



2015 election results: What the Liberal tax platform could mean for you and your business

October 2015

With the election of a majority Liberal government on October 19, there's no doubt that we will see a number of tax changes over the next four years.

The Liberal platform has proposed a number of tax measures. Although we are not certain when and if they will all be implemented, two key items are worth highlighting.

Corporate measures

The 2015 federal budget proposed a reduction in the small business tax rate from 11% to 9% over a four year period. The Liberal government supports this tax reduction; however, they recently stated the following:

“As we reduce the small business tax rate to 9 percent from 11 percent, we will ensure that Canadian-Controlled Private Corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses. Michael Wolfson from the University of Ottawa estimates that approximately \$500 million per year is lost, particularly as high-income individuals use CCPC status as an income splitting tool.”

Although it is unclear how they intend to address the concern for high-income earners, one possible response could be to amend the definition of the types of companies that qualify for the small business deduction (SBD) and, therefore, the small business rate. Recently, the

Quebec government introduced measures¹ that would amend the current SBD eligibility criteria for Quebec taxation purposes. In addition to the current requirements, the corporation must either

- employ more than three people who work on a full-time basis throughout the year, or
- be a corporation in the primary or manufacturing sector. This is a corporation where at least 25% of its activities are in the primary sector² or the manufacturing and processing sector.

Most professional corporations, and certain other corporations, will not qualify under these new requirements. If the new Liberal government adopts measures similar to the new Quebec measures, corporations that do not qualify for the SBD will be subject to a 15% federal corporate rate on all active business income.

¹ Applicable for taxation years beginning after December 31, 2016.

² The primary sector of the economy is the sector of the economy making direct use of natural resources. This includes agriculture, forestry, fishing and mining.

Personal income tax measures

Two key personal tax rate measures were included as part of the Liberal platform: i) a reduction in the second 22% federal tax bracket to 20.5%; and (ii) a proposal to add a new top tax bracket of 33%. Assuming these measures are implemented, the following charts illustrate the tax impact.

Chart A

This chart illustrates the impact of the introduction of the new top 33% federal rate on various types of income (for the years 2014 to 2016 inclusive), assuming the new top rate becomes effective January 1, 2016:

Province	Ordinary income					Capital Gains				
	2014	2015	Var	2016	Var	2014	2015	Var	2016	Var
BC ¹	45.80%	45.80%	0.0%	47.70%	1.9%	22.90%	22.90%	0.0%	23.85%	0.9%
Alberta ²	39.00%	40.25%	1.3%	48.00%	7.8%	19.50%	20.13%	0.6%	24.00%	3.9%
Saskatchewan	44.00%	44.00%	0.0%	48.00%	4.0%	22.00%	22.00%	0.0%	24.00%	2.0%
Manitoba	46.40%	46.40%	0.0%	50.40%	4.0%	23.20%	23.20%	0.0%	25.20%	2.0%
Ontario	49.53%	49.53%	0.0%	53.53%	4.0%	24.77%	24.77%	0.0%	26.77%	2.0%
Quebec	49.97%	49.97%	0.0%	53.31%	3.3%	24.99%	24.99%	0.0%	26.66%	1.7%
New Brunswick	46.84%	54.75%	7.9%	58.75%	4.0%	23.42%	27.38%	4.0%	29.38%	2.0%
Nova Scotia	50.00%	50.00%	0.0%	54.00%	4.0%	25.00%	25.00%	0.0%	27.00%	2.0%
PEI	47.37%	47.37%	0.0%	51.37%	4.0%	23.69%	23.69%	0.0%	25.69%	2.0%
Newfoundland ⁴	42.30%	43.30%	1.0%	48.30%	5.0%	21.15%	21.65%	0.5%	24.15%	2.5%

Province	Eligible dividends					Regular dividends ³				
	2014	2015	Var	2016	Var	2014	2015	Var	2016	Var
BC ¹	28.68%	28.68%	0.0%	31.30%	2.6%	37.99%	37.99%	0.0%	40.61%	2.6%
Alberta ²	19.29%	21.02%	1.7%	31.71%	10.7%	29.36%	30.84%	1.5%	40.40%	9.6%
Saskatchewan	24.81%	24.81%	0.0%	30.33%	5.5%	34.91%	34.91%	0.0%	40.06%	5.2%
Manitoba	32.26%	32.26%	0.0%	37.78%	5.5%	40.77%	40.77%	0.0%	45.69%	4.9%
Ontario	33.82%	33.82%	0.0%	39.34%	5.5%	40.13%	40.13%	0.0%	45.30%	5.2%
Quebec	35.22%	35.22%	0.0%	39.83%	4.6%	39.78%	39.78%	0.0%	43.84%	4.1%
New Brunswick	27.35%	38.27%	10.9%	43.79%	5.5%	36.02%	46.89%	10.9%	51.75%	4.9%
Nova Scotia	36.06%	36.06%	0.0%	41.58%	5.5%	39.07%	41.87%	2.8%	46.97%	5.1%
PEI	28.70%	28.70%	0.0%	34.22%	5.5%	38.74%	38.74%	0.0%	43.87%	5.1%
Newfoundland ⁴	26.33%	31.57%	5.2%	38.47%	6.9%	31.55%	33.26%	1.7%	39.40%	6.1%

