



2016 Budget Measures That May Affect Your Business

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Budget tax measures applicable to businesses vary greatly among the provinces and the federal government. Some are trying to reduce the tax burden on businesses while others are seeking to raise tax revenues. Brief summaries of the notable measures from the federal Budget and provincial Budgets are provided below. At the time of writing, Manitoba, Saskatchewan, and the Northwest Territories have yet to table their Budgets.

Federal *Small Business Tax Rate and the Dividend Tax Credit*

Budget 2016 preserves the reduction of the overall tax rate on small business income to 10.5% (i.e., a 17.5% reduction from the overall rate). The previously legislated reductions of 0.5% per year for 2017, 2018, and 2019 have been eliminated. As such, the previously-legislated changes to the dividend tax credit rate and the gross-up factors for non-eligible

dividends have also been eliminated for years after 2016.

Eligible Capital Property

Following up on announcements made in each of the previous two federal Budgets, Budget 2016 proposes to repeal the rules in respect of eligible capital property (“ECP”) and replace them with a new regime that treats these amounts as depreciable capital property subject to the capital cost allowance (“CCA”) rules. Amounts formerly treated as ECP will now be added to new Class 14.1, effective January 1, 2017.

Multiplication of the Small Business Deduction

The Budget proposes new measures aimed at eliminating the use of certain structures to “multiply” the availability of the \$500,000 small business deduction (“SBD”) in certain situations that the government considers inappropriate. Several amendments to the Act have been proposed in order to eliminate the so-called “multiplication” of the SBD in such situations.

Life Insurance Policies

Budget 2016 proposes to calculate the insurance benefit limit consistently, regardless of whether a corporation or partnership is also a policyholder. These measures will apply to policy benefits received after Budget Day and are intended to combat artificial increases in a corporation’s capital dividend account balance.

Alberta

Small Business Tax Rate

Effective January 1, 2017, the small business corporate tax rate will decrease from 3% to 2%. Consequently, the Dividend Tax Credit for non-eligible dividends will be adjusted downwards.

Alberta Investor and Capital Investment Tax Credits

Two new credits are being introduced. The Alberta Investor Tax Credit, worth \$90 million over two years, will benefit investors who invest in eligible small and medium-sized enterprises in Alberta. The Capital Investment Tax Credit, worth \$75 million over two years, will benefit corporations that make investments in eligible capital assets. The government will announce further details on these credits later this year.

Carbon Levy

A carbon levy on fuels consumed for combustion will be introduced on January 1, 2017. It will be phased-in, so smaller levies will apply for 2017 with the full amounts coming into effect on January 1, 2018. This levy will apply to fuels used for transportation and heating purposes (such as propane and natural gas). When first introduced in 2017, the levy will represent a levy of \$20 per tonne of CO₂ emissions which will rise to \$30 per tonne in 2018.

New Brunswick

Harmonized Sales Tax

Effective July 1, 2016, the provincial portion of the HST will increase by 2%, raising the total HST rate to 15%.

General Corporate Tax Rate

The general corporate income tax rate will increase from 12% to 14%, effective April 1, 2016.

Other Measures

- The real property transfer tax increased from 0.5% to 1%, effective April 1, 2016.
- There are two increases to tobacco tax: one coming into effect February 3, 2016 and the other on February 1, 2017.
- The financial corporation capital tax for banks increased from 4% to 5%, effective April 1, 2016.

Newfoundland and Labrador

Sales Tax

The following sales tax increases take effect on July 1, 2016:

- the harmonized sales tax (HST) rate in Newfoundland and Labrador will increase from 13% to 15%;
- the retail sales tax on used vehicles will also increase from 14% to 15%; and
- the 15% retail sales tax on insurance premiums, which was eliminated in 2008, will be re-introduced.

Corporate Tax Rates

Effective January 1, 2016, the following corporate income tax rate increases apply:

- the general corporate tax rate increased from 14% to 15%; and
- the manufacturing and processing profits tax credit, which reduced the effective rate on M&P profits to 5%, is eliminated.

Other Measures

- Increases to the gasoline, tobacco, financial corporations, and insurance companies taxes were introduced.
- A total of 50 new fees for government services were introduced, and further increases were made to approximately 300 existing fees.

Nova Scotia

Food Bank Tax Credit for Farmers

The Budget introduced a new income tax credit for farmers who donate agricultural products to a registered charity that provides food to families in need. Effective January 1, 2016, the non-refundable credit will be calculated as 25% of the fair market value of the donated products and will be available to both individual farmers and corporations that carry on a farming business.

Tobacco Tax

Tobacco tax rates were increased on April 20, 2016.

Prince Edward Island

The PEI Budget contained no corporate income tax changes.

Sales Tax

The HST rate will increase from 14% to 15%, effective October 1, 2016.

