2016 Federal budget highlights

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The big picture

On March 22, 2016, the Liberal government delivered its first budget. Set against challenging economic conditions with stalling commodity prices and increased market volatility, the government followed through on its promises to increase spending on infrastructure, as well as overhaul the child benefit system. There were also a number of important tax and policy changes that will be of interest to Canadian investors. These follow numerous tax changes that were implemented at the end of 2015.

Major changes to corporate class mutual funds

- Starting October 1, 2016, investors in corporate class funds will no longer be able to switch between funds in the corporation on a tax-deferred basis. Any switches made by investors will be considered a taxable disposition at fair market value (however, this does not apply to switches between series of the same fund).
- This leaves a six-month window of opportunity for investors to re-position their portfolios on a tax-deferred basis. A financial advisor will be able to help investors review their portfolios and make informed investment decisions.
- Fidelity will be closely monitoring this issue, and, as more details emerge, we will provide further information about what this means for our clients.
- While this change eliminates one of the advantages of the corporate class structures, there are still tax benefits for investors, including the likelihood of reduced taxable distributions as well as the ability to receive tax-deferred cash flow through T-SWP®.

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Other items of interest

Key tax measures

- **Cancellation of proposed tax exemption on certain donations** - The government will not proceed with a previously announced income tax exemption on capital gains on certain dispositions of private corporation shares or real estate where the cash proceeds are donated to a registered charity.
- **Small business income tax rate** – Although the Liberals had indicated support for the planned reduction in the small business tax rate from 11% to 9%, the government will not further reduce small business income taxes, with the federal rate staying at 10.5 per cent.
- **Focus on high net worth individuals**
    - The government is proposing to prevent business owners from multiplying access to the $500,000 small business deduction using complex partnerships and corporate structures.
    - Life insurance policies for private corporations – Moving forward, the government will close loopholes that allow private corporations to use a life insurance policy to distribute amounts tax-free that would otherwise be taxable.
- **Sales of linked notes** – Investors in linked notes often sell the notes prior to maturity, thereby converting the return from interest income to capital gains. For linked notes offered after September 2016, returns on a linked note will retain the same tax character (i.e., interest income) whether it is earned at maturity or reflected in a secondary market sale. Note: Fidelity Investments Canada does not participate in these instruments.
- **Bringing back the Labour-Sponsored Venture Capital Corporations (LSVCC) tax credit** – This tax credit will be restored to 15 per cent for share purchases of provincially registered LSVCCs.

Families and seniors

- **Retirement income improvements**
  - Increasing the Guaranteed Income Supplement (GIS) for low-income single seniors.
  - Enhancing the Canada Pension Plan (CPP), with the government's goal to make a collective decision with provinces and territories before the end of 2016.
  - Transitioning the Old Age Security (OAS) benefit uptake back to 65 years old.
  - In recognition that senior couples who live apart for health or other reasons face higher expenses, the government is proposing to increase benefits for these couples.
- **Canada Child Benefit** – The new system is aimed at providing more benefits to lower-and-middle income families. The Canada Child Benefit is tax-free and provides greater benefits for families at lower income levels. It replaces a number of other benefits, effective July 2016.
- **Eliminating income splitting for couples with children starting in the 2016 tax year.**
- **Taking and giving on sports and education** – The government will be eliminating the children's fitness and arts tax credits, as well as the education and textbook tax credits. At the same time it will be enhancing student grants for post-secondary education.

As at March 22, 2016

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