

Federal Budget 2019

Parliament Hill (Ottawa), Tuesday, March 19, 2019 – Federal Finance Minister Bill Morneau tabled the Trudeau Liberal government's fourth budget this afternoon, ahead of the election slated for this fall.

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, Canada's third largest 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.

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:



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

An affordable place to call home

The Budget begins by stating that many Canadians are challenged to obtain affordable housing. Broad measures are intended to boost supply in housing and rental markets and increase fairness in the real estate sector.

At the personal level, the Budget proposes both new and modified approaches to make housing more affordable today by reducing barriers to homeownership for first-time home buyers.

First-Time Home Buyer Incentive

The CMHC First-Time Home Buyer Incentive is a shared equity mortgage that would give eligible first-time home buyers the ability to lower their borrowing costs by sharing the cost of buying a home with CMHC. The Incentive would provide funding of 5 or 10 per cent of the home purchase price. No ongoing monthly payments are required. The buyer would repay the Incentive, for example at re-sale.

For example, if a borrower purchases a \$400,000 home with a 5 per cent down payment and a 5 per cent CMHC shared equity mortgage (\$20,000), the size of the borrower's insured mortgage would be reduced from \$380,000 to \$360,000, helping to lower the borrower's monthly mortgage bill. This would make it easier for Canadians to buy homes they can afford.

Budget 2019 proposes to establish a fund to be administered by CMHC that would provide up to \$100 million in lending to shared equity mortgage providers over a five-year period, starting in 2019–20.

Modernizing the Home Buyers' Plan

The Home Buyers' Plan (HBP) allows first-time home buyers to withdraw up to \$25,000 from their Registered Retirement Savings Plan (RRSP) to purchase or build a home, without having to pay tax on the withdrawal. Withdrawn amounts must be repaid within 15 years following the purchase.

To provide first-time home buyers with greater access to their RRSP savings to purchase or build a home, Budget 2019 proposes to increase the Home Buyers' Plan withdrawal limit to \$35,000. This would be available for withdrawals made after March 19, 2019.

Investing in workers

Canada Training Credit

This new, non-taxable credit could be applied against up to half the cost for training fees at colleges, universities, and eligible institutions providing occupational skills training.

Every year, eligible workers between the ages of 25 and 64 would accumulate a credit balance of \$250 per year, up to a lifetime limit of \$5,000. It would be available to workers with earnings of at least \$10,000 (including maternity and parental benefits) and income less than around \$150,000 a year (\$147,667 in the 2019 tax year).

It could be applied on programs starting in 2020, to be claimed as a refund when they file their tax return.

EI Training Support Benefit

This new benefit—expected to be launched in late 2020—would be available through the EI program and would provide up to four weeks of income support every four years. This income support—paid at 55 per cent of a person’s average weekly earnings—would help workers cover their living expenses, providing support for ongoing payments such as mortgage payments, electricity bills, and general life costs, while on training and without their regular paycheque.

It would provide workers with the flexibility to train when it works best for them, within a four-year period (for example, taking three weeks of paid leave in the first year, and the final week in the last year).

Leave Provisions

Recognizing that many workers cannot afford to risk their employment while they pursue training, the Government proposes to consult with provinces and territories on changes to labour legislation to support new leave provisions. The purpose would be to ensure that workers are entitled to leave and job protection while they are on training and receiving the EI Training Support Benefit.

Making Canada Student Loans more affordable

The 2016 Budget introduced changes so that no student has to repay their Canada Student Loans until they are earning at least \$25,000 per year. Budget 2019 builds on those changes by lowering interest rates, extending the interest-free grace period and allowing more accessibility.

Lower Interest Rates

For Canada Student Loans and Canada Apprentice Loans, Budget 2019 proposes to lower the floating interest rate—the rate chosen by approximately 99 per cent of Canada Student Loans borrowers—to prime, from its current rate of prime plus 2.5 percentage points, starting in 2019–20.

For fixed interest loans, the rate is to be lowered to prime plus 2.0 percentage points, from its current rate of prime plus 5.0 percentage points, starting in 2019–20.

New Interest-Free Grace Period

In addition, Budget 2019 proposes to amend the Canada Student Financial Assistance Act, so that student loans will not accumulate any interest during the six-month non-repayment period (the “grace period”) after a student loan borrower leaves school.

Making Canada Student Loans More Accessible

For student borrowers with disabilities, the Budget will increase the cap on the Canada Student Grant for Services and Equipment for Students with Permanent Disabilities from \$8,000 to \$20,000 per year.

Eligibility for the Severe Permanent Disability Benefit will be expanded so that more student borrowers with severe permanent disabilities can qualify for loan forgiveness.

And to allow students with permanent disabilities to return to school after a long absence, borrowers using the Repayment Assistance Plan for Borrowers with a Permanent Disability will no longer be barred from further loans and grants until their outstanding loans are paid in full, starting in 2020–21.

Registered disability savings plan

To ensure that the RDSP continues to respond to the needs of Canadians with disabilities, Budget 2019 proposes two changes that will better protect the long-term savings of persons with disabilities.

