COMMUNIQUÉ

23 April 2015

FEDERAL BUDGET 2015

The 2015 Federal Budget, tabled on April 21, 2015, proposes measures to allow further individual savings and to enhance retirees' ability to preserve their retirement savings. It also commits to assessing the viability of target benefit pension plan designs. The budget proposes increased job protection for employees in the federal jurisdiction who need to take time off from work for family responsibilities. On the investment front, it contains announcements about possible changes to the pension fund investment rules, new investment opportunities for charities, and some information about potential future Government of Canada bond issues. Additional captive insurer anti-avoidance rules are also described.

Tax-free Savings Account (TFSA)

For 2015 and subsequent taxation years, the budget proposes to increase the TFSA annual contribution limit from $5,500 to $10,000. The annual contribution limit will no longer be indexed to inflation.

Minimum Withdrawals from Registered Retirement Income Funds (RRIFs), Defined Contribution Pension Plans (DC RPPs) and Pooled Registered Pension Plans (PRPPs)

For 2015 and subsequent taxation years, the budget proposes to reduce the factors used to determine the minimum annual withdrawals from RRIFs during ages 71 to 94. Below is a table containing examples comparing the old and new withdrawal factors for selected ages:

Age (at start of year)	Old Factor	New Factor
71	7.38%	5.28%
75	7.85%	5.82%
80	8.75%	6.82%
85	10.33%	8.51%
90	13.62%	11.92%
94	20.00%	18.79%

The new withdrawal factors are intended to permit holders to preserve more of their tax sheltered savings in order to provide income at older ages.

As a transitional measure, RRIF holders who at any time in 2015 withdraw more than the reduced 2015 minimum will be permitted to re-contribute the excess to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year.

Similar rules will apply to those receiving annual payments from a DC RPP or from a PRPP.

Target Benefit Pension Plans

The Government indicates that it continues to assess the target benefit pension plan design for crown corporations and federally regulated private sector pension plans. It also indicates that any changes to the federal pension regime allowing target benefit pension plans would protect accrued benefits by requiring the consent of members and retirees at the time of conversion to a target benefit pension plan format. Finally, the Government indicates that it will consider modifications to the Income Tax Act to accommodate target benefit pension plans.

Extending Compassionate Care Benefits under the Employment Insurance (EI) Program

As of January 2016, the Government proposes to extend the maximum duration of EI compassionate care benefits provided to employees absent from work to care for family members who are gravely ill with a significant risk of death within six months. These EI benefits will be extended from the current maximum of 6 weeks in a 6 month period to a maximum of 6 months.

Employment Insurance Premium Reduction in 2017

The Government confirmed the 2017 implementation of its previously proposed seven-year, break-even, rate-setting mechanism for EI premiums. It expects this will result in a reduction of EI premiums for employees from $1.88 per $100 of insurable earnings in 2016 to $1.49 in 2017 with a corresponding reduction for employers.

Changes to the Canada Labour Code

The budget contains proposals to increase protections for employees who are subject to the Canada Labour Code by providing new unpaid leaves for family responsibilities and increased bereavement leave and by addressing violence and sexual harassment in federally regulated private sector workplaces.

Possible Change to Pension Fund Investment Restriction

The Government has announced it will undertake a public consultation on the usefulness of the federal investment rule that restricts federal pension funds from holding more than 30% of the voting shares of a company. Any change to this investment rule would also automatically affect pension fund investment rules in Alberta, British Columbia, Manitoba, Ontario and Saskatchewan, where the pension legislation incorporates the federal rules.

Investments by Registered Charities in Limited Partnerships

Subject to certain restrictions, the budget proposes allowing registered charities to invest in limited partnerships, thereby allowing access to a wider range of investment opportunities and to diversify their investment portfolios. Restrictions include a requirement that the charity, together with all non-arm's length entities, holds 20 per cent or less of the interest in the limited partnership and that the charity deals at arm's length with each general partner of the limited partnership.

Bond Issuances

Following the first-ever issuance of 50-year bonds in 2014, the Government indicated that it may issue additional 50-year bonds in 2015-16, which would increase the availability of ultra-long bonds enabling pension plans to better manage their interest rate risk. The government's medium term debt management strategy is to gradually transition the debt structure to a more even distribution across maturity sectors. The term to maturity of domestic Government of Canada debt is expected to remain relatively stable at approximately 7.5 to 8 years over the medium term.

Captive Insurers – Additional Measures

Building on developments in this area announced in last year's budget, the 2015 budget proposes to amend the existing anti-avoidance rules relating to the insurance of Canadian risks and the use of foreign affiliates. This is intended to ensure that profits of a Canadian taxpayer from the insurance of Canadian risks remain taxable in Canada. These measures will apply to taxation years that begin after April 20, 2015.

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