

Federal budget special edition

Hello,

Standard Life is pleased to provide you with this special edition of our quarterly newsletter, *Legislation matters*, addressing measures proposed in the Federal budget by Federal Minister of Finance, Mr. Jim Flaherty. Tabled on February 11, 2014, Canada's Economic Action Plan 2014 includes the measures proposed below that might have an impact on group retirement and group insurance plans in Canada and that will be of general interest to plan administrators.

1. Improving the application of the GST/HST to the Health Care Sector

Budget 2014 proposes changes to improve the application of the GST/HST to certain health-related services and medical and assistive devices to reflect the evolving nature of the health care sector:

- **Specially trained service animals**

Proposal to expand the list of eligible expenses under the Medical Expense Tax Credit to include costs associated with service animals specially trained to assist individuals with severe diabetes, such as diabetes alert dogs.

- **Designing training for individuals with a disorder or disability**

Proposal to expand the exemption for training that is specially designed to assist individuals with a disorder or disability to also exempt the services of designing such training. The exemption will apply to the initial development and design of the plan and any subsequent adjustments.

- **Acupuncturists' and Naturopathic Doctors' services**

The professional services of acupuncturists and naturopathic doctors are now regulated as a health profession in at least five provinces. Accordingly, Budget 2014 proposes that acupuncturists and naturopathic doctors be added to the list of health care practitioners whose professional services rendered to individuals are exempt from the GST/HST.

- **Eyewear specially designed to electronically enhance the vision of individuals with vision impairment**

Budget 2014 proposes to add eyewear specially designed to treat or correct a defect of vision by electronic means, if supplied on the written order of a physician or optometrist for use by a consumer named in the order, to the list of GST/HST zero-rated medical and assistive devices.

2. Territorial Health Investment Fund

Proposal to provide \$70 million over three years for a new, targeted and time-limited fund to increase health services in the three territories in priority health areas and to reduce the reliance on outside health care systems and medical travel.

3. Addressing prescription drug abuse in Canada

Economic Action Plan 2014 expands the focus of the National Anti-Drug Strategy from illicit drugs to also address prescription drug abuse in Canada, and proposes to invest \$44.9 million over five years to support new actions for that purpose. This funding will be used to educate Canadian consumers on the safe use, storage and disposal of prescription medications, enhance prevention and treatment services in First Nations communities, increase inspections to minimize the diversion of prescription drugs from pharmacies for illegal sale, and improve surveillance data on prescription drug abuse in Canada.

4. EI premium rates and CPP contributions

- Freezing the Employment Insurance premium rate for employees at the 2013 level of \$1.88 per \$100 of insurable earnings for 2014, and committing to set the rate no higher than \$1.88 for 2015 and 2016.
- Implementing a new EI premium rate-setting process in 2017 and subsequent years to ensure that small businesses continue to benefit from stable and predictable EI premium rates that are no higher than needed to pay for the EI program.
- No change to the Canada Pension Plan contribution rate for 2014.

5. CPP Expansion

Expanding the CPP would require an increase in contributions, which would impose a burden on employers and employees.

The Government heard the concerns of small businesses and believes that now is not the time to consider an expansion of the CPP given the fragility of the global economic recovery and the importance of small businesses in supporting the recovery domestically.

6. Pension Transfer Limit

Economic Action Plan 2014 proposes to extend changes to the pension transfer limits to help individuals who are leaving an underfunded pension plan. Individuals leaving a defined benefit Registered Pension Plan may receive a cash-out payment from the plan reflecting the lump-sum value of their pension benefits. The income tax rules limit the amount of such payments that may be transferred tax-free to a Registered Retirement Savings Plan, Registered Retirement Income Fund or other defined contribution retirement savings vehicle. In 2011, the Government introduced relieving changes to these limits for individuals leaving an underfunded plan that is being wound up due to an employer's insolvency. Economic Action Plan 2014 proposes to extend these changes to additional situations to ensure the appropriate application of these rules to individuals leaving an underfunded plan.

7. Amateur Athlete Trusts

Budget 2014 proposes to allow income that is contributed to an amateur athlete trust to qualify as earned income for the purpose of determining the RRSP contribution limit of the trust's beneficiary. This measure will apply in respect of contributions made to amateur athlete trusts after 2013. In addition, individuals who contributed to an amateur athlete trust before 2014 will be permitted to make an election to have income that was contributed to the trust in 2011, 2012 and 2013 also qualify as earned income. An individual's RRSP limit will be re-determined for each of these years based on the additional earned income created as a result of the election and any additional RRSP room will be added to the individual's RRSP contribution room for 2014.

8. Alignment of Crown Corporations' Pension Plans with the Public Service Pension Plan

The Government is working with Crown corporations to implement 50:50 employer-employee pension plan cost sharing and to increase the retirement age for new hires.

In Economic Action Plan 2012, the Government indicated that it would work with Crown corporations to ensure that their pension plans are broadly aligned with those available to other federal employees. Economic Action Plan 2013 reaffirmed this commitment. Broad alignment requires Crown corporations to move to a 50:50 cost-sharing ratio between the employer and employees by 2017. Furthermore, it requires raising the retirement age for new hires to 65 years as well as raising the age at which other retirement benefits are available to correspond with the age at which they are available under the Public Service Pension Plan. These reforms are expected to be implemented by all Crown corporations subject to the Pension Benefits Standards Act, 1985 by 2017.

9. Foreign Account Tax Compliance Act (FATCA)

FATCA is U.S. legislation that requires non-U.S. financial institutions to identify accounts held by U.S. persons, which include U.S. citizens living abroad, and report to the U.S. Internal

Revenue Service (IRS) information in respect of these accounts.

In response to various concerns raised, the Government of Canada successfully negotiated an intergovernmental agreement with the U.S. which contains significant exemptions and other relief. Under the approach in the Canada-U.S. agreement, which was signed on February 5, 2014, Canadian financial institutions will report to the Canada Revenue Agency (CRA) information in respect of U.S. persons that will be transmitted by the CRA to the IRS under the Canada-U.S. tax treaty and be subject to its confidentiality safeguards. A variety of registered accounts (including Registered Retirement Savings Plans, Registered Retirement Income Funds, Registered Education Savings Plans, Registered Disability Savings Plans, and Tax-Free Savings Accounts) and smaller deposit-taking institutions, such as credit unions, with assets of less than \$175 million will be exempt from reporting.

This new reporting regime will come into effect starting in July 2014, with Canada and the U.S. beginning to receive enhanced tax information from each other in 2015. A number of other countries have negotiated or are negotiating similar agreements with the U.S.



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