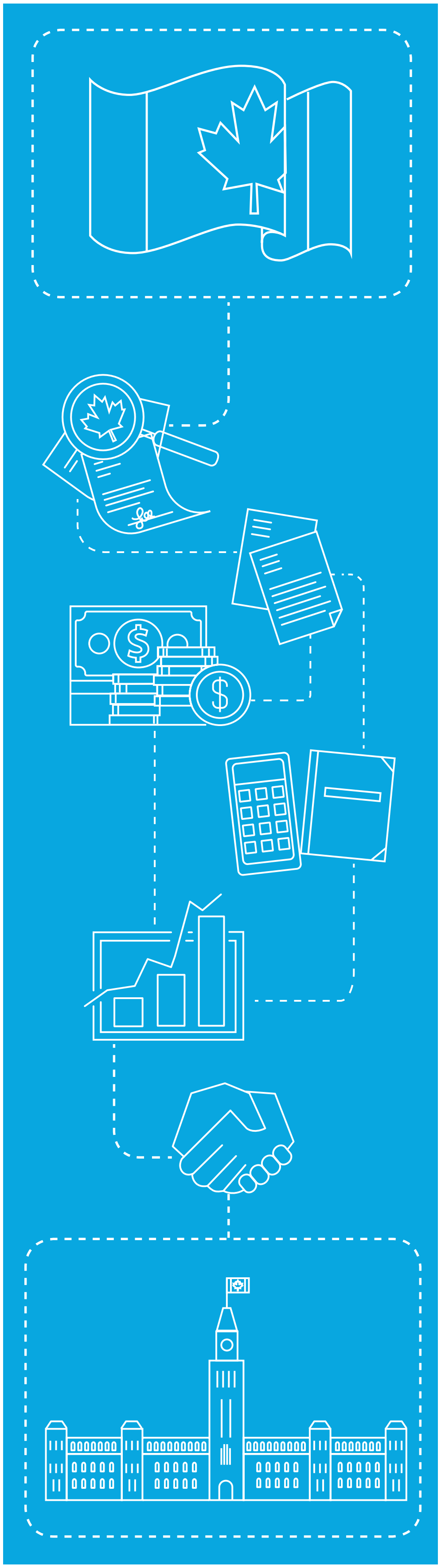

March 20, 2019

DETAILED COMMENTARY

On March 19, 2019, Minister of Finance, the Honourable William (Bill) Morneau tabled the government's final budget prior to the Federal election, which will take place later this year. While historically many pre-election budgets offered up many benefits across the board for large corporations, small businesses and individuals, Budget 2019 did little in the way of following suit. Of note, there were no corporate or personal income tax rate changes. Rather, the government stayed their course choosing to focus on supporting the Canadian middle class; through initiatives such as establishing a national pharmacare program, investing in job creation and the improvement of the skills within the Canadian workforce. The Budget also offered support for first-time home buyers and provided stimulus for economic growth through incentives aimed at corporate innovation.

Key changes that companies should be aware of are significant amendments to the taxation of employee stock options (notably aimed at "large, long-established, mature firms") as well as a broadening of the ability for Canadian controlled private corporations to access the fully refundable enhanced 35 per cent tax credit under the scientific research and experimental development program. Affirmation of Canada's support to tighten up perceived abuses in the international tax system was also reiterated.

The tax highlights of Budget 2019 are summarized below:

BUSINESS INCOME TAX MEASURES

Corporate tax rates

Budget 2019 does not propose any changes to corporate income tax rates. Rather it confirms the previously announced reduction of the small business tax rate in 2019 from 10 per cent to 9 per cent leaving the general business tax rate at 15 per cent.

Small Business Deduction — Farming and fishing

In general, the Small Business Deduction (SBD) reduces the corporate income tax rate of a Canadian-controlled private corporation (CCPC) from 15 per cent to 9 per cent on the first $500,000 of income in a taxation year. There are rules to prevent the multiplication of the $500,000 limit within certain groups of companies.

Specified income of a corporation is excluded from the SBD rate reduction. This includes income from the sale of product to a private corporation in which the CCPC or certain other persons, holds either a direct or indirect interest. The farming and fishing communities currently enjoy a carve-out of this limiting rule for income from sales to farming or fishing cooperatives.

