Email: solutions@taxphysicians.com

On March 21, 2013 the Honourable Jim Flaherty, Minister of Finance, presented Canada's Economic Action Plan 2013 to the House of Commons.

The Government's fiscal positions include deficits in the years 2012/2013 ($25.9 billion), 2013/2014 ($18.7 billion), 2014/2015 ($6.6 billion), and a surplus in 2015/2016 ($0.8 billion), 2016/2017 ($3.9 billion), and 2017/2018 ($5.1 billion).

The Federal Government notes that:

- $920 million over five years will be provided to renew the Federal Economic Development Agency for Southern Ontario.
- The Lifetime Capital Gains Exemption (LCGE) will be increased by $50,000, up to $800,000 of capital gains realized by an individual. The LCGE will be indexed to inflation for tax years after 2014.
- $300 million will be allocated to the Canada Job Grant program for an existing or better job to train Canadians.
- The federal tax rate on non-eligible dividends will increase by approximately 1.6% in 2014.
- Permanent elimination of tariffs on baby clothes and sports and athletic equipment. Golf clubs, skates, skis and exercise equipment are all included. No bicycles though!
- $14 billion will be provided for a new Building Canada Fund to support major economic projects.
- $32.2 billion will be provided for the Community Improvement Fund to build roads, public transit, recreation facilities and other community infrastructure.

	Actual	Projection (in billions of $)					
	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017 - 18
Budgetary revenues	248.8	254.2	263.9	279.6	294.9	308.1	318.9
Program expenses	244.0	251.0	252.9	256.0	262.6	270.4	278.1
Public debt charges	31.0	29.0	29.7	30.2	31.5	33.8	35.7
Total expenses	275.0	280.1	282.6	286.2	294.1	304.2	313.9
Budgetary Balance	(26.2)	(25.9)	(18.7)	(6.6)	0.8	3.9	5.1

Note: Totals may not add due to rounding.

TAX HIGHLIGHTS

A. Personal Income Tax
B. Business Income Tax
C. International Tax
D. Sales and Excise Tax
E. Other Measures
F. Customs Tariff Measures
G. Previously Announced Measures

A. Personal Income Tax

1. Adoption Expense Tax Credit (AETC)

Budget 2013 extends the adoption period for the 15% AETC by treating the time at which the adoption period begins as the earlier of:

- the time that an adoptive parent makes an application to register with a provincial ministry responsible for adoption or with an adoption agency licensed by a provincial government; or
- if an adoption-related application is made to a Canadian court at an earlier time, that earlier time.

This measure will apply to adoptions finalized after 2012.

Federal Budget Commentary 2013

2. First-Time Donor's Super Credit (FDSC)
Budget 2013 proposes a temporary FDSC providing an additional 25-per-cent tax credit for a first-time donor on up to $1,000 of donations.

A first-time donor will be entitled to a 40-per-cent federal credit for donations of $200 or less, and a 54-per-cent federal credit for the remaining portion not exceeding $1,000.

An individual will be considered a first-time donor if neither the individual nor the individual's spouse or common-law partner has claimed a Charitable Donation Tax Credit in any taxation year after 2007.

The FDSC will be available in respect of donations of cash made on or after Budget Day and may be claimed only once in the 2013 through 2017 tax years.

3. Lifetime Capital Gains Exemption (LCGE)
Budget 2013 proposes to increase the LCGE to $800,000 of capital gains realized by an individual on qualified property, effective for the 2014 taxation year.

The LCGE will be indexed to inflation for years after 2014. These new limits also apply to those who have previously used the LCGE.

4. Safety Deposit Boxes (SDB)
Budget 2013 proposes to make the cost to a taxpayer of renting a SDB from a financial institution non-deductible for taxation years that begin on or after Budget Day.

5. Dividend Tax Credit (DTC)
Budget 2013 proposes to adjust the gross-up factor applicable to non-eligible dividends from 25 per cent to 18 per cent and the corresponding DTC from 2/3 of the gross-up amount to 13/18. The effective rate of the DTC in respect of such a dividend will be approximately 11 per cent of the taxable dividend (exactly 13 per cent of the cash dividend).

