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DU QUÉBEC

UPDATE OF ECONOMIC AND FISCAL PROJECTIONS – FEDERAL

November 12, 2014

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INTRODUCTION

The Finance Minister confirms the return to a balanced budget next year

Finance Minister Joe Oliver today released the annual *Update of Economic and Fiscal Projections*, which confirms that the Government remains on track for a balanced budget in 2015.

The government is committed to continuing to provide further tax relief for Canadian families and businesses, as they have done with the various measures announced recently.

No new tax measures were announced as part of this update.

Here are the highlights of the update.

PERSONAL INCOME TAX MEASURES

On October 30, the Government announced its intention to implement measures to help families prosper through additional tax reductions and benefit increases.

The Family Tax Cut

Under Canada's personal income tax system, a one-earner couple, or a two-earner couple in which one spouse earns significantly more than the other, often pays more federal personal income tax than a two-earner couple that has the same combined income, but where the spouses have equal earnings.

The proposed Family Tax Cut would allow the higher-income spouse to, in effect, transfer up to $50,000 of taxable income to a spouse in a lower income tax bracket for federal tax purposes, up to a maximum benefit of $2,000.

The new Family Tax Cut would apply for the 2014 and subsequent taxation years. Couples would be able to claim the credit when they file their 2014 tax returns. To benefit from the credit, each spouse must file a tax return. Either spouse may claim the credit.

Qualifying Individual

To be eligible for the credit for a taxation year, in general an individual must:

- be a Canadian resident at the end of the taxation year;
- have an eligible relation for the year;
- have a child under the age of 18 at the end of the year who ordinarily resides throughout the taxation year with the individual or the individual's eligible relation; and
- not be confined to a prison or similar institution for 90 days or more in the year.

Eligible Relation

An eligible relation of a particular individual would be an individual who is resident in Canada at the end of a taxation year and who is the spouse or common-law partner of the particular individual (and not, due to a breakdown in the marriage or common-law partnership, living separate and apart from the particular individual at the end of year and for a period of at least 90 days commencing the year).

When the Credit would be Claimable

The credit would not be available for a year that a qualifying individual or the individual's eligible relation:

- does not file an income tax return;
- elects to split pension income; or
- becomes bankrupt.

The credit would be available in the year of birth, adoption or death of a child, and in the year of death of the individual or their eligible relation.

If the parents of a child are divorced or separated, and have remarried or entered into new common-law partnerships to form two new couples, one spouse in each new couple may claim a credit of up to $2,000. However, a child must ordinarily reside with each couple through the year. In cases of joint or shared custody, there may be circumstances where it is the same child who ordinarily resides with each couple.

Universal Child Care Benefit and Child Tax Credit

The Government is enhancing the Universal Child Care Benefit by providing $160 per month for each child under the age of 6 – up from $100 per month, and introducing a new benefit of $60 per month for children aged 6 through 17.

Enhanced payments for the Universal Child Care Benefit would take effect as of January 2015 and would begin to be reflected in monthly payments to recipients in July 2015.

The enhanced UCCB will replace the existing Child Tax Credit for the 2015 and subsequent taxation years.

To qualify, parents have to complete the Canada Child Benefits Application form. Parents who had already completed this form to access other child-related benefits do not have to re-submit the form unless their family situation has changed.

Amounts received under the enhanced Universal Child Care Benefit would be taxable in the hands of the lower-income spouse. Single parents would have the choice of including the enhanced Universal Child Care Benefit in their own income or in the income of a dependant for whom an Eligible Dependant Credit is claimed (or, if the parent is unable to claim such a credit, in the income of one of the children for whom the Universal Child Care Benefit is paid).

Amounts received under the enhanced Universal Child Care Benefit would not reduce the amount of child care expenses that can be claimed under the Child Care Expense Deduction, and would not reduce benefits paid under the Canada Child Tax Benefit and the Goods and Services Tax Credit.

Repeal of the Child Tax Credit

The enhanced Universal Child Care Benefit would replace the existing Child Tax Credit for the 2015 and subsequent taxation years. Therefore, it is proposed that the existing Child Tax Credit be repealed for the 2015 and subsequent taxation years.

Family Caregiver Tax Credit

In the absence of legislative amendments, eliminating the Child Tax Credit would mean that the Family Caregiver Tax Credit in respect of infirm, minor children would no longer be available, starting in 2015. It is therefore proposed that the Income Tax Act be amended to ensure that a Family Caregiver Tax Credit amount would continue to be available in respect of an infirm, minor child when the Child Tax Credit is repealed for 2015 and subsequent taxation years.

Child Care Expense Deduction

The Child Care Expense Deduction allows child care expenses incurred to earn employment or business income, pursue education or perform research, to be deducted from income for tax purposes. Generally, only the lower-income spouse can claim it.

To better reflect the cost of child care expenses, the Government proposes to increase the dollar limits of the Child Care Expense Deduction by $1,000 – i.e., to $8,000 from $7,000 per child under age 7, to $5,000 from $4,000 for each child aged 7 to 16 (and infirm dependent children over age 16), and to $11,000 from $10,000 for children who are eligible for the Disability Tax Credit.

These changes would apply for the 2015 and subsequent taxation years.

Doubling of the Children's Fitness Tax Credit

On October 9, 2014, the Government announced its intention to double the maximum amount of expenses that may be claimed under the Children's Fitness Tax Credit (CFTC) to $1,000 and make it refundable.

Parents would be able to take advantage of the new $1,000 maximum limit in the spring of 2015 when they file their tax returns for 2014. The credit would become refundable as of the 2015 taxation year.

BUSINESS INCOME TAX MEASURES

Small Business Job Credit

On September 11, 2014, the Government announced further action to create jobs, growth and long-term prosperity with the introduction of the new Small Business Job Credit. The credit is expected to allow small businesses to lower their EI premiums, with the current legislated rate of $1.88 being reduced to $1.60 per $100 of insurable earnings in 2015 and 2016.

Any firm that pays employer EI premiums equal to or less than $15,000 in those years will be eligible for the credit. The Canada Revenue Agency will automatically calculate the credit on a business' T4 information return, ensuring that no new paper burden will be imposed on business owners.

In addition, all employers and employees will benefit from a substantial reduction in the EI premium rate in 2017 from the currently legislated $1.88 per $100 of insurable earnings to an estimated $1.45, when the new seven-year break-even rate-setting mechanism takes effect.

NOTICE TO USERS

This budget summary is based on the documents issued by the federal government. The legislation, when enacted, may vary from the summary described herein. Professional advice should be obtained.

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The Ordre wishes to thank Daniel Benard, FCPA, FCA, vice-president, Professional Development of the Ordre des CPA du Québec and his staff for preparing this update.