Federal Budget 2017 — A Focus on Innovation and Tax Fairness for the Middle Class

March 22, 2017

The Honourable William Morneau, Minister of Finance, tabled the Government's 2017 Federal Budget (Budget 2017) on March 22, 2017 (Budget Day). Compared to last year's budget, which included major increases to program spending and tax expenditures, Budget 2017 has little new money for program spending or bold tax initiatives. Government policy options are constrained by a combination of a sluggish economy, deficits from previous spending commitments, and potential tax changes from the Trump administration in the United States.

Budget 2017 focuses on building a strong middle class through innovation. The innovation and skills plan includes key goals: having the most skilled, talented, creative and diverse workforce in the world; encouraging world-leading discovery and innovation; better supporting Canadian innovators; and growing Canadian businesses to compete worldwide. Key spending priorities include lifelong skills training, innovation superclusters, and clean technologies. Budget 2017 also invests in communities, in particular by implementing the Canada Infrastructure Bank, enhancing public transit, funding green infrastructure, funding additional childcare spaces, implementing a new national housing fund, and investing in transportation infrastructure.

The tax measures included in Budget 2017, discussed in further detail below, focus on the key themes of enhancing the integrity of the tax system and improving its efficiency and effectiveness. It is notable that no changes to the capital gains inclusion rate or treatment of stock options were included in Budget 2017.

Integrity of the Tax System

Budget 2017 includes a number of broad measures to enhance the integrity of the tax system:

- *Tax Planning Using Private Corporations*: The Government intends to release a paper in the coming months setting out issues and proposed policy responses in respect of tax planning using private corporations, including income sprinkling, holding a passive investment portfolio inside a private corporation, and converting a private corporation's regular income into capital gains.

- *Preventing Tax Evasion and Improving Tax Compliance*: Budget 2017 will invest an additional $523.9 million over five years to increase verification activities, hire additional auditors and specialists with a focus on the underground economy, develop robust business intelligence infrastructure and risk assessment systems to target high-risk international tax and abusive tax avoidance cases, and improve the quality of investigative work that targets criminal tax evaders.
- *Information Sharing*: The Government is strengthening its efforts to combat international tax evasion through enhancing the sharing of information between tax authorities. Canada recently enacted legislation to implement the Common Reporting Standard developed by the Organization for Economic Co-operation and Development (OECD). The first exchanges of information with other countries will occur in 2018.
- *Corporate and Beneficial Ownership Transparency*: In order to provide safeguards against money laundering, terrorist financing, tax evasion and tax avoidance, the Government will collaborate with the provinces and territories to put in place a national strategy to strengthen the transparency of legal persons and legal arrangements and improve the availability of beneficial ownership information. The Government is also examining ways to enhance the tax reporting requirements for trusts in order to improve the collection of beneficial ownership information.
- *Anti-Avoidance Measures*: Budget 2017 also includes new anti-avoidance provisions, discussed further below, in respect of straddle transactions, extending the base erosion rules to foreign branches of life insurance, and certain registered plans.

Business Income Tax Measures

Investment Fund Mergers

Merger of Switch Funds into Mutual Fund Trusts

Budget 2016 introduced an amendment to the *Income Tax Act* that eliminated the ability of investors in a multi-class mutual fund corporation or "switch fund" to exchange or "switch" shares of one class (or mutual fund) for shares of another class (or mutual fund) on a tax-deferred basis, thus eliminating one of the advantages of switch funds.

Following this amendment, Budget 2017 proposes to extend the mutual fund merger rules to facilitate the wind-up of a multi-class mutual fund corporation on a tax-deferred basis. To qualify for this tax deferral, all or substantially all of the assets allocable to each class of shares of the mutual fund corporation must be transferred to a mutual fund trust, and the shareholders of that class must become unitholders of that mutual fund trust.

This measure will apply to "qualifying exchanges" that occur on or after Budget Day.

