limits, which includes having the terminated employee establishing an IPP in a newly incorporated private corporation controlled by the individual.

The budget prohibits IPPs from providing retirement benefits for past years of employment that were pensionable services under a defined benefit plan of another employer other than the IPP's participating employer (or a predecessor). If assets are transferred in respect of prohibited services, it will be considered to be a non-qualifying transfer and included in income for income tax purposes. This proposal applies to pensionable service credited under an IPP on or after March 19, 2019.

Mutual funds — Allocation to redeemers methodology

Generally, a mutual fund trust is entitled to a deduction for capital gains or ordinary income allocated to unitholders. Where a mutual fund trust disposes of investments to fund a redemption of its units, any accrued gain on the investments is realized by the trust and is subject to tax, and may be taxed again in the hands of the unitholder who realizes a gain on the disposition of their units. A refund is provided to the mutual fund trust for tax it has paid on its capital gains attributable to redeeming unitholders to avoid double tax.

Mutual fund trusts have adopted the "allocation to redeemers methodology" to effectively match the capital gains realized by the mutual fund trust with the capital gains realized by the redeeming unitholders on their units. The mutual fund trust may claim a deduction of the capital gain and the unitholder may reduce its redemption proceeds by the allocated gain.

In certain cases, mutual fund trusts have been allocating gains to redeeming unitholders in excess of the gain that the unitholder would otherwise realize on the redemption of their units. This results in a deferral, as the mutual fund trust is allowed a full deduction for the capital gain allocated and the redeeming unitholder is taxed on the same gain it would otherwise be taxed on as if no allocation were made, because the allocation reduces the unitholder's redemption proceeds. (The reduction in the proceeds of disposition eliminates the capital gain which would otherwise arise and creates a capital loss to the extent of the excess portion of the allocated loss.)

The budget denies the deduction to the mutual fund trust where the allocation of a capital gain to a unitholder on a redemption of a unitholder is greater than the capital gain that would otherwise be realized by the unitholder. This new provision applies where the unitholder is allocated a capital gain and the unitholder's redemption proceeds are reduced by the allocation.

This proposal applies to tax years of the mutual fund trust that begin on or after March 19, 2019.

Character conversion

Certain mutual fund trusts have been using the "allocation to redeemers" methodology to convert returns on investments that would be taxed as ordinary income to capital gains to the remaining unitholders. This planning is possible where redeeming unitholders hold their units on income account and other unitholders hold their units on capital account.

The budget denies a mutual fund trust a deduction for an allocation made to a unitholder on a redemption, if the allocated amount is ordinary income; and the unitholder's redemption proceeds are reduced by the allocation. This proposal applies to tax years of the mutual fund trust that begin on or after March 19, 2019.

International Tax Changes

Foreign affiliate dumping

The budget expands the foreign affiliate dumping rules.

The foreign affiliate dumping rules are intended to prevent erosion of the Canadian tax base that may occur where a CRIC that is controlled by a non-resident invests in a foreign affiliate using borrowed or other funds. These rules are considered necessary, in part, due to the ability of Canadian-resident corporations to repatriate exempt surplus from foreign affiliates without additional Canadian tax payable and to distribute cross-border paid-up capital (PUC) to non-resident shareholders without dividend withholding tax.

Generally, when a CRIC makes an "investment" (as broadly defined for the purpose of these rules) in a foreign affiliate, there is either a suppression of cross-border PUC or a dividend subject to withholding tax deemed to have been paid by the CRIC.

Currently, the foreign affiliate dumping rules only apply in respect of CRICs that are controlled by a non-resident corporation (or by a related group of non-resident corporations). The budget expands these rules to CRICs that are controlled by non-resident individuals, non-resident trusts, or a group of persons that do not deal with each other at arm's length comprising any combination of non-resident corporations, non-resident individuals and non-resident trusts. The proposals include an extended meaning of "related" that applies for the purpose of determining whether a non-resident trust deals at arm's length with another non-resident person by deeming the trust to be a corporation and its beneficiaries to be shareholders, based on the relative value of their beneficial interests.

This measure will apply to transactions and events that occur on or after March 19, 2019.

Transfer pricing measures

Canadian transfer pricing rules govern the terms and conditions on which non-arm's length entities may transact across international borders and embody the arm's-length principles. In some circumstances, specific rules in the Act may have a similar effect as the application of the transfer pricing rules in section 247.

