Election 2015: How proposed tax measures could affect you and your business

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As the federal election draws closer, the political parties are promoting their platforms which encompass a wide range of tax related promises. Some of these promises seem easy enough to understand, but others could significantly impact the amount of taxes privately held businesses and each of us can expect to pay going forward.

The focus of this article is to comment on the positions that the three key political parties have taken as of September 18, 2015 with respect to a number of tax related measures.

Taxation of capital gains

One issue that could have widespread tax implications would be to change the current taxation of capital gains. While there does not appear to be any mention of this by the Conservative and Liberal parties, the NDP Policy Book notes that New Democrats believe in "taxing capital gains at the same rate as salaries or wages." Although this Policy Book has recently been removed from the NDP's website in preparation for the release of a full campaign platform, we have nevertheless drawn from certain statements in the book.[1]

Currently, one of the key pillars of our tax system is the preferential tax treatment afforded in respect of gains on the disposition of capital property. Capital gains first started to be taxed in 1972, in part, to make up for doing away with inheritance taxes. Prior to that time, all capital gains were tax-free. While the Carter commission had recommended 100% taxation, capital gains were only taxed at 50% when they started to be taxed in 1972. This inclusion rate was increased to 66.67% in 1988 and 1989, to 75% in 1990, reduced to 66.67% in February, 2000, and reduced again to 50% in October 2000, where it has remained to this day.

There are many reasons to retain preferential tax treatment for capital gains. First of all, it encourages taxpayers to take risks with their accumulated capital, thereby growing the economy in the process. The higher the tax rates on capital, the more job-creating investments are deterred. Second, it accounts for the fact that there is an inflation component associated with the growth in

[1] In the absence of any current information, we are referencing the policy book in order to analyze the NDP's prior position, which may or may not apply going forward.

an asset's value that should not be subject to tax. Finally, and more importantly - particularly with respect to share values - where income is retained in a corporation and not distributed to the shareholders as dividends, the growth in corporate retained earnings will result in a corresponding increase in the company's share value. If the increase in the value of the share is subsequently taxed at 100%, the shareholder will effectively be subject to double tax on the same income. The advantages of low capital gains taxes have led many economists to call for ending these taxes altogether. Eleven OECD countries today don't tax long-term capital gains at all.

Corporate tax rates

The federal general corporate tax rate is currently 15% and the small business rate is 11%.[2] The Conservatives plan to reduce the small business rate from 11% to 9% over a four year period. The New Democrats are also in favour of this decrease and the Liberals have stated that they are in favour of tax breaks for small businesses, but want to ensure that these don't primarily benefit the wealthy. As far as the general corporate income tax rate goes, the New Democrats have proposed to increase the rate by two percentage points, to 17%.

Personal tax rates

While the Conservatives plan to keep personal income tax rates unchanged, both the Liberals and the New Democrats are in favour of personal tax changes. The Liberals have specifically stated that they will reduce the current 22% tax bracket to 20.5%[3] and will create a new tax bracket of 33% for taxable income over $200,000. Currently, the top federal rate of personal tax is 29%. The New Democrats have indicated that they will not raise personal income tax rates, and they believe in targeting tax reductions to help the middle class, working families, and the poor.

Other measures

The three main parties also have varying positions on a number of other key personal tax issues.

Tax Free Savings Account (TFSA)

Although the Conservatives have increased the annual contribution limit for TFSAs to $10,000 from $5,500, both the Liberals and the New Democrats have stated that they will reduce the TFSA contribution limit back down to $5,500.

Family tax cut

Commencing with 2014 personal income tax returns, the Conservatives implemented a "family tax cut" that allows couples with children under age 18 to notionally split up to $50,000 of income, but capping the non-refundable benefit at $2,000 per year. Both the Liberals and New Democrats would cancel this measure. Note that this incentive has nothing to do with pension income splitting for seniors, which has been available for a number of years. All three parties are in favour of retaining this measure.

