

Special Bulletin

Federal Budget 2018

Parliament Hill (Ottawa), Tuesday, February 27, 2018 – Federal Finance Minister Bill Morneau tabled the Trudeau Liberal government’s third budget this afternoon.

This budget summary was prepared from within the official media lock-up in Ottawa by Doug Carroll, head of tax, estate & financial planning with Meridian Credit Union. Our focus is on individual and small business tax, and initiatives targeted at the individual and small business level that may affect financial planning decisions.

With that in mind, this bulletin groups the topics below according to who is most interested and affected, with each of the bulleted items addressed under its own title in the following pages:

Families, workers and individuals

- Parental sharing benefit (5 weeks)
- Canada workers benefit
- Medical expense tax credit
- Registered disability savings plans

Businesses and corporations

- Passive investment income in corporations
- Health and welfare trusts

Trusts and beneficiaries

- Reporting requirements for beneficial interests in trusts

Income tax rates & brackets

- Individual bracket indexing 2017 to 2018
- Combined Federal-Ontario rates and brackets 2018
- Corporate income tax rates 2018

Speak to your Meridian Wealth Professional for perspective on these important issues



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Parental sharing benefit (5 weeks)

Employment insurance parental benefits are currently available to both parents, allowing either parent to take time off work. Either parent may take up to 35 weeks leave, or those 35 weeks may be shared between them.

The new Parental Sharing Benefit will provide additional weeks of “use it or lose it” EI parental benefits when both parents agree to share parental leave. It will be available to eligible two-parent families, including adoptive and same-sex couples, to take at any point following the arrival of their child.

This Benefit will increase the duration of EI parental leave by up to five weeks in cases where the second parent agrees to take a minimum of five weeks of the new maximum combined 40 weeks available using the standard parental option of 55 per cent of earnings for 12 months. Alternatively, where families have opted for extended parental leave at 33 per cent of earnings for 18 months, the second parent would be able to take up to eight weeks of additional parental leave.

The purpose is to encourage greater equality when it comes to child care, improve the distribution of family and home responsibilities, allow a mother to return to work sooner (if desired), and generally lead to more equitable parental leave and equitable hiring practices, reducing conscious and unconscious discrimination by employers.

This incentive is expected to be available starting June 2019.

Canada workers benefit

The Working Income Tax Benefit (WITB) is a refundable tax credit that supplements the earnings of low-income workers. By letting them take home more money while they work, the benefit encourages more people to join and remain in the workforce.

The Budget enhances the amount of benefits available under this program, while renaming it the Canada Workers Benefit (CWB).

For 2019, the amount of the benefit will be equal to 26 per cent of each dollar of earned income in excess of \$3,000. The maximum benefit is \$1,355 for single individuals without dependants and \$2,335 for families (couples and single parents). It will be reduced by 12 per cent of adjusted net income in excess of \$12,820 for single individuals without dependants and \$17,025 for families.

This change will take effect in 2019.

Medical expense tax credit (METC)

The METC may be claimed for qualifying medical expenses in excess of the lesser of \$2,302 (in 2018) and 3% of the individual's net income. The credit currently includes expenses for animals specially trained to assist patients with certain impairments.

The Budget will expand this qualification to animals specially trained to perform tasks for those with a severe mental impairment in order to assist them in coping with their impairment (e.g., a psychiatric service dog trained to assist with post-traumatic stress disorder). Expenses will not be eligible if they are for an animal that provides comfort or emotional support but that has not been specially trained to perform specific tasks.

This measure will apply to eligible expenses incurred after 2017.

Registered disabilities savings plans (RDSP)

Where the capacity of an adult individual to enter into a contract is in doubt, the Income Tax Act requires that the plan holder of the individual's RDSP be the individual's legal representative, as recognized under provincial or territorial law.

Establishing legal guardianship can be an expensive and lengthy process, so a temporary measure was put in place to allow a family member to be a plan holder, but this measure expires at the end of 2018.

The Budget will extend this provision for five years to 2023.