This measure will apply to non-eligible dividends paid after 2013.

6. Registered Pension Plan: Correcting Contributions Errors
Budget 2013 enables administrators of RPPs to make refunds of contributions to correct reasonable errors without first obtaining approval from the CRA, if the refund is made no later than December 31 of the year following the year in which the inadvertent contribution was made.

This measure will apply in respect of RPP contributions made on or after the later of January 1, 2014 and the day of Royal Assent.

7. Extended Reassessment Period: Tax Shelters and Reportable Transactions
Budget 2013 extends the normal reassessment period, usually three years from the date the tax return is assessed, in respect of a participant in a tax shelter or reportable transaction where a separate information return that is required for the tax shelter or reportable transaction is not filed on time. The normal reassessment period will be extended to three years after the date that the separate information return is filed.

8. Taxes in Dispute and Charitable Donation Tax Shelters
Budget 2013 proposes to allow the CRA to collect 50 per cent of the disputed tax, interest or penalties where an objection has been filed with regards to a disallowance of a deduction or tax credit claimed in respect of a tax shelter that involves a charitable donation. Normally, collection action cannot be taken while amounts are under objection or appeal.
This measure will apply in respect of amounts assessed for the 2013 and subsequent taxation years.

9. Extension of the Mineral Exploration Tax Credit (METC) for Flow-Through Share Investors
Budget 2013 proposes to extend eligibility for the METC for one year, to flow-through share agreements entered into on or before March 31, 2014. Funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the next calendar year.

10. Labour-Sponsored Venture Capital Corporations (LSVCC)
Budget 2013 proposes to phase out the 15% federal LSVCC tax credit. The tax credit will be reduced to 10 per cent for the 2015 taxation year, 5 per cent for the 2016 taxation year, and eliminated for the 2017 taxation year.

11. Anti-Avoidance Provisions
Budget 2013 proposes provisions targeting complex planning arrangements intended to either:
- avoid or defer tax on disposal of property by retaining legal ownership, but transferring benefits and risks of ownership to a third party ("Synthetic Dispositions"); or
- convert investment returns that would be taxed as ordinary income into capital gains ("Character Conversions").

12. Trust Loss Trading
Budget 2013 proposes to extend to trusts the loss-streaming and related rules that currently apply on the acquisition of control of a corporation, including the limited exception allowing the ongoing use of non-capital losses from a business.

A Trust will be subject to a loss restriction event when a person or partnership becomes a majority-interest beneficiary of the Trust or a group becomes a majority-interest group of beneficiaries of the Trust.

This measure, including any relieving changes that may be made as a result of the public consultation, will apply to transactions that occur on or after Budget Day, other than transactions that the parties are obligated to complete pursuant to the terms of an agreement in writing between the parties entered into before Budget Day.

13. Non-Resident Trusts
Budget 2013 proposes to amend the deemed residence rules to apply if a Trust holds property on conditions that grant effective ownership of the property to the Canadian resident from whom it is received. This would apply where property can revert to the taxpayer or the taxpayer has influence over the Trust's dealings in respect of the property.

14. Consultation on Graduated Rate Taxation of Trusts and Estates
Budget 2013 announces the Government's intention to consult on eliminating on graduated rate taxation for: grandfathered *inter vivos* trusts, trusts created by will, and estates. A consultation paper will be publicly released to provide stakeholders with an opportunity to comment on those possible measures.

B. Business Income Tax

1. Manufacturing and Processing Machinery and Equipment:
Budget 2013 proposes to extend the temporary support for investment in machinery and equipment for the manufacturing and processing sector by an additional two years. Manufacturing and processing machinery and equipment that would otherwise be included in Class 43 and that is acquired in 2014 or 2015 will qualify for the 50-per-cent straight-line CCA rate (half that rate in the year the asset is acquired). Such eligible assets will be included in Class 29.

