Summary of 2018 Federal Budget
Highlights Relevant to Canada's Investment Industry

For additional details on all the items below, refer to the 2018 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 advice, or a substitute for professional advice.*

Passive Investments inside a Private Corporation

October 2017 commitments:

- Passive investments already made by private corporations' owners, including the future income earned from such investments, are protected;
- Going forward, a $50,000 threshold on passive income annually would be available to provide more flexibility for business owners to hold savings for multiple purposes, including savings that can later be used for personal benefits, such as sick leave, maternity or parental leave, or retirement; and
- Incentives would be maintained so that Canada's venture capital and angel investors can continue to invest in the next generation of Canadian innovation.

Budget 2018 proposes two <u>new</u> measures to limit deferral advantages from holding passive savings in a corporation:

1. An additional eligibility mechanism for the small business deduction, based on the corporation's passive investment income. Under the proposal, if a corporation and its associated corporations earn more than $50,000 of passive investment income in a given year, the amount of income eligible for the small business tax rate would be gradually reduced. It is proposed that the small business deduction limit be reduced by $5 for every $1 of investment income above the $50,000 threshold such that the business limit would be reduced to zero at $150,000 of investment income.
2. Limit tax advantages that larger CCPCs can obtain by accessing refundable taxes on the distribution of certain dividends. Budget 2018 proposes that CCPCs no longer be able to obtain refunds of taxes paid on investment income while distributing dividends from income

100 Wellington Street West, TD West Tower, Suite 1910, P.O. Box 173, Toronto, ON M5K 1H6
Telephone: 416.364.2554 Fax: 416.364.4861

taxed at the general corporate rate. Refunds will continue to be available when investment income is paid out.

The two new measures will apply to taxation years that begin after 2018. In total, Budget 2018's proposals on passive investments are targeted—less than 3 per cent of CCPCs will be affected, approximately 50,000 private corporations.

Closing Tax Loopholes

- The Government proposes changes to existing anti-avoidance rules meant to prevent Canadian banks and other financial institutions from gaining a tax advantage by creating artificial losses that can be used against other income through the use of sophisticated financial instruments, such as Synthetic Equity Arrangements, Securities Lending Arrangements and Structured Share Repurchase transactions.

- The Government also proposes to clarify the application of certain rules for limited partnerships to prevent taxpayers from obtaining unintended tax advantages through the use of complex partnership structures.

Modernizing the Deposit Insurance Framework

- Budget 2018 proposes to introduce legislative amendments to the *Canada Deposit Insurance Corporation Act* to modernize and enhance the Canadian deposit insurance framework to better reflect products currently offered in the market, address the complexity of trust deposits, help protect depositors and improve understanding of insurance coverage.

Improving Cyber Security

- The Government proposes to commit $155.2 million over five years, and $44.5 million per year ongoing, to the Communications Security Establishment to create a new Canadian Centre for Cyber Security.

- The Government also proposes to provide $116.0 million over five years, and $23.2 million per year ongoing, to the RCMP to support the creation of the National Cybercrime Coordination Unit.

Enhancing the Security of Taxpayer Information

- The Government will provide the CRA with $30.0 million over five years to enhance the security measures that protect the confidentiality of sensitive tax payer information.

Financial Market Infrastructure (FMI) Resolution

- Budget 2018 proposes to introduce legislative amendments that would implement a resolution framework for Canada's systemically important financial market infrastructures FMIs (e.g. Canadian Depository for Securities (CDS), Canadian Derivatives Clearing Corporation (CDCC)). The objectives of the FMI resolution regime are to maintain the critical services of the FMI, promote financial stability, and reduce potential public exposure to loss.

Combatting Aggressive International Tax Avoidance

To strengthen Canada's international tax rules, the Government is proposing measures to:

- Ensure that these rules cannot be avoided through the use of so-called "tracking arrangements" (which allow taxpayers to "track" to their specific benefit the return from assets that they contribute to a foreign resident corporation).

- Prevent unintended, tax-free distributions by Canadian corporations to non-resident shareholders through the use of certain transactions involving partnerships and trusts.

Common Report Standard

- The recent implementation of the OECD/G20 Common Reporting Standard allows jurisdictions, including Canada, to automatically exchange information on financial accounts held by non-residents. To ensure that the information received is properly leveraged to address the highest-risk population of tax evaders, the Canadian Government will provide $38.7 million over five years to the CRA. This will allow the CRA to expand its offshore compliance activities through the use of improved risk assessment system and business intelligence, and will facilitate the hiring of additional auditors.

National Security Review of Foreign Investments

- Budget 2018 proposes to provide $1.24 million for Public Safety Canada and the Canadian Security Intelligence Service to support continued operations related to the Investment Canada Act's National Security Review Program. The National Security Review Program provides a framework for reviewing foreign investments for various reasons, e.g. to protect defence capabilities, safeguard the transfer of sensitive technologies, and ensure no potential involvement from organized crime.

Increased Reporting Requirements for Trusts

- Budget 2018 proposes to improve the availability of beneficial ownership information through enhanced tax reporting requirements for certain trusts, applicable in 2021 and later years.

Wage Earner Protection Program

- The Government will propose legislative amendments to the *Wage Earner Protection Program Act* to increase the maximum payment under the Wage Earner Protection Program to seven weeks of Employment Insurance insurable earnings from four. Changes will also be made to make eligibility for the Program more equitable, so that workers who are owed wages, vacation, severance or termination pay when their employer files for bankruptcy or enters receivership receive greater support.

Introducing the Canada Workers Benefit (CWB)

- The Working Income Tax Benefit (WITB) is a refundable tax credit that supplements the earnings of low-income workers. In Budget 2018, the Government proposes to strengthen the program by making it more generous, and making the benefit more accessible. This strengthened benefit will be named the Canada Workers Benefit (CWB) and will take effect in 2019.

- The Government proposes to increase maximum benefits under the CWB by up to $170 in 2019 and increase the income level at which the benefit is phased out completely. The Government also proposes to increase the maximum benefit provided through the CWB disability supplement by an additional $160 to offer greater support to Canadians with disabilities who face financial barriers to entering the workforce.

Protecting Canadian Pensions

- To address concerns related to the collapse of corporations with large unfunded pension liabilities and the hardship this causes, the government will undertake consultations focusing on retirement security for Canadians.