Fall Economic Statement 2017

October 2017

On October 24, Finance Minister Bill Morneau tabled the 2017 Fall Economic Statement. In the statement, the government reiterated its continuing focus to invest in the economy so that it works for the middle class and those working to join it.

As the economy strengthens, the government is adjusting its fiscal strategy to reflect the better-than-expected economic outlook. It now expects steady improvements in its budgetary position and a decline in the federal debt-to-GDP ratio. Deficits are projected to be $19.9 billion in 2017-18, which is lower than the $28.5 billion originally forecasted in the 2017 budget. By 2021-2022, the deficit will decrease to $13.9 billion, which is also lower than the $18.8 billion originally projected. The federal debt-to-GDP ratio is projected to decline gradually over the forecast horizon, and is expected to be 28.5 per cent by 2022–23. This outlook includes new policy actions taken since Budget 2017 and the tax measures announced in this economic update.

The government focused on the following four tax measures in this economic update and also tabled a Notice of Ways and Means Motion that proposes legislative changes to index the Canada Child Benefit and lower the small business tax rate.

Canada child benefit (CCB)

In the fall of 2016 the government announced that the Canada Child Benefit (CCB) would be indexed as of the 2020-2021 benefit year in order to ensure that it was able to keep up with the rising costs of living. The government is now proposing to accelerate the indexation of the CCB by two years so that both the benefit amounts and phase-out thresholds of the CCB will be indexed to inflation as of July 2018. This is expected to cost an additional $5.6 billion over the next five years (i.e., over the 2018–19 to 2022–23 period).

The CCB currently pays up to $6,400 a year per child under the age of six, and up to $5,400 per child aged six through 17. However, the benefit amount begins to decrease as a family's adjusted net income exceeds $30,000.

The indexation would result in an increase of $96 per child under six years old and $81 for children aged six through 17 years old for 2018-19. The income threshold will also increase to $30,450 in 2018-19. Thus, an individual currently receiving the maximum amount for a child under six years old would receive $6,496 next year and $5,481 for a child aged 6 through 17 years.

Working income tax benefit (WITB)

Starting in 2019, the government is also proposing to spend an additional $500 million a year to enhance the Working Income Tax Benefit (WITB), a refundable tax credit for low income Canadians. This enhancement will provide even greater support to current recipients by raising maximum benefit levels and expanding the income range of the WITB so that more workers can qualify.

Additional details regarding this enhancement will be provided in Budget 2018. Because the provinces and territories make province-specific changes to the design of the benefit to harmonize it with their own programs, the federal government will also consult with the provinces and territories before the enhanced WITB takes effect in 2019.

Small business tax rate reduction

The government released draft legislation to formalize the promise made last week to reduce the small business tax rate to 10 per cent, effective January 1, 2018, and to nine per cent, effective January 1, 2019. The small business tax rate applies to the first $500,000 of active business income. This reduction will provide a small business with up to $7,500 in federal corporate tax savings per year to reinvest in and grow their business.

This policy change will cost an estimated $2.9 billion over the next five fiscal years.

Proposals affecting private corporations

The government confirmed the announcements made last week that it plans to move forward on certain proposals originally announced on July 18, 2017 to "fix" a tax system which it believes "encourages the wealthy to incorporate". In keeping with its commitment to address "unfair tax advantages for the wealthiest", the government proposes to move forward with the following proposals:

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- Restricting income sprinkling by private corporations starting in the 2018 taxation year. This includes simplifying the proposed measures and providing greater certainty with respect to their application. Revised draft legislative proposals are expected to be released later this fall. Of particular note in the economic update is the inclusion of $1.2 billion in expected revenue over the next six years as a result of this new measure.

- Limiting the benefit of investing passively in private corporations. The details of the proposed measures are expected to be released in Budget 2018 and will include an annual threshold of $50,000 (equivalent to $1 million in savings based on a nominal 5 per cent rate of return) of passive income to provide more flexibility for business owners to hold savings for multiple purposes. There will be no tax increase on passive income below this threshold.

In light of feedback received from Canadians during the proposals' consultation period, the government also confirmed it will not move forward with the following measures due to their unintended consequences:

- the proposed measures that would limit access to the lifetime capital gains exemption, and
- the proposed measures relating to the conversion of income into capital gains.

In the coming year, the government will work with farmers, fishers and other business owners to develop proposals that better accommodate intergenerational transfers of businesses while protecting the fairness of the tax system. The government will also conduct a detailed analysis of the gender impacts of the passive income measures being contemplated before it decides on the final design of the new tax rules.

For further information regarding the government's previous announcements surrounding these proposals, please refer to our prior releases:

- Government announces changes for private companies in response to recent tax proposals
- Private business update: Government announces further changes to tax proposals

Summary

There were no significant measures announced in this economic update. The government confirmed its positions, as announced last week, on the reduction of the small business tax rate and the proposals affecting private corporations. We continue to wait for further details regarding the proposals related to income sprinkling which is of particular concern given that it is effective for the 2018 and subsequent taxation years. Revised draft legislation is expected to be released later this fall, so stay tuned. Budget 2018 is also expected to reveal further details on the design of the new enhancement to the WITB and limiting of deferral opportunities related to passive investments inside a corporation.

Please contact your Grant Thornton advisor should you have any questions or concerns regarding these measures.

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