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TaxNewsFlash Canada

Post-2019 Election — Possible Tax Changes

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The Liberal Party of Canada is set to form a minority government following the results of the 2019 federal election on October 21, 2019. While the Liberal Party made many promises during the election campaign to introduce a variety of new tax changes that could significantly affect individuals and businesses in Canada, it's possible that some of these pledges will now be modified before they are introduced. Specifically, the Liberal Party government may need to compromise with another federal party's priorities to win the support required to get certain measures through Parliament and passed into law.

This edition of *TaxNewsFlash-Canada* summarizes the Liberal's election tax platform to offer insight into potential tax changes that we may see as early as the end of 2019. In addition, we look at promises by the New Democratic Party of Canada and the Bloc Québécois, since these parties potentially hold a balance of power to get legislation passed in the new minority Parliament, and therefore could have an important influence on any forthcoming tax legislation. For a point of reference, we have also summarized the Conservative Party's tax platform, as the official opposition.

KPMG observations
Although each party pledged a wide range of tax measures as part of their election platforms, there are certain commonalities. As these promises were made by multiple parties, it is likely that they would receive non-partisan support if they are later proposed as a legislative or policy change by the new minority government. These pledges, which are discussed in more detail below, propose to:

- Limit the amount of net interest expense that certain corporations may deduct, and limit hybrid mismatch arrangements

- Introduce a 3% tax on the revenue that international tech companies generate in Canada
- Continue with measures to limit employee stock option deductions
- Introduce a new tax on purchases of luxury items
- Consider changes to facilitate the intergenerational transfers of businesses and/or farms
- Undertake a review of tax expenditure to ensure more tax fairness.

We look at these tax platforms in the following areas:

- Corporate tax rates and incentives
- International corporate tax
- Personal tax
- Child and family care
- Real estate measures
- Environmental measures
- Administrative measures.

This summary relies on the tax promises announced during the 2019 election, as described by the parties on websites, in their published platforms and in press releases. In some cases, cost estimates of the related policies prepared by the Parliamentary Budget Officer (PBO) provide additional details on a particular policy that we have highlighted separately.

KPMG observations
Note that not all of the tax proposals in the 2019 federal budget have been enacted into law yet. It is likely that the new Liberal government will want to proceed with these proposals, including changes to implement a $200,000 annual cap on certain employee stock option deductions (see *TaxNewsFlash-Canada* 2019-29, "Finance Reveals More Details on Stock Option Deduction Cap" and 2019-09, "2019 Federal Budget Highlights").

Liberal Party tax platform

Corporate tax rates and incentives

In its election platform, the Liberal Party of Canada promised to crack down on corporate tax loopholes that allow companies to excessively deduct debt to artificially reduce the tax they pay. The PBO's costing of this possible future measure indicates that corporations with net interest expenses of more than $250,000 would be limited in the amount of interest they may deduct. The interest deduction would be limited to 30% of the corporation's income before interest, taxes, depreciation and amortization (EBIDTA) in computing its income. However, interest would be deductible over the 30% threshold if the corporation is part of a corporate group, up to the worldwide group ratio of interest to EBIDTA.

The costing report also notes that the pledge allows denied interest deductions to be carried back three years or forward 20 years. According to the PBO cost estimate, this potential measure also limits hybrid debt mismatch arrangements, which are cross-border transactions that exploit differences in tax laws in two or more jurisdictions.

For the purposes of its cost estimate, the PBO indicates that it assumed the policy changes do not apply to Canadian-controlled private corporations (CCPCs) with less than $10 million in assets and less than $500,000 in active business income, and CCPCs with less than $250,000 in net interest payments (interest payments minus interest revenues). It is not clear whether the PBO's assumption in costing this platform promise is part of the Liberal Party proposal.

International corporate tax

In its election platform, the Liberal Party of Canada promised to:

- Ensure multinational tech companies pay corporate tax on the revenue they generate in Canada
- Ensure international digital corporations collect and remit sales tax on products consumed in Canada, in line with OECD standards and Canadian digital corporations
- Modernize anti-avoidance rules to stop large multinational companies from being able to shop for lower tax rates by constructing complex schemes between countries

The Liberal Party's election pledge to ensure international tech companies pay corporate tax on the revenue they generate in Canada is described in an associated PBO cost estimate as a 3% tax on the income of certain sectors of the digital economy and, according to the PBO report, would replicate the French digital services tax. Although the PBO costing describes the policy as a tax on income, it is our understanding that the tax is actually a tax on revenues. The tax would only apply to targeted advertising services and digital intermediation services where the worldwide revenues of the business are at least $1 billion and Canadian revenues are more than $40 million.

