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GOOD NEWS AND BAD NEWS IN BUDGET 2016

BY GARRY KEILLER, THE NAKAMUN GROUP, EDMONTON

On March 22, 2016, the Liberal Government tabled its first Budget. The original forecast of a $10 billion deficit has tripled to $29.4 billion, which is about 1.5 percent of Gross Domestic Product (GDP).

Spending Programs

The Government plans to spend $120 billion on infrastructure during the next 10 years, with the bulk of the spending occurring in 2020 onwards.

Proposed changes to Employment Insurance include reduced waiting periods, expanded access, and extended benefits.

Other spending programs include jobs and training support, enhanced programs for veterans, expanded support for arts and culture, and additional funds for programs that support Canada's indigenous peoples.

CHANGES THAT AFFECT INDIVIDUALS

Federal Income Tax Rates

No further changes to personal federal income tax rates or income brackets were introduced beyond those announced in December 2015. Since January 1, 2016, those in the middle income tax bracket have had their tax cut from 22 percent to 20.5 percent, while those earning more than $200,000 have had their tax increased by 4 percent.

Budget 2016 introduced the following amendments that affect the new top marginal income tax rate for individuals:

- 33 percent charitable donation tax credit on donations greater than $200 made by trusts that are subject to 33 percent on all their taxable income
- A new 33 percent top rate on excess employee profit sharing plan contributions
- An increase from 28 percent to 33 percent tax on personal services business income earned by corporations
- Capital gains refund mechanism formulas for mutual funds that reflect the new 33 percent top rate
- Recovery tax rule for qualified disability trusts that refer to the new 33 percent top rate

Canada Child Benefit

Currently, benefits are provided through the Canada Child Tax Benefit and the Universal Child Care Benefit. Families with net income of $30,000 and one child receive $4,852 in child benefits, after tax, if their child is under the age of 6 and $3,916, for a child aged 6 through 17.

These benefits are being replaced with the Canada Child Benefit that will provide a maximum annual amount of $6,400 per child under age 6 and up to $5,400 per child between ages 6 and 17. Families

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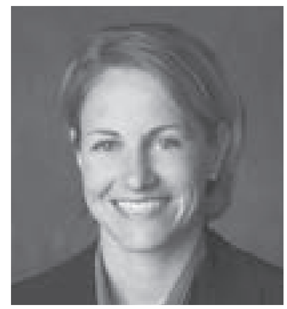

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with less than $30,000 net income will receive the maximum benefit, with entitlement for the July 2016 to June 2017 benefit year based on adjusted family net income for the 2015 taxation year. Benefits will start in July 2016.

An additional amount up to $2,730 will be available to families caring for a child with a severe disability and eligible for the Disability Tax Credit.

Other benefits being eliminated are the Children's Fitness and Children's Arts tax credits and income splitting for couples with at least one child younger than age 18. (Pension income splitting will not be affected.) Effective the 2016 taxation year and beyond, the Budget proposed elimination of the Family Tax Credit.

Canada Student Grants

The Budget proposed increases of 50 percent to Canada Student Grants:

- from $2,000 to $3,000 per year for students from low-income families
- from $800 to $1,200 per year for students from middle-income families
- from $1,200 to $1,800 per year for part-time students

The increased grant amounts will be available for the 2016 – 2017 academic year.

The Budget also proposed that the current system to determine eligibility for Canada Student Loans and Grants be replaced by a requirement for students to contribute a flat amount toward the cost of their education. The new eligibility thresholds are expected to be in place for the 2017 – 2018 academic year.

Education and Textbook Tax Credits

The Budget eliminated tax credits for post-secondary education and textbooks, effective January 1, 2017. These credits have helped students and/or their spouse/partner or supporting parent/grandparent reduce their tax bills.

Old Age Security

Old age security eligibility will revert back to age 65, rather than pushing the age to 67 for those born after 1958, as had been proposed.

