
*March 22, 2017*

# 2017 Federal Budget Commentary

## "Building a Strong Middle Class"

### Introduction

The Honourable Bill Morneau, Minister of Finance, today tabled his second budget – "Building a Strong Middle Class" with a projected deficit of $28.5 billion.

Budget 2017 focused on five key areas:

- Skills, Innovation and Middle Class Jobs
- Communities Built for Change
- A Strong Canada at Home and in the World
- Tax Fairness for the Middle Class
- Equal Opportunity

The following is a brief overview of the key tax measures.

# 2017 Federal Budget Commentary
## "Building a Strong Middle Class"

## Personal Tax Measures
Budget 2017 does not propose any changes to personal tax rates or the capital gains inclusion rate.

**Disability Tax Credit – Nurse Practitioners**
The disability tax credit is a 15 per cent non-refundable tax credit that recognizes the impact of non-itemized disability-related costs on an individual's ability to pay tax. For 2017, the credit amount is $8,113, which provides a federal tax reduction of up to $1,217.

Budget 2017 proposes to add nurse practitioners to the list of medical practitioners who could certify eligibility for the disability tax credit. A nurse practitioner would be permitted to certify for all types of impairments that are within the scope of their practice.

This measure will apply to disability tax credit certifications made on or after Budget Day.

**Medical Expense Tax Credit – Eligible Expenditures**
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 2017, the medical expense tax credit is available for qualifying medical expenses in excess of the lesser of $2,268 and 3 per cent of the individual's net income.

To recognize that some individuals may need to incur costs related to the use of reproductive technologies, even where such treatment is not medically indicated because of a medical infertility condition, Budget 2017 proposes to clarify the application of the medical expense tax credit so that individuals who require medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be reserved for individuals on account of medical infertility.

This measure will apply to the 2017 and subsequent taxation years. A taxpayer will be entitled to elect in a year for this measure to apply for any of the immediately preceding ten taxation years in their return of income in respect of the year.

**Consolidation of Caregiver Credits**
Tax relief for caregivers is provided in the income tax system through a number of non-refundable tax credits. These credits provide recognition of the impact of the non-discretionary, out-of-pocket expenses that caregivers incur on their ability to pay tax.

Budget 2017 proposes to simplify the existing system of tax measures for caregivers by replacing the existing caregiver credit, infirm dependant credit and family caregiver tax credit with a new Canada caregiver credit.

Budget 2017 proposes that the new Canada caregiver credit amount will be:

- $6,883 with respect to expenses to care for infirm dependants who are parents/grandparents, brothers/sisters, aunts/uncles, nieces/nephews and adult children of the claimant or the claimant's spouse or common law partner.
- $2,150 with respect to expenses to care for
  - an infirm dependant spouse or common-law partner for whom the individual claims the spouse or common-law partner amount,
  - an infirm dependant for whom the individual claims an eligible dependant credit or
  - an infirm child who is under the age of 18 years at the end of the tax year.

The Canada caregiver credit will be reduced dollar-for-dollar by the dependant's net income above $16,163 (in 2017). The dependant will not be required to live with the caregiver in order for the caregiver to claim the new credit. The Canada caregiver credit will no longer be available with respect to non-infirm seniors who reside with their adult children.

The Canada caregiver credit will apply for the 2017 and subsequent taxation years. The credit amounts that may be claimed and the income thresholds above which the credit will begin to be phased out will be indexed to inflation for taxation years after 2017.

**Electronic Distribution of T4 Information Slips**
In order to reduce compliance costs and increase efficiencies for employers, as well as increase convenience for many employees, Budget 2017 proposes to allow employers to distribute T4 (Statement of Remuneration Paid) information slips electronically to current active employees without having to obtain express consent from those employees in advance. An employer will be required to have sufficient privacy safeguards in place before electronic T4s can be sent without express consent in order to ensure that employee information remains confidential.

This measure will apply to T4s issued for the 2017 and subsequent taxation years.

**Tuition Tax Credit**
The tuition tax credit is a 15 per cent non-refundable tax credit that can be applied to eligible fees for tuition and licensing examinations paid by an individual enrolled at an eligible educational institution.