2. Clean Energy Generation Equipment: Accelerated Capital Cost Allowance
Budget 2013 proposes to expand Class 43.2 by making biogas production equipment that uses more types of organic waste eligible for inclusion in Class 43.2. Budget 2013 also proposes to broaden the range of cleaning and upgrading equipment used to treat eligible gases from waste that is eligible for inclusion in Class 43.2.

3. Scientific Research and Experimental Development (SR&ED)
Budget 2013 introduces measures to provide the CRA with new resources and administrative tools to better respond to SR&ED program tax preparers and SR&ED performers who participate in claims where the risk of non-compliance is perceived to be high and eligibility for the SR&ED program unlikely.

In instances where one or more third parties have assisted with the preparation of a claim, the Business Number of each third party will be required, along with details about the billing arrangements including whether contingency fees were used and the amount of the fees payable.

Budget 2013 proposes that a new penalty of $1,000 be imposed in respect of each SR&ED program claim for which the information about SR&ED program tax preparers and billing arrangements is missing, incomplete or inaccurate.

This measure will apply to claims filed on or after the later of January 1, 2014 and the day of Royal Assent.

4. Mining Expenses
Budget 2013 proposes to align the deductions available for expenses in the mining sector with those available in the oil and gas sector.
This includes the phase-out of the accelerated capital cost allowance for tangible assets and the Budget 2011 changes to the deduction rates for intangible expenses.

Budget 2013 proposes that certain pre-production mine development expenses be treated as Canadian Development Expenses (CDE) as opposed to Canadian Exploration Expenses (CEE). The transition from CEE to CDE treatment will be phased in.

This measure will generally apply to expenses incurred on or after Budget Day, but does contain some provisions related to the long time-frames involved.

5. Accelerated Capital Cost Allowance for Mining
The accelerated CCA for mining will be phased out over the 2017 to 2020 calendar years as follows: 2017-90%, 2018- 80%, 2019- 60%, 2020-30%, beyond- 0%.

6. Reserves for Future Services
Budget 2013 proposes that the reserve for future services cannot be used by taxpayers with respect to amounts received for the purpose of funding future reclamation obligations. This measure will generally apply to amounts received on or after Budget Day.

7. Credit Unions
Budget 2013 proposes to phase out the additional deduction for credit unions over five calendar years, beginning in 2013.

8. Leveraged Insured Annuities
A leveraged insured annuity involves the use of borrowed funds in connection with a lifetime annuity and a life

insurance policy, both of which are issued on the life of an individual. Investors in leveraged insured annuities are provided with multiple tax benefits that are not available in relation to comparable investment products.

Budget 2013 proposes to eliminate these unintended tax benefits by introducing rules for "LIA policies". A life insurance policy will be a LIA policy if:

- a person or partnership becomes obligated on or after Budget Day to repay an amount to another person or partnership at a time determined by reference to the death of the individual; and
- an annuity contract, the terms of which provide that payments are to continue for the life of the individual, and the policy are assigned to the lender.

Income accruing in a LIA policy will be subject to annual accrual-based taxation, no deduction will be allowed for any portion of a premium paid on the policy, and the capital dividend account of a private corporation will not be increased by the death benefit received in respect of the policy.

9. 10/8 Arrangements

Budget 2013 proposes to ensure that unintended tax benefits are not available in relation to 10/8 arrangements. In respect of taxation years that end on or after Budget Day, if a life insurance policy, or an investment account under the policy, is assigned as security on a borrowing, and either the interest rate payable on an investment account under the policy is determined by reference to the interest rate payable on the borrowing or the maximum value of an investment account under the policy is determined by reference to the amount of the borrowing, then the following income tax benefits will be denied:

- the deductibility of interest paid or payable;
- the deductibility of a premium that is paid or payable; and
- the increase in the capital dividend account.

Budget 2013 also proposes to alleviate the income tax consequences on a withdrawal, from such a policy, if the withdrawal is made before January 1, 2014.