Segregated Fund Mergers

In order to provide consistency in the taxation of investment funds, Budget 2017 proposes to allow insurers to effect tax-deferred mergers of segregated funds. The new rules will provide for a “qualifying transfer” between segregated funds and are generally parallel to the mutual fund merger rules. Similar to the mutual fund merger rules, the use of losses will be restricted following a "qualifying transfer".

This measure will apply to mergers of segregated funds carried out after 2017 and to losses arising in taxation years that begin after 2017. The delay will provide the life insurance industry with an opportunity to comment on the proposed rules.

Energy and Oil and Gas Development

Clean Energy Generation Equipment: Geothermal Energy

Budget 2017 proposes three changes to the capital cost allowance (CCA) regime in respect of geothermal energy equipment:

- Eligible geothermal energy equipment under Classes 43.1 and 43.2 will be expanded to include geothermal equipment that is used primarily for the purpose of generating heat or a combination of heat and electricity. Eligible costs will include the cost of completing a geothermal well and, for systems that produce electricity, the cost of related electricity transmission equipment. Equipment used for the purpose of heating a swimming pool will not be eligible.
- Geothermal heating will be made an eligible thermal energy source for use in a district energy system.
- Expenses incurred for the purpose of determining the extent and quality of a geothermal resource and the cost of all geothermal drilling, for both electricity and heating projects, will qualify as a Canadian renewable and conservation expense.

The measures will apply in respect of property acquired for use on or after Budget Day that has not been used or acquired for use before Budget Day.

Canadian Exploration Expense: Oil and Gas Discovery Wells

Budget 2017 proposes that expenditures associated with drilling an oil or gas well (or associated with building a temporary access road to, or in preparing a site in respect of, any such well) that results in the discovery of a previously unknown petroleum or natural gas reservoir (i.e., the first well in a new reservoir, referred to as a "discovery well") are treated as a Canadian development expense (CDE) rather than their current treatment as a Canadian exploration expense (CEE). While CEE may be deducted in full in the year incurred, CDE may only be deducted at a rate of 30 per cent per year on a declining balance basis. The intent is for expenditures more clearly linked to success to be deducted gradually over time as development expenses.

Consistent with the existing rules, drilling expenditures will continue to be classified as CEE (or reclassified as CEE) in situations where the well has been abandoned (or has not produced within 24 months) or the Minister of Natural Resources has certified that the relevant costs associated with drilling the well are expected to exceed $5 million and it will not produce within 24 months. In addition, CEE treatment will continue to be available for other expenses such as early stage geophysical and geochemical surveying. CEE treatment in these cases is generally an efficient and reasonable tax treatment.

This measure will apply to expenses incurred after 2018 (including expenses incurred in 2019 that could have been deemed to have been incurred in 2018 because of the "look-back" rule). However, the measure will not apply to expenses actually incurred before 2021 where the taxpayer has, before Budget Day, entered into a written commitment to incur those expenses (including a commitment to a government under the terms of a license or permit).

Reclassification of Expenses Renounced to Flow-Through Share Investors

Eligible small oil and gas corporations are currently able to treat the first $1 million of CDE (deductible on a 30 per cent declining balance basis) as CEE (fully deductible in the year incurred) when renounced to shareholders under a flow through share agreement. Budget 2017 proposes to eliminate this treatment in respect of expenses incurred after 2018 (including expenses incurred in 2019 that could have been deemed to be incurred in 2018 because of the “look-back” rule), except for expenses incurred after 2018 and before April 2019 that are renounced under a flow-through share agreement entered into after 2016 and before Budget Day.

Meaning of Factual Control

The *Income Tax Act* recognizes two forms of control of a corporation: legal (*de jure*) control and factual (*de facto*) control. Legal control generally refers to the right to elect the majority of the board of directors of a corporation. Factual control is much broader, and exists where a person has, in respect of a corporation, "directly or indirectly in any manner whatever" influence that, if exercised, would result in control in fact of the corporation. The concept of factual control is generally used to restrict associated corporations' access to certain tax advantages (e.g., the small business deduction).

