Finance Minister Bill Morneau will deliver the Liberal government’s 2019 federal budget on March 19, 2019. Although the government usually remains tight-lipped about the contents of the budget until it’s released, the budget will likely be developed with an eye on maintaining Canada’s competitive position. In addition, because 2019 is an election year, the government may be considering beneficial tax measures to set the stage for the upcoming federal election campaign. Recommendations included in a pre-budget report prepared by the House of Commons Standing Committee on Finance (Finance Committee) and other recent comments by the Finance Minister may give us some preliminary clues about what the federal budget might contain this year.

This year’s pre-budget report, which was presented to Parliament on December 10, 2018, focuses on Canada’s response to U.S. tax reform changes introduced at the end of 2017. The report also endorses measures related to research and development, to introduce tax credits and to provide the CRA with additional resources. As in previous years, the report also recommends a comprehensive review of the Canadian tax system.

In preparing the 2019 budget, the Finance Department may also look at other findings, such as a recent report by the Office of the Parliamentary Budget Officer (PBO) that highlights the effect of a gradual corporate income tax rate drop, and an earlier Senate Banking, Trade and Commerce Committee report that recommends cutting the corporate tax rate in response to U.S. tax changes. There may also be measures to improve housing affordability, as Finance Minister Morneau has indicated in recent speaking engagements.
help you understand their effect on your personal finances or business affairs, and point out ways to ease their impact or recognize new opportunities. You can now register for our budget highlights webcast planned for late afternoon on budget day. You can also get highlights from our special budget edition of TaxNewsFlash-Canada — expected to be available on budget day from your KPMG adviser and on our website.

### Business tax changes

#### R&D incentives

As in previous pre-budget reports, the Finance Committee again recommends that the government create a first patent program to subsidize the expenses incurred by small and medium-sized businesses obtaining a first patent. In its view, this program should be similar to a recent program launched in Quebec.

### KPMG observations — Quebec patent box legislation

Quebec introduced patent box legislation to support innovation in Quebec’s manufacturing sector in its 2016 provincial budget. The tax measure provides a deduction to a qualifying innovative manufacturing corporation, for a taxation year equal to a portion of the value of a qualified patented feature that is integrated into qualified property that it sells or rents for the year. The legislation is intended to encourage companies to develop the results of R&D work carried out in Quebec that led to the granting of a patent. Saskatchewan has since introduced similar legislation.

#### Intellectual property

The Finance Committee also suggests that the government establish incentives for intellectual property development and commercialization. This may be accomplished by introducing a “commercialization coupon” for researchers receiving government grants and an “innovation box” tax incentive for business revenue derived from commercializing Canadian-issued intellectual property rights.

#### Tax credits for investment in technology

The Finance Committee advocates for a new federal tax credit for investments in technologies that reduce carbon emissions and improve energy performance in buildings.

#### Tax credits to support news organizations

The Finance Minister announced new measures to support Canadian news organizations in the 2018 Fall Economic Update. Specifically, he announced that he would introduce a new refundable tax credit to support labour costs for qualifying Canadian news organizations.
and a new temporary non-refundable tax credit for qualifying subscribers of certain digital news media, among other measures. At the time, the Finance Minister indicated that he would provide additional details on these new credits in its 2019 federal budget. For details, see TaxNewsFlash-Canada 2018-48, “Canadian News Media — Watch for Upcoming Tax Relief.”

**Skills training**

The media is also reporting that the government is considering setting aside some funding to help workers upgrade their skills to meet digital shifts in the job market. As part of this initiative, the budget could include a tax credit for new skills training. The Finance Committee also recommends increased funding for skills development.

**Personal tax changes**

**Home ownership**

Although not discussed in the Finance Committee report, recent comments by Finance Minister Morneau indicate that the government is considering changes to make housing more affordable. While it’s not yet clear what changes Finance may enact, the government’s election platform previously noted that it intended to modernize the existing Home Buyers’ Plan and would consider all policy tools to keep home ownership within reach for more Canadians.

**Other measures**

The Finance Committee suggests that the government consider personal tax measures to:

- Make the Family Caregiver Amount Tax Credit refundable
- Introduce an “energy retrofit” tax credit for Canadians’ homes
- Modify the rules on mandatory Registered Retirement Income Fund withdrawals either by increasing the age at which mandatory withdrawal must occur or providing an optional reduced withdrawal rate
- Lower the clawback rate on Guaranteed Income Supplement and increasing the income exemption threshold
- Allow chiropractors to assess and certify disability and issue the Disability Tax Credit Certificate

The Finance Committee also recommends a comprehensive review of visitors’ rebates for GST/HST subjected to appropriate controls.

**Administrative tax changes**
Addressing compliance issues

The Finance Committee recommends that the CRA should be allowed to compel taxpayers to disclose information to effectively help the CRA address abusive tax avoidance.

It also recommends additional CRA resources and improved mechanisms to deal with compliance issues related to the "personal services business model" used in the trucking industry, in response to industry concerns.

International tax changes

Finance may also look to recent legislative changes made by other countries around the world to address the OECD’s base erosion and profit shifting (BEPS) initiatives, including changes to address hybrid mismatches and limit interest expense, among other measures.

Comprehensive review of the Canadian tax system

The Finance Committee recommends that the government appoint an expert panel to perform a comprehensive review of the Canadian tax system. Specifically, it notes that such a review may help improve the overall competitiveness of Canadian businesses, drive innovation, and reduce the administrative and compliance burden for taxpayers. The Standing Senate Committee on Banking, Trade and Commerce has echoed the need for such a review, alongside other organizations including the Chartered Professional Accountants of Canada and the C.D. Howe Institute. These professional groups have further called on the government to simplify and streamline Canada’s current tax rules.

The Finance Committee also suggests that the government consider an annual review of the tax system, to streamline tax compliance reporting for small businesses and to maintain global competitiveness.

Complete tax-sensitive transactions before budget day

As with any budget, there’s no telling what types of changes the government may have in store this year. Since federal budgets often propose measures that take effect on budget day, your best defense against adverse tax changes is to complete or close all tax-sensitive transactions before budget day, if it makes sense from an investment and business perspective.