Budget 2017 proposes to extend the eligibility criteria for the tuition tax credit to fees for an individual's tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level. To provide consistency with the rules for certified educational institutions, the tuition tax credit would be available in these circumstances only if the course is taken for the purpose of providing the individual with skills (or improving the individual's skills) in an occupation and the individual has turned 16 before the end of the year.

This measure will apply to eligible tuition fees for courses taken after 2016.

Budget 2017 also proposes to extend eligibility as a "qualifying student" to individuals in the specific circumstances described above, who otherwise meet the conditions to be a "qualifying student." Whether or not an individual is a "qualifying student" is relevant for the tax exemption for scholarship and bursary income.

This measure will apply to the 2017 and subsequent taxation years.

**Ecological Gifts Program**
Budget 2017 proposes a number of measures in order to better protect gifts of ecologically sensitive land.

*Transfers of ecogifts* – Where ecogifts are transferred between organizations for consideration, the protection offered by the 50 per cent tax (which applies where the use of the property is changed or the property is disposed of without the consent of Environment and Climate Change Canada) may be inappropriately lost. To ensure that transfers of ecogifts from one organization to another do not result in the loss of this protection, Budget 2017 proposes that the transferee of the property in such a situation be subject to the 50 per cent tax if the transferee changes the use of the property or disposes of the property without the consent of ECCC.

*Approval of recipients* – Where it is proposed that a registered charity be the recipient of an ecogift, the minister of ECCC must approve the recipient on a gift-by-gift basis. This is intended to ensure that recipients of ecogifts are focused on the long-term protection of ecologically sensitive land. However, municipalities and municipal and public bodies performing a function of government are automatically eligible recipients. Budget 2017 also proposes that the requirement to approve recipients be extended, on a gift-by-gift basis, to municipalities and municipal and public bodies performing a function of government.

*Private foundations* – Private foundations can currently receive ecogifts, but this can give rise to concerns about potential conflicts of interest. For example, where a director of a private foundation donates an easement in respect of a property to the private foundation, the individuals responsible for enforcing the private foundation's rights under the easement would often be the same persons as those against whom the rights must be enforced. To prevent these potential conflicts of interest, Budget 2017 also proposes that private foundations no longer be permitted to receive ecogifts.

*Personal servitudes* – In Quebec, where civil law applies, both real servitudes and personal servitudes can exist. However, only real servitudes may be donated under the ecogift program since personal servitudes cannot run in perpetuity. As the conditions associated with real servitudes can be difficult to meet, such donations are infrequently made. To encourage more ecogifts in Quebec, Budget 2017 also proposes that certain donations of personal servitudes qualify as ecogifts. Qualifying donations will be required to meet a number of conditions, including a requirement that the personal servitude run for at least 100 years.

These measures will apply to transactions or events that occur on or after Budget Day.

**Public Transit Tax Credit**
Budget 2017 proposes that the public transit tax credit be eliminated, effective as of July 1, 2017. Specifically, the cost of public transit passes and electronic fare cards attributable to public transit use that occurs after June 2017 will no longer be eligible for the credit.

**Allowance for Members of Legislative Assemblies and Certain Municipal Officers**
The reimbursement of expenses incurred in the course of carrying out the duties of an office or employment is generally not a taxable benefit to the recipient. By contrast, a non-accountable allowance for which an individual does not have to provide details or submit receipts to justify amounts paid is generally a taxable benefit.

Certain officials may receive non-accountable allowances for work expenses that are not included in computing income for tax purposes. These officials are:

- elected members of provincial and territorial legislative assemblies and officers of incorporated municipalities;
- elected officers of municipal utilities boards, commissions, corporations or similar bodies; and

- members of public or separate school boards or of similar bodies governing a school district.

The excluded amount is limited to half of the official's salary or other remuneration received in that capacity during the year.

Budget 2017 proposes to require that non-accountable allowances paid to these officials be included in income. The reimbursement of employment expenses will remain a non-taxable benefit to the recipient.