Passive investment income in corporations

In July 2017, the government issued a set of corporate proposals that included significant changes to the treatment of passive/investment income. After the consultation period ended in October, the government stated that the existing rules would continue to apply for income under \$50,000. Further details on the treatment of amounts over \$50,000 was deferred to the present Budget. Two main provisions have been introduced in the Budget.

Limiting access to the small business tax rate

Rather than changing the treatment of passive income directly, the new approach is to gradually reduce access to the small business tax rate for corporations that have significant passive investment income. The small business deduction limit will be reduced by \$5 for every \$1 of investment income above the \$50,000 threshold, such that the business limit would be reduced to zero at \$150,000 of investment income.

Limiting access to refundable taxes

Currently, some of the tax imposed on passive income earned by corporations is partially refundable. This refundable tax is returned to the corporation by a formula when taxable dividends are paid to shareholders. A corporation may have a tax advantage if it pays dividends out of income that was subject to the general corporate rate, that then recovers refundable tax that had been imposed on passive income.

Budget 2018 proposes that CCPCs no longer be able to obtain refunds of taxes paid on investment income while distributing dividends from income taxed at the general corporate rate. Refunds will continue to be available when investment income is paid out.

Both of these measures will apply to taxation years that begin after 2018.

Health and welfare trusts (HWTs)

A HWT is a trust established by an employer for the purpose of providing health and welfare benefits to its employees. Since 1966, the Canada Revenue Agency has issued administrative rules on HWTs. The Employee Life and Health Trust (ELHT) rules were added to the Income Tax Act in 2010, with very similar provisions to the CRA HWT rules.

After 2020, the CRA will cease to apply its administrative rules to HWTs, which will then fall under the ELHT rules. Transitional rules will be introduced for HWTs to convert (or wind-up) to an ELHT; otherwise the HWT will be subject to the normal tax rules for trusts.

The government will accept submissions on the transitional rules until June 29, 2018.

Reporting requirements for trusts

A trust that does not earn income or make distributions in a year is generally not required to file an annual (T3) return, and does not have to disclose beneficiaries even if it does file.

As authorities require this kind of information to adequately determine tax liabilities and to counter aggressive tax avoidance (often related to criminal activity), the Budget will require reporting of the identity of all trustees, beneficiaries, settlors and others who may exert control over the trust. Generally, this will apply to express trusts (where the settlor's intentions are usually in writing) that are resident in Canada and to non-resident trusts that are currently required to file a T3 return.

Exceptions will apply mutual fund trusts, registered plans, lawyers' general trust accounts, graduated rate estates, and qualifying disability trusts, charities and non-profits.

This reporting must be included for tax returns required to be filed for the 2021 taxation year and later.

Individual bracket indexing 2017 to 2018

There were no changes to personal income tax rates. Personal brackets were indexed by 1.5% over their 2017 levels.

2017 from	Tax rate	2018 from
\$11,635	15.0%	\$11,809
\$45,916	20.5%	\$46,605
\$91,831	26.0%	\$93,208
\$142,353	29.0%	\$144,489
\$202,800	33.0%	\$205,842

Combined Federal-Ontario rates and brackets 2018

Here are the combined Federal-Ontario rates and brackets for 2018. (Note that Ontario has yet to table its 2018 budget, and that there will be a provincial election in the spring, so these figures are subject to change.)

2018 from	Tax rate	2018 from	Tax rate
\$10,354	5.1%	\$89,133	37.9%
\$11,809	20.1%	\$93,208	43.4%
\$42,960	24.2%	\$144,489	46.4%
\$46,605	29.7%	\$150,000	48.0%
\$75,653	31.5%	\$205,842	52.0%
\$85,923	33.9%	\$220,000	53.5%

Corporate income tax rates 2018

The general corporate rate is unchanged at 15% for 2018. Together with the 11.5% Ontario rate, the combined rate for 2018 remains 26.5%.

As announced in October 2017, the small business rate is reduced from 10.5% to 10%. With Ontario small business rate being reduced from 4.5% to 3.5%, the combined rate is 13.5% for 2018, down from 15% in 2017. The federal rate is slated to drop to 9% in 2019.