

is pleased to provide you with this commentary and analysis of the 2014 Federal Budget.

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## Budget Overview

The federal budget delivered February 11 by Finance Minister Jim Flaherty did little to take attention away from the Olympics and Canada's stellar early performance.

As expected, the government is on track to return to a balanced budget in 2015 and is forecasting a surplus of \$6.4 billion in 2015-16. Over the medium term, the surplus is projected to continue on a slow but steady upward path to reach \$8.1 billion by 2016-17.

Restraint on direct program spending is the key to achieving a balanced budget. As 2014 brings in new rounds of collective bargaining between the government and the federal public service, Budget 2014 signals the government will review disability and sick leave for federal public servants. It will also move toward 50-50 cost sharing of the public service health care plan for retirees.

Budget 2014 proposes small, targeted funding initiatives, including new programs to support apprenticeship training

and funding for persons with disabilities. The government also proposes to launch in 2014 the Canada Job Grant, a centrepiece of Mr. Flaherty's budget last year. The program suffered from lack of provincial buy-in, but the government has indicated that it will deliver the program directly with businesses where necessary starting April 1, 2014.

Proud of its well-deserved record of reducing red tape and the tax compliance burden, the budget proposes new actions that will be welcomed by small and medium sized businesses. These include reducing the frequency of required payments and increasing the threshold of average monthly withholdings, which employers are required to remit on a regular basis.

The government is signaling that tax simplification is important by launching consultations on the unnecessary complexity of eligible capital property rules; eliminating the requirements for individuals to apply for the GST/HST credit; and modernizing its technology to permit electronic filing

(continued on page 2)

(Canadian \$ in millions)

|                                  | Gross amount |           | Specific allowance |      | General allowance |       | Net amount |           |
|----------------------------------|--------------|-----------|--------------------|------|-------------------|-------|------------|-----------|
|                                  | 2011         | 2010      | 2011               | 2010 | 2011              | 2010  | 2011       | 2010      |
| Residential mortgages            | \$ 53,256    | \$ 64,025 | \$ 16              | \$ 3 | \$ 16             | \$ 26 | \$ 535,005 | \$ 64,589 |
| Credit card, consumer instalment | 38,952       | 35,065    | 2                  | 3    | 330               | 356   | 38,652     | 34,709    |

(continued from page 1)

by charities. Finally, the Minister commits to introducing legislation to require the annual tabling in Parliament of a list of the government's outstanding tax measures. This proposal was brought forward by MP Mike Allen, FCGA, to introduce greater transparency in the process to update tax legislation.

The government continues to provide leadership in strengthening the economic union with the proposal to develop a tool to identify measures that currently restrict

trade, to assist all jurisdictions in identifying priority areas for reforms.

Finally, expect more Canadian products to be stamped "Made in Canada" as the government will work with the private sector to develop a branding campaign.

Here are more details provided to you by CGA-Canada's lock-up team:



## Tax Highlights

### Simplifying the Tax Compliance Burden

- **GST/HST Credit:** Canada Revenue Agency (CRA) to automatically determine if an individual is eligible to receive the credit without requiring the individual to apply on the annual income tax return
- **Filing Registration and Annual Information Returns for Charities:** CRA committed to modernizing its information technology to permit filing electronically
- **Remittance Thresholds for Employers:** Reduce the frequency of remittance of source deductions by increasing the threshold levels to \$25,000 for employers required to remit up to two times per month and to \$100,000 for employers required to remit up to four times per month

- **Eligible Capital Property:** In order to reduce complexity, public consultations to be commenced to examine the proposal to replace the current eligible capital property regime with a new class of depreciable property to which CCA rules would apply

### Personal Income Tax Measures

- **Adoption Expense Tax Credit:** Limits for eligible expenses increased to \$15,000 for 2014 and indexed to inflation after 2014 from the current \$11,774
- **Medical Expense Tax Credit:** Amounts paid for the design of an individualized therapy plan for individuals with a severe and prolonged mental or physical impairment to be eligible when certain conditions are met