Other benefits for families with children

Effective for 2015, the Conservatives have increased the Universal Child Care Benefit (UCCB) from $100 to $160 a month for children under age six. They have also added a new monthly benefit of $60 for children age six to 17. The UCCB benefit is taxable, generally to the lower income

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[2] This rate applies to the first $500,000 of active business income of a Canadian-controlled private corporation.

[3] This tax bracket applies to taxable income between $44,702 and $89,401

spouse. However, along with this increase in the UCCB, the tax credit for children under age 18 is being eliminated. This credit saved approximately $338 in federal tax per child in 2014.[4] On this basis, a family with two children, one under age six and one over age five would have received $1,200 in 2014, but will receive $2,640 in 2015. Assuming the recipient's marginal rate of tax is 30%, the net after-tax cash retained for 2014 would have been $1,516[5] (factoring in the benefit of the child tax credit for each of the two children). For 2015, this same family will retain $1,848[6] after-tax.

The Liberals have stated that they will eliminate the current UCCB, Canada Child Tax Benefit and National Child Benefit Supplement and replace it with a new income-tested system (the Canada Child Benefit). The amount of the monthly benefit will be tied to family income, and will be slowly phased out as family income levels increase. As proposed, the new system should effectively increase after-tax payments to all families with children and annual combined income levels below $150,000, compared to the current system. The amount received will be tax-free.

New Democrats have stated that they will honour the expanded UCCB. However, as an added benefit for families with children, one of their key platforms is to increase the number of child care spaces and reduce the cost of child care by creating a $15-a-day national child care program.

Changes for registered plans

In its 2015 federal budget, the Conservative government announced new minimum withdrawal factors for Registered Retirement Income Funds (RRIFs) that will allow seniors age 71 and over to withdraw a lower percentage of the market value of their RRIF assets each year. The Liberals and New Democrats are also in favour of these reduced withdrawal factors.

More recently, the Conservative government has announced proposed enhancements to Registered Disability Savings Plans (RDSPs) and Registered Education Savings Plans (RESPs).

The maximum annual Canada Disability Savings Grant for low- and middle-income families will be increased from $3,500 to $4,000, beginning in 2017. Eligible families[7] will receive a grant of $4 (up $1 from the current $3) for every $1 contributed on the first $500 contributed to a RDSP each year. The 2:1 matching ratio on the next $1,000 contribution will remain unchanged.

The enhanced grants for RESPs will also be doubled for low- and middle-income families, beginning in 2017. Low- and middle-income families currently receive extra support in the form of an additional $50 to $100 on top of the basic grant, depending on the net family income threshold. For low-income families[8] the current enhanced grant will rise from $100 to $200 per year. For middle-income families[9] the current enhanced grant will rise from $50 to $100 per year.

The other parties have not yet had a chance to provide comments on these new proposals.

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[4] $2,255 x 15%
[5] ($1,200 x .7)+($338 x 2)
[6] $2,640 x .7
[7] family income of $89,401 or less (based on 2015 thresholds)
[8] net income of $44,701 or less in 2015
[9] net income between $44, 702 and $89,401 in 2015

Old age security

The Conservatives are increasing the eligibility age for receiving Old Age Security (OAS) benefits to 67 from 65. This increase will start in April 2023 and will be phased in over six years. Both of the other parties have indicated that they will cancel the decision to increase the OAS eligibility age to 67.

Canada pension and employment insurance

Both the Liberals and New Democrats are in favour of increasing Canada Pension Plan (CPP) benefits. The Conservatives have indicated that they are willing to consider ways to make voluntary additional contributions to the CPP.

The Liberals have recently announced that they will reduce Employment Insurance (EI) premiums commencing in 2017—but these cuts will not be as great as those already proposed by the Conservatives. The Liberals will reduce EI premiums from $1.88 per $100 earned to $1.65 starting in 2017. In their 2015 budget, the Conservatives projected that premiums would fall to $1.49 by 2017.

