The Federal Budget for 2016 included a host of measures of interest to many Canadians. The following summary is courtesy of Mackenzie Financial. The summary includes potential action items.

Measures For Investors

✓ **Corporate Class Mutual Funds**

Canadian mutual funds can be in the legal form of a trust or a corporation. While most funds are structured as mutual fund trusts, many are also structured as mutual fund corporations (otherwise known as corporate class mutual funds). Corporate class funds offer investors different types of asset exposure in different funds, however each fund is structured as a separate class of shares within the mutual fund corporation. One of the key benefits for investors is their ability to exchange shares of one class of the mutual fund corporation for shares of another class on a tax deferred basis. Capital gains taxation is deferred until the investor sells the investment for cash, or switches to an investment outside the mutual fund corporation.

Budget 2016 proposes to amend the Income Tax Act so that an exchange of shares within the corporate class structure will be considered a disposition for tax purposes at fair market value, thus eliminating the tax deferral and triggering a capital gain if the investment has risen in value at the time of the switch. This measure will not apply if the switch is made into a different series of shares within the same class (i.e., Series A to Series PW). This measure will apply to dispositions of shares that occur after September 2016.

Planning Point 1: This change eliminates one of the tax benefits corporate class funds offer investors. It is important to note that corporate class mutual funds still remain a tax effective investment for non-registered investors since taxable distributions from corporate class funds are generally more tax efficient than distributions from mutual fund trusts.

Planning Point 2: If you have clients with corporate class investments who need to make strategic asset allocation changes to their portfolios, consider making those changes and switch to more suitable corporate class funds by September 2016 to avoid paying capital gains tax on the changes.

- ✓ **Labour-Sponsored Venture Capital Corporation (LSVCC) tax credits**

Prior to 2015, individuals acquiring LSVCC shares qualified for a 15% federal tax credit for investments of up to $5,000 each year. The federal LSVCC tax credit was reduced to 10% for the 2015 taxation year and to 5% for the 2016 taxation year. The credit was scheduled to be eliminated for the 2017 and subsequent taxation years.

To facilitate access to venture capital for small and medium-sized businesses and support saving by the middle class, Budget 2016 proposes to restore the Labour-Sponsored Venture Capital Corporations (LSVCC) tax credit to 15% for share purchases of provincially registered LSVCCs for 2016 and subsequent tax years.

- ✓ **Mineral Exploration Tax Credit**

The 15% Mineral Exploration Tax Credit helps junior mineral exploration companies raise capital by providing an incentive to individual investors in flow-through shares issued to finance "grassroots" mineral exploration. This credit is in addition to the deduction provided to the investor for the exploration expenses "flowed through" from the company that issues the shares. The credit is scheduled to expire on March 31, 2016. Given this challenging time for junior mining companies, Budget 2016 proposes to extend the credit for an additional year, until March 31, 2017.

- ✓ **Donation of Real Estate & Shares of Private Corporations**

Budget 2015 included a proposal to provide, beginning in 2017, a capital gains tax exemption on certain dispositions of private company shares or real estate, where cash proceeds from the disposition are donated to a registered charity or other qualified done within 30 days of the sale. Budget 2016 has confirmed that the Government does not intend to proceed with this measure.

- ✓ **Sale of Linked Notes**

Linked notes are debt instruments, often issued by financial institutions, which offer investors a return on an investment which is linked in some manner to the performance of one or more reference assets or indexes over the term of the obligation. The reference asset or index can be a basket of stocks, a stock index, a commodity, a currency or units of an investment fund. Two types of linked notes include principal-protected notes (PPN) and principal-at-risk notes. The Income Tax Act deems the return on these investments to be interest income if they are held to maturity and capital gains if they are sold prior to maturity.

Budget 2016 proposes to amend the Income Tax Act to include a deeming rule with respect to accrued interest so that regardless of whether the investor sells the linked note prior to maturity or holds the investment to maturity, the returns on the linked note will be in the form of interest income and fully taxable.

Planning Point: This change eliminates the opportunity to convert interest income into capital gains by selling a linked note, such as principal-protected notes and principal-at-risk notes prior to maturity.

Personal Tax Changes

✓ Federal Tax Rates

No further changes were introduced to personal federal income tax rates or income brackets. The Federal government had already announced a tax cut in December 2015 for the middle income tax bracket from 22% to 20.5% as well as a 4% increase to taxpayers earning income in excess of $200,000 effective January 1, 2016.

A number of tax rules use the top federal income tax rate in their calculation. Therefore, Budget 2016 introduced the following amendments to reflect the new top marginal income tax rate for individuals that will;

- provide a 33% charitable donation tax credit (on donations above $200) to trusts that are subject to 33% on taxable income;
- apply the new 33% top rate on excess employee profit sharing plan contributions;
- increase from 28% to 33% the tax rate on personal services business income earned by corporations;
- amend the capital gains refund mechanism for mutual fund trusts to reflect the new 33% top rate in the formulas that are used in computing refundable tax;
- amend the recovery tax rule for qualified disability trusts to refer to the new 33% top rate.

