

Summary of 2013 Federal Budget Proposals

Individuals

Lifetime Capital Gains Exemption (LCGE)

- Proposal to **increase the Lifetime Capital Gains Exemption (LCGE)** by \$50,000 (from \$750,000 to \$800,000) effective for the 2014 tax year

First-Time Donor's Super Credit (FDTC)

- Currently under the income tax rules, an individual can claim a **non-refundable charitable donations tax credit (CDTC)** equal to 15% * the first \$200 of charitable donations + 29% * the portion of the donations that exceeds \$200
- Starting in the 2013 taxation year, the budget proposes to supplement the CDTC by adding another **25% to the CDTC rates for up to \$1,000 of CASH DONATIONS** made by **first-time donors**
- An individual is considered a **first-time donor** if neither the individual nor the individual's spouse or common-law partner has claimed the CDTC or FDTC in any of the five preceding tax years (i.e. an individual will be considered a first-time donor for the 2013 tax year if he or she did not claim the CDTC for any years after 2007)
- The FDTC can be shared between spouses and common-law partners; however, the total amount an individual can claim cannot exceed the \$1000 in cash donations
 - o i.e. suppose a wife made \$1000 in donations and husband made \$400, and assume the couple are considered first-time donors. The wife can only transfer \$600 worth of donations to the husband for FDTC purposes, and must claim the remaining \$400 on her own T1)
 - o the \$1000 claimed by the husband is eligible for the additional 25% supplement
 - o The \$400 claimed by the wife is also eligible for the 25% supplement
- The FDTC supplement will in essence make the first \$200 of cash donations eligible for a credit of 40% (15%+25%) and the remainder 54% (29%+25%)
- The FDTC is available for donations made **on or after March 21, 2013** and can only be used once between the taxation years 2013 to 2017

Dividend Tax Credit for Non-Eligible Dividends

- Proposal to decrease the gross up factor for non-eligible dividends from 25% to 18% and the dividend tax credit (DTC) from $\frac{2}{3}$ *the gross-up amount to $\frac{13}{18}$ *the gross-up amount
- At the highest federal tax bracket, the effective tax on non-eligible dividends will increase from 19.58% to 21.22%

	Before 2013	2013
NE Dividends	100	100
Gross Up	25	18
Grossed-up Dividends	125	118
Top Federal Tax Rate	29%	29%
Federal Tax on Dividends	36.25	34.22
Dividend Tax Credit	(16.67)	(13.00)

Net Tax	19.58	21.22
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Deductibility of Safety Deposit Fees

- Current (before 2013) tax law allows the deductibility of safety deposit fees incurred in order to earn property income (i.e. renting a safety deposit box to safe-keep investment documents)
- The government is arguing that since electronic record keeping has become the norm, taxpayers are likely using safety deposits for personal reasons, rather than for income-earning purposes
- Therefore, the cost of renting safety deposit boxes will no longer be deductible for tax purposes

Adoption Expense Tax Credit

- Currently an adoption expense tax credit can be claimed for a completed adoption of a child under 18 years of age, equivalent to the lower of
 - o 15% * expenditures incurred during the adoption period; or
 - o \$11,669
- The adoption period before this budget is defined as:
 - o A period that begins at the earlier of:
 - The time the adoption file is opened with the provincial or territorial ministry responsible for adoption or a licenced adoption agency; and
 - The time, if any, that an application related to the adoption is made to a Canadian court
 - o And ends at the later of
 - The time an adoption order is issued by, or recognized by, a government in Canada; and
 - The time the child first begins to live permanently with you
- The 2013 budget proposes to change the time in which the adoption period begins to the earlier of:
 - o The time **that an application is made** for registration with a provincial or territorial ministry responsible for adoption or with an adoption agency licensed by a provincial or territorial government; and
 - o The time, if any, that an application related to the adoption is made to a Canadian court
- In essence it is saying that the adoption period can begin as soon as the application is made as opposed to when the adoption file is opened up

All Taxpayers

Accelerated CCA on Manufacturing and processing machinery and equipment

- Manufacturing and processing machinery and equipment acquired after march 18, 2007 and before 2014, primarily for use in Canada to manufacture and process goods for sale or lease qualifies for a CCA rate of 50% on a straight-line basis under class 29. Note that half-year rule will still apply.
 - o This is simply an extension of this accelerated CCA deduction under class 29 by another 2 years from 2012 to 2014

Reserve for Future Services

- Currently under paragraph 20(1)(m) a reserve is allowed for amounts received for services unrendered at year end
- The 2013 budget proposes to amend the income tax act to ensure that a reserve cannot be claimed with respect to amounts received for funding future reclamation obligations
 - For instance if a waste disposal facility charges a fee to its customers in order to cover the future costs of restoring the landfill, it will not be able to deduct such amounts received under 20(1)(m)
 - Other similar charges charged upfront by the taxpayer for future restoration, recovery, reclamation, etc. are not deductible under 20(1)(m)
- This will apply to amounts received after March 20,2013

Corporations

Corporate Loss Trading

- Transactions where the “loss pool” of one corporation is transferred to a profitable corporation are currently being undertaken to reduce income taxes
- One way of doing such transaction is where a profitable corporation transfers income generating assets to an unprofitable corporation in exchange for shares (using the section 85(1) rollover). The profitable corporation will avoid acquiring control of the unprofitable corporation due to restrictions on loss usage imposed under the Acquisition of Control (AOC) rules (i.e. loss expiration and streaming) . This is done by taking back non-voting preferred shares.
- When the income generating assets earn income in the unprofitable corporation, tax can be sheltered by applying loss carryovers(i.e. non-capital and net-capital losses)
- Furthermore, the unprofitable corporation will pay tax-free inter-corporate dividends to the profitable corporation
- To avoid such tax avoidance schemes, the budget proposes that an acquisition of control (AOC) is deemed to occur
 - i. when a corporation acquires shares that represent > 75% of the FMV of all of the shares of a corporation with the loss pool without otherwise acquiring control of the corporation, and
 - ii. where it is reasonable to conclude that one of the main reasons that control was not acquired is to avoid the restrictions imposed by AOC rules; and
 - iii. the shares are acquired after March 20, 2013

Trusts

Graduated Rate Taxation of Trusts and Estates

- Currently, certain trusts such as testamentary trusts and certain inter vivos trusts created before June 18, 1971 calculate tax by applying graduated tax rates applicable to individuals
- The budget is proposing the future release of a public consultation paper on measures to eliminate the tax benefits that arise from graduated tax rates