Budget 2019 includes a proposal to broaden the carve-out to include income from sales of farming or fishing products to any arm's length purchaser corporation, with the change to be applicable to tax years that begin after March 21, 2016. Despite the proposed change, amounts allocated to a CCPC as patronage payments from a purchaser corporation will not be eligible for the SBD.

Improving the Scientific Research and Experimental Development (SR&ED) Tax Credit for Canadian owned small businesses

The SRED tax credit encourages business to invest in the development of new technologies. In a global economy, providing such an incentive to businesses operating in Canada helps them grow and be more competitive. The program currently provides an enhanced Federal refundable credit of 35 per cent to CCPC's and a non-refundable 15 per cent tax credit to all other companies performing SR&ED in Canada. The 35 per cent credit is dependent in part on a company's prior year taxable income such that it begins to phase out at $500,000 with complete elimination at $800,000.

The government has now eliminated the taxable income threshold for accessing the higher credit of 35 per cent. This will help growing Canadian-owned small and medium sized businesses conducting SR&ED, which are successful in commercializing their new technologies and growing their taxable income. The taxable capital threshold does however remain in place, such that companies with taxable capital of $10-$50 million will continue to be impacted by the grind down of the enhanced credit, and businesses with taxable capital of more than $50 million remain only eligible for the non-refundable 15 per cent credit.

The government hopes that this measure will help make Canada a leader in research, development, science and innovation, while creating new knowledge-based jobs helping to turn Canadian small and medium sized businesses into global leaders.

Canadian journalism support

The Budget proposes to introduce three measures to benefit Canadian journalism, being as follows:

Refundable Labour Tax Credit

A 25% refundable tax credit on salary or wages paid to eligible newsroom employees of a Qualified Canadian Journalism Organization (QCJO). The maximum tax credit in respect of eligible labour costs per individual per year is $13,750. The tax credit is subject to a cap on labour costs of $55,000 per eligible newsroom employee per year. To qualify for this tax credit, the QCJO must be a corporation (which if it is will have additional conditions to be met), partnership or trust that is primarily engaged in the production of original news content. This tax measure will apply to salary or wages earned in respect of a period on or after January 1, 2019.

Personal income tax credit for digital subscriptions

A temporary, non-refundable 15 per cent tax credit is to be made available on amounts paid by individuals for eligible digital news subscriptions. This tax credit will allow individuals to claim up to $500 on costs paid towards eligible digital subscriptions in a year, for a maximum tax credit of $75 annually. This credit will be available in respect of eligible amounts paid after 2019 and before 2025.

Qualified donee status

Effective January 1, 2020, a journalism organization will be able to register as a qualified donee.

Character conversion transactions

The Ministry of Finance sees "character cconversion transactions" offensive as it attempts to convert investment returns that would be taxable as ordinary income into capital gains. Hence, only half of the capital gain is subject to income tax.

The Income Tax Act currently targets character conversion transactions, by requiring all or a portion of the profit realized on the acquisition or sale of a capital property under a derivative forward agreement to be included in income from a business or property. These rules provide an exemption to facilitate certain commercial transactions (e.g. mergers and acquisitions) where the economic return from a purchase or sale agreement is based on the economic performance of the actual property being purchased or sold, rather than an underlying reference property.

The Budget proposes to target certain alternative transactions that attempt to misuse this commercial transaction exception.

For example, first a mutual fund ("Investor Fund") enters into a forward purchase agreement with a counterparty pursuant to which it agrees to acquire units of a second mutual fund ("Reference Fund") at a specified future date, for a purchase price equal to the value of such units at the date the forward purchase agreement is entered into. Reference Fund holds a portfolio of investments that produces fully taxable ordinary income. On settlement of the forward purchase agreement, Investor Fund acquires the units of Reference Fund and treats the cost of those units as being equal to the purchase price under the forward purchase agreement. Investor Fund then immediately redeems or sells the units of Reference Fund and realizes a gain, which Investor Fund treats as a capital gain, by virtue of making an election to treat its Canadian securities (such as the Reference Fund units) as capital property.