Cessation of Eligibility for the Disability Tax Credit

To open an RDSP, an individual must be eligible for the Disability Tax Credit (DTC). When a beneficiary no longer qualifies for the DTC, the RDSP rules can require that the plan be closed, and grants and bonds be repaid to the Government of Canada.

To address concerns that this treatment does not appropriately recognize the financial impact that periods of severe but episodic disability can have on individuals, Budget 2019 proposes to eliminate the requirement to close an RDSP when a beneficiary no longer qualifies for the DTC. Doing so will allow grants and bonds otherwise required to be repaid to the Government to remain in the RDSP. To ensure fairness for DTC-eligible beneficiaries, some restrictions on access to these amounts will apply.

The estimated cost of this measure is \$109 million over five years, beginning in 2019–20, and \$33 million per year ongoing.

RDSPs in bankruptcy

Unlike RRSPs, amounts held in RDSPs are not exempt from seizure by creditors in bankruptcy. To level the playing field, Budget 2019 also proposes to exempt RDSPs from seizure in bankruptcy with the exception of contributions made in the 12 months before the filing.

Additional Types of Annuities Under Registered Plans

Advanced Life Deferred Annuities

The tax rules generally require an annuity purchased with registered funds to commence by the end of the year in which the annuitant attains 71 years of age.

An advanced life deferred annuity (ALDA) will be allowed for purchase in certain registered plans: RRSP, RRIF, DPSP, PRPP and RPP.

An ALDA will be a life annuity the commencement of which may be deferred until the end of the year in which the annuitant attains 85 years of age. However, the value of an ALDA will not be included for the purpose of calculating minimum withdrawals in a year from a RRIF, a PRPP member's account or a defined contribution RPP member's account, after the year in which the ALDA is purchased.

An individual will be subject to a lifetime ALDA limit equal to 25 per cent of a specified amount in relation to a particular qualifying plan. The specified amount will equal the sum of:

- the value of all property (other than most annuities, including ALDAs) held in the qualifying plan as at the end of the previous year; and
- any amounts from the qualifying plan used to purchase ALDAs in previous years.

In practice, this limit will apply only when an ALDA is purchased or when an additional amount is added to an existing ALDA contract.

An individual will also be subject to a comprehensive lifetime ALDA dollar limit of \$150,000 from all qualifying plans. The lifetime ALDA dollar limit will be indexed to inflation for taxation years after 2020, rounded to the nearest \$10,000.

Further details of this measure will be released before the summer of 2019.

A secure retirement

For low-income seniors – Guaranteed income supplement & Allowance

Budget 2019 proposes to introduce legislation that would enhance the GIS earnings exemption beginning with the July 2020 to July 2021 benefit year.

First, eligibility for the earnings exemption will be extended to self-employment income.

Second, a full or partial exemption will be provided on up to \$15,000 of annual employment and self-employment income for each GIS or Allowance recipient as well as their spouse, specifically by:

- Increasing the amount of the full exemption from \$3,500 to \$5,000 per year for each GIS or Allowance recipient as well as their spouse;
- Introducing a partial exemption of 50 per cent, to apply to up to \$10,000 of annual employment and self-employment income beyond the initial \$5,000 for each GIS or Allowance recipient as well as their spouse.

Notice of CPP eligibility at age 70

The standard age to receive Canada Pension Plan retirement benefits is 65 but some people may choose to delay the start of their pension benefits until age 70. For those who defer their start date, this provides a permanent increase in their pension amount.

However, some people are currently missing out on receiving their CPP benefit because they applied for the benefit late, or not at all. Typically, these are people who spent less time in the workforce during their working lives, which also means they are more likely to have low incomes in retirement.

To ensure that all Canadian workers receive the full value of the benefits to which they contributed, the Government proposes to introduce legislative amendments to proactively enroll Canada Pension Plan contributors who are age 70 or older in 2020 but have not yet applied to receive their retirement benefit.

Protecting Canadians' pensions

In recent years, concerns have been raised about the security of some workplace pensions when the employer goes bankrupt.

Budget 2019 proposes new measures that will make insolvency proceedings fairer, more transparent and more accessible for pensioners and workers. The proposed pension measures will clarify in federal pension law that if a plan is wound-up, it must still provide the same pension benefits as when it was ongoing. In addition, allowing defined benefit plans to fully transfer the responsibility to provide pensions to a regulated life insurance company through the purchase of annuities will improve plan sustainability and better protect retirees' pensions from the risk of employer insolvency.

Pensionable Service Under an Individual Pension Plan

When an individual terminates membership in a defined benefit registered pension plan, the income tax rules allow for a tax-deferred transfer of all or a portion of the commuted value of the member's accrued benefits in one of two ways:

- 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 per cent of the member's commuted value), a transfer of a portion of the commuted value to the member's registered retirement savings plan or similar registered plan.

Planning is being undertaken that seeks to circumvent these prescribed transfer limits, where the member establishes an IPP sponsored by a newly incorporated private corporation controlled by that individual. The individual then transfers the commuted value to the new IPP, obtaining a 100-per-cent transfer of assets to the new IPP instead of the restricted transfer of assets to the individual's registered retirement savings plan.

