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2014 Budgets Measures That May Affect You Personally (Part 2)

The 2014 Budget season, which usually is a spring event, extended well into the summer in 2014, particularly in Ontario and Quebec. These two provinces, which make up a considerable portion of Canada's population, each saw the election of a majority Liberal government and, with that, the introduction of new and revised budgets. Both budgets were passed into law before the legislatures recessed for the summer.

Highlights of their personal tax changes are listed herewith.

Ontario

Presented: July 14, 2014

Passed: July 24, 2014

Changes to Personal Income Tax Brackets

Effective for 2014 and subsequent taxation years, the enacted Budget proposals created an additional high-income tax bracket, and tax rate, and also lowered the income threshold of the highest-rate tax bracket.

Before the Budget was passed, Ontario had the following tax brackets (in addition to certain applicable surtaxes):

- 5.05% on income up to \$40,120;
- 9.15% on income between \$40,121 and \$80,242;
- 11.16% on income between \$80,243 and \$514,090;
- 13.16% on income in excess of \$514,090.

The enacted Budget measures changed the 2014 tax brackets and rates to the following:

- 5.05% on income up to \$40,120;
- 9.15% on income between \$40,121 and \$80,242;
- 11.16% on income between \$80,243 and \$150,000;
- 12.16% on income between \$150,001 and \$220,000;
- 13.16% on income in excess of \$220,000.

In addition certain surtaxes apply, making the effective top marginal combined federal and provincial tax rate 49.53% effective at income of \$220,000.

The top two tax brackets will not be indexed. As well, the top charitable donation tax credit rate will remain at 11.16%.

These changes to the top two Ontario tax brackets take effect for 2014 and subsequent taxation years.

Dividend Tax Credit and Surtax Calculation Changes

The enacted Budget-based legislative changes will calculate the 2014 surtax before the deduction of the dividend tax credit. This has the effect of increasing the tax rate on dividend income for some taxpayers, particularly those in the higher tax brackets. Dividend tax credit rates will be 4.5% for non-eligible dividends and 10% for eligible dividends for 2014. These changes were first announced in the 2013 Ontario Economic Outlook and Fiscal review.

The top combined tax rate for dividends becomes 33.82% for eligible dividends and 40.13% for non-eligible dividends.

New Tax Credit for Food Donations by Farmers

A new non-refundable tax credit will be introduced, available to farmers who donate food to community food programs such as food banks. The credit will be calculated at 25% of the value of agricultural goods donated. This credit will be available for food donated on or after January 1, 2014.

Ontario Retirement Pension Plan

The Budget contained a proposal for a new mandatory provincially administered public pension plan, the Ontario Retirement Pension Plan ("ORPP"). Under this plan, both employers and employees would each be required to contribute up to 1.9% on annual earnings up to a threshold of \$90,000. Exemptions would be provided for those already participating in comparable workplace pension plans, and for employees earning income below a certain threshold level.

Contribution rates for the ORPP would be phased in over two years. This new provincial plan is intended to supplement and mirror federal Canada Pension Plan (CPP). Further technical details regarding implementation are to be released later this year.

Pooled Registered Pension Plans

The Budget announced that the province intends to introduce pooled registered pension plan legislation in the fall of 2014. The introduction of this legislation follows consultation with stakeholders last year on how to best implement this new form of tax-assisted retirement savings plan. Among the design features of the Ontario framework for these plans will be voluntary participation and contributions by employers, automatic enrolment of employees where an employer elects to offer such a plan, and low cost administration for plan members.

Adoption of 2014 Federal Budget Measures

Ontario will also adopt income measures announced in the 2014 federal Budget relating to the following, effective once federal legislative measures are enacted:

- medical expenses;
- tax changes for farmers and fishers;
- amateur athletic trusts;
- estate donations;
- non-resident trusts;
- pension transfer limits;
- limitations on income shifting to a minor child;
- donations of ecologically sensitive land and certified cultural property; and
- clean energy generation equipment.

For HST purposes, Ontario will also adopt federal GST changes with respect to health-related services and medical devices.

The province is currently reviewing proposed federal tax changes with respect to graduated rate trusts.