Guaranteed Income Supplement

Starting July 2016, the Guaranteed Income Supplement (GIS) top-up benefit will increase by up to $947 annually for single seniors. This represents a 10 percent increase in the total maximum GIS benefit available to the lowest-income single seniors.

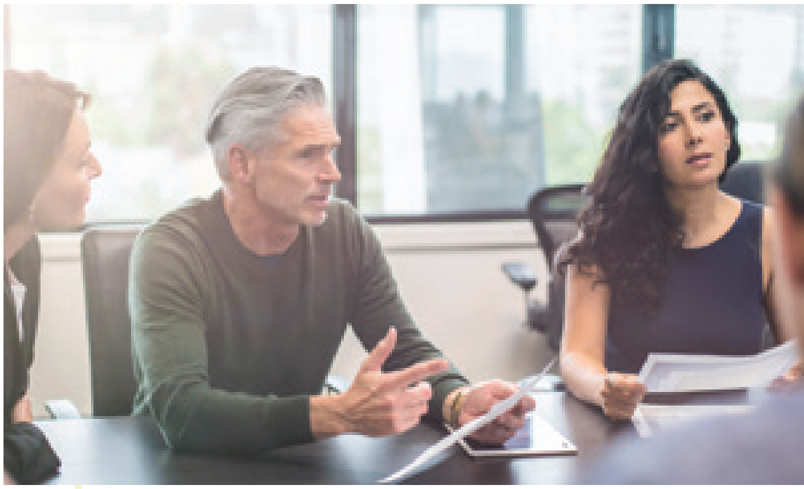
Single seniors with annual income (excluding OAS and GIS benefits) of about $4,600 or less will receive the full increase of $947. This increased benefit will be reduced and will be completely phased out at an income level of about $8,400. Benefits will be adjusted quarterly with increases in the cost of living.

Mutual Funds

The Government has eliminated the ability to switch between investment funds held inside the same mutual fund corporation. An exchange of shares of a mutual fund corporation or investment corporation that results in the investor switching funds will be considered a disposition at fair market value.

The new rules apply to dispositions after an unspecified date in September 2016, and do not apply to switches to a low-fee or no-fee version of a fund series already held.

CHANGES THAT AFFECT BUSINESSES AND THEIR OWNERS



Small Business Tax

Small business tax rates, which apply on the first $500,000 of active business income, were to decrease by 0.50 percent per year until 2019, when the rate would be 9 percent. The Budget held the small business tax rate at 10.5 percent.

Corporate Investment Tax

The Federal Government had already announced that effective January 1, 2016, the tax rate on investment income earned in a Canadian-controlled private corporation (CCPC) would increase by 4 percent. In addition, also effective January 1, 2016, Part IV tax applicable to dividends earned by a CCPC has also been increased from 33 1/3 percent to 38 1/3 percent, with a similar change to the dividend refund rate on taxable dividends paid by a corporation.

Life Insurance Policy Transfers to Corporations

Before Budget Day, an individual shareholder with a non-arm's-length relationship with a corporation could transfer a term or permanent life insurance policy to that corporation and receive an amount equal to the fair market value of the policy. The proceeds of disposition were deemed to be equal to the cash surrender value (CSV) of the transferred policy at the time of disposition, and tax would be charged on the difference between the CSV and the policy's adjusted cost base. As a result, the amount by which the fair market value exceeded the CSV was paid out without being taxed.

After Budget Day, the excess of the fair market value over the cash surrender value of a life insurance policy transferred to a corporation or partnership was no longer a tax-free benefit.

More Budget Information

For complete Budget 2016 information, please visit **budget.gc.ca** on the Internet.

TFSA— WHAT'S NEW...