In order to provide affected organizations more time to adjust their compensation schemes, this measure will apply to the 2019 and subsequent taxation years.

**Home Relocation Loans Deduction**

Where a person receives a loan because of their employment, and the interest rate on the loan is below a prescribed rate, that person is deemed to have received a taxable benefit. The amount of the taxable benefit is determined by taking the difference between these two rates. The value of any portion of the benefit that is in respect of an eligible home relocation loan may be deductible from taxable income. However, the amount deductible is generally limited to the annual benefit that would arise if the amount of the loan were $25,000. Eligible home relocation loans are loans used to acquire a new residence where the employee starts work at a new location. This new residence must be at least 40 kilometres closer to the new work location than the old residence.

Budget 2017 proposes to eliminate the deduction with respect to eligible home relocation loans.

This measure will apply to benefits arising in the 2018 and subsequent taxation years.

**Anti-Avoidance Rules for Registered Plans**

A number of anti-avoidance rules exist for other tax-assisted registered plans (i.e., Tax-Free Savings Accounts, Registered Retirement Savings Plans and Registered Retirement Income Funds) to help ensure that the plans do not provide excessive tax advantages unrelated to their respective basic objectives. These include:

- the advantage rules, which help prevent the exploitation of the tax attributes of a registered plan (e.g., by shifting returns from a taxable investment to a registered plan);
- the prohibited investment rules, which generally ensure that investments held by a registered plan are arm's length "portfolio" investments; and
- the non-qualified investment rules, which restrict the classes of investments that may be held by a registered plan.

To improve the consistency of the tax rules that apply to investments held by registered plans, Budget 2017 proposes to extend the anti-avoidance rules described above to Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs). These proposals are not expected to have an impact on the vast majority of RESP and RDSP holders, who typically invest in ordinary portfolio investments.

Subject to the exceptions described below, this measure will apply to transactions occurring, and investments acquired, after Budget Day. For this purpose, investment income generated after Budget Day on previously acquired investments will be considered to be a "transaction occurring" after Budget Day.

The exceptions to this effective date are as follows:

- The advantage rules will not apply to swap transactions undertaken before July 2017. However, swap transactions undertaken to ensure that an RESP or RDSP complies with the new rules by removing an investment that would otherwise be considered a prohibited investment, or an investment which gives rise to an advantage under the new proposals, will be permitted until the end of 2021.
- Subject to certain conditions, a plan holder may elect by April 1, 2018 to pay Part I tax (in lieu of the advantage tax) on distributions of investment income from an investment held on Budget Day that becomes a prohibited investment as a result of this measure.

**Mineral Exploration Tax Credit for Flow-Through Share Investors**

Flow-through shares allow resource companies to renounce or "flow through" tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses when calculating their own taxable income. The mineral exploration tax credit provides an additional income tax benefit for individuals who invest in mining flow-through shares, augmenting the tax benefits associated with the deductions that are flowed through. This credit is equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Budget 2017 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2018.

## Other Personal Tax Measures

**Expanding Employment Insurance (EI) Benefits to Offer more Flexibility**

*Employment Insurance Caregiving Benefit* – Budget 2017 proposes to create a new EI caregiving benefit of up to 15 weeks. The new benefit will cover a broader range of situations where individuals are providing care to an adult family member who requires significant support in order to recover from a critical illness or injury. Parents of critically ill children will continue to have access to up to 35 weeks of benefits, with additional flexibility to share these benefits with more family members.

*Parental Benefits* – Budget 2017 proposes to make EI parental benefits more flexible. Proposed changes will allow parents to choose to receive EI parental benefits over an extended period of up to 18 months at a lower benefit rate of 33 per cent of average weekly earnings. EI parental benefits will continue to be available at the existing benefit rate of 55 per cent over a period of up to 12 months.

*Maternity Benefits* – Budget 2017 proposes to allow women to claim EI benefits for up to 12 weeks before their due date – expanded from the current standard of 8 weeks – if they so choose.