To prevent this planning, Budget 2019 proposes to prohibit IPPs from providing retirement benefits in respect of past years of employment that were pensionable service under a defined benefit plan of an employer other than the IPP's participating employer (or its predecessor employer). Any assets transferred from a former employer's defined benefit plan to an IPP that relate to benefits provided in respect of prohibited service will be considered to be a non-qualifying transfer that is required to be included in the income of the member for income tax purposes.

This measure applies to pensionable service credited under an IPP on or after Budget Day.

Stock options

Budget 2019 announces the Government's intent to limit the use of the current employee stock option tax regime and move toward aligning the tax treatment with the United States for employees of large, long-established, mature firms.

Specifically, the Government will move toward aligning Canada's employee stock option tax treatment with that of the United States by applying a \$200,000 annual cap on employee stock option grants (based on the fair market value of the underlying shares) that may receive tax-preferred treatment for employees of large, long-established, mature firms. Under this approach, the vast majority of employees of these firms that may receive employee stock option benefits would be unaffected.

For start-ups and rapidly growing Canadian businesses, employee stock option benefits would remain uncapped. In this manner, start-ups and emerging Canadian businesses will be protected and maintain the ability to use employee stock options as an effective tool to attract and reward employees and accelerate their growth.

Mutual Funds: Allocation to Redeemers Methodology

Mutual fund trusts have access to a capital gains refund mechanism, which is intended to address the potential for double taxation of capital gains, both to the mutual fund trust and a unitholder. This mechanism provides a refund to the mutual fund trust in respect of tax that it has paid on its capital gains attributable to redeeming unitholders.

Deferral

Certain mutual fund trusts have been using the allocation to redeemers' methodology to allocate capital gains to redeeming unitholders in excess of the capital gains that would otherwise have been realized by these unitholders on the redemption of their units.

Among the implications of the series of steps used in this practice, some of the otherwise realized capital gain ends up as an unrealized capital gain for the remaining unitholders. The government sees this as an inappropriate deferral of the taxation of the excess amount for these remaining unitholders.

Budget 2019 proposes to introduce a new rule that would deny a mutual fund trust a deduction for that excess amount that otherwise leads to the unintended deferral.

This measure will apply to taxation years of mutual fund trusts that begin on or after Budget Day.

Character Conversion

Certain mutual fund trusts have also been using this methodology in a way that allows the mutual fund trust to convert the returns on an investment that would have the character of ordinary income to capital gains for their remaining unitholders. This is made possible when the redeeming unitholders hold their units on income account but other unitholders hold their units on capital account.

Budget 2019 proposes to introduce a new rule that will deny a mutual fund trust a deduction in respect of an allocation made to a unitholder on a redemption that otherwise achieves this result.

This measure will apply to taxation years of mutual fund trusts that begin on or after Budget Day.

Change in Use Rules for Multi-Unit Residential Properties

The Income Tax Act deems a taxpayer to have disposed of, and reacquired, a property when the taxpayer converts the property from an income-producing use to a personal use or vice versa. Where the use of an entire property is changed, the taxpayer may elect that this deemed disposition not apply, such that there is a deferral of the realization of any accrued capital gain until it is realized on a future disposition.

Where the change is to or from a principal residence, up to four years before or after may still be able to be claimed under the principal residence exemption.

The deemed disposition applies when use of part of a property is changed, which would apply to duplexes and other multi-unit properties. In such cases however, the owner/taxpayer cannot elect out of the deemed disposition.

Or consistency with single unit residences, Budget 2019 will allow owners of multi-unit properties to make the same election, effective for changes of use occurring on or after Budget Day.

Income tax rates & brackets

Individual bracket indexing 2018 to 2019

There were no changes to personal income tax rates. Personal brackets were indexed by 2.2% over their 2018 levels.

2018 from	Tax rate	2019 from
\$11,809	15.0%	\$12,069
\$46,605	20.5%	\$47,630
\$93,208	26.0%	\$95,259
\$144,489	29.0%	\$147,667
\$205,842	33.0%	\$210,371

Combined Federal-Ontario rates and brackets 2019

Here are the combined Federal-Ontario rates and brackets for 2019. (Note that Ontario has yet to table its 2019 budget.)

2019 from	Tax rate	2019 from	Tax rate
\$10,582	5.1%	\$91,098	37.9%
\$12,069	20.1%	\$95,259	43.4%
\$43,906	24.2%	\$147,667	46.4%
\$47,630	29.7%	\$150,000	48.0%
\$77,317	31.5%	\$210,371	52.0%
\$87,813	33.9%	\$220,000	53.5%

Corporate income tax rates 2019

The general corporate rate is unchanged at 15% for 2019. Together with the 11.5% Ontario rate, the combined rate for 2019 remains 26.5%.

As previously announced, the small business rate is reduced from 10% to 9%. With Ontario small business rate being 3.5%, the combined rate is 12.5% for 2019.