WHAT'S UNCHANGED... WHAT'S AS COMPLEX AS EVER

BY R.A. (BOB) CHALLIS, CFP, RHU, TEP, THE NAKAMUN GROUP, WINNIPEG

When Justin Trudeau was elected Prime Minister, he acted quickly to reduce the annual Tax-Free Savings Account (TFSA) contribution limit from $10,000 in 2015 to $5,500 in 2016. Concurrently, annual contribution limit indexing provisions axed by the 2015 Conservative Budget were reinstated.

TFSA Basics

Except for the annual contribution limit changes, TFSA regulations have remained the same since the account was introduced in 2009:

- Canadians aged 18 and older are eligible to open a TFSA
- The initial TFSA contribution room is the sum of the annual contribution limits (as indicated in the adjacent box) for the years an individual has been 18 or older
- Thereafter, contribution room becomes individualized, depending upon deposits and withdrawals
- Growth of investments within a TFSA is not taxed
- TFSA earnings are not factored into Old Age Security or Guaranteed Income Supplement clawback calculations

Annual Contribution Limits to Date

Year	Annual Contribution Limit	Total Cumulative Contribution Limit
2009	$5,000	$5,000
2010	$5,000	$10,000
2011	$5,000	$15,000
2012	$5,000	$20,000
2013	$5,500	$25,500
2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500

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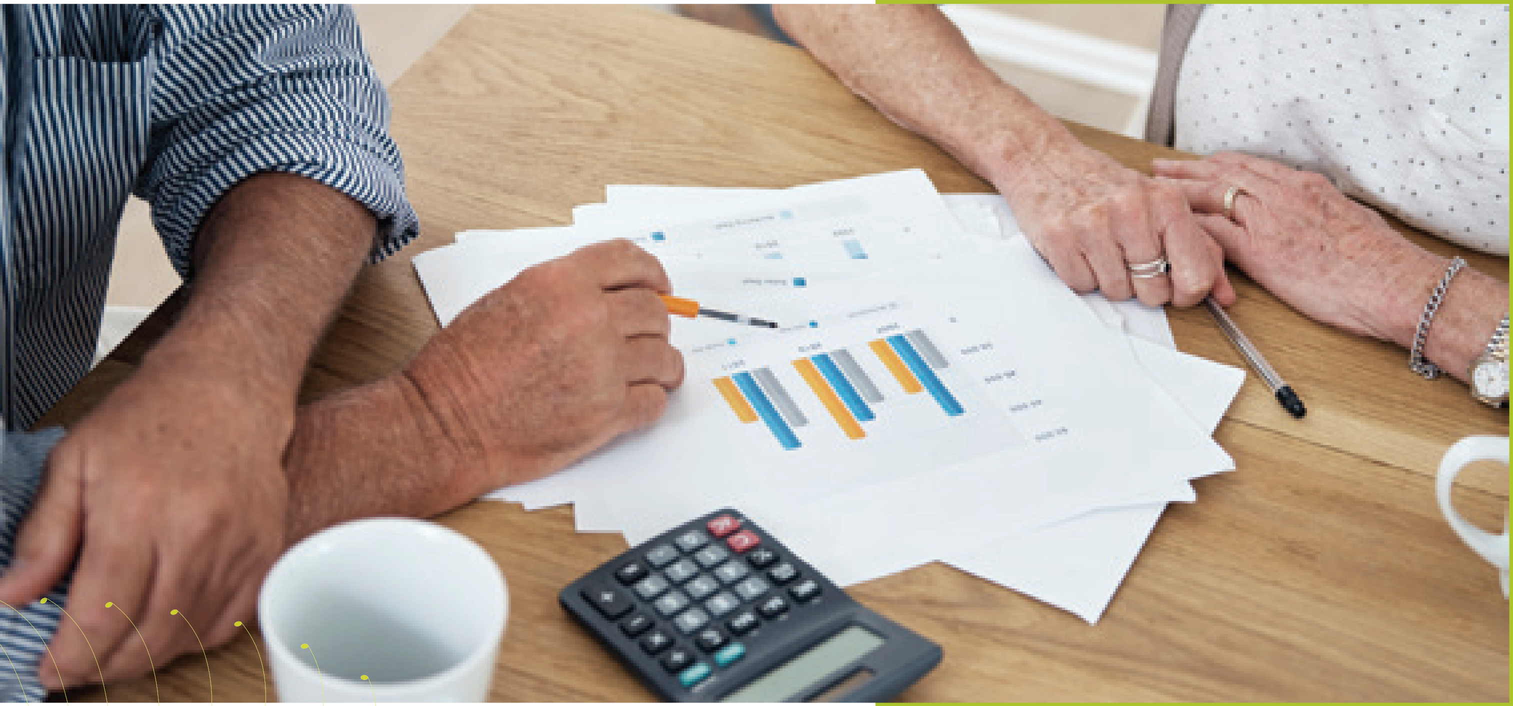