## Business Income Tax Measures

**Corporate Tax Rates**
Budget 2017 does not propose any changes to business income tax rates.

| Tax Rate | 2017 | 2018 | 2019 |
|---|---|---|---|
| Federal small business tax rate | 10.5 | 10.5 | 10.5 |
| Federal general business tax rate | 15.0 | 15.0 | 15.0 |

**Investment Fund Mergers**

*Merger of switch corporations into mutual funds trusts*
Budget 2017 proposes to extend the mutual fund merger rules to facilitate the reorganization of a mutual fund corporation that is structured as a switch corporation into multiple mutual fund trusts on a tax-deferred basis. To qualify for this tax deferral, with respect to each class of shares of the mutual fund corporation that is an investment fund or is part of an investment fund, all or substantially all of the assets allocable to that class must be transferred to a mutual fund trust and the shareholders of that class must become unitholders of that mutual fund trust.

This measure will apply to qualifying reorganizations that occur on or after Budget Day.

*Segregated fund mergers*
Budget 2017 proposes to allow insurers to effect tax-deferred mergers of segregated funds. It is proposed that these rules generally parallel the mutual fund merger rules.

In addition, it is proposed that, for non-capital losses that arise in taxation years that begin after 2017, a segregated fund be able to carry over those losses and apply them in computing its taxable income for taxation years that begin after 2017. The use of these losses will be subject to the normal limitations for the carrying forward and back of non-capital losses. As is the case with the mutual fund merger rules, the use of these losses will be restricted following a segregated fund merger.

In order to ensure that the life insurance industry has an opportunity to provide comments on these proposed rules, this measure will apply to mergers of segregated funds carried out after 2017 and to losses arising in taxation years that begin after 2017.

**Clean Energy Generation Equipment: Geothermal Energy**
Budget 2017 proposes that eligible geothermal energy equipment under Classes 43.1 and 43.2 be expanded to include geothermal equipment that is used primarily for the purpose of generating heat or a combination of heat and electricity.

In addition, Budget 2017 proposes that geothermal heating will be made an eligible thermal energy source for use in a district energy system.

Budget 2017 also proposes that expenses incurred for the purpose of determining the extent and quality of a geothermal resource and the cost of all geothermal drilling (e.g., including geothermal production wells), for both electricity and heating projects, will qualify as a Canadian renewable and conservation expense.

The measures will apply to property acquired for use on or after Budget Day that has not been used or acquired for use before Budget Day.

**Canadian Exploration Expense: Oil and Gas Discovery Wells**

Budget 2017 proposes that expenditures related to drilling or completing a discovery well (or in building a temporary access road to or in preparing a site for any such well) generally be classified as a Canadian development expense (CDE) instead of a Canadian exploration expense (CEE).

This measure will apply to expenses incurred after 2018 (including expenses incurred in 2019 that could have been deemed to have been incurred in 2018 because of the "look-back" rule). However, the measure will not apply to expenses actually incurred before 2021 where the taxpayer has, before Budget Day, entered into a written commitment (including a commitment to a government under the terms of a license or permit) to incur those expenses.

**Reclassification of Expenses Renounced to Flow-Through Share Investors**

Under the existing "look-back" rule, eligible expenses with respect to funds raised in one calendar year under a flow-through share agreement can be renounced with an effective date in the year even though the eligible expenditures are incurred during the following calendar year.

Budget 2017 proposes to no longer permit eligible small oil and gas corporations to treat the first $1 million of CDE as CEE.

This measure will apply to expenses incurred after 2018 (including expenses incurred in 2019 that could have been deemed to have been incurred in 2018 because of the look-back rule), with the exception of expenses incurred after 2018 and before April 2019 that are renounced under a flow-through share agreement entered into after 2016 and before Budget Day.

**Meaning of Factual Control**

To ensure taxpayers do not inappropriately access certain tax preferences, Budget 2017 proposes that the Income Tax Act (ITA) be amended to clarify that, in determining whether factual control of a corporation exists, factors may be considered that are not limited to "a legally enforceable right and ability to effect a change to the board of directors or its powers, or to exercise influence over the shareholder or shareholders who have that right and ability."