This was possible, as Investor Fund did not treat the forward purchase agreement as giving rise to a "derivative forward agreement" on the basis that the agreement falls within the commercial transaction exception definition. This was mainly because Investor Fund's economic return under the forward purchase agreement was based on the economic performance of the acquired units of Reference Fund over the term of the agreement.

To prevent the potential misuse of this exemption, the Budget proposes to amend the definition of derivative forward agreement to provide that the commercial transaction exemption is unavailable if it can reasonably be considered that one of the main purposes of the agreement to purchase a security in the future is for a taxpayer to convert ordinary income into capital gains.

This measure will apply to transactions entered into after March 19, 2019. It will also apply for the most part, after December 2019 to transactions that were entered into before March 19, 2019.

Zero-emission vehicles

Budget 2019 proposes a full tax deduction for eligible zero-emission vehicles acquired on or after March 19, 2019 and before January 1, 2024, provided that they are made available for use in that year, with a phasing out of the deduction for vehicles made available between the end of 2023 and the start of 2028. Two new Capital Cost Allowance (CCA) classes will be created – refer to the table below which summarizes the changes in rules including the November 21, 2018 announcement of the Accelerated Investment Incentive for CCA in the year of acquisition.

SEE TABLE: ZERO-EMISSION VEHICLECS IN APPENDIX

"Eligible zero-emission vehicles" must be fully electric, a plug-in hybrid (with a battery capacity of at least 15 kWh) or fully powered by hydrogen fuel cells; including light-, medium- and heavy-duty vehicles that are purchased by a business.

The Budget also proposes to introduce a new federal purchase incentive of up to $5,000 for electric battery or hydrogen fuel cell vehicles under $45,000. However, vehicles purchased under the federal purchase incentive will not be eligible for the enhanced CCA rules.

The phase-out of the 100% CCA rate starts after 2023 as below:

March 19, 2019 – 2023	100%
2024 – 2025	75%
2026 – 2027	55%
2028 onward	0%

PERSONAL INCOME TAX MEASURES

Personal tax rates

The 2019 Federal Budget did not propose any changes to the federal personal tax rates or brackets. The rates for the 2019 tax year are as follows:

Up to $47,630	15.00%
$47,631 to $95,259	20.50%
$95,260 to $147,667	26.00%
$147,668 to $210,371	29.00%
Over $210,371	33.00%

Home Buyers' Plan

The Home buyers' Plan (HBP) is a program that that allows first-time home buyers and individuals eligible for the disability tax credit to borrow from their Registered Retirement Savings Plan (RRSP) to purchase or build a qualifying home, without having to pay tax on the withdrawal. The withdrawals must be repaid over a period not exceeding 15 years. If not repaid, it is included in the individual's income. Budget 2019 proposes to increase the withdrawal limit for 2019 and subsequent years to $35,000 from $25,000. This would be available for withdrawals made after March 19, 2019. Budget 2019 also proposes to extend access to individuals who experience the breakdown of a marriage or common-law partnership to help Canadians maintain home ownership.

Change in use rules for multi-unit residential properties

The Income Tax Act deems a disposition to occur when a taxpayer converts property from an income-producing use to a personal use, or vice versa. A taxpayer is also deemed to have disposed of property when the use of part of a property is changed. For example, a deemed disposition can occur if a taxpayer owns a multi-unit residential property, such as a duplex, and either starts renting or moves into one of the units.

Under the current rules, a taxpayer can elect that this deemed disposition not apply where the use of an entire property is changed; however, a taxpayer cannot elect out on a change in use of part of a property. To improve the consistency of the tax treatment of owners of multi-unit residential properties in comparison to owners of single-unit residential properties, Budget 2019 proposes to allow a taxpayer to elect that the deemed disposition that normally arises on a change in use of part of a property not apply. This measure will apply to changes in use of property that occur on or after March 19, 2019.

Employee stock options

The 2019 Federal Budget has introduced changes to the stock option regime in an effort to support new and growing Canadian businesses, while curtailing the benefit for employees of "large, long-established, mature firms". These proposed changes are reflective of the U.S. tax treatment of stock options.