Consultations for Northern Ontario Provincial Land Tax Reform

The government also announced that it will undertake consultations with northern municipalities and other stakeholders regarding provincial land tax reform. These consultations will take place in 2014, with a view to making changes for the 2015 taxation year.

Elimination of Hydro Debt Retirement Charge for Residential Users

The Budget announced a proposal to eliminate the Hydro Debt Retirement Charge on electricity bills for residential users, effective after December 31, 2015.

Other items of Interest

Amendments were introduced to the Ontario Child Benefit payments to index both the annual benefit amount and income threshold at which the benefit begins to be reduced, starting in July 2015. In addition, the maximum annual benefit is scheduled to increase to \$1,310 per child beginning in July 2014, as previously announced.

Tobacco tax rates were increased from 12.35 cents to 13.975 cents per cigarette or gram of tobacco, effective May 2, 2014. This rate increase will raise tax on a carton of 200 cigarettes from \$24.70 to \$27.95. The tax rate for cigars will remain unchanged at 56.6% of the taxable selling price.

The Budget also noted that the Ministry of Finance is currently reviewing aggressive tax avoidance structures with respect to land transfer tax.

Quebec

Presented: June 4, 2014

Passed: June 17, 2014

The Quebec Budget presented by the new Liberal government took a number of significant steps in an attempt to cut government spending and balance the budget by fiscal year 2015-2016. Most of the changes were to corporate tax credits, the majority of which were cut by 20%; however, there were a few changes to personal credits as well. The most significant changes are highlighted below.

Subsidized Daycare

The previously announced increase in the rate of subsidized daycare of \$2 a day that was presented in the spring 2014 Budget and scheduled to commence on September 1, 2014, is abolished by this Budget.

The current rate of \$7 per day will however be indexed starting on October 1, 2014, when it will increase to \$7.30 per day, per child, and adjusted annually to the rate of inflation.

Tax Credit for Experienced Workers

As of the 2015 taxation year, the tax credit for experienced workers will be increased so that the credit will apply to the first \$4,000 of income over \$5,000. The credit currently applies to the first \$3,000 of income over \$5,000.

Refundable Tax Credit for Seniors' Activities

A new refundable tax credit of up to \$40 is introduced for seniors age 70 or older who engage in programs to enhance their well-being. This will be available to those taxpayers who have income under \$40,000 per year. The programs that will qualify will be those geared towards physical, artistic, cultural, or recreational activities. Certain program restrictions will apply. Amounts paid for such programs after June 4, 2014 will qualify.

Splitting of Retirement income

The splitting of retirement income currently allowed under the act is amended, so that the splitting will only be allowed between spouses if the person whose income is being split is 65 years of age or over before the end of the taxation year. Prior to this change, certain life annuity payments qualified for the split before the recipient was age 65. This change applies to the 2014 and subsequent taxation years.

Loan program for seniors

The government proposes that with the assistance of financial institutions, it will establish a loan program for seniors to assist them with the payment of property taxes. It is expected that such a loan program will be introduced by the end of 2014.

Harmonization with Tax Measures of the 2014 Federal Budget

Quebec will harmonize with most of the initiatives brought forth by the recent federal Budget (with some exceptions). It proposes to adopt the following personal tax initiatives:

- the addition of certain expenses to the list of expenses eligible for the tax credit for medical expenses;
- the introduction of a tax credit for volunteers participating in search and rescue activities;
- the tax deferral granted to certain farmers located in regions hit by drought, flooding, or excessive moisture;
- changes relating to the property used in the course of carrying on a farming business and a fishing business;
- the inclusion of certain income attributed to a minor by a partnership or a trust for the purposes of calculating tax on split income;
- the elimination of graduated rate taxation for certain trusts and estates;
- the elimination of the 60-month exemption from the residency presumption rules that apply to non-resident trusts and from certain other related rules;
- the extension from five to ten years of the deferral period of gifts of eco-sensitive land made by an individual;
- new rules relating to donations in the context of death; and
- changes to the rules regarding donations of cultural property acquired under a gifting arrangement that is a tax shelter.