This measure will apply to taxation years that begin on or after Budget Day.

**Timing of Recognition of Gains and Losses on Derivatives**

*Elective use of the mark-to-market method*

Budget 2017 proposes to introduce an elective mark-to-market regime for derivatives held on income account. Specifically, an election will allow taxpayers to mark to market all of their eligible derivatives. Once made, the election will remain effective for all subsequent years unless revoked with the consent of the Minister of National Revenue.

Once an election is made by a taxpayer, the taxpayer will be required to annually include in computing its income the increase or decrease in value of its eligible derivatives. Furthermore, the recognition of any accrued gain or loss on an eligible derivative (that was previously subject to tax on a realization basis) at the beginning of the first election year will be deferred until the derivative is disposed of.

This election will be available for taxation years that begin on or after Budget Day.

*Straddle Transactions*

In its simplest form, a straddle is a transaction in which a taxpayer concurrently enters into two or more positions – often derivative positions – that are expected to generate equal and offsetting gains and losses.

Budget 2017 proposes to introduce a specific anti-avoidance rule that targets straddle transactions. In particular, a stop-loss rule will effectively defer the realization of any loss on the disposition of a position to the extent of any unrealized gain on an offsetting position. A gain in respect of an offsetting position would generally be unrealized where the offsetting position has not been disposed of and is not subject to mark-to-market taxation.

The stop-loss rule will be subject to a number of exceptions. In particular, it will generally not apply to a position if:

- it is held by a financial institution, as defined for the purposes of the mark-to-market property rules, or by a mutual fund trust or mutual fund corporation;
- it is part of certain types of hedging transactions entered into in the ordinary course of the taxpayer's business;

- the taxpayer continues to hold the offsetting position throughout a specified period that begins on the date of disposition of the position; or
- it is part of a transaction or a series of transactions none of the main purposes of which is to defer or avoid tax.

This measure will apply to any loss realized on a position entered into on or after Budget Day.

**Additional Deduction for Gifts of Medicine**
Budget 2017 proposes to eliminate the additional deduction for gifts of medicine. This measure does not affect the general income tax treatment of donations made by corporations to registered charities, including donations of medicine.

This measure will apply to gifts of medicine made on or after Budget Day.

**Investment Tax Credit for Child Care Spaces**
Budget 2017 proposes to eliminate the 25 per cent non-refundable tax credit on costs incurred to build or expand child care spaces in licensed child care facilities for the benefit of children of the taxpayer's employees.

This measure will apply to expenditures incurred on or after Budget Day. To provide transitional relief, the credit will be available for eligible expenditures incurred before 2020 pursuant to a written agreement entered into before Budget Day.

**Insurers of Farming and Fishing Property**
Budget 2017 proposes to eliminate the tax exemption for insurers of farming and fishing property.

This measure will apply to taxation years that begin after 2018.

**Billed-Basis Accounting**
Budget 2017 proposes to eliminate the ability for designated professionals (i.e. accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) to elect to use billed-basis accounting.

This measure will apply to taxation years that begin on or after Budget Day.

To mitigate the effect on taxpayers, a transitional period will be provided to phase in the inclusion of work-in-progress into income. For the first taxation year that begins on or after Budget Day, 50 per cent of the lesser of the cost and the fair market value of work-in-progress will be taken into account for the purposes of determining the value of inventory held by the business under the ITA. For the second, and each successive, taxation year that begins on or after Budget Day, the full amount of the lesser of the cost and the fair market value of work-in-progress will be taken into account for the purposes of valuing inventory.

**Consultation on Cash Purchase Tickets**
Budget 2017 launches a consultation on the income tax deferral available for deferred cash purchase tickets for deliveries of listed grains.

Stakeholders are invited to provide comments on the ongoing utility, and potential elimination, of this tax deferral, including any appropriate transitional period or rules.

