

2019 Federal budget highlights

The Federal government presented its 2019 Federal Budget on 19 March 2019. As usual, there were some significant income tax proposals and amendments, including the following four:

ONE | Canada Training Benefit tax credit

THE 2019 FEDERAL BUDGET (the "Budget") introduced a new Canada Training Benefit refundable tax credit. This credit is meant to help people who are currently working and who wish to undertake further educational training. The structure of this credit is unique, in that individuals accumulate \$250 each year in a notional account, starting 2019. In any taxation year in which you incur eligible tuition fees, you can claim a credit equal to half of the tuition fees, up to a limit of your notional account accumulated for previous years.

For example, if you accumulated \$250 in each of 2019 and 2020, and incurred \$1,200 of tuition fees in 2021, you would receive a tax credit of \$500 in 2021.

Eligible tuition fees are the same as those that qualify for the tuition tax credit, except that the educational institution must be in Canada. Tuition fees that are effectively refunded through the new credit do not qualify for the tuition tax credit, but any excess tuition fees can qualify for the tuition credit.

In order to accumulate the \$250 amount in a year, you must:

- be at least 25 years old, and younger than 65 at the end of the year;
- have eligible earnings of \$10,000 or more (this includes employment income and business income, and certain other amounts); and
- *not* have net income (as reported on your return, but including income exempt for a status Indian) exceeding \$147,668 for 2019.

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**New educational
training tax benefit
advantageous for
working individuals**

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3 AROUND THE COURTS:
Wholly-dependent Person
Credit *disallowed*



TWO | RRSP Home Buyers Plan limit increase

THIS PLAN currently allows individuals to withdraw up to \$25,000 from a Registered Retirement Savings Plan ("RRSP") on a tax-free basis to buy a home, to a maximum of \$50,000 per couple and with certain restrictions. The limit is being increased to \$35,000—or \$70,000 per couple—for withdrawals made after 19 March 2019. The repayment period remains 15 years.

The RRSP rules were also amended to accommodate married or common-law partner couples who divorce or separate, making it easier for such individuals to re-use the Home Buyers Plan (the "Plan"). Generally, you cannot use the Plan if you or your spouse owned a home before the withdrawal or in the previous four calendar years; this rule is being relaxed somewhat for couples who split.

Plan limit
doubles
to \$70,000
per couple

THREE | More flexibility for pension annuities

UNDER CURRENT RULES, if you wish to convert a registered plan—such as your RRSP or defined-contribution Registered Pension Plan ("RPP")—into an annuity, the latest the annuity payments can start is the end of the year in which you turn 71. The Budget introduced the Advanced Life Deferred Annuity ("ALDA"), the payments under which can be deferred until the end of the year in which you turn 85.

The ALDAs will be allowed under an RRSP, RPP, Registered Retirement Income Fund, Deferred Profit Sharing Plan, or Pooled Registered Pension Plan ("PRPP").

The amount in the registered plan that can be converted into an ALDA will be limited to 25% of the value of the property held in the qualifying plan as at the end of the previous year, plus any amounts from the plan used to purchase ALDAs in previous years, with a lifetime limit of \$150,000, to be indexed after 2020.

The Budget also introduced new rules that will allow PRPPs and defined contribution RPPs to provide a Variable Payment Life Annuity ("VPLA"). A VPLA will provide payments that can vary, based on the performance of the underlying investments and mortality experience for VPLA annuitants.

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Payments to the new
Advanced Life Deferred
Annuity can be deferred
until age 85

Wholly-dependent Person Credit *disallowed*

BACKGROUND

Normally, you can claim the Wholly-dependent Person Credit for a minor child living with you if you are single (including divorced, separated, or widowed). You cannot claim the credit if you are paying child support for the child to your former spouse. However, if both you and your former spouse are paying each other support, you may be able to claim the credit.

CASE

In the recent *Bayrack* case, the taxpayer and his former spouse had two children. The taxpayer paid his former spouse child support in a year, and attempted to claim the Wholly-dependent Person Credit in respect of one of the children.

ARGUMENT

The taxpayer argued that the support court order referred to his payment as a “set-off”, in that it was effectively his obligation to pay support to his former spouse net of her obligation to pay him support. As such, the taxpayer argued, they were both paying each other support such that he could claim the credit.

JUDGEMENT

The Canada Revenue Agency (“CRA”) denied the credit on the basis that only the taxpayer was paying child support.

APPEAL

On appeal, the Tax Court of Canada (the “Court”) agreed with the CRA and denied the credit. The Court judge interpreted the support court order as directing only the taxpayer to make support payments, and that there was no order for his spouse to make partially offsetting payments. According to the judge, the net payments made by the taxpayer “represented a set-off of their respective financial abilities rather than a set-off of respective child support payments.”

CONCLUSION

Perhaps, if the support court order had specified that there was a set-off of their respective child support payments owing to each other, the taxpayer would have been allowed the credit. ●

You and your former spouse can *only* claim the credit if you are paying each other support



FOUR | CCAs for zero-emission vehicles

THE BUDGET introduced new, depreciable property classes for zero-emission vehicles for Capital Cost Allowance ("CCA") purposes. **Class 54** will include most regular automobiles,



Enhanced CCA rate
for newly purchased
zero-emission
vehicles until 2024

sport utility vehicles and vans (with a depreciation value of \$55,000), while **Class 55** will include vehicles such as taxi cabs, and heavy trucks and tractors designed for hauling freight.

A special, enhanced 100% CCA rate will apply to vehicles purchased and available for use after 18 March 2019 and before 2024. Starting in 2024, the enhanced CCA rate will be phased out, with a 75% rate for 2024 and 2025, and 55% for 2026 and 2027. Beginning in 2028, the regular CCA rate will be 30% for Class 54, and 40% for Class 55.

Among other things, in order to qualify for the enhanced CCA rate, the vehicle must be fully electric, or a plug-in hybrid with a battery capacity of at least 15 kWh, or fully powered by hydrogen. ●

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THE ABACUS IS PUBLISHED BY
PORTER HÉTU INTERNATIONAL

COORDINATION Kimberly Nguyen
DESIGN JAM Design

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