The New Federal Budget Offers a Little Tax Relief for Everyone

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With a Federal election looming, it is no surprise that the recent budget featured a little bit of everything. After taking care of families with new tax cuts last October, the proposed budget delivers tax relief for seniors and small business owners to widen the appeal.

Every Canadian will enjoy an increase to their Tax Free Savings Account (TFSA) for 2015 however, the limit is going to stay there -- there will be no indexing for inflation. As of this year, your annual TFSA contribution limit is $10,000. So it means the maximum accumulated TFSA contribution amount is $41,000.

Many seniors will probably be taking advantage of the TFSA increase while at the same time, having to take less out of their Registered Retirement Income Funds (RRIFs). Under the current rules, seniors are required to withdraw a minimum amount every year once they convert their
RRSPs to RRIFs. The minimum amount is not subject to withholding tax and must be reported as income on your tax return.

The minimum withdrawal amount is based on a taxpayer's age. By reducing the minimum withdrawal amount, seniors will have more flexibility in controlling their tax situation so they do not have to face a big tax bill and reduced benefits. For example, RRIF income may mean a taxpayer is no longer eligible to claim the age amount. And for lower-income seniors, the lower RRIF withdrawal will have less impact on their Guaranteed Income Supplement (GIS).

It also means seniors aren't draining their retirement savings too quickly. The previous withdrawal rate was based on a time when there were higher interest rates on savings. In some cases, the minimum withdrawals were depleting the investment principal too quickly. Canadians are living longer so their retirement funds need to last longer.

For this year only, if seniors have already withdrawn the larger maximum from their RRIF, they will be allowed to re-contribute the balance and claim the deduction on their tax return.

Following similar credits already available in Ontario and B.C., the Federal government is proposing a $10,000 Home Accessibility Tax Credit to help keep seniors or disabled taxpayers at home starting in 2016. This means improvements or renovations that make a house more accessible or reduce the risk of harm can qualify. So things like grab bars, walk-in bathtubs and wheel-in showers would be covered.

Unlike the provincial counterparts, the federal credit will be non-refundable which means you have to have taxable income before you can derive any benefit. But the federal government will cover not only seniors but any taxpayer who qualifies for the disability tax credit. Assuming certain dependency requirements are met, the credit can also be claimed by family members who make renovations for their senior or disabled relatives.

Small business owners with corporations will enjoy a lower tax rate starting in 2016 and it will be reduced by half a percent each year until 2019. And lifetime capital gains exemptions for farmers and fishers were also increased to $1 million dollars for sales after April 21, 2015. But unlike the capital gains exemption for small business corporations, this amount will not be indexed.

For the rest of Canadians, there was some forgiveness which is always a good thing. I have warned clients about the penalties that are associated with unreported income twice within a four year time span. The penalty is not related to the amount of tax you owe because you didn't report all your income -- the penalty is based solely on the amount of unreported income. So if you failed to report $5,000 worth of income, your penalty was $1,000 even if you didn't owe that much tax. Forgetting to report income could be painful.

The new budget is proposing a penalty that is more focused on the tax owing as a result of unreported income. Now the penalty may be based on the amount of tax owed. It will be the lesser of 10 per cent of the amount of unreported income or an amount equal to 50 per cent of the difference between the tax you paid versus the taxes you actually owe as a result of the unreported income. Another plus is your unreported income has to be at least $500 so if you forget a small T4 slip, it does not count against you.

As with any Federal budget, it still needs to be passed by Parliament but it should happen before the election call.