**Tax Planning Using Private Corporations**
The review of federal tax expenditures highlighted a number of issues regarding tax planning strategies using private corporations, which can result in high income individuals gaining unfair tax advantages.
A variety of tax reduction strategies are available to these individuals that are not available to other Canadians. These strategies include:

> *Sprinkling income using private corporations*, which can reduce income taxes by causing income that would otherwise be realized by an individual facing a high personal income tax rate to instead be realized by family members who are subject to lower personal tax rates.
>
> *Holding a passive investment portfolio inside a private corporation*, which may be financially advantageous for owners of private corporations compared to otherwise similar investors. This is mainly due to the fact that corporate income tax rates, which are generally much lower than personal rates, facilitate accumulation of earnings that can be invested in a passive portfolio.
>
> *Converting a private corporation's regular income into capital gains*, which can reduce income taxes by taking advantage of the lower tax rates on capital gains. Income is normally paid out of a private corporation in the form of salary or dividends to the principals, who are taxed at the recipient's personal income tax rate. In contrast, only one-half of capital gains are included in income, resulting in a significantly lower tax rate on income that is converted from dividends to capital gains.

The government is therefore further reviewing the use of tax planning strategies involving private corporations that inappropriately reduce personal taxes of high-income earners. The government intends to release a paper in the coming months setting out the nature of these issues in more detail as well as proposed policy responses.

## International Tax Measures

### Extending the Base Erosion Rules to Foreign Branches of Life Insurers

Budget 2017 proposes to amend the ITA to ensure that Canadian life insurers are taxable in Canada with respect to their income from the insurance of Canadian risks. This rule will be modelled on the existing anti-avoidance rule in the Foreign Accrual Property Income (FAPI) regime. It will apply where 10 per cent or more of the gross premium income (net of reinsurance ceded) earned by a foreign branch of a Canadian life insurer is premium income with respect to Canadian risks. Where the proposed rule applies, it will deem the insurance of Canadian risks by a foreign branch of a Canadian life insurer to be part of a business carried on by the life insurer in Canada and the related insurance policies to be life insurance policies in Canada.

It is further proposed that complementary anti-avoidance rules be introduced to ensure the integrity of the proposed rule. First, anti-avoidance rules that were introduced to the FAPI regime in Budgets 2014 and 2015 will be extended to foreign branches of life insurers. These rules are intended to ensure that the proposed rule cannot be avoided through either the use of so-called "insurance swaps" or the ceding of Canadian risks.

If a life insurer has insured foreign risks through its foreign branch and it can reasonably be concluded that the foreign risks were insured by the life insurer as part of a transaction or series of transactions, one of the purposes of which was to avoid the proposed rule, then the life insurer will be treated as if it had insured Canadian risks. An analogous anti-avoidance rule will also be introduced to reinforce the existing anti-avoidance rules in the FAPI regime.

This measure will apply to taxation years of Canadian taxpayers that begin on or after Budget Day.

## Sales and Excise Tax Measures

### Opioid Overdose Treatment Drug – Naxolone

In order to restore the GST/HST-free treatment of naloxone, Budget 2017 proposes to add the drug (and its salts) to the list of GST/HST-free non-prescription drugs that are used to treat life-threatening conditions.

This measure generally comes into effect on March 22, 2016. However, this measure does not apply to any supply or importation of naloxone or the bringing of the drug into a participating province on or before Budget Day for which GST/HST was charged, collected, remitted or paid.

### Taxi and Ride-Sharing Services

To ensure that the GST/HST applies consistently to taxi services and ride-sharing services, Budget 2017 proposes to amend the definition of a taxi business to require providers of ride-sharing services to register for the GST/HST and charge tax on their fares in the same manner as taxi operators. In this regard, it is proposed that the GST/HST definition of a taxi business be amended to include persons engaged in a business of transporting passengers for fares by motor vehicle within a municipality and its environs where the transportation is arranged for or coordinated through an electronic platform or system, such as a mobile application or website. These changes will only apply to transportation that is supplied in the course of a commercial activity. These changes will not apply to a school transportation service for elementary or secondary students or a sightseeing service.

The amendment will be effective as of July 1, 2017.