In summary, when an individual exercises a stock option, a taxable benefit is included in their income for the year of exercise. This stock option benefit is equal to the difference between the fair market value of the shares on the date the options were exercised and the option exercise price (plus the amount paid for the options, if any). If the stock options granted are for shares of a Canadian-controlled private corporation, the taxable benefit is included in the year the employee disposes of the shares.

Under the current rules, the individual would be entitled to deduct one-half of the stock option benefit on their Canadian tax return under paragraph 110(1)(d) or paragraph 110(1)(d.1) of the Canadian Income Tax Act (ITA). In essence, the individual would be able to pay Canadian tax at capital gain rates on the stock option benefit.

The new rules, as proposed in the 2019 Federal budget, would include the following:

1. No changes to the current rules for start-ups and rapidly growing Canadian businesses.
2. An annual limit of $200,000 on employee stock option grants that may be eligible for the stock option deduction for employees of "large, long-established, mature firms". This limit is based on the fair market value of the underlying shares at the time that the option is granted.

For example, an executive of a large, long-established, mature company is granted 10,000 stock options, which entitle him to acquire shares at a price of $100 per share (the fair market value of the shares on the stock option date). The value of the shares represented by the stock options is $1 million ($100 FMV x 10,000 options). Under the proposed rule changes, $200,000 of the total stock option value would be entitled to the stock option deduction. The remaining stock option value of $800,000 ($1,000,000 total value less $200,000 limit) would NOT be entitled to the stock option deduction and would be taxed fully at ordinary tax rates. Therefore, the total stock option taxable benefit would be $900,000 ($800,000 + $200,000 x 50%). In comparison, under the old rules, the total taxable stock option taxable benefit would be $500,000 ($1,000,000 total value less the 50% deduction).

The 2019 Federal Budget proposals for stock options would only apply to stock options granted after the announcement of the proposals on a go-forward basis. Further details will be released before the summer of 2019.

Canada Training Credit

The budget 2019 introduces the Canada Training Credit, a refundable tax credit. This credit allows eligible individual to accumulate $250 each year. To accumulate the $250 each year, Individual must be resident of Canada, at least 25 years old and less than 65 years old, must file the tax return for the year and have earning in excess of $10,000. Their net income cannot exceed the top of the third top of the third tax bracket ($147,667 for 2019)

Individuals can claim a tax credit that is equal to the lesser of half of the eligible tuition and fees paid for the taxation year and the individual's notional account balance for the taxation year. Individuals will be able to accumulate up to a maximum amount of $5,000 over a lifetime.

Donation of cultural property

Canada provides enhanced tax incentives to encourage donations of cultural property to certain designated institutions and public authorities in Canada. The budget proposes to remove the restrictive requirement that property must be of "national importance" to qualify for the enhanced tax incentive for donations of cultural property. This will apply for donations made on or after March 19, 2019.

Carrying on business in a tax-free savings account

Effective 2019, the joint and several liability for the tax owing on income from carrying on business in a tax-free savings accounts (TFSA) will be extended to the TFSA holder. Currently, only the trustee of a TFSA (i.e. a financial institution) is jointly and severally liable with the TFSA while the holder of the TFSA is not. The budget proposes to limit the trustee's liability to the amount of property remaining in the TFSA plus distributions made on or after the date that a notice of assessment of tax is sent to the TFSA.

Medical Expense Tax Credit — Cannabis

The Medical Expense Tax Credit is a 15 per cent non-refundable tax credit that recognizes the effect of above-average medical or disability-related expenses on an individual's ability to pay tax. For 2019, the Medical Expense Tax Credit is available for qualifying medical expenses in excess of the lesser of $2,352 and 3 per cent of the individual's net income.

As of October 17, 2018, access to cannabis is subject to the Cannabis Regulations, under the Cannabis Act. Eligible expenses for the Medical Expense Tax Credit will also include expenses for other classes of cannabis products purchased for a patient for medical purposes, once they become permitted for legal sale under the Cannabis Act.

Budget 2019 proposes to amend the Income Tax Act to reflect the current regulations for accessing cannabis for medical purposes under the Cannabis Act. This measure will apply to eligible expenses incurred on or after October 17, 2018.

