On 18 April 2016, a detailed notice of ways and means motion (NWMM) to implement certain tax measures announced in the 2016 federal budget, as well as various other tax measures previously announced by the former government, was tabled in the House of Commons.

**Business income tax measures**

**2016 federal budget**

The NWMM includes the following business tax measures announced in the 2016 federal budget:

- **Small-business tax rate** – Cancellation of previously enacted reductions to the small-business tax rate scheduled to take effect in 2017, 2018 and 2019 (so the rate will remain at 10.5% after 2016).
- **Non-eligible dividend rate** – Amendments to maintain the 2016 non-eligible dividend gross-up and dividend tax credit rate for 2017 and later years (as a result of the cancellation of the previously enacted reductions to the small-business tax rate for 2017, 2018, and 2019). Specifically, the gross-up factor will remain at 17% and the effective dividend tax credit rate will remain at 10.5%.
Previously announced measures

The NWMM also includes the following previously announced business income tax measures, modified to take into consideration any consultations and deliberations since their release:

- **Tax avoidance of corporate capital gains** — Expansion of the anti-avoidance rules in subsection 55(2) of the *Income Tax Act* (and related changes) to circumstances in which one of the purposes for paying a dividend is to significantly reduce the fair market value of any share or significantly increase the total cost of properties of the corporate dividend recipient, regardless of whether the dividend reduces a capital gain. These changes are generally applicable to dividends received by a corporation on or after 21 April 2015.

- **Dividend rental arrangement rules and synthetic equity arrangements** — Amendments to the dividend rental arrangement rules to deny a deduction for an intercorporate dividend on a share in respect of which the taxpayer has entered into a synthetic equity arrangement with an investor that does not pay Canadian income tax on the dividend-equivalent payments received (such as a tax-exempt Canadian entity or nonresident). Subject to transitional rules, these amendments generally apply to dividends that are paid or become payable after April 2017 (rather than after October 2015, as contemplated by the 2015 budget proposal).

- **Captive insurance** — Amendment to include income from the ceding of specified Canadian risks in computing foreign accrual property income (FAPI) of a foreign affiliate, applicable to taxation years of taxpayers that begin after 20 April 2015.

- **Withholding for nonresident employers** — Exemption from the withholding obligations for payments by certain qualifying nonresident employers to certain qualifying nonresident employees, applicable to payments made after 2015.

- **Investments in limited partnerships** — Changes to allow registered charities and registered Canadian amateur athletic associations (RCAAAs) to acquire or hold limited partnership interests, in certain circumstances. Consequential changes are also made to introduce a partnership look-through rule in respect of the calculation of private foundations’ excess corporate holdings. These changes generally apply in respect of investments in limited partnerships that are made or acquired after 20 April 2015.

- **Penalty for repeated failures to report income** — Amendment related to the penalty for repeated failures to report income (applicable to taxation years that begin after 2014).

- **Canadian exploration expenses (CEE)** — Changes that extend the tax treatment for CEE to certain costs related to environmental studies and community consultations incurred for the purpose of determining the existence, location, extent or quality of a mineral resource, or an accumulation of petroleum or natural gas, in Canada. These costs will also be eligible for flow-through share treatment. The changes apply to expenses incurred after February 2015.

Personal income tax measures

The NWMM includes the following personal income tax measures announced in the 2016 federal budget:

- **Top marginal personal income tax rate: consequential amendments** — Various amendments consequential to the introduction of a new top marginal personal income tax rate of 33% (effective 1 January 2016), including amendments to the charitable donation tax credit rate for trusts, the rate...
applied to excess employee profit sharing plan contributions, the personal services business income tax rate, the relevant tax factor for computing the grossed-up deduction of foreign accrual tax, the formulas used to calculate the refundable tax under the capital gains refund mechanism for mutual fund trusts, the Part XII.2 tax rate on the distributed income of certain trusts and the recovery tax rule for qualified disability trusts.

- **Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB) —** Elimination of the UCCB and the CCTB, effective 1 July 2016.

- **Canada Child Benefit (CCB) —** Introduction of the new CCB program (which will replace the UCCB and CCTB) and other related measures, effective 1 July 2016.

- **Family tax cut—** Elimination of the family tax cut (i.e., the income splitting tax credit) effective for 2016 and later years.

- **Education and textbook tax credits —** Elimination of the education and textbook tax credits for 2017 and later years, as well as related consequential amendments.

- **Children's fitness and arts tax credits —** Amendments to phase out the children’s fitness and arts tax credits by 2017 (including a reduction in the maximum eligible amount for each credit for the 2016 taxation year).

- **Labour-sponsored venture capital corporations (LSVCCs) tax credit —** Reinstatement of the LSVCC tax credit (which was to be phased out by 2017) for share purchases of provincially registered LSVCCs for 2016 and later taxation years. (Newly registered LSVCCs under existing provincial legislation will be prescribed under the Income Tax Act provided the enabling provincial legislation is modelled after currently prescribed provincial legislation.)

- **Mineral exploration tax credit —** Extension of the mineral exploration tax credit to flow-through share agreements entered into on or before 31 March 2017.

- **Teacher and early childhood educator school supplies tax credit —** Introduction of a new refundable teacher and early childhood educator school supplies tax credit, effective for 2016 and later years.

- **Northern residents’ deduction —** Increase in the maximum residency component of the northern residents’ deductions for 2016 and later years.

- **Ontario Electricity Support Program —** Amendment to exclude amounts received under the Ontario Electricity Support Program from income, effective for 2016 and later taxation years.

**Other income tax measures**

The NWMM also includes the following measures:

- **Canadian Wheat Board sale —** Various tax measures arising from the privatization and sale of the Canadian Wheat Board (CWB). The proposed tax measures relate to the creation and taxation of an eligible trust that, under the terms of the sale, holds 49.9% of CWB Ltd. (a corporation that carries on the work previously done by the CWB). The NWMM also sets out special tax measures for participating farmers who are entitled (under the terms of the sale of the CWB) to eligible units in the trust. The NWMM provisions are deemed to have come into force on 1 July 2015.
Taxpayer information – Amendments to allow certain taxpayer information to be provided to an official of the Canada Revenue Agency for the sole purpose of enabling the official to collect certain non-tax-related debts owing to the Government of Canada, and to permit taxpayer information to be provided to an official for the sole purpose of enabling the Chief Actuary to conduct actuarial reviews of certain pension plans. These amendments enter into force on Royal Assent.

Learn more

For more information, contact your EY or EY Law advisor.

For more information on the 2016 budget measures, see EY Tax Alert 2016 Issue No. 14, Federal budget 2016-17.

And for up-to-date information on the federal, provincial and territorial budgets, visit ey.com/ca/budget.
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