10. Restricted Farm Losses

Budget 2013 proposes to codify the chief source of income test whereby other income must be subordinate to farming in order for farming losses to be fully deductible against income from those other sources.

Budget 2013 also proposes to increase the RFL limit to $17,500 of deductible farm losses annually, being the first $2,500 loss plus half of the next $30,000.

These measures will apply to taxation years that end on or after Budget Day.

11. Corporate Loss Trading

Budget 2013 proposes to introduce an anti-avoidance rule that will deem there to have been an acquisition of control of a corporation that has loss pools when a person (or group of persons) acquires shares of the corporation that have more than 75 per cent of the fair market value of all the shares without otherwise acquiring control. This is subject to whether it is reasonable to conclude that one of the main reasons that control was not acquired is to avoid the restrictions that would have been imposed on the use of loss pools. Related rules are also proposed.

This measure will apply to a corporation the shares of the capital stock of which are acquired on or after Budget Day unless the shares are acquired as part of a transaction that the parties are obligated to complete pursuant to the terms of an agreement in writing between the parties entered into before Budget Day.

12. Taxation of Corporate Groups

The examination of the taxation of corporate groups is now complete – moving to formal system of corporate group taxation is not a priority at this time.

13. The Canada Job Grant

The Grant will require matching payments from employers as well as provinces and territories. Businesses with a plan to train Canadians for an existing job or a better job will be eligible to apply for a Canada Job Grant. The Grant will provide access to a maximum $5,000 federal contribution per person towards training at eligible training institutions.

The Grant will be for short-duration training, and will include eligible training institutions, including community colleges, career colleges and trade union training centres.

As there are various bodies involved, negotiations must still take place to finalize the detailed design of the Grant. These negotiations with the provinces and territories are expected to take place over the next year.

A 6 page descriptive release is available at www.fin.gc.ca.

14. Extension and Expansion of the Hiring Credit for Small Business

Budget 2013 proposes to expand and extend for one year the temporary Hiring Credit for Small Business. This temporary credit would offset up to $1,000 of the increase in an employer's 2013 Employment Insurance (EI) premiums over those paid in 2012. Only employers with total EI premiums of $15,000 or less in 2012 qualify.

15. CRA Initiatives

- CRA has forged partnerships and working relationships involving six provinces which will use the Business Number. As well, this Spring, Winnipeg will become the first municipality to adopt the Business Number for its programs.
- Is moving towards a "tell us once" approach, so that small businesses will not have to submit the same information several times.
- On January 21, 2013, the "Agent ID" was introduced. Agents now provide businesses with their first name, agent identification number, and a regional suffix.
- Effective April 2013, CRA will make the approval process more timely and responsive for the authorization of a third party. Its service standard will be reduced from 14 working days to 5 days.

C. International Tax

1. International Electronic Funds Transfers

Budget 2013 proposes to require that certain financial intermediaries, such as banks, report international electronic funds transfers (EFTs) of $10,000 or more to the CRA.

This will apply to the same financial intermediaries that are currently required to report international EFTs to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

This is intended to make it more difficult for taxpayers to conceal financial transactions, assets and income from the CRA. The required reporting will begin in 2015.

2. Information Requirements Regarding Unnamed Persons

Tax legislation requires the CRA to obtain judicial authorization (i.e., a court order) before issuing a requirement to a third party to provide information for the purpose of verifying compliance by unnamed persons.

Budget 2013 proposes to require CRA to give notice to the third party when it initially seeks a court order from a judge of the Federal Court. This is intended to reduce delays as the third party often appeals such requirements to the courts once they are issued.

Although this proposal is included under International Tax in Budget 2013, it appears this amendment will apply to all third party requirements.

This measure will apply on Royal Assent to the enacting legislation.