Personal tax

In its election platform, the Liberal Party of Canada promised to:

- Raise the basic personal income tax deduction to $15,000 by gradually increasing the basic personal income tax amount between 2020 to 2023, and phasing out the increase in the basic personal amount for individuals with income above $150,605, completely eliminating the increase for individuals with income above $214,557 (using 2020 tax bracket amounts, indexed to inflation)
- Consider tax measures to facilitate the intergenerational transfer of farms
- Introduce a new 10% tax on luxury cars, boats, and personal aircraft over $100,000 (excluding certain commercial uses)
- Increase Old Age Security payments for seniors by 10% when they turn 75
- Improve the Northern Resident Deduction by giving people living in the Northern Zone at least $1,200 in deductible travel costs, with $600 in deductible travel costs for people in the Intermediate Zone.

Child and family care

In its election platform, the Liberal Party of Canada promised to

- Increase the Canada Child Benefit by 15% for children under the age of one
- Double the Child Disability Benefit
- Make maternity and parental leave benefits tax-free

Real estate measures

In its 2019 election platform, the Liberal Party of Canada promised to impose a tax on vacant residential properties owned by non-Canadians who do not live in Canada. The associated PBO cost estimate describes this policy as a new annual tax of 1% of the property value of residential real-estate owned by non-resident foreign entities (individuals, corporations, partnerships and trusts). Exemptions are made for principal residences or properties that are occupied by a renter or by a non-arm's length person (i.e., a family member) for at least six months of the year.

Environmental measures

In its election platform, the Liberal Party of Canada promised to cut corporate taxes in half for businesses that develop technologies or manufacture products that have zero emissions. The PBO cost estimate indicates that this corporate tax cut would phase-in over three years and reduce the income tax rate on small businesses to 4.5% (from 9%). The cut would also reduce the general corporate income tax rate to 7.5% (from 15%). The cost estimate also includes a non-exhaustive list of eligible activities, that includes:

- Manufacturing and installations related to renewable electricity (wind, solar, hydro, geothermal, biomass, tidal, wave)
- Production of renewable fuels (biofuels, biogas, fuels from carbon capture and use technologies)
- Manufacturing of zero emission vehicles
- Carbon sequestration and removal technology
- Batteries for use in zero emission vehicles and grid storage
- Electric vehicle charging systems
- Net zero energy homes and buildings.

Administrative measures

In its election platform, the Liberal Party of Canada promised to

- Undertake a comprehensive review of government spending and tax expenditures to ensure that wealthy Canadians do not benefit from unfair tax breaks
- Establish a national approach to beneficial ownership

Conservative, NDP and Bloc Quebecois tax platforms

Corporate tax rates and incentives

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Increase corporate tax rate to 18% (from 15%), while maintaining the current 9% small business tax rate • Increase the capital gains inclusion rate to 75% (from 50%) • Close loopholes • For corporations with net interest expenses of more than $150,000, limit the amount of interest a corporation	• Impose GST on online advertising • Introduce a tax credit similar to the investment tax credit that would apply regionally	• Repeal the tax increases on small business investments

may deduct in computing its income to no more than 20% of its income before interest, taxes, depreciation and amortization (EBITDA)* • Restore the Automotive Innovation Fund and make contributions to automakers tax-free • Eliminate corporate meals and entertainment expense tax deductions for qualifying Canadian corporations and no longer allow the GST paid on these expenses to be claimed as an input tax credit* • Restrict the deductibility of internet advertising expenses paid by Canadian-resident businesses to only the expenses for advertising on Canadian-owned websites and on other Canadian-owned internet-delivered media*		

* Note that this promised change was costed by the PBO but was not included in the party's official platform release.

Additional details in PBO cost estimate
The New Democratic Party released two new PBO cost estimates on October 11, 2019, which provide details on two corporate tax measures. The first cost estimate refers to a proposal to limit excessive use of interest deductibility. It isn't clear which campaign promise this estimate is tied to, but it may relate to the New Democratic Party's pledge to "close loopholes". According to the cost estimate, the policy would limit the amount of interest corporations may deduct if they have net interest expenses of more than

$150,000. Specifically, the amount of interest these corporations could deduct would be limited to 20% of EBITDA. However, interest would be deductible over the 20% threshold if the corporation is part of a corporate group, up to the worldwide group ratio of interest expense to EBIDTA.

According to the PBO estimate, this potential NDP measure also limits hybrid debt mismatch arrangements (i.e., cross-border transactions that exploit differences in tax laws in two or more jurisdictions).

The second PBO cost estimate describes the New Democratic Party's proposal to eliminate corporate meals and entertainment deductions for Canadian corporations, but also notes that small businesses (corporations with less than $500,000 of taxable income, self-employed individuals and individuals operating as a sole proprietorship or partnership) will not be affected by this policy and could still claim these deductions. The PBO cost estimate also notes that the elimination of these deductions would also disqualify affected corporations from being able to claim GST paid on these expenses as an input credit.