Additional types of annuities permitted under registered plans

To provide Canadians with a greater flexibility in managing their retirement savings, Budget 2019 proposes to introduce two new types of annuities under registered plans, as follows:

Advance Life Deferred Annuities (ALDA) will be permitted under a Registered Retirement Savings Plans (RRSP), Registered Retirement Income Fund (RRIF), Deferred Profit Sharing Plan (DPSP), Pooled Registered Pension Plan (PRPP) and a defined contribution Registered Pension Plan (RPP). Budget 2019 proposes to permit an ALDA to be a qualifying annuity purchase, or a qualified investment, under the aforementioned registered plans. An ALDA will be a life annuity, the commencement of which may be deferred until the year in which the annuitant attains 85 years of age, allowing longer preservation of capital in the registered plan.

Variable Payment Life Annuities (VPLA) will be permitted under a PRPP and defined contribution RPP. The government will consult on potential changes to federal pension benefits standards legislation to accommodate VPLAs for federally regulated PRPPs and defined contribution RPPs.

The measures will apply to the 2020 and subsequent taxation years.

Pensionable service under an individual pension plan

An Individual Pension Plan (IPP) is a defined benefit Registered Pension Plan that has fewer than four members, at least one of whom (e.g., a controlling shareholder) is related to an employer that participates in the plan. IPPs generally provide owner-managers with lifetime retirement benefits with respect to their employment. Where an individual terminates membership in a defined benefit registered pension plan, the accrued benefits may be transferred on a tax-deferred basis in two ways:

a transfer of the full commuted value to another defined benefit plan sponsored by another employer; or

subject to a prescribed transfer limit (normally about 50 per cent of the member's commuted value), a transfer of a portion of the commuted value to the member's registered retirement savings plan or similar registered plan.

Planning was undertaken by taxpayers to use an IPP to circumvent the RRSP limit to obtain a 100 per cent deferral. To prevent such planning, Budget 2019 proposes to prohibit IPPs from providing retirement benefits in respect of past years of employment that were pensionable service under a defined benefit plan of an employer other than the IPP's participating employer. Any assets transferred from a former employer's defined benefit plan to an IPP that relate to benefits provided in respect of prohibited service will be considered to be a non-qualifying transfer and will be included in the income of the member for income tax purposes. This measure applies to pensionable service credited under an IPP on or after March 19, 2019.

Registered Disability Savings Plan – Cessation of eligibility for the Disability Tax Credit

To encourage long-term savings for individuals with a disability, the Government of Canada supplements private Registered Disability Savings Plan (RDSP) contributions with Canada Disability Savings Grants and Canada Disability Savings Bonds under the Canada Disability Savings Program for those who are eligible. An RDSP may be established only for a beneficiary who is eligible for the Disability Tax Credit (DTC). Under the current rules, when a beneficiary of an RDSP becomes ineligible for the DTC, no contributions may be made to, and no Canada Disability Savings Grants and Bonds may be added to, the RDSP. In such cases, the RDSP must be closed by the end of the year following the first full year in which the beneficiary is no longer eligible for the DTC. Budget 2019 proposes to remove the time limitation on the period that an RDSP may remain open after a beneficiary becomes ineligible for the DTC, and to further eliminate the requirement for medical certification that an individual is likely to become eligible for the DTC in the future in order to keep the plan open. Withdrawals from the RDSP will still be subject to the repayment rules, however the "assistance holdback" amount repayable to the government will be modified depending on the beneficiary's age.

Mutual funds: allocation to redeemers methodology

Many mutual fund trusts have adopted the "allocation to redeemers methodology" to effectively match the capital gains realized by the mutual fund trust with the capital gains realized by the redeeming unitholders on their units. The mutual fund trust claims a deduction for the capital gains allocated to the unitholders and the redeeming unitholders reduce their redemption proceeds by the capital gain allocated to them.

Some mutual fund trusts have been allocating capital gains to redeeming unitholders in excess of the capital gains that would otherwise have been realized by these unitholders on the redemption of their units. This results in a deferral, as the mutual fund trust claims a full deduction for the capital gain allocated and the redeeming unitholder is taxed on the same capital gain that would otherwise be taxed to them, if no excess allocation were made.