However, the Liberals have also pledged to overhaul the EI program to reduce the waiting time for people who apply for EI from two weeks to one week, provide for more flexible parental leave, enhance compassionate care benefits and eliminate a rule that requires anyone entering or re-entering the workforce (after an absence of at least two years) to work a minimum of 910 hours before they are eligible for EI.

Labour-sponsored venture capital corporation (LSVCC) tax credit

This incentive provided for a 15% tax credit for the acquisition of shares of LSVCCs on investments of up to $5,000 each year. The 2013 federal budget gradually reduced this tax credit from 15% (in 2014) to 0% (by 2017). New LSVCCs have not been registered where the application was received after March 20, 2013. Both the Liberals and New Democrats have indicated that they will reinstate this credit.

Please contact one of our firm's tax practitioners if you would like to discuss any of these measures and the impact that they may have on you and your business.

Issues	Conservative	Liberal	NDP
Business measures:			
Corporate tax rates: General rate Small business rate	 Maintain at current levels 11% to 9% (by 2019)	 No plans to change Supports small business measures	 Increase by two percentage points to 17% 11% to 9% (by 2019)
Manufacturing and processing (M&P) and Scientific Research and Experimental Development (SR&ED)	10-year extension of the accelerated CCA rate[10] for eligible machinery and equipment (on a declining balance basis) Increase support for manufacturing, innovative product development and job training.	No comment	Extend accelerated CCA rate for eligible machinery and equipment by two years (on a straight line basis) Innovation tax credit for businesses that invest in machinery, equipment or property used for SR&ED in the manufacturing sector.
Tax credits for Labour-sponsored venture capital corporations (LSVCCs)	Gradual phase-out of 15% credit (from 2014 to 2017)	Reverse phase-out of tax credit	Reverse phase-out of tax credit
Personal/other measures:			
Taxation of capital gains	Taxed at 50%	No plans to change	Increase to 100% (same as other income)[11]
Tax-Free Savings Account (TFSA) contribution limits	Increased to $10K per year	Reduce to $5,500 per year	Reduce to $5,500 per year
Family tax cut	Maintain	Eliminate	Eliminate
Universal Child Care Benefit (UCCB)	Expanded in 2015 to $160/month up to age 6; $60/month ages 6 to 17 Taxable	Replaced with new income-tested Canada Child Benefit Not taxable	Would maintain expanded UCCB
Personal tax rates	No change	Tax cuts for middle class (20.5% rate for incomes between $44,702 and $89,401) New tax bracket of 33% for incomes>$200K	Supports tax reductions to help the middle class, working families and poor
Child care	No comment	No comment	National child care program (phased in over 8 years) more child care spaces cheaper child care ($15/day)
Registered disability savings plans (RDSPs)	Increase maximum annual Canada Disability Savings Grant for low- and middle-income families from $3,500 to $4,000.	No comment	No comment
Registered education savings plans (RESPs)	Double federal enhanced grants for low- and middle-income families (from $100 to $200 and $50 to $100 respectively)	No comment	No comment
Registered retirement income funds (RRIFs)	Reduction in minimum withdrawal factors, beginning in 2015	Supports reduction in minimum withdrawal factors	Supports reduction in minimum withdrawal factors
Old age security	Age of initial receipt gradually increasing from age 65 to 67 starting in 2023	Keep at age 65	Keep at age 65
Canada Pension Plan (CPP)	Will consider ways to make voluntary additional contributions to the CPP	Increase CPP benefits	Increase CPP benefits
Employment insurance (EI)	Reduce EI premiums to $1.49 per $100 earned by 2017	Reduce EI premiums to $1.65 per $100 starting in 2017 Overhaul program to enhance EI benefits.	No comment

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[10] 50% declining balance rate to apply to eligible acquisitions from 2016 to the end of 2025.
[11] Per NDP Policy Book—which has recently been withdrawn from the NDP's website