More detail on the Conservative Party's promise to repeal the tax increases on small business investments can be found in the PBO's costing of this possible future measure. The costing estimate indicates that the policy would repeal the passive investment income changes that restrict access to the small business deduction for businesses with annual passive investment income of more than $50,000 and restore full access to refundable taxes for corporations on the distribution of eligible dividends.

International corporate tax

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Ensure that digital media companies play by the same rules as Canadian broadcasters, including paying taxes, which refers to a 3% tax on the revenues of targeted digital services, including advertising and digital intermediation services, that would apply to businesses with worldwide revenues of	• Apply 3% tax on Canadian revenue earned by big multinational tech companies that would replicate the proposed digital services tax announced by the French government and would focus on only targeted advertising services and digital intermediation services	• Apply a 3% tax on revenues of businesses that provide a social media platform, search engine, or an online marketplace to Canadians. The tax will only apply to companies with worldwide revenues of more than $1 billion and revenues in Canada of more than $50 million. If a company chooses to

at least $1 billion and Canadian revenues of more than $40 million* • Limit hybrid debt mismatch arrangements which are cross-border transactions that exploit differences in tax laws in two or more jurisdictions** • Compel companies to prove the economic reason for their offshore transactions	• Close loopholes for tax havens by reviewing the CRA's role in investigations and relevant tax treaties	locate in Canada and pay regular corporate income tax, then they will be allowed to deduct their corporate income tax from the large technology company tax

* Additional details of this measure are as described in the PBO costing report.
**Note that this promised change was costed by the PBO but was not included in the party's official platform release.

Additional details in PBO cost estimate
The New Democratic Party released a PBO cost estimate with additional details on its plan to tax digital media companies. The NDP pledge proposes to amend the *Income Tax Act* to restrict the deductibility of internet advertising expenses paid by Canadian resident businesses to only those expenses for advertising on Canadian-owned websites and on other Canadian-owned internet-delivered media.

The New Democratic Party also released a new PBO cost estimate that further describes its election promise to compel companies to prove their economic reasons for their offshore transactions. The PBO cost estimate clarifies that deductions for payments to foreign subsidiaries will be denied unless the corporations demonstrate that the foreign subsidiary is carrying out economic activity.

Personal tax

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Increase the top personal tax rate to 35% (from 33%) • Introduce a 1% “wealth tax” for those whose net worth exceeds $20 million • Increase the capital gains inclusion rate to 75% (from 50%) • Eliminate the personal income tax deductions for employee stock options that currently allow individuals to deduct from their income 50% of the gains from exercising their options under an employee stock option plan • Address the tax treatment of family transfers of small businesses, including family farm transfers • Introduce a 12% sales tax applied at the point of sale for the purchase of personal automobiles, boats, and aircraft valued at $100,000 or more (indexed to inflation)* • Introduce income tax averaging for artists and cultural workers	• Introduce an employer tax credit for training and job retention of those aged 65 and older and increase the wage income earned by seniors without penalizing their Guaranteed Income Supplement • Introduce a tax credit for recent graduates and immigrants who accept employment in Quebec • Exempt books from GST • Modify the tax rules to promote intergenerational business transfers	• Introduce a “universal tax cut” that would reduce the rate on taxable income in the lowest tax bracket to 13.75% (from 15%) by 2023 • Exempt spouses or common law partners of individuals who own a CCPC from the tax on split income (TOSI) • Examine the rules for family farm transfers • Cancel the Canada Training Credit • Remove the GST from home heating costs • Introduce the Green Public Transit Tax Credit • Ease the requirements to qualify for the Disability Tax Credit • Increase the Age Tax Credit by $1,000 for seniors age 65 or over • Ease the requirements to qualify for the Volunteer Firefighters’ Tax Credit and the Search and Rescue Volunteers’ Tax Credit

• Introduce a new tax credit for graduates to work in designated rural and Northern communities • Expand the Volunteer Firefighter's Credit		

* Note that this promised change was costed by the PBO but was not included in the party's official platform release.

Additional details in PBO cost estimate
The New Democratic Party released a new PBO cost estimate on October 11, 2019, it describes a policy to introduce a 12% sales tax applied at the point of sale for the purchase of personal automobiles, boats and aircraft valued at $100,000 or more (indexed to inflation). The PBO estimate indicates that commercial use of automobiles, boats and aircraft will be exempt.

