

2019 Federal Budget Highlights

On March 19, 2019, Minister of Finance Bill Morneau presented the 2019 Budget titled Investing in the Middle Class. The fourth budget from the Liberal federal government focuses on skills training and research, housing affordability, seniors, and sets down the framework for the implementation of a national pharmacare program.

Budget 2019 provides additional details about investments promised in previous budgets and includes \$23 – billion of additional spending in more than a hundred areas including research, education, infrastructure, housing, Indigenous communities, the arts, veterans.

Social Benefits

Canada Training Benefit

The Government proposes to introduce the Canada Training Benefit to help working Canadians access professional development. The new benefit includes three components: the Canada Training Credit, the Employment Insurance (EI) Training Support Benefit, and leave provisions.

Canada Training Credit

The Canada Training Benefit will include as one of its key components the new Canada Training Credit, a refundable tax credit aimed at helping people plan for and pay for the training they need. Eligible individuals will have \$250 set aside for them per year worked up to a lifetime limit of \$5,000. The accumulated funds can then be used to help cover up to half of eligible tuition and fees associated with training.

Employment Insurance (EI) Training Support Benefit

This new benefit—expected to be launched in late 2020—would be available through the EI program and would provide up to four weeks of income support, every four years, for workers who have accumulated 600 hours of insurable employment. The income support will be paid at 55 per cent of a person's average weekly earnings.

Leave Provisions

The Government proposes to consult with provinces and territories on changes to labour legislation to support new leave provisions for the purposes of training. These new leave provisions would ensure that workers are entitled to leave and job protection while they are on training and receiving the EI Training Support Benefit.

Guaranteed Income Supplement

The Budget proposes to introduce legislation that would enhance the GIS earnings exemption beginning with the July 2020 to July 2021 benefit year. The enhancement will:

- Extend eligibility for the earnings exemption to self-employment income.
- Increase the amount of the full exemption from \$3,500 to \$5,000 per year for each GIS or Allowance recipient and their spouse.
- Introduce a partial exemption of 50%, to apply to up to \$10,000 of annual employment and self-employment income beyond the initial \$5,000 for each GIS or Allowance recipient and their spouse.

The Canada Workers Benefit (CWB)

The Budget includes \$4 million over two years, starting in 2019–20, to increase awareness of the CWB, including the advance payment provision.

Pensions

Proactive Canadian Pension Plan (CPP) enrolment

The Government proposes to introduce legislative amendments to proactively enroll CPP contributors who are age 70 or older in 2020 but have not applied to receive their retirement benefit.

The Government also proposes to extend the period under which a person can choose not to receive a CPP retirement pension from six months to a year to ensure that no one is disadvantaged.

Protecting Workplace Pensions in the Event of Corporate Insolvency

Budget 2019 proposes new measures that will require everyone involved “to act in good faith” and give courts “greater ability to review payments made to executives in the lead up to insolvency”.

At the same time, proposed changes to corporate law will clarify that federally incorporated businesses are able to consider diverse interests, such as those of workers and pensioners, in corporate-decision making. In addition, publicly traded, federally incorporated firms will be required to disclose their policies on workers, pensioners, and executive compensation, or explain why such policies are not in place. These firms will also be required to hold and disclose the results of non-binding shareholder votes on executive compensation.

Proposed changes to federal pension law will clarify that if a plan is wound-up, it must still provide the same pension benefits as when it was ongoing. In addition, it will allow defined benefit (DB) plans to transfer the responsibility to provide pensions to a regulated life insurance company through the purchase of annuities.

Pension Research Funding

The Governments proposes to provide \$150,000 over three years to the National Pension Hub to support pension research focused on improving retirement savings outcomes for Canadians and developing solutions to pension challenges. The Budget also proposes to provide \$12.5 million over ten years to the Global Risk Institute, founder of the National Pension Hub, to continue its work in developing new approaches to financial risk management.

Health

First Steps towards the Implementation of National Pharmacare

Budget 2019 announces the Government’s intention to move forward on three foundational elements of national Pharmacare recommended by the Advisory Council on the Implementation of National Pharmacare:

- 1) The creation of the **Canadian Drug Agency**, a new national drug agency that will take a coordinated approach to assessing effectiveness and negotiating prescription drug prices on behalf of Canadians. The development of this new agency will be done in partnership with provinces, territories, and stakeholders.
- 2) **The development of a national formulary** —a comprehensive, evidence-based list of prescribed drugs.
- 3) A **national strategy for high-cost drugs for rare diseases** to ensure that patients with rare diseases have better and more consistent coverage for their treatments, which are often life-saving.

