Federal Budget 2019:
Individual Tax Changes

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As might be expected in an election year, the 2019-20 federal Budget brought down by Minster of Finance Bill Morneau on March 19, 2019 contained a number of "good news" measures for taxpayers, on both the expenditure and revenue (tax) sides of the ledger.

Most of the individual tax measures announced in the Budget were targeted changes affecting specific groups of taxpayers, including those who are seeking to enter the housing market and seniors who are in or approaching retirement. There were no changes to general individual tax rates or changes in individual income tax brackets announced in the Budget.

First-time home buyers

Changes to the Home Buyers' Plan

Current Canadian tax rules allow individuals who are first-time home buyers to withdraw up to $25,000 from their registered retirement savings plans (RRSPs) on a tax-free basis, in order to finance the purchase of their first home. For purposes of the plan, a first-time home buyer is someone who (or whose spouse) did not own and occupy an home within the previous five years. Amounts withdrawn under the Home Buyers' Plan (HBP) must be re-contributed to the individual's plan over the next 15 years, on a prescribed schedule. Where an amount is not re-contributed as required, that amount is included in the individual's income for the year.

This year's Budget proposes two changes to the rules governing HBPs. First, the maximum withdrawal limit for an individual is increased from $25,000 to $35,000. That change is effective for withdrawals made after the budget date of March 19, 2019.

The second change to the HBP rules is to be effective for withdrawals made after 2019. When spouses separate following a marriage breakdown, it is often the case that one or both of them must purchase another home. The Budget measures propose to extend access to the HBP for individuals who are in that situation, regardless of whether they meet the definition of first-time home buyer.

Where a former spouse purchases a new residence using the HBP, any previous place of residence must be disposed of within two years after the HBP withdrawal is made.

First-time Home Buyer Incentive

The Budget measures also included the announcement of a "First-Time Home Buyer Incentive" which would allow qualifying homebuyers to finance a portion of their home purchase through a "shared equity mortgage" with the Canada Mortgage and Housing Corporation (CMHC).

Under the program, the CMHC would finance up to 10% of the purchase price of the home. Specifically, CMHC would offer first-time qualified buyers a 10% shared equity mortgage for a newly constructed home or a 5% shared mortgage for an existing home. The first-time home buyer would not be required to make any payments with respect to the portion of the purchase price financed by CMHC, with repayment required only when the home is sold at a future date.

The budget papers provide the following example of how the CMHC shared equity mortgage would work.

"If a borrower purchases a new $400,000 home with a 5% down payment and a 10% CMHC shared equity mortgage ($40,000), the borrower's total mortgage size would be reduced from $380,000 to $340,000, reducing the borrower's monthly mortgage costs . . . "

There are, of course, eligibility criteria for the program: those who wish to participate must be first-time home buyers who have a total household income of under $120,000. As well, the maximum mortgage size (including the CMHC portion) cannot be more than four times the home buyer's income. Consequently, the maximum allowable borrowing for someone participating in the Incentive program would be $480,000.

Canada Training Credit and related measures

Technological and economic changes which have taken place over the past few decades have meant that many individuals have found that their existing skills are no longer in demand, or that they lack the skills needed in today's economy, or both. To meet the needs of such individuals, the Budget introduces a Canada Training Credit (CTC).

The CTC, which will be offered starting with the 2019 tax year, will allow eligible individuals to accumulate up to $250 per year (to a lifetime limit of $5,000) in a notional account, to be used for training costs. No actual contribution or transfer of funds by an individual is required.

In order to be eligible to accumulate such amounts for purposes of the CTC in a particular year, an individual must meet the following criteria:

- have filed a tax return for the year;
- be between 25 and 65 years of age at the end of the year;
- be a Canadian resident for the entire year; and
- have earnings of between $10,000 and $147,667 (for 2019).

Each year, the Canada Revenue Agency will advise taxpayers of the current balance in their notional account.

When taxpayers choose to undertake some form of eligible training, they will be entitled to claim a refundable tax credit for up to half of the eligible tuition costs which are paid for such training. The actual amount of credit which can be claimed is one-half of tuition costs or the balance in taxpayer's notional training credit account, whichever is less.

Individuals who are employed and who wish to take time away from work to pursue additional training may receive a new Employment Insurance Training Support Benefit to help cover living expenses during that time. The new Benefit, which will be made available in late 2020, will be paid for a maximum of 4 weeks. The budget papers indicate that an EI Small Business Premium Rebate will be implemented to mitigate the impact of any increase in EI premiums for small businesses resulting from the new Support Benefit.

Finally, the federal government intends to consult with the provinces, which have responsibility for employment standards legislation, with respect to implementing leave provisions which enable individuals to take time away from work to pursue training and to then return to their jobs.

Changes affecting seniors

The need to ensure a degree of financial security in retirement is a top of mind issue for many seniors and for those approaching retirement and most of the Budget measures affecting seniors made relieving changes in that area.

Enhanced income exemptions for the Guaranteed Income Supplement (GIS)

Lower income seniors who are receiving Old Age Security benefits may also qualify for an additional benefit in the form of the federal Guaranteed Income Supplement, or GIS.

