INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

11 King Street West, Suite 1600, Toronto ON M5H 4C7
T 416.364.2754 | F 416.364.4861

www.iiac.ca

Summary of 2015 Federal Budget
Highlights Relevant to Canada's Investment Industry

For additional details on all the items below, refer to the 2015 Federal Budget available at: ***http://www.budget.gc.ca/****. Please note that Budget announcements requiring legislative amendment remain proposals until passed into law, and could be subject to change. The information in this summary is of a general nature and current as of publication. It should not be regarded as comprehensive or a substitute for professional advice.*

Balancing the Federal Budget and the Economic Outlook

- The Government announced that the federal deficit has been reduced from $55.6 billion in 2009-10 (at the height of the global financial crisis) to a projected surplus of $1.4 billion for 2015–16. The Government also forecasts future surpluses through to 2019-20.
- Nominal GDP growth of 1.6% is now expected for 2015; increasing to 4.9% in 2016, 4.7% in 2017 and 4.3% in 2018. Both nominal and real GDP growth are expected to be depressed in Q1 2015, but accelerating through the rest of the year.
- Risks around the economic outlook are largely external to the Canadian economy, stemming from uncertainty around the future of oil prices and global growth.

Improving Retirement and Savings Programs

- The Government will increase the Tax-Free Savings Account (TFSA) annual contribution limit to $10,000, effective for the 2015 and subsequent taxation years. The annual limit will not be indexed to inflation going forward.
- The Government will reduce the minimum withdrawal factors for Registered Retirement Income Funds (RRIFs) to provide seniors with increased flexibility to manage and preserve their retirement savings. The new RRIF factors will be lower than the existing factors and will range from 5.28% at age 71 to 18.79% at age 94 (for the full list of current and proposed RRIF factors, see Table A5.2 in Annex 5 on

page 448 of the Federal Budget Plan document). The Government estimates that the new RRIF factors will permit about 50% more capital to be preserved to age 90, compared to the existing factors. These changes will apply for the 2015 and subsequent taxation years.

- There will be no change to the minimum withdrawal factors that apply in respect of ages 70 and under, which will continue to be determined by the formula 1/(90-age).

- RRIF holders who at any time in 2015 withdraw more than the reduced 2015 minimum amount will be permitted to re-contribute the excess (up to the amount of the reduction in the minimum withdrawal amount provided by this measure) to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year.

Cooperative Capital Markets Regulatory System (CCMRS)

- British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island, Yukon and Canada are engaged in the creation of the CCMRS. Updated consultation draft capital markets legislation, along with draft initial regulations, will be released in Summer 2015 for public comment.

- The Government continues to invite all provinces and territories to participate in the implementation of the CCMRS.

Encouraging Business Investment and Access to Finance

- The Government proposes to further reduce the small business corporate income tax rate from 11% to 9% by 2019 (which would apply to the first $500,000 per year of qualifying active business income of a Canadian controlled private corporation (CCPC)). The 2% reduction will be phased in as follows:

  - 10.5% effective January 1, 2016;
  - 10% effective January 1, 2017;
  - 9.5% effective January 1, 2018; and
  - 9% effective January 1, 2019.

- The general Federal corporate income tax rate remains at 15%.

- The Government also proposes to increase the Lifetime Capital Gains Exemption (LCGE) to $1 million for owners of farm and fishing businesses, applying to dispositions of qualified farm or fishing property that occur on or after April 21, 2015. The LCGE applicable to dispositions of qualified small business shares remains at $813, 600 for 2015, and will continue to be indexed to inflation for future years.

- The Government will also extend the accelerated capital cost allowance for investment in machinery and equipment used in manufacturing or processing (which would have expired at the end of 2015) until the end of 2025. This will allow businesses to recover the cost of capital assets more quickly, and to better plan for new investments.

Updates on Tax Compliance / Tax Avoidance Measures

- To reduce the compliance burden on taxpayers required to file Form T1135 (Foreign income Verification Statement), the Government is revising the form (still under development by the CRA). If the total cost of a taxpayer's specified foreign property is less than $250,000 throughout the year, the taxpayer will be able to report these assets to the CRA under a new simplified foreign asset reporting system. The current reporting requirements will continue to apply to taxpayers with specified foreign property that has a total cost at any time during the year of $250,000 or more.

- Canada is one of more than 90 jurisdictions that intend to implement the OECD/G-20 Common Reporting Standard (CRS) for the automatic exchange of financial account information. It is proposed that the CRS be implemented in Canada as of July 1, 2017 for first exchange of information with other jurisdictions in 2018.

- The Government will modify the dividend rental arrangement rules in the *Income Tax Act (Canada)* to deny the inter-corporate dividend deduction on dividends received by a taxpayer on a Canadian share in respect of which there is a synthetic equity arrangement. A "synthetic equity arrangement" will be considered to exist where a taxpayer (or a person who does not deal at arm's length with a taxpayer) enters into an agreement that has the effect of providing to a counterparty all or substantially all of the risk of loss and opportunity for gain or profit in respect of the share. Where a person that does not deal at arm's length with the taxpayer enters into such an agreement, a synthetic equity arrangement will be considered to exist if it is reasonable to conclude that the non-arm's length person knew, or ought to have known that the effect described would result. The Budget provides an exception to this proposed rule where agreements are traded on a recognized derivatives exchange unless it can reasonably be considered that the taxpayer knows, or ought to have known, the identity of the counterparty to the agreement.