3. Stop International Tax Evasion Program

The CRA will pay rewards to individuals providing information on major international tax non-compliance to the CRA. The CRA will enter into contracts to pay an individual up to 15 per cent of federal tax collected if reassessments exceed $100,000 in federal tax. This will not include penalties, interest and provincial taxes.

Individuals seeking rewards will have to meet program criteria. For example, individuals who have been convicted of the tax evasion about which they offer information will not be eligible for these payments.

4. Extended Reassessment Period: Foreign Property

All Canadians are required to file an annual disclosure form, T1135, where they hold specified foreign assets with a total cost exceeding $100,000. Budget 2013 proposes to extend the normal reassessment period, usually three years from the date their return is assessed, by an additional three years if:

- the taxpayer failed to report income from specified foreign property on their income tax return for the year; and
- the taxpayer either failed to file Form T1135 on time, or property required to be reported was either left off or improperly identified.

This measure will apply commencing with the 2013 taxation year.

5. Revised Form T1135

The disclosure form noted above will also be revised to require taxpayers to provide more detailed information regarding each specified foreign property, including:

- the name of the specific foreign institution or other entity holding funds outside of Canada;
- the specific country to which the property relates; and
- the foreign income generated from the property.

This will add considerable detail to these disclosures, making it more complex to complete. The revised Form T1135 will be required to be used starting in the 2013 taxation year.

6. Foreign Property Reminders:

To assist taxpayers, the Budget indicates that the CRA will:

- for 2013 and later tax years, remind taxpayers, on their Notices of Assessment, of the obligation if their return checks "Yes" to indicate they held specified foreign property in the taxation year with a cost exceeding $100,000;
- clarify filing instructions on Form T1135 for 2013 returns; and
- develop a system that will allow Form T1135 to be filed electronically (no timeline indicated in the budget).

7. Thin Capitalization Rules
Budget 2013 proposes to extend the scope of thin capitalization rules to:

- Canadian-resident trusts; and
- non-resident corporations and trusts that operate in Canada.

These rules restrict deduction of interest paid to specified non-residents.

8. Treaty Shopping
Budget 2013 announces the Government's intention to consult on possible measures that would protect the integrity of Canada's tax treaties while preserving a business tax environment that is conducive to foreign investment. A consultation paper will be publicly released to provide stakeholders with an opportunity to comment on possible measures.

9. Canada – U.S. Information Exchange & FATCA
Budget 2013 confirms the Government is engaged in negotiations with the U.S. for an agreement to enhance information exchange under the Canada – United States Tax Treaty. The agreement would include information exchange provisions in support of the *United States Foreign Account Tax Compliance Act* provisions.
Information exchange would be improved on a reciprocal basis to facilitate tax compliance in both countries.

D. Sales and Excise Tax

1. GST/HST on Home and Personal Care Services
Budget 2013 proposes to expand the GST/HST exemption for homemaker services to exempt publicly subsidized or funded personal care services, such as bathing, feeding, and assistance with dressing and taking medication, rendered to an individual who, due to age, infirmity or disability, requires assistance in his or her home.

This measure will apply to supplies made after Budget Day. While this means providers of such services will not be required to collect GST/HST on their fees, it also means they will not be able to recover GST/HST paid on their expenses.

2. GST/HST on Reports and Services for Non-Health Care Purposes
Budget 2013 proposes GST/HST will apply to reports, examinations and other services that are not performed for the purpose of the protection, maintenance or restoration of the health of a person or for palliative care.
The Budget provides the examples of reports obtained for insurance purposes or to support liability claims in a legal action as services the GST/HST would apply to.

This measure will apply to supplies made after Budget Day.

3. Pension Plan Rules - Election to not Account for GST/HST on Actual Taxable Supplies
Budget 2013 proposes that an employer participating in a registered pension plan be permitted to jointly elect with a pension entity of that pension plan to treat an actual taxable supply by the employer to the pension entity as being for no consideration where the employer accounts for and remits tax on the deemed taxable supply. Once a joint election is made, it would remain in effect until it is jointly revoked.

This measure will apply to supplies made after Budget Day.

