

Federal Budget

March 19, 2019

Federal Finance Minister Bill Morneau delivered the 2019 federal budget on March 19, 2019. The budget contains the following highlights that will be of interest to payroll professionals:

1. No Changes to CPP or Income Tax Rates Announced

The budget did not propose any changes to Canada Pension Plan (CPP) contribution rates or to personal income tax rates or to tax brackets.

2. EI Premium Rate Projected to Decrease

Budget documents state that the government expects to reduce the Employment Insurance (EI) premium rate for employees outside of Quebec from 1.62% to 1.61% for 2020.

The budget also proposes to provide a premium rebate for small businesses that pay employer EI premiums equal to or less than \$20,000 a year, beginning in 2020.

3. Stock Option Deduction to be Capped

The budget proposes to place an annual cap of \$200,000 on the amount of employee stock options that are eligible for a stock option deduction permitted under the federal *Income Tax Act*. The deduction allows employees to deduct from their income one-half of the amount of the taxable benefit that results from stock options that they acquire from their employer. The proposed cap would not apply to all stock options, but only to those granted to employees who work for large, long-established companies. Stock option benefits would remain uncapped for employees of start-ups and rapidly growing Canadian businesses. Budget documents noted that most employees with stock option benefits in large, long-established companies would not be affected by the proposal.

The change, which would align Canada's rules with those in the United States, would apply on a go-forward basis, meaning that they would not affect employee stock options granted before the government announces legislative changes to implement the proposals.

The government said it would provide further details on the proposal before the summer.

4. New Training Benefit Proposed

The budget proposes to create a new Canada Training Benefit to help workers get training for new job skills. The benefit would include a new non-taxable training credit to help pay for training fees, and a new EI training support benefit to help workers financially when they need to take time off work to pursue training.

The training credit would provide \$250 a year for eligible workers between the ages of 25 and 64, to a lifetime maximum of \$5,000. Individuals would claim the credit when they filed their income tax returns. To be eligible, workers would need to have at least \$10,000 in earnings from work (including maternity and parental leave benefits), an annual income under approximately \$150,000, and they would have to file an income tax return. They could use the credit to help pay for fees at universities, colleges, and other eligible institutions, beginning in 2020.

The new EI benefit would provide up to four weeks of benefits, paid at 55% of average weekly earnings, taken within a four-year period. To be eligible for the benefit, individuals would need to

have at least 600 hours of insurable employment in their qualifying period. Budget documents state that the government would launch the benefit in late 2020.

In addition to the new credit and EI benefit, the government proposes to consult on amendments to the *Canada Labour Code* and provincial/territorial employment/labour standards laws that would allow workers to take job-protected time off work for the training.

5. FYI Proposals

- **Tax compliance:** The government proposes to provide the Canada Revenue Agency (CRA) with an additional \$150.8 million over five years, beginning in 2019–20, to invest in efforts to combat tax evasion. The CRA would use the funding for initiatives such as hiring additional auditors, conducting outreach, and building technical expertise to target non-compliance associated with cryptocurrency transactions and the digital economy. The budget would also provide additional funding to help the CRA create a new data quality examination team to ensure proper withholding, remitting, and reporting of non-resident income.
- **Service improvements:** The budget proposes to provide \$305.3 million over five years to Employment and Social Development Canada to modernize the way it delivers services. It also proposes to provide the CRA with \$50 million over five years to improve client services and processing times for individual income tax returns.
- **Workplace pensions:** The budget proposes to amend pension and bankruptcy legislation to better protect workplace pensions. One change would require that if a pension plan winds up, it would still have to provide the same pension benefits as it did when it was ongoing. Another change would allow defined benefit plans to fully transfer responsibility for providing the pension to a regulated life insurance company through the purchase of annuities.
- **CPP retirement pensions:** The budget proposes legislative amendments that would allow the government to proactively provide CPP retirement benefits to CPP contributors aged 70 years and older who have not yet applied for the benefits. The change would occur in 2020. The government also proposes to extend the period under which individuals may choose not to receive a CPP retirement pension from six months to a year.
- **GIS exemption:** The budget proposes to increase an earnings exemption for the Guaranteed Income Supplement (GIS) from \$3,500 to \$5,000 per year for recipients and their spouse and to extend the exemption beyond employment income to include self-employment income. It also proposes a partial exemption of 50% on annual employment and self-employment income of up to \$10,000 beyond the full exemption of \$5,000. The changes would apply beginning with the July 2020 to July 2021 benefit year.
- **Income security disputes:** The budget proposes to invest \$253.8 million over five years to improve recourse processes for individuals who do not agree with decisions relating to their claim for CPP, EI, or Old Age Security benefits.
- **Pay transparency:** Budget documents stated that the government plans to amend federal employment equity legislation and regulations to introduce pay transparency measures for federally regulated workers. The measures are designed to reduce wage gaps between men and women.
- **Public servant pay:** The budget proposes additional funding to help the government deal with problems related to its pay system for federal civil servants. The money would include \$523.3 million over five years to address payroll errors and \$9.2 million in 2019-20 for the CRA to help it more quickly deal with civil servant tax issues related to the government's pay system errors. Budget documents reiterated an announcement last year that the government plans to replace its Phoenix pay system with a new one.

- **National Pharmacare:** Building on an announcement in last year's budget to study the feasibility of creating a national pharmacare program, this year's budget proposes to create a national drug agency to negotiate prescription drug prices, develop a national formulary of prescription drugs, and create a national strategy to ensure that patients with rare diseases have more consistent treatment coverage. Budget documents stated that these measures would be initial steps while the government awaits a final report from an advisory council studying national pharmacare.

More information on these proposals can be found on the Ministry of Finance's website at <https://www.budget.gc.ca/2019/home-accueil-en.html?hootPostID=0aa8d23949eb2cad943581a4761edccd>.

We will continue to monitor these proposals and will report on further developments in upcoming releases.