

## NOTES ON THE FEDERAL BUDGET 2016

On March 22, 2016, Minister of Finance Bill Morneau presented the 2016 Canada Federal Budget titled "Growing the Middle Class" (Budget 2016). The first budget from the recently elected Liberal government prioritizes help for Canada's middle class. Budget 2016 features numerous measures to improve infrastructure, eliminate and amend a number of tax benefits including the Children's Fitness tax credit and Canada Child Tax Benefit, provides increases to bring about changes in the socio-economic conditions of Canada's Indigenous peoples, introduces changes to Employment Insurance, and proposes amendments to improve Canada's tax system and financial sector.

### Retirement Matters

#### *Enhancing the Canada Pension Plan*

Budget 2016 reconfirms the government's pledge to work with the provinces and territories in order to enhance the Canada Pension Plan in order to ensure that Canadians are able to adequately replace their working-age income in retirement. The government hopes to launch consultations with Canadians soon with the goal of coming to a consensus on next steps regarding enhancing the CPP by the end of 2016.

#### *Restoring the Eligibility Age for Old Age Security*

Budget 2016 follows up on a promise from the government to return the eligibility ages of the Old Age Security program by cancelling the provisions in the *Old Age Security Act* that increase the age of eligibility for Old Age Security and Guaranteed Income Supplement benefits from 65 to 67 and Allowance benefits from 60 to 62 over the 2023 to 2029 period.

#### *Increasing the Guaranteed Income Supplement for Single Seniors*

Budget 2016 proposes to increase the total maximum Guaranteed Income Supplement (GIS) benefits 10 per cent, up to \$947 annually for the most vulnerable single seniors starting in July 2016. Single seniors with annual income (other than Old Age Security and GIS benefits) of \$4,600 or less will receive the full increase of \$947, with gradual reductions in benefits provided above that income level up to a maximum threshold of \$8,400. The Budget 2016 also proposes to introduce amendments to the *Old Age Security Act* that will ensure couples who receive Guaranteed Income Supplement and Allowance benefits and have to live apart for reasons beyond their control (such as a requirement for long-term care) will receive higher benefits based on their individual incomes.

#### *Ensuring Seniors' Benefits Keep Pace with the Cost of Living*

Budget 2016 states that the government will look into how a Seniors Price Index can help ensure that Old Age Security and Guaranteed Income Supplement benefit can keep pace with cost of living increases.

#### *Enhancing the Regulatory and Supervisory Framework for Federally Regulated Pension Plans*

Budget 2016 proposes changes to the bilateral agreement powers in the *Pension Benefits Standards Act* (PBSA) and announces a consultative process on a pension plan investment rule. The government will launch public consultations in order to determine an appropriate legislative and regulatory framework that "provides flexibility to pension plans to seek out the best investment opportunities, while protecting the retirement savings of Canadians." In particular, the government will seek opinions on the usefulness of the 30 per cent investment rule that currently restricts pension plans from holding more than 30 per cent of the voting shares of a company.

## Health and Wellness Matters

### *Canada Child Benefit*

Beginning in July 2016, the Canada Child Benefit will be replacing the Canada Child Tax Benefit and the Universal Child Care Benefit. The Canada Child Benefit is designed to provide further relief to Canada's middle class. It will provide a maximum annual benefit, to families with less than \$30,000 in net income, of up to \$6,400 per child under the age of 6 and up to \$5,400 per child for those aged 6 through 17. This benefit will be provided as a tax-free, single monthly payment and benefits will vary depending on current household income. Low and middle income families will receive more benefits, and those with the highest incomes (generally over \$150,000) will receive lower benefits than under the current system.

To recognize the additional costs of caring for a child with a severe disability, Budget 2016 proposes to continue to provide the Child Disability Benefit, an additional amount of up to \$2,730 per child eligible for the Disability Tax Credit.

### *Eliminating the Children's Fitness Tax Credit and the Children's Arts Tax Credit*

Budget 2016 proposes to reduce the maximum eligible expenses for the Children's Fitness and Arts Tax Credits by half for 2016, and to eliminate both credits as of 2017. The 2016 maximum eligible amounts for the credits are \$1,000 for the children's fitness tax credit (which will remain refundable for 2016) and \$500 for the children's arts tax credit.

### *Eliminating Income Splitting for Couples with Children*

Budget 2016 proposes to eliminate income splitting for couples with children under the age of 18 for the 2016 and subsequent taxation years. The government has stated that pension income splitting will not be affected by the change.

### *Health Care*

Budget 2016 includes a number of funding measures related to health care for Canadians, including:

- \$39 million over three years to the Canadian Foundation for Healthcare Improvement to identify and introduce innovations in the health care system;
- \$50 million over two years to Canada Health Infoway to support short-term digital health activities in electronic health prescribing and telehomecare;
- \$64.5 million over five years, starting in 2016-17, and \$13.8 million per year ongoing to expand Nutrition North Canada to provide subsidies on perishable nutritious food to isolated Northern communities;
- \$38.5 million over two years to further strengthen and modernize Canada's food safety system through enhanced inspection activities; and
- \$25 million over five years to improve immunization coverage among Canadians by improving Canada's ability to identify under- and un-immunized Canadians.

