2013 Federal Budget Highlights

The Minister of Finance, James M. Flaherty, presented the 2013-2014 budget on March 21, 2013. The budget focuses on jobs training, infrastructure and closing perceived tax "loopholes".

The Minister announced a projected deficit for 2012-2013 of $25.9 billion falling to $18.7 billion in 2013-2014 and continues to decline to $6.6 billion in 2014-2015 until 2015-2016, when a surplus is projected.

The following is a summary of the highlights contained in the budget, with a focus on those items of particular interest to the financial services industry.

Highlights

Economic Context

The federal debt-to-GDP ratio is still projected to be just under 34% for 2013-2014 and decline to 28.1% by 2017-2018.

The Canadian economy is forecasted to grow 2.1 % in 2012 and 2.0% over the next year. Average growth over the next five years is projected to be 2.3%. Unemployment is expected to continue to decline over the next five years from 7.5% this year to 6.6% by 2016. Inflation is projected to average around 2.1% over the next five years with 2012 projected to be at 2.4%.

Tax Rates

No changes are proposed to the corporate, or GST/HST tax rates.

However, the budget proposes to adjust the gross-up factor that applies to non-eligible dividends to 18% (from 25%) and the dividend tax credit rate to 13/18 (from 2/3). The net result is that the federal effective tax rate on non-eligible dividends will be 21.22% (from 19.58%). This measure applies to non-eligible dividends paid after 2013.

New Grants

A major job-related initiative in the budget is the Canada Job Grant Program. This program could provide up to $15,000 per person or more for training. To be eligible, businesses must have a plan to train unemployed and under-employed Canadians for an existing or better job.

Leveraging Arrangements

The budget introduces rules to eliminate certain tax benefits related to two leveraged life insurance arrangements known as "leveraged insured annuities" (or "LIAs") and "10/8 arrangements."

- LIAs will be subject to an annual accrual-based taxation, no deduction will be allowed for premiums and the capital dividend account (CDA) of a private corporation will not be increased by the death benefit received. The fair market value of an annuity contract used in this structure will be deemed to be equal to the total of the premiums paid under the contract, not nil .These measures will generally apply to taxation years that end after March 20, 2013, but will not apply to LIAs for which all borrowings were entered into before March 21, 2013.

- For 10-8 arrangements, no deductions will be allowed for interest on related borrowings and insurance premiums that relate to a period after 2013 and no increase in CDA will arise for any death benefit that becomes payable after 2013 and that is associated with the borrowing. These measures will apply to existing arrangements,
- The CRA will be able to collect 50% of the disputed tax, interest and penalties on leveraged charitable donation tax shelter arrangements under review.

Other Tax Measures

- Effective for taxation year 2014, the lifetime capital gains exemption (LCGE) for dispositions of eligible property will be increased by $50,000 to $800,000. For taxation years after 2014, the LCGE will be indexed to inflation.
- The government intends to consult on the potential introduction of measures that would eliminate the tax benefits associated with the graduated tax rates enjoyed by certain testamentary and certain inter vivos trusts. A consultation paper inviting comments from the public will be released.
- A temporary First-time Donor's Super Credit (FDSC) is introduced that can be claimed by first-time donors only once in a taxation year after 2012 and before 2018. The FDSC is an additional 25% tax credit (on top of claiming the Charitable Donations Tax Credit (CDTC)) on up to $1,000 of donations made after March 20, 2013. An individual is a first time donor if neither the individual nor the individual's spouse or common-law partner has claimed the CDTC or FDSC in any taxation year after 2007.
- Measures to ensure that farming losses of a taxpayer will be subject to the "restricted farm loss" rules where the taxpayer's chief source of income is neither farming nor a combination of farming and some other source of income that is a subordinate source of income. The budget also proposes to increase the restricted farm loss limit to $17,500 of deductible farm losses annually. These measures will apply to taxation years that end after March 20, 2013.
- Character Conversion Arrangements – derivative-based return on a derivative forward agreement having duration of more than 180 days to be treated as ordinary income rather than capital gains. The income or loss would adjust cost base of the capital property. These measures will apply to arrangements entered into or extending beyond March 20, 2013.

Other Measures

- Infrastructure Spending – there were several projects announced designed to improve infrastructure and promote job growth.

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