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Do Not Over-contribute

TFSA rules are intended to be simple, but there are complexities that can trip you up and if they do, the consequences could prove costly. First and foremost, do not over-contribute. Canada Revenue Agency tracks all TFSA contributions and assesses penalties of one percent per month, or part thereof, on any amount that exceeds the individual's current contribution room.

Withdrawals from a TFSA are allowed at any time, however the withdrawn amount is not added back to the individual's eligible contribution room until January 1 of the following year. For individuals who have fully utilized their lifetime eligible contribution room, any TFSA amount withdrawn and then re-contributed prior to January 1 of the following year will incur penalties of one percent per month on that amount. Individuals who have not fully utilized their lifetime contribution room may re-deposit amounts withdrawn in the same year, without penalty, as long as the total amount of all deposits made during the year does not exceed their eligible contribution room at the beginning of the year. See below for examples.

Assume A and B each have eligible lifetime TFSA contribution room of $46,500 on January 1, 2016, and that the 2017 annual contribution limit remains at $5,500.

2016	A	B
Total contributions prior to 2016	$41,000	$25,000
+ Contributions made in 2016	$5,500	$2,000
= Lifetime contributions made	$46,500	$27,000
2016 lifetime eligible contribution limit	$46,500	$46,500
– Lifetime contributions made	$46,500	$27,000
= Remaining 2016 Contribution Room	0	$19,500
Withdrawals made during 2016	$25,000	$25,000

During the remainder of 2016, A is fully contributed and any further deposits will incur over-contribution penalties. B may contribute up to an additional $19,500 during 2016 without incurring penalties.

Assuming neither A nor B make further deposits in 2016, their 2017 eligible contribution room will be:

Contribution room from 2016	0	$19,500
+ 2017 Annual Contribution Limit	$5,500	$5,500
+ 2016 withdrawal amount added back	$25,000	$25,000
= Total penalty-free contribution room as of January 1, 2017	$30,500	$50,000

Always keep accurate records of all TFSA deposits and withdrawals to avoid over-contribution penalties.

Maximize TFSA Advantages

Here are some suggestions to take full advantage of a TFSA:

- Maximize TFSA deposits — whether contributing at regular intervals or by lump sum, take full advantage of the fact that income on investments within a TFSA is not taxed
- Avoid US equities in a TFSA — the US Government charges 15 percent withholding tax on dividends paid to foreign investors. US dividend tax withholdings against income of ordinary non-registered accounts create a Canadian Foreign Investment Tax Credit. However, no similar offsetting Canadian foreign tax credit exists for TFSA investments subject to US withholding tax
- Name your spouse as Successor Holder on your TFSA contract — to ensure your surviving spouse retains the Tax-Free status of your account

Your Nakamun Advisor Can Help

More than 10 million TFSAs have been opened in Canada since their inception. These accounts have become an integral element in financial planning strategies in most Canadian households. Your Nakamun Advisor is knowledgeable regarding TFSA rules and can help ensure your household implements effective TFSA strategies.

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Good Advice | Well Given