Child and family care

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Make the Canada Caregiver Tax Credit refundable	• Make the Canada Caregiver Tax Credit refundable	• Make Employment Insurance benefits tax-free for new parents by providing a non-refundable tax credit • Introduce a refundable Children's Fitness Tax Credit to allow parents to claim up to $1,000 per child, each year, for expenses related to sports and fitness programs, with an additional $500 per child for children with disabilities • Introduce a refundable Children's Arts and Learning Tax Credit to claim up to $500 per

		child, each year, for expenses related to arts and learning activities, with an additional $500 per child for children with disabilities • Introduce a 15-week EI adoption leave modelled on the EI maternity leave, income received under which is tax-free • Increase the Adoption Expense Tax Credit to $20,000, and make it refundable • Increase the government's contribution to a Registered Education Savings Plan (RESP) to 30% (from 20%) for every dollar invested, up to $2,500 a year

Real estate measures

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Introduce a 15% foreign buyers tax on purchases of residential properties across Canada (applicable to foreign corporations, taxable trustees or individuals who are not citizens or permanent residents)		

• Increase the Home Buyer's Tax Credit to $1,500 (from $750) • Waive the federal portion of the GST/HST on the construction of new, affordable rental units		

Environmental measures

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Continue carbon pricing, including rebates to households subject to the federal backstop plan, while rolling back breaks to big polluters • Waive the federal sales tax on zero-emissions vehicles • Eliminate the Accelerated Investment Incentive for Corporations in the oil and gas sectors*	• Increase the carbon tax in provinces where emissions are higher than average • End fossil fuel subsidies • Enhance the rebate for the purchase of an electric vehicle • Eliminate the Canadian Development Expense Tax Deduction (CDE) for oil, gas and coal companies (except for mining companies that are not in the hydrocarbon sector)* • Introduce tax credits for energy-efficient renovations to intergenerational housing, multigenerational residences and other renovations	• Repeal the federal carbon tax • Establish a Green Patent Credit that will reduce the federal tax rate to 5% (from 15%) on income that is generated from green technology developed and patented in Canada • Introduce a two-year refundable 20% tax credit on green home improvements of over $1,000 and up to $20,000 • Cancel the 2019 federal budget measure to allow 100% capital cost allowance for investments in electric vehicles • Provide targeted accelerated capital cost allowances to industries proven to reduce

	• Create a 20% refundable tax credit for eco-responsible improvements in the 2020 to 2023 tax years valued at $1,000 or more, up to a maximum of $26,000 (i.e., $5,000 each tax year)*	emissions in other countries and to producers who can be shown to be among the least carbon-intensive in the world in their industry

* Note that this promised change was costed by the PBO but was not included in the party's official platform release.

Additional details in PBO cost estimate
A new PBO cost estimate released by the New Democratic Party indicates that the party would eliminate the accelerated investment incentive and the 100% expensing for specified eligible classes for corporations invested in the oil and gas sectors.

Administrative measures

New Democratic Party of Canada	***Bloc Québécois***	***Conservative Party of Canada***
• Review and re-profile current tax expenditures that don't benefit every-day Canadians • Improve transparency on the taxes paid by large corporations • Increase the amount of money provided to the CRA to augment tax compliance and enforcement efforts for the GST, taxation of multinational firms, taxation of large corporations and international taxation*	• Allow Quebec to collect federal income taxes, rather than the CRA so Quebec residents only need to file one tax return • Increase the amount of money provided to the CRA to augment tax compliance and enforcement efforts for GST, taxation of multinational firms, taxation of large corporations and international taxation • Perform a comprehensive review of the EI system and	• Undertake a comprehensive review of the tax system with a view to Canada's competitiveness and attract more jobs and investment • Examine whether innovation programs (such as SR&ED) support Canadian companies that provide benefits, profits, and patents that stay in Canada and consider how they could be refocused • Look at policies to strengthen Canada's ability to capitalize on intangibles, like

	include a real standalone EI fund	intellectual property and improve incentives to encourage more businesses to patent their innovative ideas • Create an information package and put it on the Canada Revenue Agency (CRA) website. This information package will be a guide to getting set up with the CRA and will include resources for business best practices • Reallocate $750 million of spending from other government departments towards the Canada Revenue Agency to invest in stronger enforcement of taxation for multinational firms, taxation of large corporations, international taxation, and other tax evasion • Make the Taxpayer Ombudsman an Officer of Parliament to hold CRA to account on behalf of taxpayers • Create a duty of care between Canadian taxpayers and the CRA to hold the CRA accountable in cases of negligence • Revise CRA penalties so that first-time problems or errors

		receive only mild fines, while repeat offenders receive tougher penalties • Establish a single tax return for Quebec residents to be administered by Quebec

* Note that this promised change was costed by the PBO but was not included in the party's official platform release.

We can help

With a newly elected government in place, it seems likely that there will be significant tax changes in store for Canadian individuals and businesses. KPMG can help you keep up on the status of new tax legislation and understand its effects on your personal and business affairs. To help make the most of any new opportunities and mitigate the effects of adverse changes, contact your KPMG adviser.

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