GMS Flash Alert

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Canada - Highlights of Personal Tax Changes in 2019 Federal Budget

Canada's Finance Minister Bill Morneau delivered the government's 2019 federal budget on March 19, 2019[1]. Although the budget does not include any personal or corporate tax rate changes, it did include several measures affecting corporate and personal taxpayers. Among other notable changes, the budget announces a $200,000 annual cap on employee stock option grants that may receive tax-preferred treatment. While the budget indicates that the cap applies for employees of certain "large firms," it did not include full details on this measure and noted that Finance plans to release further details before the summer of 2019.

The budget did not make changes to the capital gains rate nor was there an announcement for comprehensive tax reform.

In this GMS *Flash Alert*, we discuss the proposals affecting individuals – including those on international assignment – and their employers that were announced in the 2019 federal budget. (All dollar figures expressed are Canadian dollars.)

WHY THIS MATTERS

International assignment cost projections and budgeting for assignments to Canada and for assignees outside Canada still subject to Canadian taxation should take into account the changes announced in the 2019 federal and provincial budgets. Where called for, employers may need to make payroll adjustments and update hypothetical tax calculations for tax-equalized assignees.

Moreover, with the change to the employee stock option grant rules, this will affect "future" large Canadian (possibly both public and private) and presumably foreign public companies' option grants.

Companies with such plans may reconsider their use in future for purposes of remunerating/incentivizing their Canadian work-force. Employers with highly-remunerated international assignees could see an increase in their assignment-related costs.

Personal Tax Changes

Annual cap on employee stock option grants: The budget proposes to apply a $200,000 annual cap on employee stock option grants that can receive the current tax-preferred treatment (i.e., the Section 110(1)(d) deduction for employees of "large, long-established, mature firms"). The cap is based on the fair market value of the underlying shares at the time that the option is granted. Further details of this measure will be released before the summer of 2019.

The budget proposes that there would be no changes made to the stock option provisions for "start-ups and rapidly growing Canadian businesses."

We are devoting a separate GMS *Flash Alert* to a discussion of this measure, which we will publish shortly.

Canada Training Credit: The budget introduces the Canada Training Credit, a refundable tax credit. This credit allows eligible individuals, under certain conditions, to accumulate $250 each year in a notional account. To accumulate $250 in a year, an individual must:

- file a tax return for the year;
- be at least 25 years old and less than 65 years old at the end of the year;
- be resident in Canada throughout the year;
- have certain earnings of $10,000 or more in the year;
- have individual net income for the year that does not exceed the top of the third tax bracket for the year (i.e., $147,667 in 2019).

This measure will apply to the 2019 and subsequent taxation years, so that the annual accumulation to the notional account will start for the 2019 taxation year and the credit will be available for expenses claimed for the 2020 taxation year. Earning and income thresholds under the new credit will be subject to annual indexation.

Home Buyers' Plan: The budget proposes to increase the Home Buyers' Plan withdrawal limit to $35,000 (from $25,000). This increased limit will also apply to individuals who are eligible for the disability tax credit, even if the first-time home-buyer requirement is not met. This increase in the withdrawal limit will apply to the 2019 and subsequent calendar years for withdrawals made after March 19, 2019.

The budget also extends access to the Home Buyers' Plan after the breakdown of a marriage or common-law partnership, effective for withdrawals made after 2019.

Change-in-use rules for multi-unit residential properties: The budget allows a taxpayer to elect that the deemed disposition that normally arises on a change in use of part of a property not apply. As a result, a taxpayer who owns a multi-unit residential property (e.g., a duplex), and either starts renting or moves into one of the units will now be able to elect out of the deemed disposition that arises on a change in use of part of a property. This measure will apply to changes in use of property that occur on or after March 19, 2019.

Annuities allowed under registered plans: The budget allows two new types of annuities under the tax rules for certain registered plans. Specifically, the budget announces that advanced life deferred annuities (ALDA) will be permitted under an RRSP (Registered Retirement Savings Plans), RRIF (Registered Retirement Income Fund), deferred profit sharing plan (DPSP), pooled registered pension plan (PRPP), and defined contribution RPP (Registered Pension Plans). An ALDA is a life annuity where the commencement may be deferred until the annuitant turns 85. In addition, the budget announces that variable payment life annuities (VPLA) will be permitted under a PRPP and defined contribution RPP. The measures will apply to the 2020 and subsequent taxation years.

Specified multi-employer pension plans: The budget amends the tax rules to prohibit contributions to a specified multi-employer plan (SMEP) related to a member who after the end of the year is 71 years of age and to a defined benefit provision of a SMEP if the member is receiving a pension from the plan, in certain circumstances. This amendment is intended to bring the SMEP rules in line with the pension tax provisions that apply to other defined benefit registered pension plans.

The measure applies to SMEP contributions made under collective bargaining agreements entered into after 2019, in relation to contributions made after the date the agreement is entered into.

Kinship providers: The budget clarifies that an individual may be considered to be the parent of a child in their care for the purpose of the Canada Workers Benefit, regardless of whether they receive financial assistance from a government under a kinship care program. As a result, kinship care providers will be eligible for the Canada Workers Benefit amount available for families, provided all other eligibility requirements are met. This measure will apply for the 2009 and subsequent taxation years.

Donations of cultural property: The budget proposes to remove the requirement that property must be of "national importance" to qualify for the enhanced tax incentives for donations of cultural property, effective for donations made on or after March 19, 2019.

Next Steps

Legislation embodying the measures described above will be considered by Parliament. There is a strong possibility that all measures proposed will be passed and enacted in the next month or two. The stock option provisions are slated to enter into force during summer 2019.

RELATED RESOURCE:

For a more detailed report on the budget, see *TaxNewsFlash*-Canada 2019-09: 2019 Federal Budget Highlights, a publication of the KPMG International member firm in Canada.

FOOTNOTE:

1 For the budget speech and related documentation, click here.

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Contact us

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