### GST/HST Rebate to Non-Residents for Tour Package Accommodations

Budget 2017 proposes to repeal the GST/HST rebate available to non-residents for the GST/HST that is payable for the accommodation portion of eligible tour packages.

This repeal will generally apply to supplies of tour packages or accommodations made after Budget Day. As a transitional measure, the rebate will continue to be available for supply of a tour package or accommodations made after Budget Day but before January 1, 2018 if all of the consideration for the supply is paid before January 1, 2018.

**Tobacco Taxation**
Budget 2017 proposes to eliminate the tobacco manufacturers' surtax of 10.5 per cent. In order to maintain the intended tax burden of the manufacturers' surtax on tobacco products, Budget 2017 also proposes to adjust tobacco excise duty rates.

The excise duty rate on cigarettes will increase from $0.52575 to $0.53900 for each five cigarettes or fraction thereof (i.e., from $21.03 to $21.56 per 200 cigarettes). Budget 2017 also proposes that inventories of cigarettes held by manufacturers, importers, wholesalers and retailers at the end of Budget Day be subject to a tax of $0.00265 per cigarette (subject to certain exemptions). Manufacturers, importers, wholesalers and retailers should refer to the cigarette inventory tax mechanism in the Excise Act, 2001 and Canada Revenue Agency publications for more information. Taxpayers will have until May 31, 2017 to file returns and pay the inventory tax.

The excise duty rates for other tobacco products will also be adjusted accordingly. Budget 2017 proposes a corresponding increase in the excise duty rate on tobacco sticks from $0.10515 to $0.10780 per stick (i.e., from $21.03 to $21.56 per 200 tobacco sticks), and on manufactured tobacco (e.g., chewing tobacco or fine-cut tobacco for use in roll-your-own cigarettes) from $6.57188 to $6.73750 per 50 grams or fraction thereof (i.e., from approximately $26.29 to $26.95 per 200 grams). The excise duty rate on cigars is proposed to increase from $22.88559 to $23.46235 per 1,000 cigars, and the additional duty on cigars from the greater of $0.08226 per cigar and 82 per cent of the sale price or duty-paid value to the greater of $0.08434 per cigar and 84 per cent of the sale price or duty-paid value.

These measures will be effective as of the day after Budget Day. A corporation with a taxation year that includes Budget Day and ends after Budget Day will be required to prorate the surtax on its Canadian tobacco manufacturing profits based on the number of days in the taxation year that are on or before Budget Day.

**Alcohol Taxation**
Budget 2017 proposes that excise duty rates on alcohol products be increased by 2 per cent effective the day after Budget Day, with respect to duty that becomes payable after that date. No special inventory tax will apply to alcohol products on which duty has been paid. In order to maintain their effectiveness, it is also proposed that the rates be automatically adjusted by the Consumer Price Index on April 1 of every year, starting in 2018.

### Customs Tariff and Special Import Measures

Budget 2017 proposes changes to the rules of origin under Canada's tariff regime for least developed countries in order for more apparel products imported from the world's poorest countries to qualify for duty-free treatment when imported into Canada. It proposes to amend the Special Import Measures Act (SIMA) and related trade remedy regulations to ensure that Canada's trade remedy system is strengthened and remains aligned with international trade rules. Amendments will be made to SIMA in respect of exporters found to be dumping at de minimis levels, in order to ensure Canada's compliance with the World Trade Organization rules.

### Status of Outstanding Tax Measures

Budget 2017 confirms the government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations and deliberations since their release:

- Measures announced on October 3, 2016 to improve fairness in relation to the capital gains exemption on the sale of a principal residence;
- The measure announced in Budget 2016 on information-reporting requirements for certain dispositions of an interest in a life insurance policy;
- Legislative proposals released on September 16, 2016, relating to income tax technical amendments;
- Legislative and regulatory proposals released on July 22, 2016 relating to the Goods and Services Tax/Harmonized Sales Tax; and
- Measures confirmed in Budget 2016 relating to the Goods and Services Tax/Harmonized Sales Tax joint venture election.

Budget 2017 also reaffirms the government's commitment to move forward as required with technical amendments to improve the certainty of the tax system.