This measure will apply to dividends that are paid or become payable after October 2015. The Government invites stakeholders to submit comments on these proposed measures by August 31, 2015 to legislation-taxation@fin.gc.ca.

- The Government is also planning to amend sections of the *Income Tax Act (Canada)* to apply anti-avoidance rules more broadly to prevent the inappropriate reductions of a capital gain by way of the payment of a deductible inter-corporate dividend. If one of the purposes of the dividend is to significantly reduce the fair market value of a share or significantly increase the total cost of the property of the dividend recipient, the dividend will be treated as a gain from the disposition of capital property. These amendments are proposed to apply to dividends received by a corporation on or after April 21, 2015.

Strengthening Consumer Protection Framework for Banks and Financial Literacy

- The Government will amend the *Bank Act* to modernize Canada's financial consumer protection framework for banks, including disclosure of information, improved access for basic banking services, expanded prohibitions on certain business practices and cooling-off periods, expanded corporate governance requirements, improved transparency and accountability and reporting on complaints.

- The Government will release shortly the National Strategy on Financial Literacy that will set out goals and priorities for financial literacy efforts in Canada.

Encouraging Charitable Donation of Private Shares

- The Budget proposes to provide an exemption from capital gains tax in respect of certain dispositions of private corporation shares and real estate (applicable to dispositions occurring after 2016) where:

    - Cash proceeds from the disposition of the private corporation shares or real estate are donated to a qualified donee within 30 days after the disposition; and

    - The private corporation shares or real estate are sold to a purchaser that is dealing at arm's length with both the donor and the qualified done to which cash proceeds are donated. Certain anti-avoidance rules will apply.

Investing in Infrastructure

- The government will provide PPP Canada Inc. with new funding of $750 million over two years, starting in 2017-18, and $1 billion per year ongoing thereafter for a new

Public Transit Fund. This fund will support public transit projects in Canadian cities, and will be allocated based on merit to projects delivered through alternative financing and funding mechanisms involving the private sector, including P3s. More details will be announced by the Government later in 2015.

- The Government will undertake a public consultation on the usefulness of the rule that restricts federal pension funds from holding more than 30% of the voting shares of a company.

Fostering Trade and Resource Development

- Canada is working toward concluding the Trans-Pacific Partnership, a trade agreement between 12 Asia-Pacific nations, including Canada's NAFTA partners.

- The Government is proposing a new export market development program that will help small and medium sized enterprises (SMEs) to develop export opportunities, especially with high-growth emerging markets. More details will be announced by the Government later in 2015.

- The Government confirmed its previously announced intention to extend the 15% Mineral Exploration Tax Credit for an additional year, until March 31, 2016. This tax credit helps junior exploration companies raise capital by providing investors with an incentive in flow-through shares issues to finance mineral exploration, in addition to the deduction provided to the investor for the exploration expenses "flowed through" by the company that issues the shares.

- The Government also confirmed it previously announced intention to modify the tax rules to ensure that the costs of environmental studies and community consultations that are required in order to obtain an exploration permit will be eligible for treatment as Canadian Exploration Expenses (CEE).

Improving Corporate Governance

- Proposing amendments to the Canada Business Corporations Act (CBCA) to promote gender diversity among public companies, using the "comply or explain" model of disclosure currently required for TSX-listed companies and most provincial securities regulators.

- Amendments to the CBCA will also be proposed to modernize director election processes and communications with shareholders and to strengthen corporate transparency through an explicit ban on bearer instruments, through which the identity of the owner can be concealed.

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Other Proposals of Interest:

- The Government will provide $58 million over five years, starting in 2015–16, to further protect the Government of Canada's essential cyber systems and critical infrastructure against cyber attacks. Additionally, the Government will provide $36.4 million over five years to support the operators of Canada's vital cyber systems in addressing cyber security threats, as required by new legislation.

- The Government intends to provide additional support to small businesses by continuing to freeze Employment Insurance (EI) premiums until 2016, followed by a committed reduction in EI premiums to a seven-year break-even rate in 2017. This is expected to result in substantial reductions in the EI premium rate (21%) in 2017.

- The Compassionate Care Benefits (financial assistance to people who have to be away from work temporarily to care for a family member who is gravely ill with a significant risk of death) under the EI program will be extended from six weeks to six months, as of January 2016.

- The Government reconfirmed previously announced proposals, including:

    - The Enhanced Universal Child Care Benefit that would provide an increased benefit of $160 per month for children under the age of 6, and a new benefit of $60 per month for children aged 6 through 17, effective January 1, 2015 (previously announced October 2014).

    - A $1000 increase in each of the maximum dollar amounts that can be claimed under the Child Care Expense Deduction, effective for the 2015 taxation year (previously announced October 2014).

    - The Family Tax Cut, a federal non-refundable tax credit of up to $2000 for couples with children under the age of 18, effective for the 2014 taxation year (previously announced October 2014).