VIEWPOINT 2015 APR 24

2015 FEDERAL BUDGET
TAX & ESTATE PLANNING PERSPECTIVE

WESTWARD ADVISORS

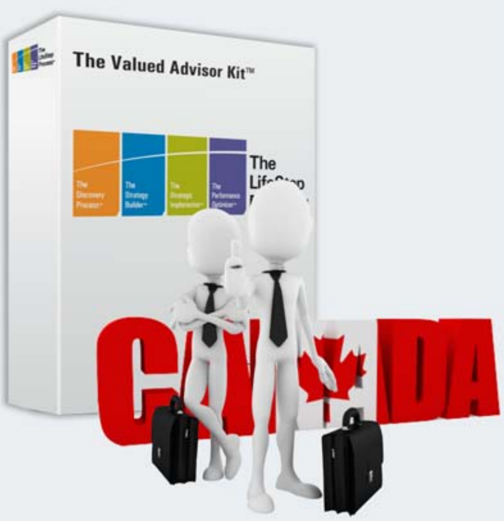
Overview

The 2015 Federal Budget tabled April 21st by Finance Minister Oliver **does not contain any measures negatively impacting estate and tax planning with life insurance**.

The Budget, titled "Strong Leadership: A Balanced Budget, Low-Tax Plan for Jobs, Growth and Security," projects a relatively small surplus of $1.4 billion. It also reviews some of Canada's economic accomplishments, including:

- The lowest marginal tax rate on new business investment in the G7 at approximately 17.5%;
- Highest real GDP growth in the G7 at 15.6% since June 2009; and
- The lowest government debt-to-GDP ratio in the G7, and the only one under 40%.

This Viewpoint summarizes the budget proposals of most interest from an estate and tax planning perspective.



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RRIF Minimum Withdrawal Factors

The government lowered its minimum annual withdrawal factors on registered retirement income funds (RRIF) to better protect Canadians from outliving their retirement savings. The reduced withdrawal rates reflect the fact that long-term interest rates have dropped and Canadians are now living longer than when the minimum percentages were written into law in 1992. CALU, representing 11,000 insurance and financial advisors, successfully canvassed the government for this change. CALU projects that a RRIF earning 5% annually will have 32% more capital at age 85, <u>after</u> adjusting for 2% inflation. The new factors will apply for 2015 and subsequent years.

Tax Free Savings Account Top Up

Most are by now aware that the Budget increases the annual TFSA contribution limit from $5,500 to $10,000 effective for 2015.

Donations Involving Private Shares or Real Estate

The Budget proposes to exempt individual and corporate donors from capital gains tax on the sale of private company shares or real estate to an arm's-length party, if cash proceeds from the sale are donated within 30 days of the sale. If a portion of the cash proceeds is donated, the exemption from capital gains tax would apply to that portion. This measure attempts to expand the scope of current rules that exempt capital gains tax on gifts of public securities, while limiting it to arm's length transactions to avoid valuation disputes. This measure is to come into force for dispositions occurring after 2016.

Small Business Tax Rate and Dividend Tax Credit

Budget 2015 intends to chop two percentage points off the small business tax rate over the next four years, dropping from 11.0% to 9.0%. The rate will decrease by 0.5% each year starting 2016 through 2019. However, the personal dividend tax rate on these corporate profits paid out as non-eligible dividends will be increased to compensate.

What's <u>Not</u> Included in Budget 2015

No new proposals were tabled affecting the taxation of life insurance, the transfer of life insurance policies, capital dividend account computations or the interest deductibility rules.

No comments were made regarding any more changes to the rules first introduced in Budget 2014 relating to graduated rate estates, charitable gifts on death, and the taxation of spousal/alter ego/joint partner trusts on death, which come into effect in 2016.

No further comments were made about the legislation passed in December 2014 implementing the Budget 2012 proposals to overhaul the exempt test for life insurance policies and some related policyholder taxation rules that apply to policies <u>issued after</u> 2016.