A recent court decision, McGillivray Restaurant Ltd. v Canada (2016 FCA 99), held that for a particular factor to be considered relevant to determining whether factual control exists, it must include "a legally enforceable right and ability to effect a change to the board of directors or its powers, or to exercise influence over the shareholder or shareholders who have that right and ability."

Budget 2017 proposes to amend the Income Tax Act to remove the restriction imposed by the Federal Court of Appeal in*McGillivray*. The factual control test will not be dependent on the existence of a "legally enforceable right", but instead will take into account “all factors that are relevant in the circumstances” to the determination of whether a person has direct or indirect influence that, if exercised, would result in control in fact of the corporation.

This proposed legislation will apply in respect of taxation years that begin on or after Budget Day.

Timing of Recognition of Gains and Losses on Derivatives

Elective Use of the Mark-to-Market Method

Budget 2017 proposes to introduce an elective mark-to-market regime for eligible derivatives held on income account. Once made, the election will remain effective for all subsequent years unless revoked with the consent of the Minister of National Revenue.

In general terms, an eligible derivative will be any derivative such as a swap agreement, a forward purchase or sale agreement, a futures agreement or an option agreement if that derivative is held on income account and meets certain conditions. One of these conditions is that the derivative be valued in accordance with accounting principles at its fair market value in a taxpayer's audited financial statements or otherwise has a readily ascertainable fair market value.

Once a taxpayer makes an election, the taxpayer will be required to annually include in computing the taxpayer's income the increase or decrease in value of the taxpayer's eligible derivatives. However, the recognition of any accrued gain or loss on an eligible derivative will be deferred until the derivative is disposed of.

This election will be available for taxation years that begin on or after Budget Day.

Straddle Transactions

Budget 2017 proposes to introduce a specific anti-avoidance rule that targets straddle transactions. A straddle transaction is, in simple terms, a transaction whereby the taxpayer simultaneously holds an interest (or position) in two or more financial instruments with the result that equal and offsetting gains and losses are to be generated from the transaction. The measure will effectively defer the realization of any loss on the disposition of a position to the extent the taxpayer has an unrealized gain on an offsetting position. A gain in respect of an offsetting position would generally be unrealized where the offsetting position has not been disposed of and is not subject to mark-to-market taxation.

For the purposes of this measure, a position will generally be defined as including an interest in certain properties (e.g., a traded commodity, a share in a corporation, an interest in a partnership or trust), as well as derivatives and certain debt obligations. An offsetting position with respect to a particular position held by a taxpayer will generally be a position that has the effect of eliminating all or substantially all of the taxpayer's risk of loss and opportunity for gain or profit in respect of the particular position.

Budget 2017 proposes to exempt the following types of transactions from this measure: a position held by a financial institution (as defined for the purposes of the mark-to-market property rules), or by a mutual fund trust or mutual fund corporation; a position that is part of certain types of hedging transactions entered into in the ordinary course of the taxpayer's business; or a position that is part of a transaction or a series of transactions none of the main purposes of which is to defer or avoid tax.

This measure will apply to any loss realized on a position entered into on or after Budget Day.

Elimination of Certain Benefits

- *Additional Deduction for Gifts of Medicine*: Budget 2017 proposes to eliminate the additional deduction for gifts of medicine from inventory of a corporation to an eligible charity. This measure will apply to gifts of medicine made on or after Budget Day.
- *Investment Tax Credit for Child Care Spaces*: Budget 2017 proposes to eliminate the investment tax credit on costs incurred to build or expand child care spaces in

licensed child care facilities. This measure will apply in respect of expenditures incurred on or after Budget Day. To provide transitional relief, the credit will be available in respect of eligible expenditures incurred before 2020 pursuant to a written agreement entered into before Budget Day.

