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Marmer Penner Inc. Newsletter

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2015 Federal Budget – Family Law Implications

Finance Minister Joe Oliver tabled the 2015 federal budget yesterday. There were no changes to personal income tax rates but there were measures announced that may impact income pursuant to the *Federal Child Support Guidelines* ("the *Guidelines*"), small business valuations, certain contingent income tax costs of disposition and Section 7 after-tax costs.

Business Measures

The federal portion of the small business income tax rate will decrease from the current 11% as follows:

2016	10½%
2017	10%
2018	9½%
2019	9%

As a consequence, the effective income tax rate on dividends earned from this low-rate income pool, known as "ineligible dividends", will increase by about 1.8% over this same four-year

period. This is done in order to maintain "income tax integration", meaning that income earned personally is taxed at the same overall rates as that earned first in a corporation and then distributed to the individual shareholder as a dividend.

The other family law impact is that the value of small businesses determined on a multiple of after-tax income will increase. Similarly, the contingent tax on wind-up of these businesses, if it involves distribution by way of dividends, will increase in lock-step.

Does this mean that only shareholders of those businesses that realize corporate tax savings will have to pay higher taxes on future dividends? No. All taxpayers earning ineligible dividends will pay the new higher taxes even if their companies earn investment income. We will have to wait to see if the Department of Finance adjusts the refundable portion of taxes on investment income to correct for this. For now, if a business owner has a significant amount in a holding corporation and plans to withdraw it in 2019, it may be prudent to withdraw it earlier.

Good news: The Lifetime Capital Gains Exemption has been increased from the $800,000 plus indexation commencing 2014 to $1 million

Bad news: It applies only to qualified farm and fishing property

That quiet buzz you are hearing emanates from our readers in Saskatchewan and Nova Scotia.

Personal Income and Section 7 Expenses

The annual Tax-Free Savings Account ("TFSA") limit will be increased to $10,000 per annum including for the current year. From 2009 to 2012, the annual contribution limit was $5,000. From 2013 until yesterday, it had been $5,500, bringing the cumulative contribution limit over the first seven years to $36,500. As of today, everyone may contribute an additional $4,500 for 2015 (as this year's limit increased from $5,500 to $10,000), so the new cumulative total rises to $41,000. With the new $10,000 annual limits, TFSA balances and the income earned therein will continue to grow such that they will no longer be afterthoughts when determining *Guidelines* income. In a slightly better than average year, one might expect a portfolio of marketable securities to earn about 10% from dividends and capital gains. That's over $4,000 for those who have maximized their contributions to date plus an income tax gross-up if this income is appropriately includable in *Guidelines* income. The government's argument for TFSAs, in part, is that they help retirees who never benefitted from Registered Retirement Savings Plans ("RRSPs") because their tax rate on retirement might be higher than during their working lives. On that basis, it might be inappropriate to include TFSA income in *Guidelines* income. After all, in general, we do not include income earned inside an RRSP in *Guidelines* income. There are valid arguments on both sides. Let the RRSP/TFSA family law debates begin.

The budget reduces the amount that retirees must include in their income from Registered Retirement Income Fund ("RRIF") withdrawals. Most RRSP-holders choose to convert their RRSPs to RRIFs after age 71, at which time there are

prescribed minimum amounts that must be withdrawn and taxed to avoid indefinite tax deferral. Until yesterday, the minimum withdrawal in the first year of a RRIF was 7.38%. This now drops to 5.28% perhaps reflecting the government's concession that as life expectancies increase, people may need to leave more investment capital in their tax-deferred accounts. This is good news for septuagenarians paying spousal and child support, as if a septuagenarian paying child support really needed another pat on the back.

The budget proposes a new Home Accessibility Tax Credit, a non-refundable 15% credit on eligible expenditures to an eligible dwelling to allow the qualifying individual to gain better access or to be mobile in that dwelling. This credit is available for children who qualify for the disability tax credit. Accordingly, if a Section 7 cost includes, say, $10,000 for a home improvement for a disabled child, the actual after-tax cost that might need to be shared will be reduced to $8,500.

This newsletter is not intended to substitute for proper professional planning. It is intended to highlight areas where professional assistance may be required or enough to discuss at the next hoedown. The professionals at Marmer Penner Inc. will be pleased to assist you with any matters that arise. Please feel free to visit our website at ***www.marmerpenner.com***.