Planning Point: The Mackenzie 2016 Tax Planning Quick Reference Guide is updated with all tax facts and figures that you may refer to for your 2016 planning.

Measures For Families

✓ **Canada Child Benefit**

The current system consists of the Canada Child Tax Benefit (CTTB) and the Universal Child Care Benefit (UCCB). Families with $30,000 in net income and one child would have received $4,852 in child benefits, after tax, if their child is under the age of 6 and $3,916 if their child is aged 6 through 17.

The Government is eliminating the CTTB and UCCB and introducing the Canada Child Benefit (CCB). The CCB will provide 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. 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. Canada Child Benefit payments under this measure will start in July 2016. For families caring for a child with a severe disability, the Child Disability Benefit will continue to provide an additional amount of up to $2,730 per child eligible for the Disability Tax Credit.

Planning Point: Review the impact of the Canada Child Benefit on household cash flow and look to utilize any cash flow improvements to increase savings or reduce debt.

✓ **Elimination of Family Tax Credit**

A non-refundable income splitting tax credit is available for couples with at least one child under the age of 18. The credit allows a higher-income spouse or common-law partner to notionally transfer up to $50,000 of taxable income to their spouse or common-law partner for the purpose of reducing the couple's total income tax liability by up to $2,000.

Budget 2016 proposes to eliminate the Family Tax Credit effective for the 2016 and subsequent taxation years. Pension income splitting will not be affected by this change.

Planning Point: 2015 Income Tax Returns are due April 30, 2016. Be sure families take advantage of this income splitting opportunity one last time.

✓ **Elimination of Children's Fitness and Arts Credits**

The Children's Fitness and Arts Tax Credits are currently worth up to $150 and $75 per child on up to $1,000 and $500 in eligible expenses, respectively. The Children's Fitness and Arts Tax Credits will be reduced by half for 2016, and both credits will be eliminated as of 2017.

Planning Point: The full credit is still available for 2015 tax returns due April 30, 2016. Families should still track eligible expenses in 2016 as credits will only be reduced and not eliminated until 2017.

✓ **Northern Residents Deduction**

Individuals who live in prescribed areas in northern Canada for at least six consecutive months beginning or ending in a taxation year may claim the northern residents deductions in computing their taxable income for that year. Budget 2016 proposes to increase the maximum daily residency deduction to $22 from $16.50. This measure will be effective as of January 1, 2016

Measures For Students and Educators

✓ **Enhancing Canada Student Grants**

Budget 2016 proposes to increase Canada Student Grant amounts by 50%:

- from $2,000 to $3,000 per year for students from low-income families;
- from $800 to $1,200 per year for students from middle-income families; and
- from $1,200 to $1,800 per year for part-time students.

Increased grant amounts will be available for the 2016–17 academic year. Budget 2016 proposes to introduce a flat-rate student contribution to determine eligibility for Canada Student Loans and Grants to replace the current system of assessing student income and financial assets.The new eligibility thresholds are expected to be in place for the 2017–18 academic year.

Planning Point: Households with students should be reviewing the Canada Student Grant program for eligibility changes and to ensure they benefit from the increased grants starting this year.

✓ **Student Loan Repayments**

Proposals have been made to increase the loan repayment threshold under the Canada Student Loans Program's Repayment Assistance Plan to ensure that no student will have to repay their Canada Student Loan until they are earning at least $25,000 per year.

Planning Point: Students nearing graduation or recently graduated will be responsible for student loan repayments once they are earning $25,000 or more per year.

✓ Elimination of Education and Textbook Amounts

The education tax credit provides a 15% non-refundable tax credit of $400 per month of full-time enrolment in a qualifying educational program and $120 per month of part-time enrolment in a specified educational program at a designated educational institution. The textbook tax credit provides a 15% non-refundable tax credit of $65 per month of full-time enrolment in a qualifying educational program and $20 per month of part-time enrolment in a specified educational program at a designated educational institution. A tuition tax credit is also available that provides a 15% non-refundable tax credit on eligible fees for tuition and eligible examination fees paid to certain educational institutions.

The Budget proposes to eliminate the education and textbook tax credits. This measure will apply effective January 1, 2017. Unused education and textbook credit amounts carried forward from years prior to 2017 will remain available to be claimed in 2017 and subsequent years.

Planning Point: Continue claiming or carrying-forward education and textbook credit amounts in 2016 to maximize your future claims for these credits in 2017 and subsequent years. Don't forget the tuition tax credit remains unchanged!

✓ Teacher and Early Childhood Educator Tax Credits

The Budget proposes to introduce a teacher and early childhood educator school supply tax credit. This measure will allow an employee who is an eligible educator to claim a 15% refundable tax credit based on an amount of up to $1,000 in expenditures made by the employee in a taxation year for eligible supplies. This measure applies to supplies acquired on or after January 1, 2016.