Budget 2019 includes a measure whereby a mutual fund trust is denied a deduction where an allocation made to a unitholder on a redemption is greater than the capital gain that would otherwise have been realized by the unitholder on the redemption. The new measure will apply to tax years of mutual fund trusts that begin on or after March 19, 2019, where the unitholder is allocated a capital gain and the unitholder's redemption proceeds are reduced by the allocation.

Tax measures for kinship care providers

Budget 2019 proposes to clarify that an individual may be considered a parent of a child in their care for the purpose of the Canada Workers Benefit, regardless of whether they receive financial assistance from the Government under a kinship care program. Kinship care providers will therefore be eligible for the Canada Workers Benefit amount available for families, provided that all other eligibility requirements are met.

Budget 2019 also proposes to clarify that financial assistance payments received by care providers under a kinship care program are neither taxable, nor included in income for the purpose of determining entitlement to income-tested benefits and credits.

Both measures have been made effective as of January 1, 2009.

Contributions to a specified multi-employer plan for older members

Under the current legislation, the pension tax rules generally ensure that contributions to a defined benefit Registered Pension Plan in respect of a member are not made after the member can no longer accrue further pension benefits. However, in the case of a Specified Multi-Employer Plan (SMEP), employers are not prevented by the pension tax rules from making contributions to a SMEP in respect of workers over the age of 71 or those receiving a pension from the plan.

Budget 2019 proposes to prohibit contributions to a SMEP in respect of a member after the end of the year the member attains 71 years of age and to a defined benefit provision of a SMEP if the member is receiving a pension from the plan, except under a qualifying phased retirement program. This change will bring the SMEP rules in line with the pension tax provisions that apply to other defined benefit registered pension plans.

INTERNATIONAL TAX UPDATES

Update on the Base Erosion and Profit Shifting Project/country-by-country reporting

Budget 2019 affirmed the government's ongoing commitment to the Base Erosion and Profit Shifting (BEPS) initiative. One of the tools used to combat BEPS is Country-by-Country Reporting (CBCR). CBCR drew significant market attention as it required the disclosure of various financial and general business operations to tax administrations. Furthermore, CBCR is exchanged between many tax authorities, including the CRA. The first exchange of these reports occurred in 2018.

The government is currently participating in a review of the CBCR standards with other tax administrations. The stated goal is to ensure that CBCR actually provides tax administrations with better information to facilitate an assessment of taxpayers transfer pricing risks. This review is expected to be completed in 2020.

CBCR may become a significant tool used to assess and select multinational entities for local tax authority audits. Entities filing CBCR need to clearly understand how tax administrations may view the disclosed information and be ready with transfer pricing documentation to defend their positions if challenged.

Multilateral instrument

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (known as the Multilateral Instrument or MLI) is intended to allow participating jurisdictions to modify their existing tax treaties without having to individually renegotiate those treaties. Canada, along with 86 other jurisdictions to date, has signed the MLI. Canada has reiterated its commitment to take the necessary steps to enact the MLI into Canadian law and to ratify the MLI, as needed, to bring it into force.

Transfer pricing measures

Budget 2019 proposes two transfer pricing measures of note. The proposals clarify technical questions raised by the tax community and are not expected to impact taxpayers' ongoing transfer pricing processes.

"Order of Application" of transfer pricing rules

The first proposal clarifies that transfer pricing rules will apply in priority to other provisions of the Income Tax Act. A previous provision of the act provided similar guidance, however it was restricted to a narrower number of tax provisions. The budget expands this understanding to all provisions of the Income Tax Act.

The government confirmed that the proposed "Order of Application" rules will not impact the exceptions provided to Canadian resident corporations that have an amount owing from, or have extended a guarantee in respect of an amount owing by, a controlled foreign affiliate. This retains a welcomed respite for taxpayers as it reduces tax compliance burdens.

Applicable reassessment period

The second proposal brings consistency to the Income Tax Act. It proposes to apply the broader transfer pricing definition of a 'transaction' to the extended three-year reassessment period. The extended three-year reassessment period applies to CRA reassessments issued in relation to a transaction involving a taxpayer and a non-arm's length non-resident.