The budget provides a new rule that stipulates that adjustments under the transfer pricing rules should apply before any other provision of the Act.

This ordering may have implications, for example, in the potential application of transfer pricing penalties. Current exceptions to transfer pricing rules applicable to Canadian resident corporations that have amounts owing from, or guarantee amounts owed by, controlled foreign affiliates continue to apply. This measure will apply to tax years that begin on or after March 19, 2019.

The transfer pricing rules contain an expanded definition of "transaction", which includes an arrangement or event, that is intended to broaden the range of circumstances in which such rules apply. The budget makes this expanded definition of "transaction" relevant in the context of the additional three-year reassessment period applicable in respect of "transactions" involving a taxpayer and a non-arm's length non-resident person. The measures applies for taxation years where the normal reassessment period ends on or after March 19, 2019.

Cross-border securities lending

Securities lending is an established capital markets practice that may involve a non-resident lending a share to a Canadian resident, with the Canadian resident agreeing to return an identical share to the non-resident at a future date. Typically, the Canadian resident securities borrower must make payments to compensate the non-resident securities lender for any dividends paid on the borrowed share (dividend compensation payments) and to post collateral securing the return of an identical share to the securities lender. Under current rules, where the securities lending arrangement is "fully collateralized", the dividend compensation payment is deemed to be a dividend subject to withholding taxes. For the purposes of these rules, a securities lending arrangement is "fully collateralized" if the Canadian resident securities borrower posts collateral in the form of money or government debt obligations with a value of at least 95% of the value of the borrowed security throughout the term of the securities lending arrangement. If the securities lending arrangement is not "fully collateralized", the dividend compensation payment is deemed to be a payment of interest, which generally will not be subject to withholding tax if the securities borrower deals at arm's length with the securities lender.

The budget changes these rules such that dividend withholding tax applies to dividend compensation payments under cross-border securities lending arrangements in respect of shares of Canadian corporations. In addition, the budget expands these rules to apply to payments under "specified securities lending arrangements", which was a concept introduced in the 2018 federal budget to prevent taxpayers from realizing artificial losses through the use of equity-based financial arrangements. In determining the rate of withholding, the securities lender is deemed to be the beneficial owner of the share and the dividend is deemed to be paid by the issuer of the securities; the 5% treaty rate is not available as the securities lender is deemed to own shares that give it less than 10% of the votes and value of the shares of the issuer.

Under current rules, dividend compensation payments made by Canadian residents to non-residents in respect of a foreign corporation share may be characterized as dividends subject to withholding tax. As the non-resident securities lender would not have been subject to Canadian dividend withholding tax in respect of dividends on such a share if it had continued to be held by the non-resident securities lender, the budget proposes to expand the exemption in subsection 212.1(2.1) to apply to any dividend compensation payment made by a Canadian resident to a non-resident under a "fully collateralized" securities lending arrangement.

According to a new rule that the budget introduces, if a lender under a securities lending arrangement or specified securities lending arrangement is not dealing at arm's length with either the borrower or issuer, the lender is deemed not to be at arm's length for any payment or deemed payment of interest.

These rules generally apply to payments made on or after March 19, 2019, subject to temporary grandfathering rules.

BEPS, Country-by-Country Reporting and MLI Update

From a BEPS perspective, the budget indicates that the government continues to work with international stakeholders to improve and update the Canadian international tax system and ensure a coherent and consistent response to cross-border tax avoidance.

Under country-by-country reporting, large multinationals are required to file reports including information regarding the nature of their global business activities and global allocation of income and taxes. The first exchange of these reports between the CRA and other tax authorities occurred in 2018. Canada is participating in the OECD review of the standard for these reports to ensure that tax administrators are provided with information for the assessment of transfer pricing and other BEPS risk. The review is scheduled to be completed in 2020.

In the budget, Canada does not indicate any further withdrawal of reservations in the MLI, but notes that Canada is taking necessary steps to enact the MLI into Canadian law and to ratify the MLI, as needed, to bring it into force.

Indirect Tax Changes

GST/HST health measures

The budget extends GST/HST relief to certain biologicals, medical devices and health care services. In particular, the budget relieves GST/HST on supplies and imports of human ova and imports of human in vitro embryos. This measure will apply to supplies and imports of human ova made after March 19, 2019, and to imports of human in vitro embryos made after March 19, 2019.