¹ Assumes top 2016 BC rate will go back to 14.70%, from 16.80%, as 16.80% is supposed to apply only during 2014 and 2015.

² For 2016, based on new Alberta top rate of 15% (11.25% in 2015 and 10% flat rate in 2014).

³ For 2016, based on new federal gross-up of 17%, and new federal dividend tax credit of 10.5%.

⁴ Blended rate for 2014 (rate changed after June 30).

Chart B

This chart illustrates the tax savings with respect to the proposed rate reduction to the second tax bracket (from 22% to 20.5%).³

Taxable income	Tax savings
\$55,000	\$154
\$65,000	\$304
\$75,000	\$454
\$85,000	\$604
\$95,000	\$670

The following pages provide an overview of the tax measures in the Liberal platform. The proposed measures could impact certain of your year-end planning strategies and you may need to take steps to address these before the end of 2015.

Please contact one of our tax practitioners if you would like to discuss what any of these possible changes may mean for you or your business.

³ Based on 2015 tax brackets for taxable income between \$44,702 and \$89,401.

Businesses

	Current measures	Liberal platform
Small business tax rate	<ul style="list-style-type: none"> Being reduced from 11% to 9% over a four-year period—10.5% (2016); 10% (2017); 9.5% (2018); 9% (2019) 	<ul style="list-style-type: none"> Supports reduction from 11% to 9% as long as CCPC status is not used to reduce personal income tax obligations for high-income earners—e.g., high income individuals who use CCPCs as an income splitting tool Support for small businesses only Possible change to eligibility criteria to qualify for the small business tax rate
Employer EI premiums	<ul style="list-style-type: none"> For 2016, the employee premium is \$1.88 for each \$100 of the employee's salary, up to the maximum insurable earnings of \$50,800 Maximum employer contribution of \$1,337.06 (\$955.04 x 1.4). 	<ul style="list-style-type: none"> 12-month break on EI premiums for employers who hire persons between the ages of 18 – 24 into a permanent position (in 2016 to 2018)
Support for clean technology	<ul style="list-style-type: none"> Various existing measures 	<ul style="list-style-type: none"> Enhances existing tax measures to generate more clean technology investments Works with the provinces to make Canada the world's most competitive tax jurisdiction for investments in the research, development and manufacturing of clean technology
Fossil fuel subsidies	<ul style="list-style-type: none"> The government has been gradually phasing out inefficient fossil fuel subsidies 	<ul style="list-style-type: none"> Committed to phase out subsidies for the fossil fuel industry A first step will be to allow for the use of the Canadian Exploration Expenses tax deduction only in cases of unsuccessful exploration

Individuals

	Current measures	Liberal platform
Personal income tax rates	<ul style="list-style-type: none"> Four tax brackets for 2015: <ul style="list-style-type: none"> 15% (first \$44,701) 22% (\$44,702 to \$89,401) 26% (\$89,402 to \$138,586) 	<ul style="list-style-type: none"> 22% tax rate reduced to 20.5% (for taxable income between \$44,702 and \$89,401) New tax bracket of 33% for taxable income over \$200,000