For the cost of supplies to qualify for the credit, employers will be required to certify that the supplies were purchased for the purpose of teaching or otherwise enhancing learning in a classroom or learning environment. Individuals making claims will be required to retain their receipts for verification purposes.

Planning Point: Inform teacher and early childhood educator clients about this new credit and advice them to maintain receipts for eligible expenses starting in 2016.

Measures For Seniors

✓ **Age Eligibility for Old Age Security**

Budget 2016 proposes to cancel the provisions in the Old Age Security Act that increase the age of eligibility for Old Age Security and Guaranteed Income Supplement benefits from 65 to 67 and Allowance benefits from 60 to 62 over the 2023 to 2029 period.

✓ **Increase the Guaranteed Income Supplement Top-up Benefit**

Budget 2016 proposes to increase the Guaranteed Income Supplement (GIS) top-up benefit by up to $947 annually for single seniors starting in July 2016. This enhancement more than doubles the current maximum GIS top-up benefit and represents a 10% increase in the total maximum GIS benefits available to the lowest-income single seniors.

Single seniors with annual income (other than OAS and GIS benefits) of about $4,600 or less will receive the full increase of $947. Above this income threshold, the amount of the increased benefit will be gradually reduced and will be completely phased out at an income level of about $8,400. Benefits will be adjusted quarterly with increases in the cost of living.

Planning Point: Update families with GIS recipients of this tax-free increase to their monthly income.

Increased Support for Seniors Living Apart

Budget 2016 proposes to introduce amendments to the Old Age Security Act that will ensure that couples who receive Guaranteed Income Supplement and Allowance benefits and have to live apart for reasons beyond their control (such as a requirement for long-term care) will receive higher benefits based on their individual incomes.

Planning Point: Families with elderly members in long-term care facilities can benefit from increased GIS amounts.

✓ **Enhancing CPP**

The Federal government will continue consultations with the provincial and territorial governments with the goal of making a collective decision on enhancing CPP before the end of 2016.

Business Tax Changes

✓ **Small Business Tax Rate**

Small business tax rates apply on the first $500,000 of active business income and were legislated to decrease by 0.50% per year until 2019, when the rate is scheduled to reach 9%. Budget 2016 proposes that the small business tax rate remain at 10.5% after 2016 and further reductions to the small business rate will be deferred.

In order to preserve the integration of the personal and corporate income tax systems, Budget 2016 also proposes to maintain the current gross-up factor and Dividend Tax Credit (DTC) rate applicable to non-eligible dividends. Expressed as a percentage of the grossed-up amount of a non-eligible dividend, the effective rate of the DTC in respect of such a dividend will remain at 10.5% after 2016. For more information, please refer to Mackenzie's 2016 Income In A Corporation Reference card.

Planning Point: Business Owners still benefit from a significant tax deferral when earning active business income in a corporation and retaining profits in their corporation. This tax deferral allows business owners to accumulate wealth rapidly within their corporations.

✓ **Corporate Investment Tax Rates**

The Federal Government has already announced a 4% increase to the tax rate on investment income earned in a Canadian-controlled private corporation (CCPC). In addition, Part IV tax applicable to dividends earned by a CCPC has also increased from 33 1/3% to 38 1/3% with a similar change to the dividend refund rate on taxable dividends paid by a corporation. All changes are effective January 1, 2016.

Planning Point: The increase in corporate tax rates on investment income require business owners with passive assets in a corporation (operating or holding company) to maintain a tax efficient investment strategy with their corporate investment assets.

✓ **Multiplication of the Small Business Deduction**

The small business deduction includes rules that are intended to preclude the multiplication of access to the deduction. Budget 2016 proposes changes to address concerns about partnership and corporate structures that multiply access to the small business deduction.

✓ **Eligible Capital Property**

Eligible Capital Property (ECP) for income tax purposes includes intangible property such as goodwill and licences, franchises and quotas of indeterminate duration, as well as certain other rights. Budget 2016 proposes to repeal the eligible capital property regime which is currently 7% and replace it with a new capital cost allowance (CCA) class to simplify tax compliance. As part of this change, Budget 2016 also proposes to allow small balances of eligible capital property carried over to the new CCA class to be deducted more quickly, and to allow up to $3,000 in incorporation costs to be deducted as a current expense. The latter measure will allow approximately 80% of newly incorporated businesses to deduct the full amount of the incorporation expenses in their initial year.

✓ **Consultation on Active vs. Investment Business**

Budget 2015 announced a review of the circumstances in which income from a business, the principal purpose of which is to earn income from property, should qualify as active business income and therefore potentially be eligible for the small business deduction. The examination of the active versus investment business rules is complete and the Government is not proposing any modification to these rules at this time.