TAX FLASH BULLETIN

Federal Post Election 2016 Tax Changes

On December 7, 2015, new Federal Finance Minister Bill Morneau announced draft legislation to implement the Liberal Party's election promises to lower tax rates for middle income earners and raise taxes for high income earning Canadians. These changes should be considered enacted for 2016 as the Liberals have a majority government. Below, we highlight the tax changes that affect individuals and businesses resident in Canada.

INDIVIDUALS

As promised, the federal tax rate of 22% on middle income earners will drop to 20.5%. The Minister also introduced a new federal bracket for income greater than $200,000 to be subject to a rate of 33%. The new tax rates and brackets will take effect on January 1, 2016. The income brackets will continue to be indexed to inflation each year.

Federal Personal Income Tax Brackets

2015 Taxable Income	2015 Tax Rates	2016 Taxable Income	2016 Tax Rates
$0 to $44,701	15%	$0 to $45,282	15%
$44,701 to $89,401	22%	$45,282 to $90,563	20.5%
$89,401 to $138,586	26%	$90,563 to $140,388	26%
$138,586 and over	29%	$140,388 to $200,000	29%
		$200,000 and over	33%

Top Combined Provincial and Federal Rates

Province/Territory	2015 Tax Rates	2016 Tax Rates
British Columbia	45.80%	47.70%
Alberta	40.25%	48.00%
Saskatchewan	44.00%	48.00%
Manitoba	46.40%	50.40%
Ontario	49.53%	53.53%
Quebec	49.97%	53.31%
New Brunswick	54.75%	58.75%
Nova Scotia	50.00%	54.00%
Prince Edward Island	47.37%	51.37%
Newfoundland and Labrador	43.30%	48.30%
Nunavut	40.50%	44.50%
Northwest Territories	43.05%	47.05%
Yukon	44.00%	48.00%

Source: EY, Canada – Tax Matters@EY December 2015

***TIP:** If you expect your taxable income to exceed $200,000 in 2016, consider accelerating bonus payments, salaries, stock option benefits, retirement allowances, and severance payments into 2015 instead of 2016, and deferring deductions to 2016 instead of claiming in 2015.*

If your income for 2015 falls below $200,000, consider deferring the above mentioned income to 2016 and accelerating deductions to 2015.

Decrease of TFSA Contribution Limit

Effective January 1, 2016, the annual TFSA contribution limit will be rolled back to $5,500 from $10,000. The $10,000 TFSA dollar limit remains effective for the 2015 year. Indexing of the TFSA amount was eliminated in 2015, but the Liberals are reinstating the indexing of the original $5,000 amount to the Consumer Price Index, rounded to the nearest $500 for each year after 2009.

Year	Annual	Cumulative
2009	$5,000	$5,000
2010	$5,000	$10,000
2011	$5,000	$15,000
2012	$5,000	$20,000
2013	$5,500	$25,500
2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500
2017+	Indexed	$52,000+

TIP: *If you have not yet opened up a TFSA account, you can contribute up to the 2015 cumulative limit before January 1, 2016 if you were at least age 18 in 2009. Any unused TFSA contribution room carries forward. Talk to your Raymond James advisor about opening a TFSA account which will provide more flexible - and tax free - investment options than a simple bank savings account.*

Consequential Changes

The introduction of a new top personal tax of 33% affects many other tax calculations which use the top tax rate. Income tax calculations significantly affected by this change will be adjusted as outlined below. The government will conduct reviews of the Income Tax Act to determine if further adjustments are required and amendments will be announced as soon as possible.

Increase to Charitable Donations Tax Credit

The current 2015 donation tax credit rate of 29% parallels the top federal tax rate for donations in excess of $200. Individuals can take advantage of the 29% donation tax credit regardless of their effective personal tax rate. A new tax credit rate of 33% will apply to donations in excess of $200, but it is limited to the amount of personal taxable income that is subject to the 33% rate. This measure is effective for gifts made after 2015. For example, gifts made in 2015, but claimed in 2016 or later will not be eligible for the new 33% tax credit rate.

Donation Tax Credit	2015	2016	2016 Credit Example: $215,000 taxable income with $20,000 in donations
First $200 of donations	15%	15%	$30 = $200 x 15%
Donations in excess of $200	29%	29% on amount not eligible for the 33% rate	$1,392 = ($5,000 - $200) x 29%
Donations in excess of $200 where income exceeds $200,000, limited to taxable income in excess of $200,000	N/A	33%	$4,950 = ($215,000 - $200,000) x 33% Total donation tax credit of $6,372 ($30 + $1,392 + $4,950)

Increase to Trust and Estate Tax

Starting in 2016, estates (other than graduated rate estates) will become subject to the flat top rate of taxation currently applied to inter vivos trusts. Both trusts and estates will be subject to the new 33% top tax rate, up from 29% starting January 1, 2016. Qualified disability trusts and graduated rate estates will remain subject to personal graduated rates, but that will also include the new 33% rate on income in excess of $200,000.

Taxes on Split Income

Tax on Split Income, also known as kiddie tax, generally applies where a child under age 18 earns income from shares, property, a partnership, or a trust that is controlled by a related individual or corporation. Effective 2016 and subsequent years, the tax rate on split income will increase from 29% to 33% to reflect the new top personal tax rate.

Hints at Budget Changes

The Minster did not include changes to the Family Tax Cut and the Universal Child Care Benefit (UCCB) program in the draft legislation. However, he stated that the government will introduce a new Canada Child Benefit program in the budget that would begin in July 2016 and entitlement to benefits would be tied to income. He also intends to eliminate the Family Tax Cut ($50,000 income splitting) for the 2016 and subsequent taxation years.

In a press conference held on November 20, 2015, the Minister stated that the new government will provide grandfathering for existing stock options in relation to the cap on the 50% stock option deduction. The election platform suggested capping the deduction at $100,000 per year. Despite reassurances of grandfathering, high income earners of stock options that are "in the money" may want to consider exercising options during 2015 in light of the new top tax rate for 2016.

BUSINESSES

Refundable Tax on Corporate Investment Income

The new 33% tax bracket will also affect the integration of investment income earned by a private corporation. Special refundable taxes are imposed on investment income earned in a private corporation to limit the ability of individuals to defer taxation on such income. The refundable tax rates will increase and the rate at which refundable tax is refunded by dividend declarations will increase. Essentially, any investment income retained inside a corporation will now be subject to higher corporate tax rates. Shareholders should consider accelerating the receipt of dividends in 2015, especially where there is refundable dividend tax on hand and eligible dividends can be paid. These changes are effective January 1, 2016 and will be prorated for fiscal years that straddle the calendar year.

Tax Type	2015	2016
Refundable Part I Tax (CCPC)	26.67%	30.67%
Additional Refundable Part I Tax (CCPC)	6.67%	10.67%
Refundable Part IV Tax on Canadian Dividends	33.33%	38.33%
Refundable Dividend Tax on Hand Refund Rate	33.33%	38.33%

CORPORATE HEAD OFFICES: RAYMOND JAMES LTD.
SUITE 2100 – 925 WEST GEORGIA ST. // VANCOUVER, BC V6C 3L2 // 604-659-8000
SUITE 5300 – 40 KING STREET WEST // TORONTO, ON M5H 3Y2 // 416-777-7000

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