GMS Flash Alert

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Canada - Highlights of Personal Tax Changes in 2016 Federal Budget

Canada's finance minister announced the federal budget for 2016[1] on March 22, 2016. The major tax changes for individuals contained in the budget include the elimination of certain tax credits such as income splitting for couples with children, the Child Fitness Tax Credit, the Children's Art Credit and the Education Tax Credit and Textbook Tax Credit. As expected, a new Canada Child Benefit was introduced, beginning in July 2016. There were no changes introduced to the capital gains inclusion rate or the stock options deduction.

WHY THIS MATTERS

International assignment cost projections and budgeting for assignments to Canada and for assignees outside Canada still subject to Canadian taxation should take into account the changes announced in the 2016 federal and provincial budgets. With the new top federal marginal tax rate of 33 percent taking effect for 2016, employers will need to make the necessary payroll adjustments and update hypothetical tax calculations for tax equalized assignees.

Companies with high net-worth international assignees are likely to see an increase in their assignment-related costs.

Below we discuss the proposals affecting individuals – including those on international assignment – and their employers that were announced in the 2016 federal budget. (All dollar figures expressed are Canadian dollars.)

Personal Tax Changes

Top Marginal Income Tax Rate, Other Amendments

The budget proposes amendments to reflect the new top 33-percent federal personal tax rate, further to the amendments made on December 7, 2015. See Appendix A for more details on the tax tables.

KPMG NOTE

In December 2015, the federal government announced two tax rate changes for individuals: a reduction in the federal tax rate for income between $45,283 and $90,563 to 20.5 percent (from 22 percent) and an increase of 4 percentage points in the tax rate for income over $200,000 to 33 percent (from 29 percent), starting January 1, 2016.

The government also announced that the contribution limit for Tax-Free Savings Accounts will be reduced to $5,500 per year (from $10,000 per year), starting in 2016.

Other Consequential Amendments

Further consequential amendments will:

- provide a 33-percent charitable donation tax credit for donations over $200 to trusts that are subject to the top tax rate on all of their taxable income (this measure will apply to donations made after the 2015 taxation year);
- apply the 33-percent rate on excess employee profit sharing plan contributions.

Income Splitting Credit

The federal budget proposes to eliminate the income splitting tax credit for couples with children under the age of 18 for the 2016 and subsequent taxation years. Pension income splitting will not be affected by this change.

This credit allows an eligible higher-income spouse or common-law partner to notionally transfer up to $50,000 of taxable income to his or her spouse or common-law partner to reduce the couple's total income tax liability by up to $2,000.

Children's Fitness and Arts Tax Credits

The budget proposes to phase out the Children's Fitness and Arts Tax Credits by 2017. However, for 2016, the budget reduces the 2016 maximum eligible amounts for the Children's Fitness Tax Credit and for the Children's Arts Tax Credit. For children eligible for the Disability Tax Credit, both credits are extended to children under 18 years of age and provide an additional $500 credit amount. The supplemental amounts for children eligible for the Disability Tax Credit will remain at $500 for 2016.

Education and Textbook Tax Credits

The budget eliminates the Education and Textbook Tax Credits, effective January 1, 2017. Individuals will still be able to claim tax credit amounts carried forward from years before 2017 in 2017 and subsequent years. This measure does not eliminate the tuition tax credit.

The budget notes that Finance will make changes to ensure that other income tax provisions that currently rely on eligibility for the education tax credit or use terms defined for the purpose of the education tax credit will be unaffected by this change (e.g., the tax exemption for scholarship, fellowship, and bursary income).

Canada Child Benefit

The budget introduces a new Canada Child Benefit that provides monthly payments to eligible families, beginning in July 2016. The credit, which replaces the Canada Child Tax Benefit and the Universal Child Care Benefit, provides a maximum annual benefit of up to $6,400 per child under the age of 6 and up to $5,400 per child for those aged 6 through 17. The budget provides that families with less than $30,000 in net income will receive the maximum benefit. Entitlement to the Canada Child Benefit for the July 2016 to June 2017 benefit year will be based on adjusted family net income for the 2015 taxation year.

The Canada Child Tax Benefit and the Universal Child Care Benefit will be eliminated for months after June 2016.

On the portion of adjusted family net income between $30,000 and $65,000, the benefit will be phased out at a rate of 7 percent for a one-child family, 13.5 percent for a two-child family, 19 percent for a three-child family, and 23 percent for larger families. Where adjusted family net income exceeds $65,000, remaining benefits will be phased out at rates of 3.2 percent for a one-child family, 5.7 percent for a two-child family, 8 percent for a three-child family, and 9.5 percent for larger families, on the portion of income above $65,000.

KPMG NOTE

To be eligible for the Canada Child Benefit, an individual must be a resident of Canada for tax purposes and must reside with the qualified dependant and be the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant, or be a 'shared custody' parent.

Other Measures

Northern Residents Deduction

The budget proposes to increase the maximum residency deduction for individuals who live in prescribed areas in northern Canada for at least six consecutive months beginning or ending in a taxation year. Under this increase, each member of a household may claim $11 per day (from $8.25) and, where no other member of the household claims the residency deduction, the budget proposes to increase the maximum residency deduction to $22 per day (from $16.50) for the 2016 taxation year. Residents of the Intermediate Zone will be entitled to deduct half of these increased amounts.

For a more detailed analysis of the budget, see "2016 Federal Budget Highlights," in *TaxNewsFlash-Canada* (March 22, 2016, No. 2016-12), a publication of the KPMG International member firm in Canada.

FOOTNOTE:

1 For the budget speech and related documentation, see: http://www.budget.gc.ca/2016/home-accueil-en.html

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APPENDIX A

Combined Federal and Provincial Top Marginal Tax Rates[1] for Individuals—2016

	Interest and Regular Income	Capital Gains	Eligible Dividends	Non-eligible Dividends
British Columbia	47.70%	23.85%	31.30%	40.61%
Alberta	47.00/48.00	23.50/24.00	30.33/31.71	39.07/40.24
Saskatchewan	48.00	24.00	30.33	39.91
Manitoba	50.40	25.20	37.78	45.74
Ontario	51.97/53.53	25.98/26.76	37.19/39.34	43.48/45.30
Quebec	53.31	26.65	39.83	43.84
New Brunswick	53.30	26.65	34.20	45.81
Nova Scotia	54.00	27.00	41.58	46.97
P.E.I.	51.37	25.69	34.22	43.87
Newfoundland and Labrador	49.80	24.90	40.54	41.86

Notes

1) The combined top marginal tax rate is the rate an individual will pay on income that falls into the top federal tax bracket of income over $200,000. For provinces that have tax brackets above the top federal tax bracket, additional rates have been included in the table. Individuals taxable on income in excess of $220,000 in Ontario, $300,000 in Alberta or $500,000 in the Yukon should use these higher rates.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in Canada.

Tom Nicolopoulos
Tel. +1-416-777-3038
tnicolopoulos@kpmg.ca

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