- *Insurers of Farming and Fishing Property*: Budget 2017 proposes to eliminate the tax exemption for insurers in respect of income earned from the insurance of property used in farming and fishing. This measure will apply to taxation years that begin after 2018.
- *Consultation on Cash Purchase Tickets*: Budget 2017 launches a consultation on the income tax deferral available in respect of deferred cash purchase tickets for deliveries of listed grains. The Government invites interested parties to submit comments by May 24, 2017.

Billed-Basis Accounting for Professionals

Budget 2017 proposes to eliminate the ability for designated professionals (e.g., accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) to elect to use billed-basis accounting (i.e., excluding the value of work in progress in computing their income).

This measure will apply to taxation years that begin on or after Budget Day. To mitigate the effect on taxpayers, Budget 2017 proposes a transitional period to phase in the inclusion of work in progress into income.

International Tax Measures

Foreign Branches of Canadian Life Insurers

While corporations that are resident in Canada are generally subject to tax on their worldwide income, separate rules exist for Canadian life insurance companies. Specifically, income earned by a Canadian life insurer from carrying on business through a foreign branch is generally not taxed in Canada, comparable to the result that would occur if the same activity was carried on through a foreign subsidiary (i.e., a non-resident of Canada), rather than directly by the Canadian life insurer.

Where the foreign insurance business is carried on through a foreign subsidiary, specific anti-avoidance rules ensure that income from the insurance of a Canadian risk are treated as "foreign accrual property income" (FAPI) that is taxable in Canada in the hands of the Canadian life insurer as it is earned by the foreign subsidiary. These rules prevent income from the insurance of Canadian risks from escaping the Canadian tax system simply by being shifted into a foreign subsidiary.

Budget 2017 proposes to amend the *Income Tax Act* to ensure that Canadian life insurers are taxable in Canada with respect to their income from the insurance of Canadian risks through a foreign branch. This rule (similar to the existing anti-avoidance rule in the FAPI regime applicable to foreign subsidiaries) will apply where 10 per cent or more of the gross premium income (net of reinsurance ceded) earned by a foreign branch of a Canadian life insurer is premium income in respect of Canadian risks. Where the proposed rule applies, it will deem the insurance of Canadian risks by a foreign branch of a Canadian life insurer to be part of a business carried on by the life insurer in Canada and the related insurance policies to be life insurance policies in Canada.

This measure is supported by complementary rules based on anti-avoidance rules added to the FAPI regime in 2014 and 2015, ensuring that the proposed main rule cannot be avoided through either the use of so-called "insurance swaps" or the ceding of Canadian risks. Moreover, if a life insurer has insured foreign risks through its foreign branch and it can reasonably be concluded that the foreign risks were insured by the life insurer as part of a transaction or series of transactions one of the purposes of which was to avoid the proposed main rule, then the life insurer will be treated as if it had insured Canadian risks. An analogous anti-avoidance rule will also be introduced to reinforce the existing anti-avoidance rules in the FAPI regime.

These measures will apply to taxation years beginning on or after Budget Day.

Combatting International Tax Avoidance and Evasion

Canada has been an active participant in the "base erosion and profit shifting" (BEPS) initiative undertaken over the past few years by the OECD. A number of specific tax measures were recommended by the OECD as part of the BEPS project, some of which Canada has already acted upon (e.g., country-by-country reporting rules applicable to large multinational enterprises).

Budget 2017 reiterates the Government's intention to continue the process of implementing the measures agreed to as minimum standards under the BEPS project, such as:

- Undertaking the necessary domestic law processes to sign the multilateral instrument (MLI) implementing those BEPS measures related to abuse of tax treaties between Canada and other countries (the MLI effectively modifies certain provisions of existing tax treaties with participating countries without the need to negotiate treaty amendments separately with each treaty country);
- Improving the mutual agreement procedures in Canada's tax treaties; and
- Spontaneously exchanging tax rulings with tax authorities in other countries that potentially give rise to BEPS concerns.