Foreign affiliate dumping

The foreign affiliate dumping rules are intended to counter erosion of the Canadian tax base resulting from transactions in which a corporation resident in Canada (CRIC) that is controlled by a non-resident invests in a foreign affiliate using borrowed or surplus funds. In absence of these rules, the foreign parent is able to repatriate funds from the CRIC as a return of capital and free of dividend withholding tax.

Currently, the foreign affiliate dumping rules only apply where a CRIC is controlled by a non-resident corporation. The rules generally result in a suppression of paid-up capital created by the investment and/or a deemed dividend subject to non-resident withholding tax.

Budget 2019 proposes to extend these rules to CRICs that are controlled by a non-resident individual, a non-resident trust, or a group of persons that do not deal at arm's length and are comprised of non-resident corporations, non-resident individuals, or non-resident trusts.

Budget 2019 also extends the meaning of 'related' with respect to these rules to certain non-resident trusts and their beneficiaries.

This measure will apply to transactions and events that occur on or after March 19, 2019.

Cross-border Securities Lending Arrangements

Securities Lending Arrangements (SLAs) are a common technique used by large financial institutions. They involve a non-resident lending a share to a Canadian resident, and the Canadian resident agreeing to return an identical share to the non-resident in the future. Typically, the Canadian resident provides collateral as security and over the term of the arrangement, the Canadian resident is obligated to make payments as compensation for any dividends paid by the issuer of the lent share (also referred to as dividend compensation payments). Essentially, the non-resident retains the same economic exposure as if it had continued to hold the share.

Under current legislation, the lender is put in the same tax position as if the share had not been lent. Special rules determine the character of dividend compensation payments for the purpose of non-resident withholding tax. These rules deem a dividend compensation payment under a "fully collateralized" SLA to be a deemed dividend subject to withholding tax. A SLA is "fully collateralized" if the Canadian resident provides collateral to the non-resident in the form of money or government debt obligations with a value of 95 per cent or more of the lent share. If the arrangement is not "fully collateralized", the dividend compensation payment is deemed to be an interest payment, which is generally exempt from Canadian withholding tax if the parties are dealing at arm's length.

Canadian shares

Budget 2019 proposes to treat all dividend compensation payments to be dividends, which will accordingly be subject to withholding tax. The budget also proposes to extend these rules to specified SLAs, which were first introduced in Budget 2018 to prevent taxpayers from realizing artificial losses through the use of equity-based financial arrangements.

These proposed amendments will apply to compensation payments that are made on or after March 19, 2019, unless the securities loan was in place before this date, in which case the amendments will apply to compensation payments that are made after September 2019.

Foreign shares

If a non-resident lends a foreign share to a Canadian resident under a "fully collateralized" SLA, the rules deem the payments to be dividends paid by the Canadian resident, rather than by the non-resident issuer of the share. Had the non-resident continued to hold the lent foreign share, it would not have been subject to Canadian dividend withholding tax.

Budget 2019 proposes to exempt withholding tax on dividend compensation payments made by a Canadian resident to a non-resident if they are made under a "fully collateralized" SLA and the lent security is a foreign share.

This proposed amendment will apply to dividend compensation payments that are made on or after March 19, 2019.

SALES AND EXCISE TAX

GST/HST health measures

Budget 2019 proposes to zero-rate the supply and import of Human Ova and the import of In Vitro Embryo used in assisted human reproduction procedures. These measures will come in force after March 19, 2019.

While the health care services of podiatrists and chiropodists are exempted for GST/HST purposes, they are not currently on the list of medical practitioners who may sell certain medical and assistive devices on a zero-rated basis. Budget 2019 proposes that licensed podiatrists and chiropodists are added to the list of practitioners on whose order supplies of foot care devices may be zero-rated, effective for supplies made after March 19, 2019.

Budget 2019 proposes to specifically exempt the supply of certain multidisciplinary health services that would otherwise be GST/HST exempt if provided separately. The relief will apply where 90 per cent or more of the service is rendered by health professionals (such as doctors, physiotherapists, and occupational therapists) acting within the scope of their profession.

Cannabis taxation

With the legalization of the sale of cannabis on October 17, 2018, all cannabis products (including cannabis oils) were generally subject to an excise duty determined by the higher of a flat rate applied on the quantity of cannabis contained in a final product, and a percentage of the dutiable amount of the product as sold by the producer.