	<ul style="list-style-type: none"> • 29% (over \$138,586) 	
Stock options	<ul style="list-style-type: none"> • 50% stock option deduction if certain conditions are met 	<ul style="list-style-type: none"> • Will set a cap on how much can be claimed through the 50% stock option deduction • Start-up company employees with up to \$100,000 in annual stock option gains will be unaffected by any new cap
Tax credits for labour-sponsored venture capital corporations (LSVCCs)	<ul style="list-style-type: none"> • Gradual phase-out of 15% credit for the acquisition of shares of LSVCCs on investments of up to \$5,000 per year (from 2014 to 2017) 	<ul style="list-style-type: none"> • Immediate reinstatement of the 15% LSVCC tax credit that is being phased out
Universal Child Care Benefit (UCCB)	<ul style="list-style-type: none"> • Expanded in 2015 to \$160/month per child up to age six; \$60/month per child ages six to 17 • Taxable 	<ul style="list-style-type: none"> • Eliminate and replace with new Canada Child Benefit
New Canada Child Benefit	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Amount varies based on household income • Amount reduced as income increases—in most cases, benefit is completely phased out at household income of \$200,000⁴ • Not taxable
Family tax cut (income splitting)	<ul style="list-style-type: none"> • Eligible couples with children under the age of 18 can notionally transfer up to \$50,000 of higher spouse's earnings to lower income spouse • Maximum annual non-refundable tax credit of \$2,000 per family 	<ul style="list-style-type: none"> • Eliminate
Pension splitting for seniors	<ul style="list-style-type: none"> • Up to 50% of eligible pension income may be allocated to the taxpayer's spouse 	<ul style="list-style-type: none"> • Maintain
Tax-Free Savings Account (TFSA) contribution limits	<ul style="list-style-type: none"> • Annual contribution limit of \$10,000 (for 2015 and subsequent years) 	<ul style="list-style-type: none"> • Cancel increase in contribution limit from \$5,500 to \$10,000
Registered retirement income funds (RRIFs)	<ul style="list-style-type: none"> • Reduction in minimum withdrawal factors, beginning in 2015 	<ul style="list-style-type: none"> • Supports reduction in minimum withdrawal factors
RRSP withdrawals – Home Buyers' Plan	<ul style="list-style-type: none"> • \$25,000 withdrawal to buy a home – first time home 	<ul style="list-style-type: none"> • Modify plan to allow withdrawals more than once in certain

⁴ For example, with three children under the age of six, the benefit is phased out completely at family taxable income of \$235,000. For two children between ages six and 17, the benefit is phased out at \$179,000. For one child under the age of six, the benefit is completely phased out at \$190,000.

	owners only	situations (e.g., persons impacted by significant life changes, such as a job relocation, death of a spouse, marital breakdown, etc.)
New Teacher and Early Childhood Educator School Supply Tax Benefit	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> A new refundable tax credit of up to \$150 each year for teachers and educators who spend up to \$1,000 of their own funds to purchase school supplies
Tuition, education and textbook tax credit	<ul style="list-style-type: none"> Eligible tuition fees plus \$400/month education amount (\$120/month for part-time students) plus \$65/month textbook amount (\$20/month for part-time students) Non-refundable tax credit 	<ul style="list-style-type: none"> Maintain tuition tax credit Eliminate education and textbook tax credits
Student loans	<ul style="list-style-type: none"> Repayments must start no later than six months after graduation or leaving school Interest accumulates during this period 	<ul style="list-style-type: none"> No repayment required until graduate is earning an income of at least \$25,000 per year Federal government will pay interest until then
Old Age Security (OAS)	<ul style="list-style-type: none"> Age of initial receipt gradually increasing from 65 to 67 starting in 2023 	<ul style="list-style-type: none"> Keep at age 65 Increase the Guaranteed Income Supplement (GIS) for single low-income seniors by 10% Index OAS/GIS to new Seniors Price Index
Canada Pension Plan (CPP)	<ul style="list-style-type: none"> Maximum pensionable earnings of \$53,600 for 2015 (basic exemption of \$3,500) Employee and employer contribution rates of 4.95% each Self-employed contribution rate of 9.9% 	<ul style="list-style-type: none"> Increase CPP benefits
Employee Employment Insurance (EI) Premiums	<ul style="list-style-type: none"> Planned reduction in EI premiums to \$1.49 per \$100 earned by 2017 	<ul style="list-style-type: none"> Reduce EI premiums to \$1.65 per \$100 earned starting in 2017 Overhaul program to enhance EI benefits (reduce wait times from two weeks to one week beginning in 2017; more flexible parental benefits; expanded compassionate care benefits)

Sales tax and other

	Current measures	Liberal platform
Capital investment in affordable rental housing	<ul style="list-style-type: none">• Capital investments subject to GST/HST	<ul style="list-style-type: none">• GST rebate for new capital investments in affordable rental housing
Tax loopholes	<ul style="list-style-type: none">• Ongoing measures to target tax evasion	<ul style="list-style-type: none">• Review all tax expenditures to target tax loopholes that benefit Canada's top 1%• Will direct the CRA to immediately begin an analysis and stronger enforcement of tax evasion

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