Wealth Consultant

"Helping You Save Strategically"

Walter V. Georgijev & Angel Georgijev-Lowe
Georgijev Financial Group
1-521 Nottinghill Road
London, ON, N6K4L4
(519) 472 - 0055
angel@georgijevfinancial.ca
www.GeorgijevFinancial.ca

2015 Federal Budget Update: A Balanced Budget?

Both households and governments strive to balance revenues with spending. Although this concept sounds easy, it's not. Financial assumptions such as economic growth rates, income growth rates, and inflation projections change; surprises such as increases or decreases in employment happen and infrastructure often needs to be upgraded. Even when everything has been accounted for and played out as they were projected to ...if the roof leaks that spells DEFICIT.

On April 21, 2015, Federal Finance Minister Joe Oliver delivered his first Federal Budget and although he had to dip into Canada's "rainy day" fund to do it, he delivered what projects to be its first budget surplus in eight years and just the third since Prime Minister Stephen Harper took office in 2006.

So what does this balanced budget mean for Canadian's?

Increased Tax Free Savings Account (TFSA) Contributions

Available since January 1, 2009, a TFSA is a flexible savings vehicle that allows Canadian residents aged 18 or older to save in a tax-efficient manner, as all investment income earned in the plan, including interest, dividends and capital gains, are tax free.

While contributions to a TFSA are not tax-deductible, withdrawals are, in turn, not taxable. As a result, neither the income earned within the plan nor the withdrawals from the plan affect eligibility for federal income-tested benefits such as the Canada Child Tax benefit, GST/HST tax credit, the Age Credit and OAS and GIS benefits. Unused TFSA contribution room is also not lost, but can be carried forward indefinitely.

Initially contributions into a TFSA were capped at an annual amount of $5,000, indexed to inflation, to the nearest $500. This indexation resulted in an increased contribution limit of $5,500 in 2013. The budget proposes to increase the annual contribution limit $5,500 to $10,000 starting this year (2015). This new annual contribution limit will also not be indexed to inflation.

For those who have never contributed to a TFSA, and were at least 18 years of age in 2009, TFSA contribution room now stands at $41,000.

For those still interested in balancing budgets, it is estimated that this increased contribution amount will reduce federal revenues by approximately $1.1 billion over the next five years. The chart illustrates TFSA contribution room:

2009	2010	2011	2012	2013	2014	2015
$5,000	$5,000	$5,000	$5,000	$5,500	$5,500	$10,000

New Registered Retirement Income Fund (RRIF) Minimum Withdrawal Amounts

At age 71, Registered Retirement Savings Plan (RRSP) investors must make a choice about what to do with their plans.

Currently they may choose:

- To cash out their plan (while this may not be the best choice, it is an option)
- Convert it to an annuity
- Convert it to a RRIF

The budget proposes to change the minimum amount (starting in 2015) that must be taken out of a RRIF each year for those between the ages of 71-94. The following table compares the new and old minimum percentages that must be withdrawn from a RRIF each year by age:

Age	Existing Minimum Withdrawal %	New Minimum Withdrawal %
71	7.38%	5.28%
72	7.48%	5.40%
73	7.59%	5.53%
74	7.71%	5.67%
75	7.85%	5.82%
76	7.99%	5.98%
77	8.15%	6.17%
78	8.33%	6.36%
79	8.53%	6.58%
80	8.75%	6.82%
81	8.99%	7.08%
82	9.27%	7.38%
83	9.58%	7.71%
84	9.93%	8.08%
85	10.33%	8.51%
86	10.79%	8.99%
87	11.33%	9.55%
88	11.96%	10.21%
89	12.71%	10.99%
90	13.62%	11.92%
91	14.73%	13.06%
92	16.12%	14.49%
93	17.92%	16.34%
94	20.00%	18.79%
95+	20.00%	20.00%

As Canadians are living longer, the intent of these new withdrawal rates is to enable seniors to preserve their savings. These changes also mean that retirement and income planning must now contemplate how these new rates, as well as the increased TFSA contribution amounts, work together going forward.

How Will the New Rules Impact Canadians?

On June 1st, 2014 David turned 71 and later in the year he chose to convert his RRSP to a RRIF. His year-end market value in 2014 was $200,000. Under the old rules his minimum payment in 2015 would have been $14,760 (calculated as $200,000 x 7.38%). Under the new rates his minimum payment will be $10,560 760 (calculated as $200,000 x 5.28%). Note: Withdrawals from RRIFs (and RRSPs) are taxable, as income can affect government income-tested benefits.

Farmers, Fisherman and Small Business Owners

Once again Canadian small business owners, farmers and fisherman will be happy with the Federal Budget. The 2013 budget increased the lifetime capital gains exemption on the disposition of these entities from $700,000 to $800,000 and indexed this exemption to inflation. The 2015 Budget increases this amount from $813,600 to $1 million, beginning on dispositions that occurred on April 21st, 2015 and thereafter.

Small business owners will also benefit from the proposed decrease to the small business tax rate, applicable to the first $500,000 of qualifying active business income of Canadian-controlled private corporations, from the current 11% to 9%, as follows:

- January 1, 2016, the rate will be reduced to 10.5%
- January 1, 2017, the rate will be reduced to 10%
- January 1, 2018, the rate will be reduced to 9.5%
- January 1, 2019, the rate will be reduced to 9%

The reduction in the small business rate will be pro-rated for corporations with taxation years that do not coincide with the calendar year.

Charitable Donations of Private Shares and Real Estate

The 2006 Federal Budget completely eliminated the capital gains (tax) associated with the donation of publicly-traded securities to a registered charity. This year's budget extended this work, by including shares of private corporations and real estate amongst the assets that eliminate the capital gain(s) tax, when donation to a registered charity is made.