The budget announces that the government intends to review the tax treatment of fertility-related medical expenses under the medical expense tax credit for fairness and consistency, and in light of Health Canada's work in relation to the *Assisted Human Reproduction Act.*

The budget adds licenced podiatrists and chiropodists to the list of practitioners on whose orders supplies of foot care devices are zero-rated, effective for supplies of these items made after March 19, 2019.

The budget exempts the supply of certain multidisciplinary health services from GST/HST. The relief will apply to a service rendered by a team of health professionals, such as doctors, physiotherapists and occupational therapists, whose services are GST/HST-exempt when supplied separately. The exemption will apply, provided that all or substantially all (i.e., generally 90% or more) of the service is rendered by health professionals acting within the scope of their profession. This measure will apply to supplies of multidisciplinary health services made after March 19, 2019.

Cannabis taxation

The budget amends the excise duty framework for cannabis products by imposing excise duty on edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals. As a result, the combined federal-provincial-territorial excise duty rate is $0.01 per milligram of total tetrahydrocannabinol (THC) contained in a final product. The THC-based duty will be imposed on cannabis licensees at the time of a product's packaging, and becomes payable when it is delivered to a non-cannabis licensee (e.g., a provincial wholesaler, retailer or individual consumer). The proposed changes will come into effect on May 1, 2019, subject to transitional rules.

Previously Announced Tax Changes

The budget confirms that Finance intends to proceed with certain previously announced measures, as modified by more recent consultations and deliberations. These measures:

- Provide for the Accelerated Investment Incentive, as announced in the 2018 fall economic statement on November 21, 2018
- Allow taxpayers to immediately write-off the full cost of machinery and equipment used in the manufacturing and processing of goods and the full cost of specified clean energy equipment, as announced in the 2018 fall economic statement
- Extend the 15% mineral exploration tax credit for an additional five years, as announced in the 2018 fall economic statement
- Ensure that business income of communal organizations retains its character when it is allocated to members of the communal organization, as announced in the 2018 fall economic statement
- Change the taxation of cannabis as announced in regulatory proposals released on September 17, 2018
- Change the GST/HST rules as announced in legislative and regulatory proposals released on July 27, 2018
- Support employees who must reimburse a salary overpayment to their employers due to a system administrative or clerical error, as announced in the 2018 federal budget
- Implement enhanced reporting requirements for certain trusts to provide additional information on an annual basis, as announced in the 2018 federal budget
- Facilitate the conversion of Health and Welfare Trusts to Employee Life and Health Trusts, as announced in the 2018 federal budget
- Change the rules for the GST/HST joint venture election, as announced in the 2016 federal budget
- Expand tax support for electric vehicle charging stations and electrical energy storage equipment, as announced in the 2016 federal budget

- Change the information reporting requirements for certain dispositions of an interest in a life insurance policy, as announced in the 2016 federal budget.

The budget also reaffirms that Finance is committed to move forward with technical amendments as required to improve the certainty of the tax system.

Administrative and Other Changes

Tax compliance

The budget invests an additional $150.8 million over five years, starting in 2019-2020, to combat tax evasion and aggressive tax avoidance. The CRA will hire additional auditors, create a new data quality examination team to ensure proper withholding, remitting and reporting of income earned by non-residents, and will extend programs aimed at combatting offshore non-compliance, among other things. The budget also proposes to invest $65.8 million over five years to improve the CRA's information technology systems.

Medical Expense Tax Credit

The budget proposes to amend the *Income Tax Act* to reflect the current regulations for accessing cannabis for medical purposes under the *Cannabis Act*. This measure will apply to expenses incurred on or after October 17, 2018.

Electronic delivery of requirements for information

The budget proposes to allow the CRA to send requirements for information electronically to banks and credit unions by amending the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act*, *2001* and the *Air Travellers Security Charge Act*. The budget proposes similar amendments to Part 1 of the *Greenhouse Gas Pollution Pricing Act*, which is also administered by the CRA.

Beneficial ownership transparency

The budget amends the *Canada Business Corporations Act* to make the beneficial ownership information maintained by federally incorporated corporations more readily available to tax authorities and law enforcement.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's federal budget on your personal finances or business affairs, and point out ways to realize any benefits or ease their impact. We can also keep you abreast of the progress of these proposals as they make their way into law.

---

kpmg.ca

Contact Us | KPMG in Canada Privacy Policy | KPMG On-Line Privacy Policy | Legal