4. Pension Plan Rules – Relief from Accounting for Tax on Deemed Taxable Supplies
Budget 2013 proposes that an employer participating in a registered pension plan be permitted to be fully or partially relieved from accounting for tax on deemed taxable supplies where the employer's pension plan-related activities fall below certain thresholds.

Specifically, this relief will apply where the amount of the GST (and the federal component of the HST) was (or would have been, but for this measure) required to account for and remit less than each of the following amounts in the preceding fiscal year:

- $5,000; and
- 10% of the total net GST (and federal portion of HST).

For employers not satisfying the above thresholds, more limited relief would be available in certain circumstances.

This measure will apply in respect of any fiscal year of an employer that begins after Budget Day.

5. GST/HST Business Information Requirement
Budget 2013 proposes that the Minister of National Revenue be given the authority to withhold GST/HST refunds claimed by a business until such time as all the prescribed business identification information (operating name, business activity, contact information, etc.) is provided.

This measure will apply on Royal Assent to the enacting legislation.

E. Other Measures

1. Electronic Suppression of Sales (ESS) Software Sanctions
ESS software has been used by some businesses to hide their sales to evade tax.

Budget 2013 proposes new administrative monetary penalties and criminal offences in respect of GST/HST and Income Tax to combat this type of tax evasion.

New Administrative Penalties

- Use of ESS software - $5,000 on the first infraction and $50,000 on any subsequent infraction.
- Possession or acquisition of ESS software $5,000 on the first infraction and $50,000 on any subsequent infractions.
- Manufacture, development, sale, possession for sale, offer for sale or otherwise making available of ESS software, $10,000 on the first infraction and $100,000 on any subsequent infractions.

New Criminal Offences

Use, possession, acquisition, manufacture, development, sale, possession for sale, offer for sale or otherwise making available of ESS software:

- on summary conviction, a fine of not less than $10,000 and not more than $500,000 or imprisonment for a term of not more than 2 years, or both; or
- on conviction by indictment, a fine of not less than $50,000 and not more than $1,000,000 or imprisonment for a term of not more than 5 years, or both.

2. Beyond the Border Action Plan

Canada will implement the following economic initiatives over the next five years:

- Install border wait-time technology at key ports of entry.
- Implement a single window for companies to electronically submit all the data required by government departments for arriving shipments.
- Enhance the benefits of trusted trader and traveler programs (including Canadian FAST & NEXUS lanes).
- Develop and implement pilot projects to automate small and remote ports of entry, which will increase hours of operation.
- Enhance Canada's capability to share immigration information with the United States.

F. Customs Tariff Measures

1. Baby Clothes and Sport Equipment

Budget 2013 proposes to permanently eliminate all tariffs on baby clothes and sports and athletic equipment (excluding bicycles).

The tariff reductions will be effective in respect of goods imported into Canada on or after April 1, 2013.

2. General Preferential Tariff (GPT) Regime for Developing Countries

The Government will withdraw GPT eligibility from 72 higher-income and export-competitive countries, including all G-20 countries. The economic criteria will be applied every two years.

G. Previously Announced Measures

Budget 2013 confirms the Government's intention to proceed with the following previously announced tax and related measures:

- Changes to certain GST/HST rules relating to financial institutions released on January 28, 2011;
- Automobile expense amounts for 2012 announced on December 29, 2011, and for 2013 announced on December 28, 2012;
- Life insurance policyholder exemption test announced in the March 29, 2012;
- June 8, 2012 legislative proposals relating to caseload management of the Tax Court of Canada;
- July 25, 2012 legislative proposals relating to specified investment flow-through entities, real estate investment trusts and publicly-traded corporations;
- November 27, 2012 legislative proposals relating to income tax rules applicable to Canadian banks with foreign affiliates; and
- December 21, 2012 legislative proposals relating to income tax technical amendments.

Budget 2013 reaffirms the Government's commitment to move forward as required with technical amendments to improve the certainty of the tax system.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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