Eligibility for, and the amount of, any GIS receivable is determined by the amount of income received by the individual from other sources. The increasing number of OAS recipients who continue to work, at least on a part-time basis, can currently earn up to $3,500 per year in employment or self-employment income without affecting their eligibility for the GIS.

The Budget proposes two changes in this area, as follows.

- The current full exemption for employment or self-employment earnings is to be increased from $3,500 to $5,000

per year for each GIS recipient and, where applicable, his or her spouse.

- A partial exemption will be provided equal to 50% of up to $10,000 in employment or self-employment income for each GIS recipient and, where applicable, his or her spouse. The 50% partial exemption is additional to the full exemption for the first $5,000 of such income.

These changes will be effective for the OAS benefit year which runs from July 1, 2020 to June 30, 2021.

Automatic enrollment in the Canada Pension Plan

Canadians who have paid into the Canada Pension Plan during their working lives can begin receiving CPP retirement benefits at any time between the ages of 60 and 70.

Under current rules, an individual who wishes to begin receiving CPP retirement benefits must file an application with the federal government in order for payment of benefits to commence. However, there are individuals who, while eligible to receive CPP retirement benefits, may not be aware of their entitlement, or of the need to make an application in order for benefits to commence.

To ensure that such individuals receive the CPP retirement benefits to which they are entitled, the budget proposes that, where an individual is entitled to receive CPP retirement benefits but has not applied by the time they turn 70, that person will be automatically enrolled so that payment of benefits can start. This change will take effect beginning in 2020.

Additional annuity choices under registered plans

Under general tax rules, individual Canadian must, by the end of the year in which they turn 71 years of age, collapse their registered retirement savings plans (RRSPs). Generally, such taxpayers either transfer the balance in their RRSPs to a registered retirement income fund (RRIF) or they use such funds to purchase an annuity. Where the annuity option is chosen, the taxpayer provides the annuity issuers with a lump sum amount of funds and receives in return a stream of periodic payments, either for a fixed term or for the remainder of his or her life. Such payments begin when the annuity is purchased.

The Budget measures include a proposal to permit two new types of annuities to be made available, effective starting in 2020.

Advanced life deferred annuities

Advanced life deferred annuities (ALDA) are an exception to the general tax rule that an annuity purchased with registered funds must commence payments when the taxpayer turns 71. New rules will provide that funds in such registered plans may be used to purchase an annuity, the terms of which can provide for an income stream to be deferred until the end of the year in which the annuity holder turns 85 years of age. An ALDA will be able to be purchased using funds from an RRSP, a registered retirement income fund (RRIF), a deferred profit sharing plan, a pooled registered pension plan or a defined contribution registered pension plan.

Each individual will be subject to a lifetime ALDA dollar limit of $150,000 from all qualifying plans.

Variable payment life annuities

Under current tax rules, retirement benefits from a pooled registered pension plan (PRPPs) or a defined contribution registered pension plan (RPP) must be provided to a member of such a plan by means of a transfer of funds to the member's RRSP or RRIF, variable benefits paid from the member's account, or through an annuity purchased from a licensed annuities provider.

Proposed changes announced in the Budget will allow such plans to provide a variable payment life annuity (VPLA) to members directly from the plan. Payments from such a VPLA must start by the end of the year in which the member turns 71 or the end of calendar year in which the VLPA is acquired, whichever is later.

Registered disability savings plans

Registered disability savings plans (RDSPs) are savings vehicles which allow disabled individuals (and their families) to save money on a tax-assisted basis. An RDSP can be established only for an individual who is eligible for the disability tax credit (DTC).

Under current tax rules, specific steps must be taken by plan administrators where an individual who is the beneficiary of an RDSP ceases to qualify for the DTC. Generally, no further contributions can be made, and the plan must be closed within a specified time period.

Change proposed in the budget will eliminate the current time limitation on the period during which an RDSP may remain open after its beneficiary ceases to qualify for the DTC. The current requirement that, in order for the plan to remain open, medical certification must be obtained to establish that the beneficiary is likely to become eligible for the DTC in the future is to be eliminated.

The changes will apply after 2020.

Medical expense tax credit

The federal government and each of the provinces and territories provide taxpayers with a non-refundable tax credit which can be claimed for qualifying medical expenses which are paid on an out-of-pocket basis. For each individual that credit is claimable in respect of such expenses which exceed the lesser of $2,352 and 3% of the individual's net income.

Where cannabis products are used for medical purposes, the cost of such products is a qualifying medical expense for purposes of the medical expense tax credit. The Budget proposes amendments to the *Income Tax Act* to reflect that, effective for expenses incurred after October 17, 2018.

Donations of cultural property

The Canadian tax system provides incentives, in the form of a tax credit and a capital gains exemption, to individuals who donate cultural property. In order to qualify for such incentives, the property donated must meet certain criteria, including that it be of "outstanding significance" by reason of its close association with Canadian history or national life.

The government proposes to amend the *Income Tax Act* in order to remove the current requirement that property be of "national importance" in order to qualify for the available incentives. As outlined in the budget papers, the change is being made to address concerns that "donations of important works of art that are of outstanding significance but of foreign origin may not qualify for the enhanced tax incentives". The change is effective in respect of donations made after March 19, 2019.

The full Budget Papers for the 2019-20 Federal Budget are available on the Finance Canada website at https://www.budget.gc.ca/2019/home-accueil-en.html.