Budget 2017 identifies certain other areas within the scope of the BEPS recommendations where Canadian tax authorities have already acted:

- Robust "controlled foreign corporation" rules (i.e., the FAPI regime) that prevent tax avoidance by shifting income into foreign subsidiaries;
- Disclosure requirements for taxpayers (and advisors and promoters) undertaking specified tax avoidance transactions; and
- Application of revised international guidance on the terms of transactions between members of multinational groups to ensure that they occur on terms comparable to those that would occur in arm's length transactions (transfer pricing).

The Government also states in Budget 2017 that it is strengthening its efforts to prevent international tax evasion through enhanced sharing of information with tax authorities in other countries. Specifically, legislation was recently enacted implementing the

Common Reporting Standard developed by the OECD for automatic exchange of financial information pertaining to non-residents starting on July 1, 2017, allowing for the first exchanges of information with other countries in 2018.

Transparency of Beneficial Ownership

Challenges faced by tax authorities in identifying the beneficial owners of assets and entities have been the subject of a number of news stories over the last year or two. Budget 2017 includes a statement that the Government is "committed to implementing strong standards for corporate and beneficial ownership transparency that provide safeguards against money laundering, terrorist financing, tax evasion and tax avoidance". To this end, the Government states its intention to collaborate with provinces and territories to strengthen the transparency of legal persons and legal arrangements and improve the availability of beneficial ownership information. The tax reporting obligations of trusts will also be examined as part of this initiative.

Personal Income Tax Measures

Anti-Avoidance Rules for Registered Plans

Anti-avoidance rules that exist for certain tax-assisted registered plans (i.e., Tax-Free Savings Accounts, Registered Retirement Savings Plans and Registered Retirement Income Funds) will be extended to Registered Education Savings Plans and Registered Disability Savings Plans. These anti-avoidance rules generally include rules which (i) prevent the exploitation of the tax attributes of a registered plan (e.g., by shifting returns from a taxable investment to a registered plan), (ii) ensure that investments held by a registered plan are arm's length "portfolio" investments, and (iii) restrict the classes of investments that may be held by a registered plan.

This measure will apply to transactions occurring and investments acquired after Budget Day, subject to certain exceptions. For this purpose, investment income generated after Budget Day on previously acquired investments will be considered to be a "transaction occurring" after Budget Day.

Ecological Gifts Program

Budget 2017 proposes a number of measures in order to better protect gifts of ecologically sensitive land (ecogifts):

- *Transfers of Ecogifts*: Budget 2017 proposes a tax of 50 per cent of the fair market value of a property on a transferee where ecogifts are transferred between organizations for consideration if the transferee changes the use of the property or disposes of the property without the consent of Environment and Climate Change Canada (ECCC).
- *Program Administration*: To ensure the effective operation of the ecogift program, Budget 2017 proposes to clarify that the Minister of ECCC may determine whether proposed changes to the use of lands would degrade conservation protections.
- *Approval of Recipients*: Budget 2017 also proposes that the requirement to approve recipients by the Minister of ECCC be extended, on a gift-by-gift basis,

to municipalities and municipal and public bodies performing a function of government, which previously automatically qualified as eligible recipients.
- *Private Foundations*: Budget 2017 proposes that private foundations no longer be permitted to receive ecogifts. This measure is intended to prevent potential conflicts of interest in non-arm's length transactions, which often exist with private foundations.
- *Personal Servitudes*: Budget 2017 proposes that certain donations of personal servitudes in Québec (in addition to real servitudes) qualify as ecogifts. Qualifying donations will be required to meet a number of conditions, including a requirement that the personal servitude run for at least 100 years.

These measures will apply in respect of transactions or events that occur on or after Budget Day.

