Tax Changes for 2017

In March 2016, the newly elected federal government, in its first budget, announced numerous changes to the tax code. Most of the changes were rolled out during 2016, but some only became effective on January 1, 2017. Here are some of the new federal tax rules you should know about.

▶ Children's fitness and arts tax credits

Prior to 2016, parents with children could take advantage of the refundable children's fitness tax credit (up to $1,000 per child) and arts tax credit (up to $500 per child) if they enrolled their child in a prescribed program. For the 2016 tax year, the tax credits were cut in half. Effective January 1, 2017, they have been eliminated completely.

▶ Educational and textbook tax credits

These non-refundable tax credits were eliminated effective January 1, 2017. However, unused education and textbook credit amounts carried forward from years prior to 2017 will remain available to be claimed in 2017 and subsequent years.

▶ Principal residence exemption

In October 2016, the federal government revised the tax code to require all Canadians tax-filers to report any property sales in Canada. As with all asset sales, taxes are owed on the proceeds, but if the property is a principal residence, it will be exempt, just as it was before the new rule was introduced.

This revision to the tax code is aimed at preventing potential tax abuse by non-residents who buy homes in Canada and later claim the principal residence exemption, and by Canadians who sell properties that may not qualify as their principal residence.

▶ First-time donor's super credit (FDSC)

This non-refundable tax credit was introduced in 2013 with a built-in expiry date at the end of 2017. Unless the FDSC is extended, the 2017 tax year will be your last opportunity to use it. The FDSC can be claimed just once and has a limit of $1,000.

▶ Changes to certain investment types

Effective January 1, 2017, investors can no longer rebalance their non-registered mutual fund investments in corporations structured as "switch funds" on a tax-deferred basis. The exchange of funds that are switch funds will now be taxable.
Also, effective January 1, the federal government introduced a new rule concerning "linked notes," a type of debt obligation in which the return on the investment is "linked" to the performance of one or more reference assets or indexes over the term of the notes. Going forward, in most cases, the gains on the sale of linked notes before maturity with be taxed as interest, not as capital gains.

▶ New rules for eligible capital property

For businesses both large and small, new tax rules reduce the amount of income they can earn from the sale of certain assets such as goodwill and trademarks. Effective January 1, 2017, this income will be fully taxable as investment income. Previously, half the proceeds could be distributed tax-free as a dividend.

▶ Life insurance policies

For many Canadians, life insurance has been part a comprehensive tax-minimization plan. However, due to changes enacted by the previous federal government, the tax treatment of universal life insurance policies became less favourable starting January 1, 2017. The changes will have an impact on how much Canadians can invest in tax-exempt policies, decreasing their ability to accumulate investment gains above death benefit premiums on a tax-free basis.

Before purchasing new life insurance—particularly corporate-held life insurance—you should consider the effect of the new tax rules on your tax planning.

Getting Advice

Reviewing your Tax Plans? We encourage you to talk to us. Speak to your Financial Advisor or contact Investor Services at 1 800 608 7707.