## Employer Taxes and the Tax System

### *Employment Insurance (EI)*

Budget 2016 introduces a number of measures to improve Employment Insurance, including:

- Amending the eligibility requirements for EI in order to improve access for new entrants into the labour market;
- Reducing the EI waiting period from two weeks to one, effective January 1, 2017;
- Simplifying job search responsibilities for EI claimants by reversing 2012 changes that strictly define the job search responsibilities of unemployed workers;
- Proposing legislative changes to extend the duration of EI regular benefits by 5 weeks, up to a maximum of 50 weeks, for all eligible claimants in 12 EI economic regions that have experienced the sharpest and most severe increases in unemployment in recent years;
- Proposing legislative changes to offer up to an additional 20 weeks of EI regular benefits to long-tenured workers in the same 12 EI economic regions, up to a maximum of 70 weeks of benefits; and
- Investigating ways to make compassionate care benefits and parental leave benefits easier to access, more flexible and more accommodating.

### *Improving the Tax System*

Budget 2016 includes a number of actions that “improve the fairness and integrity of the tax system,” including:

- Investing \$444.4 million over five years for the CRA to enhance its efforts to crack down on tax evasion and combat tax avoidance;
- Investing \$351.6 million over five years for the CRA to improve its ability to collect outstanding tax debts;
- Improving the integrity of Canada’s tax system by preventing the use of tax planning techniques that result in unintended tax advantages; and
- Restoring the Labour-Sponsored Venture Capital Corporations Tax Credit to facilitate access to venture capital for small and medium-sized businesses.

## Investment in Infrastructure

Budget 2016 proposes in Phase 1 of 2, major investments in infrastructure over the next two years to address immediate concerns regarding public transit, water and wastewater systems, affordable housing, and the effects of climate change. Phase 2 will deliver on the remaining eight years of the Government’s long-term infrastructure plan.

The plan calls for investments of \$11.9 billion over the next five years, including \$3.4 billion for upgrades and improvements to public transit over the next three years, \$5.0 billion over five years for investments in water, wastewater and green infrastructure projects, and \$3.4 billion over five years for affordable housing, cultural and recreational infrastructure, and community health care facilities.

Budget 2016 also proposes to provide \$3.4 billion over the next five years, on a cash basis, to maintain and upgrade federal infrastructure assets such as national parks, small craft harbours, federal airports and border infrastructure.

## Investments in Indigenous Peoples and Communities

The 2016 Budget includes \$8.4 billion worth of spending commitments over five years for social infrastructure, health infrastructure, water and waste water infrastructure, waste management, housing, child welfare, and K-12 education beginning in 2016-17. \$1.8 billion of this total investment is set to flow in 2020-21. Notable spending items include for \$3.7 billion over five years for primary and secondary education, including investments in education infrastructure, \$1.8 billion for water and waste water infrastructure, \$554.3 million (over two years) to address urgent on-reserve housing needs, and \$270 million over five years for health facilities like nursing stations and residences for health care workers in First Nation communities.

## Investment in Skills Training, Education and Research

### *Enhancing Investments in Training*

Budget 2016 proposes to engage in consultations with provinces, territories and stakeholders in 2016-17 to identify ways to improve existing training and employment programs for unemployed and underemployed Canadians, including providing an additional \$125 million in 2016-17 for the Labour Market Development Agreements, and an additional \$50 million in 2016-17 for the Canada Job Fund Agreements.

### *Strengthening Union-Based Apprenticeship Training*

Budget 2016 also proposes to strengthen the role of union-based training providers with additional funding totaling \$85.4 million over five years, starting in 2016-17, to develop a new framework to support union-based apprenticeship training. Budget 2016 also seeks to increase union involvement in apprenticeship training and support innovative partnerships and unique approaches to training programs.

### *Supporting Flexible Working Arrangements*

The government is committed to exploring options for federally regulated employees to manage the demands of work and family responsibilities through the use of flexible working arrangements (such as flexible start and finish times or the ability to work from home).

### *Improving the Affordability of Post-Secondary Education*

Budget 2016 proposes to increase Canada Student Grant amounts by 50 per cent beginning in the 2016-17 academic year:

- from \$2,000 to \$3,000 per year for students from low-income families;
- from \$800 to \$1,200 per year for students from middle-income families; and
- from \$1,200 to \$1,800 per year for part-time students.

The government has also proposed to increase the loan repayment threshold under the Canada Student Loans Program's Repayment Assistance Plan to ensure that no student will have to repay their Canada Student Loan until they are earning at least \$25,000 per year.

Budget 2016 also proposes to eliminate the Education and Textbook Tax Credits, effective January 1, 2017. Any savings realized from eliminating these credits will be used to enhance student financial assistance for students from low- and middle-income families.

## Changes to How the Government Does Business

Budget 2016 contains a number of initiative and proposals that are designed to improve government services and how the government works with Canadians.

### *Improving Client Services at the Canada Revenue Agency*

Budget 2016 proposes \$185.8 million over five years, starting in 2016-17, and \$14.6 million ongoing for the CRA to address the Government's commitments to service excellence through a number of initiatives, including enhancements to telephone services, changes to CRA correspondence to make communications to taxpayers more straightforward, consultations with charities and interested stakeholders to clarify the rules governing the political activities of charities, and proposed service enhancements to more efficiently resolve taxpayer objections.

### *Bargaining in Good Faith with Federal Government Unions*

Budget 2016 notes that the government is committed to negotiating in good faith in any collective bargaining between the Government and federal public service unions regarding the renewal of all public service collective agreements. This includes already introduced new legislation to repeal the legislative provisions that provide the federal government with the power to make unilateral changes to the disability and sick leave system along with reversing the previous Government's decision to book savings in respect of changes to the public service disability and sick leave system in advance of the completion of negotiations.

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