In order to alleviate compliance issues that producers have encountered with respect to tracking the quantity of cannabis material contained in cannabis oils, Budget 2019 proposes that edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals be subject to excise duties (imposed on cannabis licensees) at a flat rate determined by the quantity of total tetrahydrocannabinol (THC) contained in a final product.

The current excise duty regime and associated rates for fresh and dried cannabis, and seeds and seedlings will be unaffected by this proposed change. Current exemptions under the excise duty framework will also continue to apply in respect of fresh and dried cannabis and cannabis oils that contain no more than 0.3 per cent THC, as well as for pharmaceutical cannabis products that have a Drug Identification Number and can only be acquired through a prescription.

FUTURE CRA AUDIT INITIATIVES

Budget 2019 proposes to invest an additional $150.8 million over the next five years to further combat tax evasion and aggressive tax avoidance. The CRA's investment in its enforcement programs will fund new initiatives and extend existing programs, which include:

- hiring additional auditors to target additional areas of non-compliance and building technical expertise to target the growing number of cryptocurrency transactions and the digital economy, and potential for non-compliance;
- creating a new data quality examination team to ensure proper withholding, remitting and reporting of income earned by non-residents; and
- extending programs aimed at combatting offshore non-compliance.

The budget also proposes to invest $65.8 million over the next five years to improve the CRA's information technology systems by replacing legacy systems in order to stay ahead of the use of new and advanced technologies. The CRA expects to account for $369 million of federal tax revenue over the next five years from these compliance initiatives and expects provincial and territorial tax revenues to increase as a result of the initiatives.

PREVIOUSLY ANNOUNCED PROPOSALS

The Budget confirms the intent by the government to proceed with previously announced measures as modified since their release in consultation and deliberations and set out as follows:

– Measures announced in the 2018 Fall Economic Statement to

- allow all businesses, which are making capital investments, to claim an accelerated capital cost allowance,
- immediately write off the cost of machinery and equipment used for the manufacturing or processing of goods and specified clean energy equipment,
- extend the 15 per cent mineral exploration credit for a further five years, and
- ensure business income allocated to members of communal organizations retains its character for tax purposes.

– Changes announced on September 27, 2018 to the regulatory rules and the taxation of cannabis.

– Legislative and regulatory proposals released on July 17, 2018 related to the Goods and Services Tax/Harmonized Sales Tax.

– Measures announced in the Federal Budget 2018 to

- provide support for employees who must reimburse a salary overpayment to their employer due to a system, administrative or clerical error,
- facilitate the conversion of Health and Welfare Trusts to Employee Life and Health Trusts,
- implement reporting requirements for certain trusts to provide additional information on an annual basis.

– Measures announced in the Federal Budget 2016 to

- change the rules regarding the Goods and Services Tax/Harmonized Sales Tax joint venture election,
- expand tax support for electric vehicle charging stations and electric vehicle energy storage equipment,
- change the information reporting requirements for certain dispositions of an interest in a life insurance policy.

The Budget also confirms the intent by the Government to move forward with technical amendments to improve the certainty of the tax system.

For ongoing budget coverage, including industry-specific information, visit rsmcanada.com/budget.

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Appendix 1: Zero-emission vehicles

Class	Description	CCA Rate in Year of Acquisition		
		General	**Accelerated Investment Incentive**	**Budget 2019**
	for vehicles purchased ...	*Prior to Nov. 21, 2018*	*After Nov. 20, 2018*	*On or after Mar19, 2019 to Jan. 1, 2024*
10	motor vehicles not included in any other class	15%	45%	
10.1	passenger vehicles costing more than $30,000 (limit of $30,000 plus sales tax) — a separate class is used for each vehicle	15%	45%	
16	taxi cabs, vehicles acquired for purpose of short-term renting or leasing and heavy trucks and tractors designed for hauling freight	20%	60%	
54	eligible zero-emission vehicles that would otherwise be included in Class 10 or 10.1 (limit of $55,000 plus sales tax) — a separate class is used for each vehicle	–	–	100%
55	eligible zero-emission vehicles that would otherwise be included in Class 16	–	–	100%

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