Changes to Tax Credits

- *Consolidation of Caregiver Credits*: Budget 2017 proposes to simplify the existing system of tax measures for caregivers by replacing the existing Caregiver Credit, Infirm Dependant Credit and Family Caregiver Tax Credit with a new non-refundable Canada Caregiver Credit.
- Disability Tax Credit – Nurse Practitioners: Budget 2017 proposes to add nurse practitioners to the list of medical practitioners that could certify eligibility for the disability tax credit. A nurse practitioner would be permitted to certify for all types of impairments that are within the scope of their practice.
- Medical Expense Tax Credit – Eligible Expenditures: Budget 2017 proposes to clarify the application of the medical expense tax credit so that individuals who require medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals on account of medical infertility.
- *Tuition Tax Credit*: Budget 2017 proposes to extend the eligibility criteria for the tuition tax credit to fees for an individual's tuition paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level. Budget 2017 also proposes to extend eligibility as a “qualifying student” to individuals in these specific circumstances, which is relevant for the tax exemption for scholarship and bursary income.
- *National Child Benefit Supplement*: Budget 2017 proposes to delay the repeal of the National Child Benefit supplement reference in the Canada Child Benefit rules in the *Income Tax Act* until July 1, 2018. This delay will allow provinces and territories to implement legislative and administrative changes in order to no longer rely on federally determined National Child Benefit supplement amounts to calculate adjustments to social assistance and child benefit amounts. This modification will have no implications for the calculation of the Canada Child Benefit.
- *Public Transit Tax Credit*: Budget 2017 proposes to eliminate the public transit tax credit, effective July 1, 2017. Specifically, the cost of public transit passes and electronic fare cards attributable to public transit use that occurs after June 2017 will no longer be eligible for the credit.

These measures will apply for the 2017 and subsequent taxation years.

Other Personal Tax Measures

- *Electronic Distribution of T4 Information Slips*: Budget 2017 proposes to allow employers to distribute T4 (Statement of Remuneration Paid) information slips electronically to current active employees without having to obtain express consent from those employees in advance, in order to reduce compliance costs and increase efficiencies for employers, and increase convenience for many employees. Employers will be required to have sufficient privacy safeguards and to provide paper T4s in certain circumstances. This measure will apply in respect of T4s issued for the 2017 and subsequent taxation years.
- *Mineral Exploration Tax Credit for Flow-Through Share Investors*: Budget 2017 proposes to extend eligibility for the mineral exploration tax credit for an additional year, to flow-through share agreements entered into on or before March 31, 2018.
- *Home Relocation Loans Deduction*: Budget 2017 proposes to eliminate the deduction of taxable benefits arising in respect of eligible home relocation loans. This measure will apply to benefits arising in the 2018 and subsequent taxation years.
- *Allowances for Members of Legislative Assemblies and Certain Municipal Officers*: Budget 2017 proposes to require that non-accountable allowances for work expenses paid to members of legislative assemblies and certain municipal officers, which were previously not included in computing income for tax purposes, be included in income. This measure will apply to the 2019 and subsequent taxation years.
- *Notable Omission*: As with last year's budget, Budget 2017 does not propose to change the treatment of stock options or increase the capital gains inclusion rate (i.e., the portion of capital gains that is taxable, which is currently 50 per cent), which some had speculated might occur. There is some speculation these items will be dealt with later in 2017 in a budget update or other announcement.

Sales and Excise Tax Measures

GST/HST Measures

- Opioid Overdose Treatment Drug – Naloxone: Budget 2017 proposes to add the drug (and its salts) to the list of non-prescription drugs taxed at the rate of zero per cent. This drug is used to treat persons who have overdosed on fentanyl and other opioids. This measure is introduced to reinstitute the zero-rating of the drug that was lost when Health Canada began allowing the drug to be administered without a prescription. This measure generally comes into effect retroactive to March 22, 2016, but does not apply in respect of any supply, importation or bringing into a participating province of naloxone occurring on or before Budget Day for which GST/HST was charged, collected, remitted or paid.
- *Taxi and Ride-Sharing Services*: Currently, a person carrying on a taxi business must register for GST/HST within 30 days of providing its first fare even if the person makes under $30,000. Ride sharing services were not caught by these special rules and therefore were not required to register and charge GST/HST until the business earned over $30,000. Budget 2017 proposes to require providers of ride-sharing services to register for GST/HST and charge tax on their fares in the same manner as taxi businesses. Budget 2017 proposes to expand the definition of taxi business to include ride sharing services arranged or coordinated through an electronic platform or system. The amendment will be effective as of July 1, 2017.