The Government has budgeted \$35 million over four years starting in 2019-2020 for the establishment of a Canadian Drug Agency Transition Office and up to \$1 billion over two years, starting in 2022–23, with up to \$500 million per year ongoing, for the national strategy for high-cost drugs for rare diseases.

Taxes

Employee Stock Options

The Government plans to limit the use of the current employee stock option tax regime and move towards aligning the tax treatment of stock options with the United States for employees of large, long-established, mature firms. The current tax rules provide employee stock options with preferential personal income tax treatment in the form of a stock option deduction which effectively results in the benefit being taxed at a rate equal to one half of the normal rate of personal taxation, the same rate as capital gains. The Government proposes to apply a \$200,000 annual cap on employee stock option grants (based on the fair market value of the underlying shares) that may receive the current treatment, for employees of large, long-established mature firms. Start-ups and emerging Canadian businesses, employee stock option benefits will not be affected by this change. Any changes would apply on a go-forward basis only.

Details of this measure will be released before the summer of 2019.

RRSP Withdrawals for Home Purchases

To provide first-time home buyers with greater access to their RRSP savings to purchase or build a home, Budget 2019 proposes to increase the Home Buyers' Plan (HBP) withdrawal limit to \$35,000. It also extends access to the HBP to individuals, for withdrawals made after 2019, who live separate and apart from their spouse or common-law partner at the time of the withdrawal, and for individuals who began to live separate and apart in the year in which the withdrawal is made or any time in the four preceding years, and meet certain other conditions.

Additional Types of Annuities under Registered Plans

Currently, the tax rules allow funds from certain registered plans to be used to purchase an annuity to provide income in retirement, subject to specified conditions. The Budget proposes to permit two additional types of annuities for certain registered plans. The measures will apply to the 2020 and subsequent taxation years.

Advanced Life Deferred Annuities (ALDAs)

ALDAs will be a qualifying annuity purchase, or a qualified investment, under a registered retirement savings plan (RRSP), registered retirement income fund (RRIF), deferred profit sharing plan (DPSP), pooled registered pension plan (PRPP) and defined contribution (DC) registered pension plan.

An ALDA will be a life annuity the commencement of which may be deferred until the end of the year in which the annuitant attains 85 years of age (instead of 71 years of age under current rules).

Variable Payment Life Annuities (VPLAs)

VPLAs will be permitted under a PRPP and DC pension plan.

VPLA will be provided to members directly from the pension plan. A VPLA will provide payments that vary based on the investment performance of the underlying annuities fund and on the mortality experience of VPLA annuitants.

Contributions to a specified multi-employer plan for older members

Under the current tax rules, pension benefits may not be accrued by a member after the end of the year in which the member attains 71 years of age or if the member has returned to work for the same or a related employer and is receiving a pension from the plan (except under a qualifying phased retirement program).

The budget proposes to amend the tax rules to prohibit contributions to a SMEP in respect of a member after the end of the year the member attains 71 years of age and to a defined benefit provision of a SMEP if the member is receiving a pension from the plan (except under a qualifying phased retirement program). The proposed changes

will ensure that employers do not make pension contributions on behalf of older SMEP members in these situations from which they cannot benefit.

This measure will apply in respect of SMEP contributions made pursuant to collective bargaining agreements entered into after 2019, in relation to contributions made after the date the agreement is entered into.

GST/HST Health Measures

The budget proposes to extend the application of the GST/HST relief to certain biologicals, medical devices and health care services to reflect the evolving nature of the health care sector. This includes

- Human ova and in vitro embryos supplies and imports
- Foot care devices supplied on the order of a podiatrist or chiropodist licensed podiatrists and chiropodists
- Multidisciplinary health care services

Excise Duty

Cannabis Taxation, Regulation, and Public Protection

The Budget proposes that edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals be subject to excise duties imposed on cannabis licensees at a flat rate applied on the quantity of total tetrahydrocannabinol (THC) contained in a final product. The THC-based duty will be imposed at the time of packaging of a product and become payable when it is delivered to a noncannabis licensee (e.g., a provincial wholesaler, retailer or individual consumer). The current excise duty regime and associated rates for fresh and dried cannabis, and seeds and seedlings, will be unaffected by this proposed change.

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