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- Search and Rescue Volunteers Tax Credit: A new 15% non-refundable tax credit based on an amount of \$3,000; individuals who are eligible for both this credit and the Volunteer Firefighters Tax Credit can claim either credit
- Mineral Exploration Tax Credit for flow-through share investors: Eligibility extended by one year to March 31, 2015
- Farming and Fishing Businesses: Tax rules providing a \$800,000 Lifetime Capital Gains Exemption adjusted for individuals involved in a combination of farming and fishing for 2014 and subsequent years by treating this the same as separate farming and fishing
- Tax Deferral for Farmers: Tax deferral relating to the sales proceeds of breeding livestock expanded to include bees and horses over 12 months of age and kept for breeding
- Tax on Split Income: The income considered to be "split income" paid to minors on which the highest marginal tax rate is applied expanded to include trust or partnership income paid or allocated to a minor
- Trusts
  - Amateur Athlete Trusts: Earned income used to determine the RRSP contribution limit to include contributions made to the trust after 2013; option available to have contributions made in 2011, 2012 and 2013 qualify as earned income
  - Graduated Rate Taxation of Trusts and Estates: Starting in 2016, a flat top-rate taxation to grandfathered inter vivos and testamentary trusts (other than estates for their first 36 months); graduated rates will continue for beneficiaries who are eligible for the federal Disability Tax Credit
  - Non-Resident Trusts: Eliminate the current 60-month exemption from the deemed residence rules

## Charities and Non-Profit Organizations

- Donations of Ecologically Sensitive Land: Carry-forward period for amounts not claimed for a year to be extended to 10 years from the current five years (for donations made after Budget Day)
- Estate Donations: Donations made by will and designated donations upon death after 2015 may be allocated among any of the following: the taxation year of the estate in which the donation is made, an earlier taxation year of the estate, or the last two years of the individual
- Donations of Certified Cultural Property: Value of the gift to be no more than its cost to the donor for property acquired as part of a tax shelter gifting arrangement
- Donations from State Supporters of Terrorism: Charities or Canadian amateur athletic associations that accept such donations may not be registered or may have their registration revoked

## Business Income Tax Measures

- Tax Incentives for Clean Energy Generation: Class 43.2 expanded to include water-current energy equipment and equipment used to gasify eligible waste fuel for property acquired after Budget Day

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## International Taxation

- Consultation of Tax Planning by Multinational Enterprises: Continued consultation with stakeholders to ensure tax fairness and protection of the Canadian tax base including consultation on preventing “treaty shopping”
- Automatic Exchange of Information for Tax Purposes: Subject to confidentiality safeguards, information from Canadian financial institutions on U.S. persons will be transmitted to the IRS by CRA and information on Canadian resident taxpayers from U.S. financial institutions will be transmitted to CRA by the IRS under the Canada–U.S. agreement

## Sales and Excise Tax Measures

- GST/HST exemptions
  - Expand the exemption for training designed to assist individuals with a disability to include the services of designing such training
  - Acupuncturists and naturopathic doctors to be added to the list of health care practitioners whose services to individuals are exempt
  - Add eyewear designed to treat vision defects by electronic means to the list of zero-rated medical and assistive devices
- Tobacco Taxation
  - Increase the rate of excise duty (including duty-free rates) on cigarettes to \$.52575 for each five cigarettes or fraction thereof to \$21.03 per 200 cigarettes; excise duty rates for other tobacco products will also be adjusted; effective after Budget Day
  - In future, excise duty rates to be indexed to the Consumer Price Index and automatically adjusted every five years

- Inventories held at Budget Day: Subject to a per cigarette tax of 2.015 cents for taxpayers holding more than 30,000 cigarettes; inventory tax on cigarettes applied at each inflationary excise tax adjustment (every five years)
- Standardizing Sanctions for False Statements: Provide for the same penalties for false statements in Excise Tax Returns as provided for GST/HST filings

## Other Tax Measures

- Supporting Offshore Oil and Gas Development: Eliminate the 20% Most-Favoured-Nation rate of duty on imported mobile offshore drilling units

(Canadian \$ in millions)

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## CGA-Canada

Founded in 1908, the Certified General Accountants Association of Canada serves Certified General Accountants and students in Canada and nearly 100 countries. CGA-Canada establishes the designation's certification requirements and professional standards, offers professional development, conducts research and advocacy, and represents CGAs nationally and internationally. CGA-Canada is currently working with the Chartered Professional Accountants of Canada (CPA Canada) to integrate operations under the CPA banner. Unification will enhance the influence, relevance and contribution of the Canadian accounting profession both at home and internationally.

[www.cga.org/canada/budget2014](http://www.cga.org/canada/budget2014)

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