- *GST/HST Rebate to Non-Residents for Tour Package Accommodations*: Budget 2017 proposes to eliminate the GST/HST rebate available to non-residents for GST/HST that is payable in respect of the accommodation portion of eligible tour packages where the supply of the tour package or accommodation is made after Budget Day. However the rebate can still be claimed if all of the consideration for the tour package or accommodation is paid before January 1, 2018 and the supply of the tour package or accommodation is made after Budget Day but before January 1, 2018.
- *Pending legislation*: Proposed amendments were released in July 2016 to the rules for drop shipments and pension plans. Previously, the Department of Finance had indicated that it was considering expanding the activities for which a joint venture election could be made. Budget 2017 confirms the government's commitment to implement these changes.

Other Excise Tax Measures

- *Tobacco Taxation*: Budget 2017 proposes to eliminate the 10.5 per cent tobacco manufacturers' surtax and proposes to increase excise duty rates on cigarettes and tobacco products. These measures will be effective as of March 23, 2017. A corporation with a taxation year that includes Budget Day and ends after Budget Day will be required to prorate the surtax on its Canadian tobacco manufacturing profits based on the number of days in the taxation year that are on or before Budget Day. Manufacturers, importers, wholesalers and retailers will be required to file a return and pay a tax of $0.00265 per cigarette held in inventory at the end of March 22, 2017 subject to certain exemptions. The return and the tax are due May 31, 2017.
- *Alcohol Taxation*: The alcohol excise duty rates were effectively last adjusted in the mid-1980s. Budget 2017 proposes that excise duty rates on alcohol products be increased by 2 per cent effective March 23, 2017, in respect of duty that becomes payable after that date. No special inventory tax will apply to alcohol products on which duty has been paid. In order to maintain their effectiveness, it is also proposed that the rates be automatically adjusted by the Consumer Price Index on April 1 of every year, starting in 2018.
- *Taxation of Cannabis*: Budget 2017 indicates that the Government will go forward with its plan to legalize cannabis and will implement a tax regime for cannabis. Budget 2017 states that the Government remains committed to keeping marijuana out of the hands of children and the profits out of the pockets of organized crime by supporting marijuana public education programming and surveillance activities.

Federal Carbon Measures

Budget 2017 provides that in the coming months, the Government will release a consultation paper containing the technical details of the proposed federal carbon pricing backstop mechanism so that carbon pricing will be in place in all provinces and territories by 2018. Those provinces and territories that do not already have a regime in place will have the flexibility to choose between two systems: a direct price on carbon pollution or a cap-and-trade system. The Government will introduce a backstop pricing system that will apply in provinces and territories that do not meet the federal carbon pricing benchmark.

Previously Announced Measures

Budget 2017 confirms the Government's intention to proceed with the following previously announced tax and related measures, as modified to take into account consultations and deliberations since their release:

- Measures announced on October 3, 2016 to improve fairness in relation to the capital gains exemption on the sale of a principal residence;
- The measure announced in Budget 2016 on information-reporting requirements for certain dispositions of an interest in a life insurance policy;
- Legislative proposals released on September 16, 2016, relating to income tax technical amendments;
- Legislative and regulatory proposals released on July 22, 2016 relating to GST/HST; and
- Measures confirmed in Budget 2016 relating to a GST/HST joint venture election.

Budget 2017 also reaffirms the Government's commitment to move forward as required with technical amendments to improve the certainty of the tax system.

Budget 2017 does not include any tax measures for non-profit organizations. In Budget 2014, the Government announced its intention to review the income tax exemption for non-profit organizations. As part of the review, the Government indicated that it would release a consultation paper for comment and would further consult with stakeholders as appropriate. To date, nothing has been released. As in previous years, Budget 2017 is silent on the proposed consultation process

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