British Columbia

Tax Credits

- Effective February 17, 2016, the new farmers' food donation tax credit was introduced. It allows farmers (individuals and corporations) to claim a credit of 25% on the fair market value of qualifying agricultural products donated to registered charities.
- The BC mining flow-through share tax credit is extended to the end of 2016.
- The BC mining exploration tax credit is extended for three more years to the end of 2019.
- The regional and distant location tax credits for animation productions are clarified to ensure that the credits are based on the amount of eligible labour expenditures incurred in the regional or distant location areas.
- Due to the rising cost of providing film and television tax credits, the government intends to limit the growth of the credits over the coming years.

Other Measures

- Effective February 17, 2016, telescopic handlers, skid steers, and polycarbonate greenhouse panels purchased by qualifying farmers solely for the use of a farming purpose are exempt from provincial sales tax.
- The annual Budget for the small business venture capital tax credit is increased by \$5 million beginning in 2016.
- Effective February 17, 2016, the following property transfer measures apply:
 - the property transfer tax rate is increased from 2% to 3% on the portion of the property's fair market value that exceeds \$2 million;
 - an exemption from property transfer tax is introduced for newly constructed homes used as a principal residence with a fair market value up to \$750,000; and;

- disclosure of citizenship is required on the registration of a taxable transaction.

The Ontario Resource Tax Credit will be harmonized with those of the other Canadian jurisdictions.

Ontario

Dividend Tax Credit and Gross-up

In correspondence with the federal government's change to the small business deduction (see federal changes above), the Ontario government will be reviewing the dividend tax credit rate applicable to 2017 and subsequent years.

Tax on Split Income

Ontario will be paralleling the federal tax rule of applying the top marginal tax rate to income split with related children ("the kiddie tax"). Thus, beginning January 1, 2016, split income will be taxed at the top marginal rate of 20.53% (with no applicable surtax).

Research and Development Credits

Several of the research and development tax credit programs in Ontario were under review as a result of business spending on R&D in Ontario declining while government support was significant. As a result, the following changes were announced by the Budget:

- the rate for the non-refundable Ontario Research and Development Tax Credit is decreasing from 4.5% to 3.5%; and
- the rate for the refundable Ontario Innovation Tax Credit is decreasing from 10% to 8%.

These changes apply to R&D expenditures incurred in taxation years that end on or after June 1, 2016; the reductions will be prorated for taxation years that straddle June 1, 2016.

Cap-and-Trade Plan

Further details of Ontario's Cap-and-Trade Plan were announced in the Budget. The program will come into effect on January 1, 2017 and will place a cap on greenhouse gas emissions by free allocations to the industry plus the auctioning of further allowances. Emitters must hold an allowance to cover their emissions, and therefore may be required to buy further allowances in the carbon market. The cap will decline each year through to 2020.

Other Measures

- The government is exploring ways to improve the effectiveness of the Apprenticeship Training Tax Credit.
- Consultations will be held with respect to strengthening Ontario's property tax and assessment system.
- Tobacco tax rates will increase based on inflation over the next five years beginning in 2017.
- To harmonize the sales tax rates on wine, beer, and spirits, the mark-up for wine products will be gradually increased over the next 3 years.

Quebec

The Quebec Budget introduced numerous business tax measures.

General Business Measures

- The Health Services Fund contribution rate will gradually decrease from 1.6% to 1.45% over a five-year period commencing in 2017 for eligible employers in the primary and manufacturing sectors.
- The Health Services Fund contribution rate will gradually decrease from 2.7% to 2% over a five-year period commencing in 2017 for eligible employers in sectors other than the primary and manufacturing sectors.
- The previous SBD criterion of having more than 3 full time employees has now been changed to a minimum of 5,500 hours worked per year.
- New easing rules were introduced for a non-arm's length transfer of a qualified family business in the primary and manufacturing sectors that occur after March 17, 2016.

Manufacturing and Innovation

- A new deduction for qualifying innovative manufacturing corporations enabling them to reduce their tax rate to 4% for income generated after December 31, 2016 from a qualified patent obtained in Québec.

- The tax credit for the integration of information technologies has been enhanced to include SMB corporations operating in the wholesale and retail sectors.
- A temporary refundable tax credit to support the implementation and maintenance of major digital transformation projects in Québec, the credit is calculated at 24% of eligible salaries paid to a maximum of \$20,000 per employee annually.

Film and Television Measures

- Amendments were made to the sectoral parameters of the refundable tax credit for Quebec film and television productions, and consequential amendments were also made to the refundable tax credit for film dubbing and for film production services.
- Financial assistance received from Québec City's Soutien à la production cinématographique et télévisuelle program as of January 1, 2015 will constitute an excluded amount of assistance for the purposes of the refundable tax credit for Québec film and television production.
- Financial assistance received from the Society for the Celebration of Montréal's 375th Anniversary as of January 1, 2012 will constitute an excluded amount of assistance for the purposes of film and production tax credits in the cultural sector.

Other Measures

- Amendments to the tax treatment of contributions made for political purposes will be made to stipulate that they will not be deductible in calculating a taxpayer's business or property income.
- The eligible amount of a donation of food products made to an eligible donee after March 17, 2016 by a taxpayer carrying on a food processing business may be raised by 50%.

Yukon

The Yukon Budget contained no corporate tax changes.

Nunavut

The Nunavut Budget contained no corporate tax rate changes.